

**FOREST HEIGHTS
HOMEOWNERS
ASSOCIATION, INC.**

**Audited
Financial statements**

**For the years ended
December 31, 2007 and 2006**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Forest Heights Homeowners Association, Inc. as of December 31, 2007 and 2006 and the related statements of revenue, expenses, changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of Forest Heights Homeowners Association, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Heights Homeowners Association, Inc. as of December 31, 2007 and 2006, and the results of its operation and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the schedule of operating fund revenues and expenses - budget and actual on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information (except for the budget information, which was compiled without audit or review from information that is the representation of management, on which we do not express an opinion or any other form of assurance) has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Strength in Numbers

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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 accounting principles generally accepted in the United States of America. 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 20, 2008

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2007 and 2006

	<u>Operating Fund</u>	<u>Common Property Reserve</u>	<u>Private Street Reserve</u>	<u>Totals</u>	
				<u>2007</u>	<u>2006</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 234,275	\$ 64,156	\$ 32,002	\$ 330,433	\$ 377,382
Investment in short-term securities	472,448	189,666	49,996	712,110	590,156
Assessments receivable	44,897	-	-	44,897	26,903
(Due to) due from operating fund	-	3,318	(6,681)	(3,363)	(69,130)
(Due to) due from reserve funds	3,363	-	-	3,363	69,130
Prepaid expenses	3,445	-	-	3,445	540
Total current assets	758,428	257,140	75,317	1,090,885	994,981
Property and equipment, net	69,740	-	-	69,740	72,024
TOTAL ASSETS	<u>\$ 828,168</u>	<u>\$ 257,140</u>	<u>\$ 75,317</u>	<u>\$ 1,160,625</u>	<u>\$ 1,067,005</u>
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 68,719	\$ -	\$ -	\$ 68,719	\$ 77,274
Assessments received in advance	187,856	-	-	187,856	112,040
Deferred revenue	7,000	-	-	7,000	7,000
Total current liabilities	263,575	-	-	263,575	196,314
Fund balances	564,593	257,140	75,317	897,050	870,691
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 828,168</u>	<u>\$ 257,140</u>	<u>\$ 75,317</u>	<u>\$ 1,160,625</u>	<u>\$ 1,067,005</u>

See notes to financial statements.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN FUND BALANCES
For the years ended December 31, 2007 and 2006

	Operating Fund	Common Property Reserve	Private Street Reserve	Totals	
				2007	2006
Revenue:					
Member assessments	\$ 1,026,633	\$ 21,057	\$ 17,280	\$ 1,064,970	\$ 1,051,330
Interest income	29,709	12,856	4,740	47,305	45,284
Architectural review fees	13,100	-	-	13,100	10,575
Other income	92,172	-	-	92,172	90,438
Total revenue	<u>1,161,614</u>	<u>33,913</u>	<u>22,020</u>	<u>1,217,547</u>	<u>1,197,627</u>
Expenses:					
Management services	244,381	-	-	244,381	217,058
Compliance services	97,161	-	-	97,161	91,524
Landscape services	184,679	-	-	184,679	172,289
Maintenance services	164,927	-	-	164,927	161,916
Transit system	125,583	-	-	125,583	134,971
Security services	14,796	-	-	14,796	19,410
Community relations	117,956	-	-	117,956	103,886
Major repairs and replacements	-	-	4,531	4,531	5,074
Special projects	99,318	-	-	99,318	29,233
Office services and supplies	40,497	-	-	40,497	35,575
Professional services	40,604	-	-	40,604	105,889
Bad debt expense	29,287	-	-	29,287	1,606
Insurance and licenses	8,547	-	-	8,547	10,537
Depreciation	12,969	-	-	12,969	11,562
Income taxes	5,952	-	-	5,952	2,773
Total expenses	<u>1,186,657</u>	<u>-</u>	<u>4,531</u>	<u>1,191,188</u>	<u>1,103,303</u>
Excess (deficiency) of revenue over expenses	(25,043)	33,913	17,489	26,359	94,324
Beginning fund balances	<u>589,636</u>	<u>223,227</u>	<u>57,828</u>	<u>870,691</u>	<u>776,367</u>
Ending fund balances	<u>\$ 564,593</u>	<u>\$ 257,140</u>	<u>\$ 75,317</u>	<u>\$ 897,050</u>	<u>\$ 870,691</u>

