

**ARRANMORE HOMEOWNERS' ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2013**

**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, 2013, and the related statements of revenues and expenses, 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.

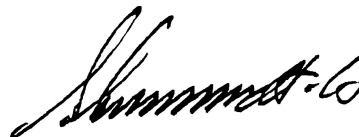
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation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

March 10, 2014  
Portland, Oregon



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**Arranmore Homeowners' Association**  
**Balance Sheet**  
**December 31, 2013**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 136,919	\$ 128,864	\$ 265,783
Prepaid insurance	910	-	910
Property and equipment, net of accumulated depreciation of \$279,633	102,496	-	102,496
Interfund balance	<u>3,150</u>	<u>(3,150)</u>	<u>-</u>
Total assets	<u>\$ 243,475</u>	<u>\$ 125,714</u>	<u>\$ 369,189</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 14,671	\$ -	\$ 14,671
Assessments received in advance	<u>28,273</u>	<u>3,646</u>	<u>31,919</u>
Total liabilities	42,944	3,646	46,590
Fund balance	<u>200,531</u>	<u>122,068</u>	<u>322,599</u>
Total liabilities and fund balance	<u>\$ 243,475</u>	<u>\$ 125,714</u>	<u>\$ 369,189</u>

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association  
Statement of Revenues and Expenses  
For the Year Ended December 31, 2013**

	Operating Fund	Capital Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 166,309	\$ 23,273	\$ 189,582
Interest	258	140	398
Late fees	292	-	292
Total revenues	166,859	23,413	190,272
<b>EXPENSES</b>			
Property maintenance	895	-	895
Utilities	8,317	-	8,317
Landscaping	120,606	-	120,606
Pool and spa	11,403	-	11,403
Insurance	2,677	-	2,677
Security	258	-	258
Professional fees	7,742	-	7,742
Office expense	1,680	-	1,680
Uncollectible fees	1,386	-	1,386
Depreciation	8,265	-	8,265
Total expenses	163,229	-	163,229
Excess of revenues over expenses	\$ 3,630	\$ 23,413	\$ 27,043

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association  
Statement of Changes in Fund Balance  
For the Year Ended December 31, 2013**

	Operating Fund	Capital Fund	Total
Fund balance, as of December 31, 2012	\$ 193,601	\$ 101,955	\$ 295,556
Excess of revenues over expenses	3,630	23,413	27,043
Transfer of capital assets	<u>3,300</u>	<u>(3,300)</u>	<u>-</u>
Fund balance, as of December 31, 2013	<u>\$ 200,531</u>	<u>\$ 122,068</u>	<u>\$ 322,599</u>

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2013**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 3,630	\$ 23,413	\$ 27,043
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	8,265	-	8,265
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	12	-	12
Prepaid insurance	(188)	-	(188)
Increase (Decrease) in liabilities:			
Accounts payable	2,637	-	2,637
Assessments received in advance	(27)	(1,823)	(1,850)
Net cash provided by operating activities	<u>14,329</u>	<u>21,590</u>	<u>35,919</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(3,300)	-	(3,300)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund balance	(10,521)	10,521	-
Interfund transfer	3,300	(3,300)	-
Net cash provided (used) by financing activities	<u>(7,221)</u>	<u>7,221</u>	<u>-</u>
<b>NET INCREASE IN CASH</b>	<b>3,808</b>	<b>28,811</b>	<b>32,619</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>133,111</u>	<u>100,053</u>	<u>233,164</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 136,919</u>	<u>\$ 128,864</u>	<u>\$ 265,783</u>

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association**  
**Notes to Financial Statements**  
**December 31, 2013**

**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 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 60 days or more delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

**Allowance for Doubtful Accounts**

The Association has provided for an allowance for doubtful accounts as of December 31, 2013. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy. At December 31, 2013, the balances of the operating and reserves allowances for doubtful accounts consisted of the assessments receivable balances of \$15,328 for operating assessments and \$2,175 for reserve assessments.

**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 consists 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.



**Arranmore Homeowners' Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2013**

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

*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.

*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.

**Note 3 - Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2013, 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. Tax filings are subject to federal and state examination for three years after they are filed. The returns filed for periods ended December 31, 2010 and prior are generally 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, 2013, property and equipment consisted of the following:

Landscaping – Drainage	\$	9,517
Pathways		34,715
Landscaping – Other		2,258
Recreational Equipment		2,142
Recreational Facilities		255,348
Well, Pump, & Controls		78,149
		382,129
Accumulated Depreciation		(279,633)
Net property and equipment		\$ 102,496

**Arranmore Homeowners' Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2013**

**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 \$122,068 at December 31, 2013, are generally not available for operating purposes.

During January 2014, The Association's board of directors estimated 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. These estimates are derived from periodic physical inspections of the property conducted by professional reserve study personnel who have current knowledge of time and materials charges by local contractors and are also derived from inquiries made to contractors, retailers, and people with knowledge in replacing or repairing the common property components. The most current reserve study includes a projection showing that the current capital funding plan will provide funds that materially exceed future projected costs. Therefore, while some material variation between estimated and actual future expenditures is possible, it is not expected to have a material effect on the Association's ability to fund future Capital Fund needs. The board of directors of the Association has the authority to increase annual assessments, to levy special assessments or to delay major repairs or replacements until funds are available.

