

ARRANMORE HOMEOWNERS' ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

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 financial statements of Arranmore Homeowners' Association, which comprise the balance sheet as of December 31, 2017, and the related statements of revenues and expenses, changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.


Accountant's Conclusion on the Financial Statements

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 accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on pages 9 through 11 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Portland, Oregon
March 21, 2018



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Arranmore Homeowners' Association
Balance Sheet
December 31, 2017

	Operating Fund	Capital Fund	Total
ASSETS			
Cash, including interest bearing deposits	\$ 75,896	\$ 229,356	\$ 305,252
Prepaid insurance	996	-	996
Property and equipment, net of accumulated depreciation of \$322,253	159,442	-	159,442
Interfund balance	19,950	(19,950)	-
Total assets	\$ 256,284	\$ 209,406	\$ 465,690
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 3,790	\$ -	\$ 3,790
Assessments received in advance	29,436	5,062	34,498
Total liabilities	33,226	5,062	38,288
Fund balance	223,058	204,344	427,402
Total liabilities and fund balance	\$ 256,284	\$ 209,406	\$ 465,690

See accompanying notes and independent accountant's review report.

Arranmore Homeowners' Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2017

	Operating Fund	Capital Fund	Total
REVENUES			
Regular assessments	\$ 166,309	\$ 28,600	\$ 194,909
Interest	149	267	416
Other income	2,016	-	2,016
Total revenues	168,474	28,867	197,341
EXPENSES			
Utilities	8,263	-	8,263
Landscaping	121,103	-	121,103
Pool and spa	17,478	-	17,478
Insurance	3,234	-	3,234
Professional fees	9,434	-	9,434
Office expense	1,225	-	1,225
Uncollectible fees	3,153	-	3,153
Depreciation	11,829	-	11,829
Social events	1,230	-	1,230
Total expenses	176,949	-	176,949
Excess of revenues over (under) expenses	\$ (8,475)	\$ 28,867	\$ 20,392

See accompanying notes and independent accountant's review report.

**Arranmore Homeowners' Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2017**

	<u>Operating Fund</u>		<u>Capital Fund</u>		<u>Total</u>
Fund balance, as of December 31, 2016	\$ 198,521	\$	208,489	\$	407,010
Excess of revenues over (under) expenses	(8,475)		28,867		20,392
Interfund transfer	<u>33,012</u>		<u>(33,012)</u>		<u>-</u>
Fund balance, as of December 31, 2017	<u>\$ 223,058</u>	\$	<u>204,344</u>	\$	<u>427,402</u>

See accompanying notes and independent accountant's review report.

Arranmore Homeowners' Association
Statement of Cash Flows
For the Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (8,475)	\$ 28,867	\$ 20,392
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:			
Depreciation expense	11,829	-	11,829
Increase in liabilities:			
Accounts payable	1,145	-	1,145
Assessments received in advance	<u>1,118</u>	<u>200</u>	<u>1,318</u>
Net cash provided by operating activities	5,617	29,067	34,684
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(33,012)	-	(33,012)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	(22,613)	22,613	-
Interfund transfer	<u>33,012</u>	<u>(33,012)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>10,399</u>	<u>(10,399)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(16,996)	18,668	1,672
CASH AND CASH EQUIVALENTS, BEGINNING	<u>92,892</u>	<u>210,688</u>	<u>303,580</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 75,896</u>	<u>\$ 229,356</u>	<u>\$ 305,252</u>

See accompanying notes and independent accountant's review report.

Arranmore Homeowners' Association
Notes to Financial Statements
December 31, 2017

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 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, 2017. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy. At December 31, 2017, the balances of the operating and capital fund allowances for doubtful accounts consisted of the assessments receivable balances of \$26,348 for operating assessments and \$2,925 for capital fund assessments.

Cash Equivalents

For purposes of the statement 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
December 31, 2017

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, 2017, 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, 2014 and prior are generally no longer subject to examination by tax authorities.

Note 4 - Common Property

Common areas are restricted to use by Association members, their tenants, and guests. As of December 31, 2017, property and equipment consisted of the following:

Landscaping – Drainage	\$ 15,517
Pathways	42,880
Landscaping – Other	45,711
Recreational Equipment	21,240
Recreational Facilities	258,496
Well, Pump, and Controls	97,851
	481,695
Accumulated Depreciation	(322,253)
Net Property and Equipment	\$ 159,442

Arranmore Homeowners' Association
Notes to Financial Statements – Continued
December 31, 2017

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 \$204,344 at December 31, 2017, are generally not available for operating purposes.