See notes to financial statements.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2007 and 2006

	Operating Fund	Common Property Reserve	Private Street Reserve	Totals	
				2007	2006
Cash flows from operating activities:					
Excess (deficiency) of revenues over expenses	\$ (25,043)	\$ 33,913	\$ 17,489	\$ 26,359	\$ 94,324
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Depreciation	12,969	-	-	12,969	11,562
Loss on disposal of property and equipment	60	-	-	60	-
Decrease (increase) in:					
Assessments receivable	(17,994)	-	-	(17,994)	2,110
Prepaid expenses	(2,905)	-	-	(2,905)	1,258
Increase (decrease) in:					
Accounts payable and accrued expenses	(8,555)	-	-	(8,555)	13,169
Assessments received in advance and deferred revenue	<u>75,816</u>	<u>-</u>	<u>-</u>	<u>75,816</u>	<u>(11,562)</u>
Net cash provided by operating activities	<u>34,348</u>	<u>33,913</u>	<u>17,489</u>	<u>85,750</u>	<u>110,861</u>
Cash flows from investing activities:					
Proceeds from (additions to) short-term investments	(177,379)	7,046	48,379	(121,954)	5,520
Additions to property and equipment	<u>(10,745)</u>	<u>-</u>	<u>-</u>	<u>(10,745)</u>	<u>(34,084)</u>
Net cash provided by (used in) investing activities	<u>(188,124)</u>	<u>7,046</u>	<u>48,379</u>	<u>(132,699)</u>	<u>(28,564)</u>
Cash flows from financing activities:					
Interfund borrowings	<u>65,767</u>	<u>(23,115)</u>	<u>(42,652)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>65,767</u>	<u>(23,115)</u>	<u>(42,652)</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(88,009)	17,844	23,216	(46,949)	82,297
Cash and cash equivalents:					
Beginning of year	<u>322,284</u>	<u>46,312</u>	<u>8,786</u>	<u>377,382</u>	<u>295,085</u>
End of year	<u>\$ 234,275</u>	<u>\$ 64,156</u>	<u>\$ 32,002</u>	<u>\$ 330,433</u>	<u>\$ 377,382</u>
Supplemental cash flow information:					
Cash paid for income taxes				<u>\$ 3,635</u>	<u>\$ 2,486</u>

See notes to financial statements.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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.
- Common property reserve (Replacement fund) - This fund is used to accumulate financial resources designated for future major repairs and replacements.
- Private Street reserve - This fund is used to account for financial resources available for maintenance of property adjacent to the private streets.

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 consist of certificates of deposit maturing between January 2008 and May 2008.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2007 and 2006

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. Assessments receivable determined to be uncollectible were written off against the previously established reserve and bad debt expense. The Association considers all remaining assessments receivable at December 31, 2007 to be fully collectible.

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, 2007 and 2006, 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, 2007 and 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2007 and 2006, assessments receivable are as follows:

	<u>2007</u>	<u>2006</u>
Assessments receivable	\$ 44,897	\$ 37,042
Less allowance for uncollectible assessments	<u>-</u>	<u>10,139</u>
Assessments receivable, net	\$ <u>44,897</u>	\$ <u>26,903</u>

At December 31, 2007, there was approximately \$20,900 in assessments receivable that had been turned over to legal counsel for collection proceedings. Assessments receivable that are 90 days past due approximate \$39,900 at December 31, 2007.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2007 and 2006

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2007 and 2006:

	2007	2006
Office furniture and equipment	\$ 45,689	\$ 38,242
Playground equipment	62,267	62,267
Total property and equipment	107,956	100,509
Less accumulated depreciation	38,216	28,485
 Net property and equipment	 \$ 69,740	 \$ 72,024

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 \$257,140 at December 31, 2007 and \$223,227 at December 31, 2006, are held in 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.

