

**ASSOCIATION OF UNIT OWNERS OF  
OSWEGO RIDGE, A CONDOMINIUM**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**

**Association of Unit Owners of Oswego Ridge, a Condominium**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors and Members  
Association of Unit Owners of Oswego Ridge, a Condominium  
Lake Oswego, Oregon

We have reviewed the accompanying financial statements of Association of Unit Owners of Oswego Ridge, a Condominium, which comprise the balance sheet as of December 31, 2016, 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  
September 11, 2017



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**Association of Unit Owners of Oswego Ridge, a Condominium  
Balance Sheet  
December 31, 2016**

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 64,336	\$ 375,566	\$ 439,902
Investments	-	209,166	209,166
Assessments receivable, net of allowance for doubtful accounts of \$3,624	2,197	-	2,197
Prepaid insurance	12,764	-	12,764
Total assets	\$ 79,297	\$ 584,732	\$ 664,029
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 13,196	\$ 3,438	\$ 16,634
Assessments received in advance	15,197	-	15,197
Total liabilities	28,393	3,438	31,831
Fund balance	50,904	581,294	632,198
Total liabilities and fund balance	\$ 79,297	\$ 584,732	\$ 664,029

See accompanying notes and independent accountant's review report.

**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Statement of Revenues and Expenses**  
**For the Year Ended December 31, 2016**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 250,814	\$ 88,486	\$ 339,300
Interest	114	2,598	2,712
Late fees	953	-	953
Other income	1,363	-	1,363
Total revenues	253,244	91,084	344,328
<b>EXPENSES</b>			
Property maintenance	36,634	-	36,634
Major repairs and replacements	-	83,681	83,681
Utilities	122,256	-	122,256
Landscaping	20,308	-	20,308
Pool and spa	6,987	-	6,987
Insurance	27,907	-	27,907
Management fees	20,075	-	20,075
Professional fees	11,241	-	11,241
Office expense	1,562	-	1,562
Licenses, permits and fees	75	-	75
Uncollectible fees	4,098	-	4,098
Other	1,050	-	1,050
Total expenses	252,193	83,681	335,874
Excess of revenues over expenses	\$ 1,051	\$ 7,403	\$ 8,454

See accompanying notes and independent accountant's review report.

**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Statement of Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

		Operating Fund		Replacement Fund		Total
	\$	<u>          </u>	\$	<u>          </u>	\$	<u>          </u>
Fund balance, as of December 31, 2015	\$	49,853	\$	573,891	\$	623,744
Excess of revenues over expenses		<u>1,051</u>		<u>7,403</u>		<u>8,454</u>
Fund balance, as of December 31, 2016	\$	<u>50,904</u>	\$	<u>581,294</u>	\$	<u>632,198</u>

See accompanying notes and independent accountant's review report.

**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2016**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 1,051	\$ 7,403	\$ 8,454
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	(219)	-	(219)
Prepaid insurance	849	-	849
Increase in liabilities:			
Accounts payable	2,227	3,438	5,665
Assessments received in advance	4,320	-	4,320
Net cash provided by operating activities	<u>8,228</u>	<u>10,841</u>	<u>19,069</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned on investments	<u>-</u>	<u>(882)</u>	<u>(882)</u>
<b>NET INCREASE IN CASH</b>	8,228	9,959	18,187
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>56,108</u>	<u>365,607</u>	<u>421,715</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 64,336</u>	<u>\$ 375,566</u>	<u>\$ 439,902</u>

See accompanying notes and independent accountant's review report.

**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Notes to Financial Statements**  
**December 31, 2016**

**Note 1 - Nature of Organization**

Association of Unit Owners of Oswego Ridge, a Condominium was organized on January 17, 1997 under the provisions of the Oregon Condominium Act and Oregon Non-Profit Corporation Law. The Association is responsible for the operation and maintenance of the common property within the project including, but not limited to items detailed in the supplementary information. The project consists of 82 condominium units located in Lake Oswego, 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: In accordance with industry standards and practices, the Association has segregated its activities into 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.

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

**Member Assessments**

Association members are subject to monthly 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 are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to send a payment demand letter to homeowners whose assessments are 10 days or more delinquent, and to turn accounts over to legal counsel if the accounts have not been paid in full within 30 days of the demand letter date. A lien will be recorded on accounts that have not been paid in full within 30 days after the account has been turned over to the attorney. 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, 2016. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy.

**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.

**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.



**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Notes to Financial Statements – Continued**  
**December 31, 2016**

**Note 3 - Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2016, 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, 2013 and prior are generally no longer subject to examination by tax authorities.

**Note 4 - Common Property**

Real property and common areas acquired by the original homeowners from the developer and related improvements to such property are not capitalized on the Association's financial statements, as they are owned by the individual owners and not the Association. Common areas are restricted to use by the Association members, their tenants, and guests. The Association's informal policy is to expense all personal property acquisitions of \$500 or less.

**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 \$581,294 at December 31, 2016, are generally not available for operating purposes. The Oregon Condominium Act restricts the permanent transfer of funds from the replacement fund.

