

ARRANMORE HOMEOWNERS' ASSOCIATION

**COMPILED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Arranmore Homeowners' Association
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ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Arranmore Homeowners' Association
Portland, Oregon

We have compiled the accompanying balance sheets of Arranmore Homeowners' Association as of December 31, 2011, and the related statements of income and retained earnings and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or provide any assurance about whether the financial statements and supplementary schedules are in accordance with accounting principles generally accepted in the United States of America.


Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The supplementary information about future repairs and replacements of common property on pages 9 and 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have compiled the supplementary information from information that is the representation of management of Arranmore Homeowners' Association, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

We are not independent with respect to Arranmore Homeowners' Association.

Portland, Oregon
March 5, 2012



Arranmore Homeowners' Association
Balance Sheet
December 31, 2011

	Operating Fund	Capital Fund	Total
ASSETS			
Cash, including interest bearing deposits	\$ 115,954	\$ 99,883	\$ 215,837
Assessments receivable, net of allowance for doubtful accounts of \$6,650 and \$1,350	7,872	900	8,772
Prepaid insurance	722	-	722
Property and equipment, net of accumulated depreciation of \$262,733	96,063	-	96,063
Interfund balance	(3,847)	3,847	-
Total assets	\$ 216,764	\$ 104,630	\$ 321,394
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 10,086	\$ 9,517	\$ 19,603
Income taxes payable	150	-	150
Assessments received in advance	28,273	5,469	33,742
Total liabilities	38,509	14,986	53,495
Fund balance	178,255	89,644	267,899
Total liabilities and fund balance	\$ 216,764	\$ 104,630	\$ 321,394

See accompanying notes and accountants' report.

**Arranmore Homeowners' Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2011**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
REVENUES			
Regular assessments	\$ 166,309	\$ 32,175	\$ 198,484
Interest	563	371	934
Late fees	1,320	-	1,320
Total revenues	<u>168,192</u>	<u>32,546</u>	<u>200,738</u>
EXPENSES			
Property maintenance	5,105	-	5,105
Utilities	9,234	-	9,234
Landscaping	111,012	-	111,012
Pool and/or spa	10,573	-	10,573
Insurance	2,261	-	2,261
Security	34	-	34
Professional fees	4,031	-	4,031
Office expense	289	-	289
Income taxes	150	-	150
Depreciation	7,196	-	7,196
Other	1,895	-	1,895
Total expenses	<u>151,780</u>	<u>-</u>	<u>151,780</u>
Excess of revenues over expenses	<u>\$ 16,412</u>	<u>\$ 32,546</u>	<u>\$ 48,958</u>

See accompanying notes and accountants' report.

**Arranmore Homeowners' Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2011**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2010, as previously stated	\$ 58,734	\$ 160,357	\$ 219,091
Prior period adjustment	<u>70,388</u>	<u>(70,538)</u>	<u>(150)</u>
Fund balance, as of December 31, 2010, as restated	129,122	89,819	218,941
Excess of revenues over expenses	16,412	32,546	48,958
Interfund transfer	<u>32,721</u>	<u>(32,721)</u>	<u>-</u>
Fund balance, as of December 31, 2011	<u>\$ 178,255</u>	<u>\$ 89,644</u>	<u>\$ 267,899</u>

See accompanying notes and accountants' report.

Arranmore Homeowners' Association
Statement of Cash Flows
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 16,412	\$ 32,546	\$ 48,958
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	7,196	-	7,196
(Increase) Decrease in assets:			
Assessments receivable, net of allowance for doubtful accounts	(3,406)	(450)	(3,856)
Deposits on pool remodel	-	14,780	14,780
Increase (Decrease) in liabilities:			
Accounts payable	<u>7,586</u>	<u>9,517</u>	<u>17,103</u>
Net cash provided (used) by operating activities	27,788	56,393	84,181
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	<u>(32,721)</u>	<u>-</u>	<u>(32,721)</u>
Net cash provided (used) from investing activities	(32,721)	-	(32,721)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	23,340	(23,340)	-
Interfund transfer	<u>32,721</u>	<u>(32,721)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>56,061</u>	<u>(56,061)</u>	<u>-</u>
NET INCREASE IN CASH	51,128	332	51,460
CASH AND CASH EQUIVALENTS, BEGINNING	<u>64,826</u>	<u>99,551</u>	<u>164,377</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 115,954</u>	<u>\$ 99,883</u>	<u>\$ 215,837</u>

Income taxes paid amounted to \$150.

