

THE SALISHAN HILLS OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2023

The Salishan Hills Owners Association

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*A Professional Corporation
Members American Institute of
Certified Public Accountants /
Oregon Society of Certified Public
Accountants*

To the Board of Directors and Members
The Salishan Hills Owners Association
Glenden Beach, Oregon

Management is responsible for the accompanying financial statements of The Salishan Hills Owners Association, which comprise the balance sheet as of June 30, 2023, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements of common property on pages 9 through 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. Such information has been compiled by us without audit or review and we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Milwaukie, Oregon
August 8, 2023

A handwritten signature in black ink, appearing to read 'Schwindt & Co.', is written over a horizontal line.

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The Salishan Hills Owners Association
Balance Sheet
June 30, 2023

	<u>Operating</u> Fund	<u>Replacement</u> Fund	<u>Total</u>
ASSETS			
Cash, including interest bearing deposits	\$ 239,487	\$ 335,514	\$ 575,001
Assessments receivable	3,357	-	3,357
Prepaid insurance	1,758	-	1,758
Interfund balance	<u>(30,905)</u>	<u>30,905</u>	<u>-</u>
Total assets	<u>\$ 213,697</u>	<u>\$ 366,419</u>	<u>\$ 580,116</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 2,515	\$ -	\$ 2,515
Income taxes payable	1,159	-	1,159
Refundable building deposits	6,000	-	6,000
Assessments received in advance	114,826	-	114,826
Contract liabilities	<u>-</u>	<u>366,419</u>	<u>366,419</u>
Total liabilities	124,500	366,419	490,919
Fund balance	<u>89,197</u>	<u>-</u>	<u>89,197</u>
Total liabilities and fund balance	<u>\$ 213,697</u>	<u>\$ 366,419</u>	<u>\$ 580,116</u>

See accompanying notes and accountant's compilation report.

The Salishan Hills Owners Association
Statement of Revenues and Expenses
For the Year Ended June 30, 2023

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 164,317	\$ -	\$ 164,317
Special assessments	-	9,906	9,906
Interest	91	5,106	5,197
Late fees and fines	1,055	-	1,055
Other income	7,082	-	7,082
Total revenues	172,545	15,012	187,557
EXPENSES			
Property maintenance	48,272	-	48,272
Major repairs and replacements	-	40,012	40,012
Utilities	1,454	-	1,454
Landscaping	38,989	-	38,989
Insurance	4,161	-	4,161
Management fees	36,271	-	36,271
Professional fees	6,494	-	6,494
Office expense	7,107	-	7,107
Licenses, permits and fees	206	-	206
Income taxes	1,159	-	1,159
Emergency preparedness	1,388	-	1,388
Other expenses	725	-	725
Total expenses	146,226	40,012	186,238
Excess of revenues over (under) expenses	\$ 26,319	\$ (25,000)	\$ 1,319

See accompanying notes and accountant's compilation report.

**The Salishan Hills Owners Association
Statement of Changes in Fund Balance
For the Year Ended June 30, 2023**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of June 30, 2022	\$ 87,878	\$ -	\$ 87,878
Excess of revenues over (under) expenses	26,319	(25,000)	1,319
Interfund transfer	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Fund balance, as of June 30, 2023	\$ <u>89,197</u>	\$ <u>-</u>	\$ <u>89,197</u>

See accompanying notes and accountant's compilation report.

**The Salishan Hills Owners Association
Statement of Cash Flows
For the Year Ended June 30, 2023**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ 26,319	\$ (25,000)	\$ 1,319
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided (used) by operating activities:			
Decrease (Increase) in assets:			
Assessments receivable	(905)	-	(905)
Prepaid insurance	60	-	60
Increase (Decrease) in liabilities:			
Accounts payable	(17,603)	-	(17,603)
Income taxes payable	1,159	-	1,159
Refundable building deposits	3,000	-	3,000
Assessments received in advance	9,397	-	9,397
Contract liabilities	-	(9,906)	(9,906)
Net cash provided (used) by operating activities	<u>21,427</u>	<u>(34,906)</u>	<u>(13,479)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	(15,061)	15,061	-
Interfund transfer	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Net cash provided (used) by financing activities	(40,061)	40,061	-
NET INCREASE (DECREASE) IN CASH	(18,634)	5,155	(13,479)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>258,121</u>	<u>330,359</u>	<u>588,480</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 239,487</u>	<u>\$ 335,514</u>	<u>\$ 575,001</u>

See accompanying notes and accountant's compilation report.