6. 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. Assessments totaled \$17,280 for each of 2007 and 2006. Expenditures totaled \$4,531 for 2007 and \$5,074 for 2006.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2007 and 2006

7. LEASE COMMITMENTS

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 \$27,000 for each of 2007 and 2006.

The Association leased a truck under an operating lease agreement that expired in March 2007 and leased a photocopier under a operating lease agreement expiring in December 2009. Total monthly payments are \$640. Lease payments under these agreements approximated \$4,670 for 2007 and \$8,060 for 2006.

Future annual rentals under all agreements are as follows:

December 31, 2008	\$ 31,600
2009	32,200
2010	11,900

8. RELATED PARTY TRANSACTIONS

During 2007 and 2006, the Association paid legal fees approximating \$31,200 and \$23,800, respectively, to a law firm with an attorney who is a member of the Association.

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 \$7,002 for 2007 and \$6,809 for 2006.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2007 and 2006

**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 but are protected through the Securities Investor Protection Corporation (SIPC). At December 31, 2007 and 2006, the Association's FDIC-uninsured cash balances approximated \$280,000 and \$346,000, respectively. The FDIC-uninsured balances in the brokerage accounts covered by the SIPC approximated \$160,000 and \$241,000 at December 31, 2007 and 2006, 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, 2007

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Revenues:			
Member assessments	\$ 1,027,400	\$ 1,026,633	\$ (767)
Architectural review fees	7,500	13,100	5,600
Other income	<u>116,500</u>	<u>121,881</u>	<u>5,381</u>
Total revenues	<u>1,151,400</u>	<u>1,161,614</u>	<u>10,214</u>
Expenses:			
Management services	237,850	244,381	(6,531)
Compliance services	92,800	97,161	(4,361)
Landscape services	168,000	184,679	(16,679)
Maintenance services	192,100	164,927	27,173
Transit system	129,500	125,583	3,917
Security services	17,000	14,796	2,204
Community relations	126,000	117,956	8,044
Special projects	-	99,318	(99,318)
Office services and supplies	38,000	40,497	(2,497)
Professional services	64,000	40,604	23,396
Bad debt expense	2,000	29,287	(27,287)
Insurance and licenses	10,500	8,547	1,953
Depreciation	11,000	12,969	(1,969)
Income taxes	<u>-</u>	<u>5,952</u>	<u>(5,952)</u>
Total expenses	<u>1,088,750</u>	<u>1,186,657</u>	<u>(97,907)</u>
Excess (deficiency) of operating fund revenues over operating fund expenses	<u>\$ 62,650</u>	<u>\$ (25,043)</u>	<u>\$ (87,693)</u>

See auditor's report.

FOREST HEIGHTS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
For the year ended December 31, 2007

The Association's Board of Directors conducted a reserve study in April of 2007 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.

Components:	Estimated Remaining Useful Life (Years)	Estimated Current Replacement/ Repair Cost
Common property:		
Bus shelters - painting	6	\$ 2,000
Fencing - painting	2	10,000
Monuments - painting	1	10,000
Chapin/Miller waterfall	5	20,000
Chapin/Miller waterfall - pump replacement	3	5,000
Common area and trail erosion	6	25,000
Mill Pond dredging	2	100,000
Mill Pond fountain repair	0	2,000
Mill Pond fountain replacement	7	5,000
Mill Pond park playground (original)	16	35,000
Mill Pond park playground (2003)	19	30,000
Pacific wave repair	5	5,000
Stairway - Silver Ridge	7	10,000
Trail, bridges, sidewalks repair	2	5,000
Trail head markers	0	6,000
Total common property		\$ <u>270,000</u>
Private roads:		
Private roads skim coat	4	\$ 106,381
Storm drains and lights maintenance	0	7,500
Total private roads		\$ <u>113,881</u>
Total		\$ <u>383,881</u>

See auditor's report.