

**FOREST HEIGHTS  
HOMEOWNERS  
ASSOCIATION, INC.**

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**Audited  
Financial statements**

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**For the years ended  
December 31, 2005 and 2004**



The supplementary information about future major repairs and replacements on page 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*McDonald Jacobson, P.C.*

March 15, 2006

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**December 31, 2005 and 2004**

	Future Repairs and		Totals	
	Operating Fund	Replacement Fund	2005	2004
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 290,155	\$ 4,930	\$ 295,085	\$ 757,713
Investment in short-term securities	266,279	329,397	595,676	-
Assessments receivable, net	29,013	-	29,013	42,583
Due from operating fund	-	26,633	26,633	6,931
Due to replacement fund	(26,633)	-	(26,633)	(6,931)
Prepaid expenses	1,798	-	1,798	1,462
	<u>560,612</u>	<u>360,960</u>	<u>921,572</u>	<u>801,758</u>
Total current assets				
Property and equipment, net	<u>49,502</u>	<u>-</u>	<u>49,502</u>	<u>45,263</u>
TOTAL ASSETS	<u>\$ 610,114</u>	<u>\$ 360,960</u>	<u>\$ 971,074</u>	<u>\$ 847,021</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 64,105	\$ -	\$ 64,105	\$ 55,640
Assessments received in advance	120,543	-	120,543	68,419
Deferred revenue	10,059	-	10,059	-
	<u>194,707</u>	<u>-</u>	<u>194,707</u>	<u>124,059</u>
Total current liabilities				
Fund balances	<u>415,407</u>	<u>360,960</u>	<u>776,367</u>	<u>722,962</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 610,114</u>	<u>\$ 360,960</u>	<u>\$ 971,074</u>	<u>\$ 847,021</u>

See notes to financial statements.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF REVENUE AND EXPENSES,**  
**AND CHANGES IN FUND BALANCES**  
**For the years ended December 31, 2005 and 2004**

	Operating	Future Repairs and Replacement	Totals	
	Fund	Fund	2005	2004
Revenue:				
Member assessments	\$ 968,971	\$ 33,280	\$ 1,002,251	\$ 989,843
Interest income	14,000	7,208	21,208	5,643
Architectural review fees	27,450	-	27,450	24,550
Other income	53,309	-	53,309	31,261
Total revenue	<u>1,063,730</u>	<u>40,488</u>	<u>1,104,218</u>	<u>1,051,297</u>
Expenses:				
Management services	185,284	-	185,284	198,458
Compliance services	77,100	-	77,100	19,979
Landscape services	163,105	-	163,105	160,724
Maintenance services	173,597	-	173,597	144,530
Transit system	110,045	-	110,045	115,825
Security services	27,130	-	27,130	22,125
Community relations	97,809	-	97,809	69,110
Tract R expenses	7,996	-	7,996	29,690
Major repairs and replacements	-	11,313	11,313	12,028
Special projects	17,698	-	17,698	51,255
Snow removal	-	-	-	32,731
Office services and supplies	64,404	-	64,404	25,798
Professional services	86,657	-	86,657	44,896
Bad debt expense	4,684	-	4,684	294
Insurance and licenses	12,140	-	12,140	10,868
Depreciation	9,934	-	9,934	5,639
Income taxes	1,917	-	1,917	632
Total expenses	<u>1,039,500</u>	<u>11,313</u>	<u>1,050,813</u>	<u>944,582</u>
Excess of revenue over expenses	24,230	29,175	53,405	106,715
Beginning fund balances	<u>391,177</u>	<u>331,785</u>	<u>722,962</u>	<u>616,247</u>
Ending fund balances	<u>\$ 415,407</u>	<u>\$ 360,960</u>	<u>\$ 776,367</u>	<u>\$ 722,962</u>

See notes to financial statements.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2005 and 2004**

	2005	2004
<b>Cash flows from operating activities:</b>		
Excess of revenues over expenses	\$ 53,405	\$ 106,715
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	9,934	5,639
Decrease (increase) in:		
Assessments receivable	13,570	(9,768)
Prepaid expenses	(336)	(241)
Increase (decrease) in:		
Accounts payable and accrued expenses	8,465	1,749
Assessments received in advance and deferred revenue	62,183	(61,545)
Net cash provided by operating activities	147,221	42,549
 <b>Cash flows from investing activities:</b>		
Proceeds from certificates of deposit	-	190,000
Purchase of short-term investments	(595,676)	-
Payments for purchase of property and equipment	(14,173)	(13,094)
Net cash provided by (used in) investing activities	(609,849)	176,906
 Net increase (decrease) in cash and cash equivalents	(462,628)	219,455
 <b>Cash and cash equivalents:</b>		
Beginning of year	757,713	538,258
End of year	\$ 295,085	\$ 757,713
 <b>Summary of cash accounts:</b>		
Undesignated	\$ 290,155	\$ 432,859
Designated for future repairs and replacements	4,930	324,854
	\$ 295,085	\$ 757,713