The Association engaged a consultant who conducted a study in December 2015 to estimate 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 replacement fund.

Funds are being accumulated in the replacement 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 replacement 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 by more than twenty-five percent (25%) or levy special assessments, or it may delay major repairs and replacements until funds are available.

**Note 6 - Concentrations of Credit Risk**

The Association maintains its cash balances in one financial institution located in the Lake Oswego, Oregon area. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at this institution. As of December 31, 2016, the Association's cash balances not federally insured totaled \$197,960.

**Note 7 - Investments**

The Association's investments consist of certificates of deposit. The Association has the positive intent and ability to hold these investments to maturity. As of December 31, 2016, the fair market value of the investments approximated the carrying value. The investments are carried on the Association's financial statements at cost plus interest earned. Investments consisted of the following as of December 31, 2016:

	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
26 – Week CD	\$ 209,166	March 16, 2017	0.55%

See Independent Accountant's Review Report

**Association of Unit Owners of Oswego Ridge, a Condominium**  
**Notes to Financial Statements – Continued**  
**December 31, 2016**

**Note 8 - Other Income and Expenses**

As of December 31, 2016, other income included amounts billed to owners for legal fees reimbursements, fines and key income, lease income, and other miscellaneous income. Other expenses consist of the expenses relating to the collection of delinquent accounts.

**Note 9 - Loan**

During 2017, the Association obtained a line of credit in the amount of \$4,000,000 to fund the capital improvement project. The loan will begin as an interest-only construction line of credit lasting 12 months at an initial interest rate of 4.75%. When the line of credit period ends on or before June 1, 2018, it will convert to a 19-year term loan with an interest rate adjustable every five years from the conversion date based upon the Federal Home Loan Bank Index plus 2.5%. The Association intends to repay the loan with funds received from the special assessment.

**Note 10 - Special Assessment**

In May 2017, the Association approved the levy of 240 monthly special serial assessments totaling \$3,934,452 to fund the capital improvement project, loan costs, attorney and consultant fees, and other incidental costs relating to the repair project. Monthly payments are based on the allocation of undivided interest of each unit in the common elements and the first monthly payment was due June 1, 2017. Owners were given the option to prepay the entire special assessment by June 1, 2017, or to make monthly payments.

**Note 11 - Community Management**

The Association employs a community manager to perform accounting and community management functions. The Association also employs the community manager to perform certain maintenance and repair work relating to the Association's common elements.

**Note 12 - Date of Board of Directors' Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 11, 2017, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**Association of Unit Owners of Oswego Ridge, a Condominium  
Supplementary Information on Future Major Repairs  
And Replacements (Compiled)  
December 31, 2016**

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The Association engaged a consultant who conducted a reserve study update without a site visit in December 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from the Association and various construction pricing and scheduling manuals to determine useful lives and replacement costs. 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 2.5% and a rate of return on investments of 0.1% without a provision for income taxes. The study used the threshold-funding method with a threshold of \$279,946.

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.

**Replacement Funding Summary for the Year Ended December 31, 2016:**

Current year's assessments	
Reserve assessments	\$ 88,486
Amount recommended by reserve study	<u>88,486</u>
Difference	\$ <u><u>-</u></u>
Replacement fund balance at end of year	\$ <u><u>581,294</u></u>

