

**ARRANMORE HOMEOWNERS' ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2012**

**Arranmore Homeowners' Association**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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

We have reviewed the accompanying balance sheet of Arranmore Homeowners' Association as of December 31, 2012, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

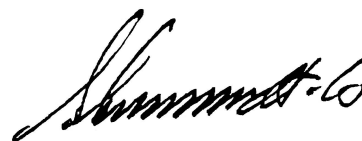
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation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

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America requires that the information about future major repairs and replacements of common property on pages 9 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

April 10, 2013  
Portland, Oregon



**Arranmore Homeowners' Association**  
**Balance Sheet**  
**December 31, 2012**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 133,111	\$ 100,053	\$ 233,164
Assessments receivable, net of allowance for doubtful accounts of \$16,128	12	-	12
Prepaid insurance	722	-	722
Property and equipment, net of accumulated depreciation of \$271,368	107,461	-	107,461
Interfund balance	(7,371)	7,371	-
Total assets	<u>\$ 233,935</u>	<u>\$ 107,424</u>	<u>\$ 341,359</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 12,034	\$ -	\$ 12,034
Assessments received in advance	<u>28,300</u>	<u>5,469</u>	<u>33,769</u>
Total liabilities	40,334	5,469	45,803
Fund balance	193,601	101,955	295,556
Total liabilities and fund balance	<u>\$ 233,935</u>	<u>\$ 107,424</u>	<u>\$ 341,359</u>

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association  
Statement of Revenues and Expenses  
For the Year Ended December 31, 2012**

	Operating Fund	Capital Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 166,299	\$ 32,175	\$ 198,474
Interest	277	169	446
Late fees	2,566	-	2,566
Total revenues	169,142	32,344	201,486
<b>EXPENSES</b>			
Utilities	9,092	-	9,092
Landscaping	118,864	-	118,864
Pool and spa	12,137	-	12,137
Insurance	2,651	-	2,651
Security	251	-	251
Professional fees	8,856	-	8,856
Office expense	676	-	676
Uncollectible fees	9,426	-	9,426
Depreciation	8,635	-	8,635
Other	3,241	-	3,241
Total expenses	173,829	-	173,829
Excess of revenues over (under) expenses	\$ (4,687)	\$ 32,344	\$ 27,657

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association  
Statement of Changes in Fund Balance  
For the Year Ended December 31, 2012**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2011	\$ 178,255	\$ 89,644	\$ 267,899
Excess of revenues over (under) expenses	(4,687)	32,344	27,657
Interfund transfer	<u>20,033</u>	<u>(20,033)</u>	<u>-</u>
Fund balance, as of December 31, 2012	<u>\$ 193,601</u>	<u>\$ 101,955</u>	<u>\$ 295,556</u>

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2012**

	Operating Fund	Capital Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over (under) expenses	\$ (4,687)	\$ 32,344	\$ 27,657
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:			
Depreciation expense	8,635	-	8,635
Decrease in assets:			
Assessments receivable, net of allowance for doubtful accounts	7,860	900	8,760
Increase (Decrease) in liabilities:			
Accounts payable	1,948	(9,517)	(7,569)
Assessments received in advance	27	-	27
Income taxes payable	(150)	-	(150)
Net cash provided by operating activities	13,633	23,727	37,360
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(20,033)	-	(20,033)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund balance	3,524	(3,524)	-
Interfund transfer	20,033	(20,033)	-
Net cash provided (used) by financing activities	23,557	(23,557)	-
<b>NET INCREASE IN CASH</b>	17,157	170	17,327
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	115,954	99,883	215,837
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 133,111	\$ 100,053	\$ 233,164

Income taxes paid amounted to \$150.

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 1 - Nature of Organization**

Arranmore Homeowners' Association was organized in 1977 and incorporated in January 1978, under the provisions of Oregon Non-Profit Corporation Law. The Association is responsible for the operation and maintenance of the common property within the development including, but not limited to a pool, spa, and clubhouse, and other items detailed in the supplementary information. 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. The Association's policy is to 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.

**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.

**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.



**Arranmore Homeowners' Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2012**

**Note 2 - Summary of Significant Accounting Policies - Continued**

*Property, 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.

*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, excluding expenditures that can be reasonably made from the operating budget. 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 an addition, improvement, or replacement and capitalized.

*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.

*Allowance for Doubtful Accounts*

The Association has provided for an allowance for doubtful accounts as of December 31, 2012. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy.

**Note 3 - Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2012, 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. The association files returns in the U.S. federal jurisdiction as well as the state of Oregon jurisdiction. Generally, tax filings are subject to federal and state examination for three years after they are filed. The returns filed for periods ended December 31, 2009 and prior are no longer subject to examination by tax authorities.

**Note 4 - Property and Equipment**

Common areas are restricted to use by Association members, their tenants, and guests. As of December 31, 2012, property and equipment consisted of the following:

Landscaping – Drainage	\$ 9,517
Pathways	31,415
Landscaping – Other	2,258
Recreational Equipment	2,142
Recreational Facilities	255,348
Well, Pump, & Controls	78,149
Accumulated Depreciation	<u>(271,368)</u>
	<u>\$ 107,641</u>

**Arranmore Homeowners' Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2012**

**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 \$101,955 at December 31, 2012, are generally not available for operating purposes.

The Association engaged an independent engineer in November 2012 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 replacement 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, 2012, the operating fund owed the capital fund \$7,371.

**Note 7 - Interfund Transfer**

The Association recorded an interfund transfer of \$20,033 from the capital fund to the operating fund to pay for fixed assets to be capitalized in the operating fund.