See accompanying notes and accountants' report.

Arranmore Homeowners' Association
Notes to Financial Statements
December 31, 2011

Note 1 - Nature of Organization

Arranmore Homeowners' Association was organized in 1977 and incorporated in January 1978, under the provisions of the Oregon Non-Profit Corporation Law. The Association is responsible for the operation and maintenance of the common property within the development. The Association was formalized with the first general meeting held August 2, 1979. The development consists of 143 residential units located in Portland, Oregon.

Note 2 - Summary of Significant Accounting Policies

Accounting Method

The Association prepares its year-end financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Capital Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represents fees due from unit owners. The Association's governing documents provide that the Association may retain legal counsel and place liens on the properties of homeowners whose assessments are 90 days or more delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Facilities, Equipment and Depreciation

Recreational facilities, common landscaping, and the irrigation well and equipment are stated at cost and have been depreciated using the straight-line method over the estimated useful life of the related assets, ranging from 3 to 50 years. Capitalized assets and accumulated depreciation are recognized in the operating fund.

Arranmore Homeowners' Association
Notes to Financial Statements – Continued
December 31, 2011

Capitalization of Expenditures

A capital expenditure is defined as one that has a \$2,000 minimum value and an expected useful life of at least 3 years. Expenditures that can be reasonably made from the operating budget will be excluded as a capital expenditure. This includes ordinary repairs made to maintain assets in proper operating condition. Preventative maintenance, normal periodic repairs, replacement of parts, and other activities such as tree trimming, cleaning, or interior repainting that are needed to maintain the asset so that it continues to provide normal service or appearance is charged as an operating expense. Major repairs are relatively large expenditures (\$2,000 or more) that materially extend the useful life of an asset, or improve its efficiency or appearance. These expenditures are considered as an addition, improvement, or replacement and charged as a capital expenditure.

Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Concentration of Credit Risk

Assessments receivable consist of membership assessments and fees due from homeowner members. All property assessed by the Association is located exclusively in the Southwest Portland, Oregon area. The Association manages its risk exposure by maintaining cash balances at Federal Deposit Insurance Corporation (FDIC) insured institutions in amounts below the \$250,000 insured limits.

Donated Time and Services

No amounts have been recognized in the accompanying financial statements for time and services donated to the Association, since amounts are not susceptible to objective measurement or valuation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

The Association has provided for an allowance for doubtful accounts as of December 31, 2011, based upon discussion with the Association regarding the collectability of assessments receivable.

Note 3 - Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2011, the Association elected to be taxed as a homeowner association. Under that election, the Association generally is taxed only on non-exempt income, such as interest earnings, at applicable Federal and State tax rates.

Arranmore Homeowners' Association
Notes to Financial Statements – Continued
December 31, 2011

Note 4 - Common Property and Equipment

Common areas are restricted to use by Association members, their tenants, and guests. As of December 31, 2011, property and equipment consisted of the following:

Landscaping – Drainage	\$ 9,517
Pathways	18,173
Landscaping – Other	2,258
Recreational Equipment	2,142
Recreational Facilities	248,557
Well, Pump, & Controls	78,149
Accumulated Depreciation	<u>(262,733)</u>
	<u>\$ 96,063</u>

Note 5 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregated \$89,644 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes.

The Association conducted a study in December 2010 to estimate the remaining useful lives and the replacement costs of the common property components. The table included in the compiled supplementary information on Future Major Repairs and Replacements is based on the study.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the capital fund.

Funds are being accumulated in the capital fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures, investment income and provision for income taxes, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the capital fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 6 - Interfund Balance

As of December 31, 2011, the operating fund owed the capital fund \$3,847.