During April 2017, The Association's board of directors estimated the remaining useful lives and the replacement costs of the common property components. The excerpt 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. These estimates are derived from periodic physical inspections of the property conducted by professional 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, 2017, \$19,950 of operating fund cash was held in the capital fund cash account.

Note 7 - Interfund Transfer

An interfund transfer was recorded during 2017 of \$33,012 from the capital fund to the operating fund to pay for fixed assets to be capitalized in the operating fund.

Note 8 - Other Income

For the year ended December 31, 2017, other income included amounts charged to owners for replacement pool keys, interest penalties, and finance charges on delinquent assessments.

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 21, 2018, 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, 2017

The Association's board of directors conducted a reserve study update with a site visit in April 2017 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 3.00% and a rate of return on investments of 0.75% without a provision for income taxes. The study used the full-funding method.

The attached excerpt on pages 10 and 11 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, 2017:

Current year's assessments	
Reserve assessments	\$ 28,600
Amount recommended by reserve study	<u>31,500</u>
Difference	\$ <u>(2,900)</u>
Capital fund balance at end of year	\$ <u>204,344</u>

Table 2: Reserve Component List Detail

21386-5

#	Component	Quantity	Useful Life	Rem. Useful Life	Current Repl. Cost Estimate	
1	Pool House Carpet		0	15	1	\$2,670
2	Pool House Furnace		0	45	6	\$2,900
3	Pool House Roof	New Concrete Tile		30	6	\$12,800
4	Pool Dressing Rooms	Remodel		25	19	\$26,100
5	Pool House Painting	Interior		10	4	\$5,070
6	Pool House Painting	Exterior		10	5	\$2,300
7	Pool House Entry Lock System		0	15	12	\$3,400
8	Pool Coping & Water Line Tile		0	25	17	\$12,450
9	Pool Re-plaster Vessel		0	25	17	\$15,680
10	Pool: Strip, Caulk, Rebalance H2O		0	25	17	\$5,660
11	Pool: Drains and Covers		0	25	17	\$3,150
12	Pool Cover		0	14	1	\$3,170
13	pool Concrete Deck	3700 Sq. Ft.		30	3	\$49,050
14	Pool Deck Expansion Joint Repair		0	5	3	\$3,195
15	Underdeck Plumbing Allowance		0	30	3	\$2,700
16	Pool Heater		0	12	0	\$3,675
17	Pool Chemical Control System		0	12	10	\$5,000
18	Pool Filter		0	30	28	\$2,000
19	Pool Circulation	Filter Pump		10	7	\$2,290
20	Pool Wood Fence		0	20	10	\$8,000
21	Pool Fence - Stain		0	6	0	\$2,500
22	Pool Entrance Walkway Pavers		0	30	22	\$3,660
23	Spa - New		0	30	3	\$30,000
24	Spa - Circulation Pump		0	10	8	\$1,850
25	Spa Filter		0	30	28	\$4,240
26	Spa Heater		0	12	1	\$3,800
27	Sap Drain Cover		0	25	17	\$2,370
28	Spa Chemical Control System		0	12	10	\$5,000
29	Sauna Heater& Components		0	10	1	\$1,950
30	Pool House		0	30	3	\$50,000
31	Architectural Design Allowance		0	1	1	\$3,590
32	Well - Pump		0	20	13	\$11,430
33	Well Control Pump		0	10	3	\$6,900
34	Well-pipe Repair	Replacement Allowance		10	3	\$2,920
35	Irrigation Smart Controller		0	12	6	\$5,820
36	Sprinkler Repair	Replace Allowance		10	8	\$5,000
37	Asphalt Pathway Paving Allowance		0	5	0	\$5,000
38	Asphalt Pathway Repair Allowance		0	5	0	\$5,000
39	Concrete Sidewalk Repair		0	30	7	\$3,130
40	French Drain - Entry Tract		0	15	2	\$8,400
41	French Drain - East Tract M		0	15	12	\$5,890
42	French Drain - West Tract M	Lower		15	10	\$4,600
43	French Drain - West Tract M	Upper		15	10	\$3,920
44	French Drain - Tract U		0	15	9	\$1,540
45	Re-landscape Oleson Rd.		0	20	17	\$20,500
46	Re-landscape Pool House Entry		0	20	15	\$5,120
47	Re-landscape N & W Pool House		0	30	1	\$10,000

Table 2: Reserve Component List Detail**21386-5**

#	Component	Quantity	Useful Life	Rem. Useful Life	Current Repl. Cost Estimate	
48	Re-landscape St. John's Pl. Circle		0	20	0	\$2,500
49	Major Sod Removal		0	5	3	\$2,500
50	Major Tree Pruning		0	5	3	\$5,120
51	Rock Retaining Wall at Entry		0	50	11	\$7,760
51	Total Funded Components					