See notes to financial statements.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005 and 2004**

**1. THE ASSOCIATION**

Forest Heights Homeowners Association, Inc. (the Association) incorporated and began its operations in January 1993. In April 2003 control of the Association was transferred to the homeowners as defined in the Association's bylaws. The Association is responsible for the operation and maintenance of common areas, architectural review and transportation services to the residences of Forest Heights, a residential community of 600 acres in Portland, Oregon with approximately 1,940 living units.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with maturities of three months or less at the time of purchase to be cash equivalents.

Investments

Short-term investments include US Treasury bills maturing in May 2006 which will be held to maturity and are valued at amortized cost, which approximates fair value.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**December 31, 2005 and 2004**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment

Common property consists of common area land and improvements which were contributed by the developer to the Association. The Association's responsibility is to maintain these assets after transfer.

In accordance with generally accepted accounting principles for common interest realty associations, such common property is not recognized as an asset since it is not anticipated that the common areas will generate significant revenues from members or nonmembers on the basis of usage.

Contributed property not capitalized consists of over 200 acres of land, as well as, sidewalks, landscaping, entry structures, bus shelters, and fencing. The Association capitalizes all purchased property greater than \$1,000 to which it has title or other evidence of ownership. Capitalized property is depreciated over its estimated useful life using the straight-line method of depreciation.

Member Assessments

Association members are subject to semi-annual 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 represent fees due from lot owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. Because liens do not ensure the collectibility of the receivables and generally are subordinate to tax liens and unpaid amounts on first mortgages, the Association has established an allowance for uncollectible assessments.

Any excess assessments at year-end are retained by the Association for use in future years.

Private street maintenance is not included in the general operations and is an expense only for those lot owners who have property adjacent to the private streets. The Association assesses these lot owners a separate fee for their maintenance.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2005 and 2004, the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat 30% plus the applicable state rate. Exempt function income, which consists primarily of member assessments, is not taxable.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**December 31, 2005 and 2004**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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

**3. ASSESSMENTS RECEIVABLE**

At December 31, 2005 and 2004, assessments receivable are as follows:

	<u>2005</u>		<u>2004</u>
Assessments receivable	\$ 39,152	\$	52,722
Less allowance for uncollectible assessments	<u>10,139</u>		<u>10,139</u>
Assessments receivable, net	<u>\$ 29,013</u>	\$	<u>42,583</u>

At December 31, 2005 there was approximately \$19,000 in assessments receivable that had been turned over to legal counsel for collection proceedings.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**December 31, 2005 and 2004**

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2005 and 2004:

	2005	2004
Office furniture and equipment	\$ 34,721	\$ 20,548
Playground equipment	32,267	32,267
Total property and equipment	66,988	52,815
Less accumulated depreciation	17,486	7,552
Net property and equipment	\$ 49,502	\$ 45,263

**5. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$360,960 at December 31, 2005 and \$331,785 at December 31, 2004 are held in a separate accounts and generally are not available for expenditures for normal operations.

The Association performs an annual reserve study to estimate the remaining useful lives and replacement costs of the common property components. The Association is funding 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. Actual expenditures, however, may vary from the estimated amounts and the variations may be material.

The reserve fund balance consists of the following at of December 31, 2005 and 2004:

	2005	2004
Common area maintenance reserve	\$ 193,973	\$ 175,801
Mill Pond park landscaping reserve	25,000	25,000
Private street reserve	40,310	30,984
Contingency reserve	101,677	100,000
Total reserve funds	\$ 360,960	\$ 331,785

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**December 31, 2005 and 2004**

**6. LEASE COMMITMENTS**

The Association leased office space on a month-to-month basis through June 15, 2005 for \$1,422 per month (\$1,367 per month during 2004). The Association entered into a noncancelable lease agreement to lease office space beginning May 15, 2005 through May 2010. Monthly rent is \$2,250 for the first three years and \$2,375 for years four and five. The lease has an option to renew for an additional five years. Rent expense approximated \$32,400 for 2005 and \$16,600 for 2004.