The Salishan Hills Owners Association
Notes to Financial Statements
June 30, 2023

Note 1 - Nature of Organization

The Salishan Hills Owners Association ("The Association") was organized on January 28, 1976 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 items detailed in the supplementary information. The development consists of 216 residential units located in Gleneden Beach, 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.

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

Member Assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

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 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. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$2,452 and \$3,357, respectively.

Contract Liabilities

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year are \$376,325 and \$366,419, respectively.

The Salishan Hills Owners Association
Notes to Financial Statements – Continued
June 30, 2023

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Refundable Building Deposits

Refundable building deposits are held pending final approval of projects. After an approved one-year extension request or if there is no request for final approval, the deposit is no longer refundable.

Note 3 - Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended June 30, 2023, 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 generally subject to federal and state examination for three years after they are filed.

Note 4 - Common Property

Real property and common areas acquired by the original homeowners from the developer are not capitalized on the Association's financial statements. Although these properties are owned by the Association, the assets are not recognized under generally accepted accounting principles, due to the fact that the Association will not, in the ordinary course of business, dispose of the property. Common areas are restricted to use by Association members, their tenants, and guests. As of June 30, 2023, the Association did not hold title to any personal property or equipment. The Association's policy is to expense all personal property acquisitions of \$10,000 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 of \$366,419, which are reported as contract liabilities at June 30, 2023, are generally not available for operating purposes.

The Association's Board of Directors conducted a study dated in April 2019 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 not 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 through special assessments and interfund transfers as the need arises.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures and investment income, 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 ability to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

The Salishan Hills Owners Association
Notes to Financial Statements – Continued
June 30, 2023

Note 6 - Concentrations of Credit Risk

The Association maintains its cash balances in three financial institutions located in the Gleneden Beach, Oregon area. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. As of June 30, 2023, the Association's cash balances not federally insured totaled \$9,503.

Note 7 - Interfund Balance

As of June 30, 2023, the operating fund owed \$30,905 to the replacement fund.

Note 8 - Discount on Regular Assessments

Owners prepaying annual regular assessments prior to July 1st of each year receive a discount of 3% off their regular assessments. Total discounts given on assessments for the year ended June 30, 2023 were \$3,571.

Note 9 - Special Assessment

During the year ended June 30, 2019, the board of directors approved special assessments to pay for road repairs and drainage, and to increase the balance of reserves for major repairs and replacements. Assessments of \$535 per year per unit were due on January 1, 2019, 2020, and 2021. Special assessments income recognized during the year ended June 30, 2023 amounted to \$9,906. As of June 30, 2022, \$149,023 of unspent special assessment funds were included in replacement fund contract liabilities.

Note 10 - Other Income

For the year ended June 30, 2023, other operating fund income included amounts received for building permits, penalties assessed to owners, the sale of remote access keys, transfer fees, and other miscellaneous income.

Note 11 - Interfund Transfer

An interfund transfer of \$25,000 from the operating fund to the replacement fund is being reported for the year ended June 30, 2023.

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 August 8, 2023, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

The Salishan Hills Owners Association
Supplementary Information on Future Major Repairs
And Replacements (Compiled)
June 30, 2023

The Association engaged a consultant who conducted a reserve study update without a site visit dated in April 2019 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 2.50% and a rate of return on investments of 0.95% without a provision for income taxes. The study used the threshold-funding with a threshold of \$117,943. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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 June 30, 2023:

Current year's assessments	
Interfund transfer	\$ 25,000
Amount recommended by reserve study	<u>104,862</u>
Difference	\$ <u>(79,862)</u>
Replacement fund balance at end of year	\$ <u> -</u>
Contract liabilities balance at end of year	\$ <u>366,419</u>