**Note 6 - Interfund Balance**

At December 31, 2013, \$3,150 of operating fund cash was held in the replacement fund bank accounts.

**Note 7 - Interfund Transfer**

The Association recorded an interfund transfer of \$3,300 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 March 10, 2014, 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, 2013**

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The Association's board of directors conducted a reserve study update with a site visit in January 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained through a physical inspection of the components, vendor estimates, and the Association's analysis into the remaining useful lives of the components. 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 3.0% 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.

**Replacement Funding Summary for the Year Ended December 31, 2013:**

Current year's assessments	
Reserve assessments	\$ 23,273
Amount recommended by reserve study	<u>18,000</u>
Difference	\$ <u>5,273</u>
Replacement fund balance at end of year	\$ <u>122,068</u>

**Table 3: Contribution and Fund Breakdown****21386-2**

#	Component	Useful Life	Rem. Useful Life	Current Cost	Fully Funded Balance	Current Fund Balance	Reserve Contributions
1	Pool House carpeting	15	0	\$2,600	\$2,600	\$2,600.00	\$249.14
2	Pool House Furnace	45	9	\$2,800	\$2,240	\$2,240.00	\$89.43
3	Roof: 30# felt underlayment	30	9	\$6,500	\$4,550	\$4,550.00	\$311.42
4	Roof: Cement roofing tiles	30	9	\$2,400	\$1,680	\$1,680.00	\$114.99
5	Roof: Vents	45	9	\$1,185	\$948	\$948.00	\$37.85
6	Roof: Gutters & downspouts	45	9	\$700	\$560	\$560.00	\$22.36
7	Pool Dressing Rooms Remodel	25	22	\$25,000	\$3,000	\$0.00	\$1,437.34
8	Pool House painting	10	7	\$3,500	\$1,050	\$1,050.00	\$503.07
9	Pool House entry Lock System	15	0	\$3,300	\$3,300	\$3,300.00	\$316.22
10	Pool Coping	25	20	\$7,600	\$1,520	\$1,520.00	\$436.95
11	Pool Water Line Tile	25	15	\$3,400	\$1,360	\$1,360.00	\$195.48
12	Pool Replaster Vessel	25	20	\$15,000	\$3,000	\$3,000.00	\$862.41
13	Pool, strip, cauk, rebalance H2O	25	20	\$5,000	\$1,000	\$319.57	\$287.47
14	Pool Cover	10	2	\$2,630	\$2,104	\$2,104.00	\$378.02
15	Pool Concrete Deck	30	2	\$21,240	\$19,824	\$19,824.00	\$1,017.64
16	Pool Heater	12	5	\$3,820	\$2,228	\$2,228.33	\$457.55
17	Pool Drain Vacuum Sensors	10	6	\$2,500	\$1,000	\$1,000.00	\$359.34
18	Pool Circulation Pump	15	9	\$2,240	\$896	\$896.00	\$214.64
19	Pool Wood Fence	20	13	\$13,000	\$4,550	\$4,550.00	\$934.27
20	Pool Entrance Walkway pavers	30	28	\$3,570	\$238	\$0.00	\$171.04
21	Spa Tile & Replaster	15	11	\$7,850	\$2,093	\$2,093.33	\$752.21
22	Spa Circulation Pump	15	7	\$2,240	\$1,195	\$1,194.67	\$214.64
23	Spa Heater	12	2	\$2,550	\$2,125	\$2,125.00	\$305.44
24	Spa Drain Vacuum Sensor	10	6	\$1,250	\$500	\$500.00	\$179.67
25	Well Pump, incl. installation	20	16	\$13,900	\$2,780	\$2,780.00	\$998.95
26	Well Controller	10	6	\$1,790	\$716	\$716.00	\$257.28
27	Irrigation Smart Controller	12	9	\$5,250	\$1,313	\$1,312.50	\$628.84
28	Well pipe repair/replacemt. Allow.	10	6	\$2,850	\$1,140	\$1,140.00	\$409.64
29	Asphalt Pathway Paving	4	0	\$6,300	\$6,300	\$6,300.00	\$2,263.82
30	Asphalt Path Crack Seal & Slurry	8	0	\$11,400	\$11,400	\$11,400.00	\$2,048.21
31	Signs: Entry Signs, Refurbish	20	0	\$2,500	\$2,500	\$2,500.00	\$179.67
32	French Drain Entry Tract I	15	5	\$8,200	\$5,467	\$5,466.67	\$785.75
33	French Drain East Tract M	15	0	\$5,750	\$5,750	\$5,750.00	\$550.98
34	French Drain West Tract M Upper	15	13	\$4,490	\$599	\$598.67	\$430.24
35	French Drain West Tract M Lower	15	13	\$3,830	\$511	\$510.67	\$367.00
36	Re-landscape Oleson Rd. Berms	20	0	\$20,000	\$20,000	\$20,000.00	\$1,437.34
37	Re-Landscape Pool Entry Bed	20	18	\$5,000	\$500	\$500.00	\$359.34
38	Rock Retaining Wall at Entry	50	14	\$6,630	\$4,774	\$4,773.60	\$190.59
39	Concrete Sidewalk Repair	30	10	\$3,000	\$2,000	\$2,000.00	\$143.73
40	Pool Solar Heating	N/A	0	\$0	\$0	\$0.00	\$0.00
40	Total Funded Components				\$129,309	\$125,391	\$20,900