**Note 8 - Date of Board of Directors' Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 10, 2013, 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, 2012**

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The Association engaged an independent engineer who conducted a full on-site reserve study in November 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from personnel interviews, in-house architects and engineers, and construction pricing manuals. 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 2.96% and a rate of return on investments of 0.50% 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.

**Replacement Funding Summary for the Year Ended December 31, 2012:**

Current year's assessments	
Reserve assessments	\$ 32,175
Amount recommended by reserve study	<u>19,602</u>
Difference	\$ <u>12,573</u>
Replacement fund balance at end of year	\$ <u><u>101,955</u></u>

## Reserve Study Schedule

Recommended Contributions: Per Unit / Annually:	\$126.76
Fiscal Year: January 1 to December 31	YR: 2013
Inflation Rate (%)	2.96%
Year Built	1978
Number of Units	142

Component Description	Remaining Useful Life (Years)	Quantity	Units	Cost	Total Cost in 2012	Replacement Date	Total Spent Over 30 Years
<b>07-Thermal &amp; Moisture Protection</b>							<b>\$14,195</b>
#30 Felt Underlayment	10	2000	SF	\$3.19	\$6,380	2023	\$8,541
Cement Roofing Tiles	10	2000	SF 10%	\$11.75	\$2,350	2023	\$3,146
Sheet Metal Roof Vents	10	3	EA	\$395.00	\$1,185	2023	\$1,586
Rain Gutters and Downspouts	10	84	EA	\$8.20	\$689	2023	\$922
<b>09-Finishes</b>							<b>\$38,735</b>
Pool and Spa Tile	12	550	SF	\$19.47	\$10,709	2025	\$38,735
<b>10-Specialties</b>							<b>\$57,978</b>
Bathroom - Remodel Allowance	23	2	Allowance	\$12,000.00	\$24,000	2036	\$46,945
Monument Sign	15	1	Allowance	\$2,500.00	\$2,500	2028	\$3,872
Pool House - Repair Allowance	4	1	Allowance	\$2,500.00	\$2,500	2017	\$7,161
<b>13-Special Construction</b>							<b>\$51,894</b>
Pool Cover	3	1200	SF	\$2.15	\$2,580	2016	\$11,632
Pool - Repair Allowance	21	1	Allowance	\$7,300.00	\$7,300	2034	\$13,470
Pool Surfaces (Plaster)	21	2200	SF	\$6.60	\$14,520	2034	\$26,792
<b>22-Plumbing</b>							<b>\$105,884</b>
Well Piping - Repair Allowance	7	1	Allowance	\$2,800.00	\$2,800	2020	\$14,187
Well Pumps	17	1	EA	\$12,900.00	\$12,900	2030	\$21,181
Well Controller	7	1	EA	\$1,650.00	\$1,650	2020	\$8,260
Pool Vacuum Sensors	7	1	EA	\$3,600.00	\$3,600	2020	\$11,255
Pool Circulation Pump	10	2	EA	\$1,100.00	\$2,200	2023	\$7,507
Spa Circulation Pump	8	2	EA	\$1,100.00	\$2,200	2021	\$7,082
Pool Heater	6	1	EA	\$3,600.00	\$3,600	2019	\$19,012
Spa Heater	3	1	EA	\$2,450.00	\$2,450	2016	\$11,854
Pool Filter	5	1	EA	\$843.00	\$843	2018	\$2,723
Spa Filter	5	1	EA	\$843.00	\$843	2018	\$2,723
<b>23-HVAC</b>							<b>\$3,615</b>
Furnace	10	1	EA	\$2,700.00	\$2,700	2023	\$3,615
<b>32-Exterior Improvements</b>							<b>\$326,372</b>
Asphalt Paving - Replacement Allowance	4	19000	SF 10%	\$3.26	\$6,190	2017	\$77,190
Asphalt Crack Seal & Slurry Coat	8	19000	SF	\$0.59	\$11,210	2021	\$65,820
Pool Deck	3	2450	SF	\$8.50	\$20,825	2016	\$22,730
Concrete Sidewalks - Repair Allowance	4	10940	SF 10%	\$3.50	\$9,299	2017	\$10,450
Walking Path Pavers	29	1	Allowance	\$3,500.00	\$3,500	2042	\$8,156
Wood Fencing	14	460	LF	\$28.00	\$12,880	2027	\$19,377
Rock Retaining Walls - Repair Allowance	15	1	Allowance	\$6,500.00	\$6,500	2028	\$10,068
Irrigation Systems Controller	10	1	EA	\$4,950.00	\$4,950	2023	\$16,031
Turf/Landscaping - Renewal Allowance	0	1	Allowance	\$10,000.00	\$10,000	2013	\$65,300
French Drain - Tract M Upper	14	1	Allowance	\$4,400.00	\$4,400	2027	\$16,872
French Drain - Tract M Lower	14	1	Allowance	\$3,750.00	\$3,750	2027	\$14,380
<b>Inspection/Consultant Fees</b>							<b>\$41,328</b>
Reserve Study Update	1	1	EA	\$770.00	\$770	2014	\$30,534
Reserve Study Update w/ Site Visit	4	1	EA	\$1,078.00	\$1,078	2017	\$10,794
<b>(Services within this section are available through Western Architectural)</b>							
Total Expenditures		\$640,001					
Recommended Reserve Contributions		\$18,000					
Interest Rate on Reserves		0.50%					
Starting Balance		\$112,067					