The Association leases a truck and a photocopier under operating lease agreements expiring in March 2007 and December 2009. Total monthly payments are \$640. Lease payments under these agreements approximated \$7,700 for 2005 and \$7,000 for 2004.

Future annual rentals under all agreements are as follows:

December 31, 2006	\$ 34,680
2007	31,671
2008	31,598
2009	32,160
2010	11,875

**7. RELATED PARTY TRANSACTIONS**

During 2005, the Association paid legal fees approximating \$29,500 to a law firm with an attorney who is a member of the Association. During 2004, the Association paid legal fees approximating \$51,700 to two law firms with attorneys who are members of the Association.

During 2005 and 2004, the developer paid assessments of \$3,384 and \$6,350, respectively, to the Association for assessments on unsold platted lots.

**8. PRIVATE STREETS**

During 1999, the Association began assessing fees for the maintenance of private streets within the area. These funds are for the general maintenance and repair of those streets. In 2005 and 2004 assessments totaled \$17,280 and \$17,352 and expenditures totaled \$7,954 and \$2,908, respectively.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**December 31, 2005 and 2004**

**9. RETIREMENT PLAN**

The Association adopted a SIMPLE IRA retirement plan covering all eligible employees. Employees make voluntary contributions to the plan. Annually, the Association will contribute a matching contribution equal to the employee's contribution up to a total of 3% of compensation. The Association's contributions to the plan totaled \$10,613 for 2005 and \$5,278 for 2004.

**10. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

The Association maintains its cash balances in two financial institutions located in Portland, Oregon. The balances in one institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash balances in brokerage investment accounts are not FDIC insured. At December 31, 2005 and 2004, the Association's uninsured cash balances approximated \$225,000 and \$525,000, respectively.

**SUPPLEMENTARY INFORMATION**

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES**  
**BUDGET AND ACTUAL**  
**For the year ended December 31, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>Revenues:</b>			
Member assessments	\$ 986,500	\$ 968,971	\$ (17,529)
Architectural review fees	20,000	27,450	7,450
Other income	33,000	67,309	34,309
Total revenues	<u>1,039,500</u>	<u>1,063,730</u>	<u>24,230</u>
<b>Expenses:</b>			
Management services	177,200	185,284	(8,084)
Compliance services	85,800	77,100	8,700
Landscape services	168,350	163,105	5,245
Maintenance services	174,200	173,597	603
Transit system	119,500	110,045	9,455
Security services	34,000	27,130	6,870
Community relations	93,900	97,809	(3,909)
Tract R expenses	15,500	7,996	7,504
Special projects	61,750	17,698	44,052
Office services and supplies	42,000	64,404	(22,404)
Professional services	44,500	86,657	(42,157)
Bad debt expense	1,000	4,684	(3,684)
Insurance and licenses	9,000	12,140	(3,140)
Depreciation	5,200	9,934	(4,734)
Income taxes	-	1,917	(1,917)
Total expenses	<u>1,031,900</u>	<u>1,039,500</u>	<u>(7,600)</u>
Excess of operating fund revenues over operating fund expenses	<u>\$ 7,600</u>	<u>\$ 24,230</u>	<u>\$ 16,630</u>

See auditor's report.

**FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**For the year ended December 31, 2005**

The Association's Board of Directors conducted a reserve study in January of 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs are based on the estimated costs to repair or replace the common property at the date of the study. The reserve study reflects both estimated current and future replacement costs. Estimated future replacement costs include an appropriate rate of inflation in order to plan for future reserve requirements.

The following information is based on the study and presents significant information about the components of common property.

<u>Components:</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement/ Repair Cost</u>
Common property:		
Bus shelters	1	\$ 2,000
Chapin/Miller waterfall	8	20,000
Common area and trail erosion	9	25,000
Mill Pond dredging	5	100,000
Mill Pond fountain repair	3	5,000
Mill Pond fountain replacement	10	5,000
Mill Pond park playground (original)	2	25,000
Mill Pond park playground (2003)	19	35,000
Monuments	7	10,000
Pacific wave repair	8	5,000
Pacific wave restoration	3	10,000
Painted fencing/monuments - 2005	1	1,000
Painted fencing/monuments - 2011	7	10,000
Stairway - Silver Ridge	13	10,000
Trail, bridges, sidewalks repair	5	5,000
Trail head markers	4	<u>11,050</u>
Total common property		<u>\$ 279,050</u>
Private roads:		
Private roads skim coat	7	\$ 66,488
Storm drains and lights maintenance	1	<u>7,500</u>
Total private roads		<u>\$ 73,988</u>
Total		<u>\$ 353,038</u>

See auditor's report.