

**FOREST HEIGHTS  
HOMEOWNERS  
ASSOCIATION, INC.**

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**Management  
Letter**

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**For the Year Ended  
December 31, 2005**



MCDONALD JACOBS

*Jake Jacobs, CPA*

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of counsel*

March 15, 2006

To the Board of Directors of  
Forest Heights Homeowners Association, Inc.  
Portland, Oregon

In planning and performing our audit of the financial statements of Forest Heights Homeowners Association, Inc. (the Association) for the year ended December 31, 2005, we considered the Association's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements but not to provide assurance on internal control.

During our audit, if we become aware of areas where there are opportunities for strengthening internal controls, we communicate our findings and recommendations in this letter. This letter does not affect our report dated March 15, 2006, on the financial statements of Forest Heights Homeowners Association, Inc.

## CURRENT YEAR RECOMMENDATIONS

### Prior Period Adjustment

A minor prior period adjustment for \$1,017 was recorded to retained earnings. Prior period adjustments should never be recorded for minor corrections of prior year information. Instead, these corrections should be reflected in the current year activity.

### Interest Earned on Capital and Contingency Reserves

Currently, interest earned on the future reserve funds is not being applied to the fund balances of the reserve funds at year end on the interim financial statements. We recommend separate general ledger accounts be used to identify this revenue separately from the operating interest income.

*Strength in Numbers*

ACCOUNTANTS & CONSULTANTS

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## PRIOR YEAR RECOMMENDATION

### Recording Receipts Timely

We noted during the prior year audit that dues received in December 2004 for calendar year 2005 approximating \$68,000 were not recorded on the books or deposited with the bank until January 2005. All receipts of the Association should be recorded when received and deposited promptly to reduce the chances of theft. Dues received in advance are recorded as a liability, called unearned revenue, and therefore, have no effect on the "bottom line." However, the importance of the journal entry is more an issue of control over the asset as well as the proper reflection of all assets and liabilities of the Association. The 2004 audited financial statements were adjusted to reflect the undeposited cash and the related liability.

Status: We noted proper treatment of dues received in advance during the current year audit.

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We wish to thank Jim Main and the staff at Forest Heights Homeowners Association, Inc. for their support and assistance during our audit.

*McDonald Jacobson, P.C.*