**The Salishan Hills Owner Association
Component Summary By Group**

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost	
Capital									
Asphalt - Overlay	07-08	32-33	25	0	14	1 Total	622,080.00	622,080	
Bathrooms, Maintenance/Tennis Building	07-08	27-28	20	0	9	1 Total	16,640.00	16,640	
Drainage System	12-13	42-43	30	0	24	1 Total	76,800.00	76,800	
Entry Gate Loops	09-10	21-22	12	0	3	2 Each	1,000.00	2,000	
Entry Gates Barrier Arm - Replacement	09-10	21-22	12	0	3	2 Each	3,750.00	7,500	
Entry Gates Telephone Entry System	09-10	21-22	12	0	3	2 Each	4,500.00	9,000	
Entry Gates Traffic Teeth	08-09	20-21	12	0	2	2 Each	5,000.00	10,000	
Gazebo: Wood - Replacement	99-00	19-20	20	0	1	1 Total	50,000.00	50,000	
Metal Entry Sign - Replacement	06-07	36-37	30	0	18	1 Total	11,988.01	11,988	
Railing Cords - Upgrade	97-98	18-19	20	1	0	1 Total	12,800.00	12,800	
Retaining Walls: Wood - Repair/Replacem..	99-00	20-21	20	1	2	108 LF	50.00	5,400	
Rock Enclosure	06-07	36-37	30	0	18	1 Total	5,363.90	5,364	
Roof: Composition - Maintenance/Tennis ..	06-07	26-27	20	0	8	3,364 SF	5.00	16,820	
Shipping Container - Replacement	<i>Unfunded</i>								
Sign Replacement	<i>Unfunded</i>								
Tennis Courts - Resurface	08-09	23-24	15	0	5	1 Total	32,000.00	32,000	
Tennis Courts Fence: Cyclone	75-76	22-23	40	7	4	1 Total	25,600.00	12,800	
Wood Enclosures & Retaining Walls	75-76	18-19	20	23	0	975 LF	50.00	48,750	
Capital - Total									<u>\$939,942</u>
Non Capital									
Asphalt Seal Coat	17-18	22-23	5	0	4	460,000 SF	0.58	266,800	
Interior Paint - Maintenance/Tennis Building	<i>Unfunded</i>								
Road & Drainage Project	18-19	19-20	1	0	1	1 Total	50,000.00	50,000	
Siding Paint & Repair - Maintenance/Tenni..	<i>Unfunded</i>								
Non Capital - Total									<u>\$316,800</u>
Total Asset Summary									<u>\$1,256,742</u>

MANAGEMENT LETTER

To the Board of Directors
The Salishan Hills Owners Association
Gleneden Beach, Oregon

In planning and performing our compilation of the financial statements of The Salishan Hills Owners Association for the year ended June 30, 2023, we found the following financial matters to bring to your attention.

Reserve Study Update

We found that the Association engaged a consultant to conduct a reserve study and prepare a maintenance plan dated in April 2019 for the fiscal year ended June 30, 2019. However, the Association has not updated its current reserve study since that time.

We recommend that the Association conduct a reserve study update to estimate the costs of repairing and replacing those components and that computation be made as to the amount of funds the Association should accumulate to make the necessary repairs and replacements. That process will necessitate updating formal budgets for future expenditures, identifying all items for which the Association is responsible, and estimating the nature, timing, and cost of future repairs and replacements.

Concentrations of Credit Risk

We found that the Association's cash balances as of June 30, 2023 totaled \$595,016 of which \$9,503 was not insured by the Federal Deposit Insurance Corporation (FDIC), creating significant concentrations of credit risk.

Oregon revised state statutes require homeowner associations to deposit funds in federally insured accounts or obligations of the United States of America.

We recommend that the Association consider alternatives to protect the uninsured cash balances. The Association could consider moving some funds to an IntraFi Network Deposits account (formerly known as Insured Cash Sweep (ICS) or Certificate of Deposit Account Registry Service (CDARS) accounts), or into other accounts invested in obligations of the United States of America. IntraFi Network Deposits services offer a convenient way to obtain full FDIC insurance on deposit amounts larger than \$250,000 by breaking large deposits into smaller amounts and placing them with other banks that are members of their special network.

We will review the status of these comments during our next engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of the matters, or to assist you in implementing our recommendations.

Milwaukie, Oregon
August 8, 2023

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