Note 7 - Interfund Transfer

The Association recorded an interfund transfer of \$32,721 from the capital fund to the operating fund to pay for fixed assets to be capitalized in the operating fund.

Note 8 - Prior Period Adjustment

A prior period adjustment was recorded to reclassify property and equipment and accumulated depreciation to the operating fund which was previously reported in the capital fund. An adjustment was also recorded to report the 2010 income tax expense as a 2010 expense.

Note 9 - Date of Board of Directors' Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 5, 2012, the date the financial statements were available to be issued

SUPPLEMENTARY INFORMATION

**Arranmore Homeowners' Association
Supplementary Information on Future Major
Repairs and Replacements (Compiled)
December 31, 2011**

The Association's Board of Directors conducted a study in December 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study assuming an annual inflation rate of 3% and a rate of return on investments of 0.30% without a provision for income taxes. The study used the full-funding method.

The attached excerpt on page 10 includes significant information about the components of common property. The reserve study should be read in its entirety.

Capital Funding Summary for the Year Ended December 31, 2011:

Current year's assessments		
Reserve assessments	\$	32,175
Amount recommended by reserve study		<u>17,500</u>
Difference	\$	<u>14,675</u>
Capital fund balance at end of year	\$	<u>89,644</u>

Table 3: Contribution and Fund Breakdown**21386-0**

# Component	Useful Life	Rem. Useful Life	Current (Avg) Cost	Fully Funded Balance	Current Fund Balance	Reserve Contributions
1 Clubhouse - Carpeting	15	6	\$2,500	\$1,500	\$1,660.86	\$332.47
2 Clubhouse - Gas Furnace	30	3	\$2,750	\$2,475	\$2,740.42	\$182.86
3 Clubhouse - Roof - Cement Tile	50	42	\$13,000	\$2,080	\$2,303.06	\$518.65
4 Clubhouse - Dressing Rooms	25	0	\$24,000	\$24,000	\$26,573.74	\$1,915.00
5 Pool / Pool Coping	25	23	\$7,300	\$584	\$646.63	\$582.48
6 Pool Replace Waterline Tile	25	23	\$3,250	\$260	\$287.88	\$259.32
7 Pool Re-plaster Vessel	25	23	\$14,500	\$1,160	\$1,284.40	\$1,156.98
8 Pool Cover	10	5	\$2,350	\$1,175	\$1,301.01	\$468.78
9 Pool Deck	30	3	\$20,500	\$18,450	\$20,428.56	\$1,363.11
10 Pool Heater	10	7	\$3,600	\$1,080	\$1,195.82	\$718.13
11 Pool Vacuum Sensors - Safety	10	9	\$3,600	\$360	\$398.61	\$718.13
12 6' Cedar Fence - Stained	20	16	\$12,800	\$2,560	\$2,834.53	\$1,276.67
13 Spa Relater & Tile Replacement	15	14	\$7,400	\$493	\$546.24	\$984.10
14 Spa Heater	15	7	\$2,450	\$1,307	\$1,446.79	\$325.82
15 Irrigation System / Water Well Pump 30HP	20	18	\$12,900	\$1,290	\$1,428.34	\$1,286.64
16 Irrigation System / Controls	10	8	\$1,650	\$330	\$365.39	\$329.14
17 Irrigation System / Pipe	10	8	\$2,750	\$550	\$608.98	\$548.57
18 Irrigation System / Filter	5	1	\$750	\$600	\$664.34	\$299.22
19 Irrigation Smart Controller	12	11	\$4,950	\$413	\$456.74	\$822.85
20 Pathways Repair - Original	30	3	\$28,600	\$25,740	\$28,500.33	\$1,901.70
21 Pathways Repair - Repaired 2010	30	29	\$18,200	\$607	\$671.72	\$1,210.18
22 Signs - Entry	20	1	\$3,000	\$2,850	\$3,155.63	\$299.22
22 Total Funded Components				\$89,863	\$99,500	\$17,500