**Association of Unit Owners of Oswego Ridge, a Condominium  
Component Summary By Group**

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost	
<b>Capital</b>									
Asphalt - Overlay	1987	2027	30	10	11	58,500 SF	1.58	92,430	
Carpet - Clubhouse - Replacement	1996	2016	10	10	0	750 SF	5.25	3,937	
Decks - Replacement	<i>Unfunded</i>								
Doors - Exterior - Clubhouse Replacement	1986	2026	40	0	10	7 Total	787.97	5,516	
Equipment - Clubhouse - Replacement	1996	2016	10	10	0	1 Total	966.57	967	
Irrigation - Controllers - Replacement	2013	2023	10	0	7	1 Total	577.84	578	
Irrigation - Valves - Replacement	1987	2023	10	26	7	1 Total	2,306.12	2,306	
Kitchenette - Clubhouse - Renovation	1996	2026	30	0	10	1 Total	3,677.19	3,677	
Lights - Bollard - Replacement	1997	2017	20	0	1	2 Each	1,050.62	2,101	
Lights - Carports - Replacement	1987	2016	25	4	0	51 Each	78.79	4,018	
Lights - Condominium Exteriors - Replac..	1987	2017	30	0	1	170 Each	105.06	17,860	
Lights - Exterior - Clubhouse Replacement	1986	2016	30	0	0	12 Each	105.06	1,261	
Lights - Interior - Clubhouse - Replacement	1987	2017	30	0	1	23 Each	105.06	2,416	
Lights - Poles - Replacement	1996	2026	30	0	10	25 Each	262.66	6,566	
Mailboxes - Replacement	1996	2026	30	0	10	6 Each	1,539.16	9,235	
Metal Railing - Replacement	1987	2037	50	0	21	175 LF	43.07	7,537	
Pool - Chairs, Tables & Umbrellas - Repla..	1987	2020	15	18	4	3 Each	656.64	1,970	
Pool - Cover - Replacement	1987	2018	10	21	2	1 Total	8,405.00	8,405	
Pool - Filter - Replacement	1987	2020	10	23	4	1 Total	1,313.28	1,313	
Pool - Heater - Replacement	1987	2018	10	21	2	1 Total	3,151.87	3,152	
Pool - Liner - Replacement	1987	2019	10	22	3	1 Total	8,405.00	8,405	
Pool - Lounges - Replacement	1987	2020	15	18	4	10 Each	420.25	4,202	
Pool - Metal Fence - Replacement	1987	2037	50	0	21	180 LF	47.27	8,509	
Pool - Pump - Replacement	1987	2018	10	21	2	1 Total	1,050.62	1,051	
Roofing - Carports - Replacement	1987	2032	35	10	16	25,500 SF	5.79	147,645	
Roofing - Units - Replacement	1987	2032	35	10	16	65,196 SF	5.79	377,485	
Sliding Doors - Clubhouse - Replacement	1987	2027	40	0	11	3 Each	1,050.62	3,152	
Solar Water Heater - Clubhouse - Replac..	2008	2028	20	0	12	1 Total	8,405.00	8,405	
Spa - Cover - Replacement	1987	2020	10	23	4	1 Total	2,101.25	2,101	
Spa - Filter - Replacement	1987	2018	10	21	2	1 Total	1,313.28	1,313	
Spa - Heater - Replacement	1987	2018	10	21	2	1 Total	2,101.25	2,101	
Spa - Jet Pump - Replacement	1987	2018	10	21	2	1 Total	1,050.62	1,051	
Spa - Liner - Replacement	1987	2020	10	23	4	1 Total	3,151.87	3,152	
Spa - Pump - Replacement	1987	2018	10	21	2	1 Total	1,050.62	1,051	
Trash Enclosures - Replacement	1996	2016	20	0	0	6 Each	2,101.25	12,607	
Water Heater - Clubhouse - Replacement	1996	2016	15	5	0	1 Total	787.97	788	
Windows - Clubhouse - Replacement	1987	2027	40	0	11	9 Each	1,050.62	9,456	
Capital - Total									<u>\$767,720</u>
<b>Non-Capital</b>									
Asphalt - Seal Coat I	2012	2017	5	0	1	58,500 SF	0.27	15,795	
Asphalt - Seal Coat II	2032	2032	5	0	16	58,500 SF	0.27	15,795	
Barkdust - Renewal - Back Yards	2017	2017	6	0	1	1 Total	7,354.37	7,354	

**Association of Unit Owners of Oswego Ridge, a Condominium  
Component Summary By Group**

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost
<i>Non-Capital continued...</i>								
Barkdust - Renewal -Fronts, Sides & Com..	2014	2017	3	0	1	1 Total	3,997.50	3,997
Concrete - Sidewalks & Curbs - Partial Re..	1987	2017	15	15	1	475 SF	13.13	6,237
Gutters & Downspouts - Carports - Partial ..	2013	2023	35	-25	7	586 LF	6.30	3,697
Gutters & Downspouts - Units - Partial Re..	2013	2023	35	-25	7	1,175 LF	6.30	7,402
Insurance - Deductible	2014	2016	1	0	0	1 Total	10,000.00	10,000
Interior - Clubhouse - Painting	1996	2018	15	7	2	1,830 SF	1.05	1,921
Landscape - Renewal	2013	2018	5	0	2	1 Total	13,132.81	13,133
Metal Railings - Painting	2014	2024	10	0	8	175 LF	10.51	1,839
Plumbing Inspection	1987	2022	35	0	6	1 Total	10,506.25	10,506
Pool - Metal Fence - Painting	2014	2024	10	0	8	180 LF	10.51	1,892
Posts - Carports - Repairs	1987	2016	5	24	0	1 Total	5,253.12	5,253
Restrooms - Clubhouse - Renovation	1987	2017	30	0	1	2 Each	1,838.59	3,677
Roofing - Inspection	1987	2018	5	26	2	9 Each	315.19	2,837
Siding - Clubhouse - Painting	2014	2021	7	0	5	1,320 SF	1.05	1,386
Siding - Clubhouse - Repair	2014	2021	7	0	5	66 SF	10.51	694
Siding - Units - Painting	2010	2017	7	0	1	53,028 SF	1.58	83,784
Siding - Units - Repair	2010	2017	7	0	1	2,651 SF	10.51	27,866
Stair Cases - Repairs	2013	2018	5	0	2	1 Total	2,101.25	2,101
Trees - Arbor Work	2013	2016	3	0	0	1 Total	3,075.00	<u>3,075</u>
Non-Capital - Total								<u>\$230,243</u>
Total Asset Summary								<u>\$997,963</u>