

**OAK HILLS HOME OWNERS ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**Oak Hills Home Owners Association**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors and Members  
Oak Hills Home Owners Association  
Beaverton, Oregon

We have reviewed the accompanying financial statements of Oak Hills Home Owners Association, which are comprised of the balance sheet as of September 30, 2019, 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.

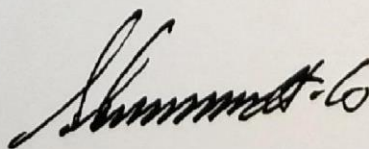
***Report on Summarized Comparative Information***

We have previously reviewed Oak Hills Home Owners Association financial statements for the year ended September 30, 2018, and our report dated June 5, 2019 stated that based on our procedures, we were not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. During our review of the financial statements for the year ended September 30, 2019, we found property and equipment was overstated and refunds receivable were understated and the Association proposed a prior period adjustment to these accounts, as explained in Note 15.

***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 11 through 17 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  
August 14, 2020



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**Oak Hills Home Owners Association**  
**Balance Sheets**  
**September 30, 2019 and 2018**

	Operating Fund	Fixed Asset Fund	Replacement Fund	Construction Project Fund	2019 Total	2018 Total
<b>ASSETS</b>						
Cash, including interest bearing deposits	\$ 5,219	\$ -	\$ 107,094	\$ -	\$ 112,313	\$ 303,314
Investments	-	-	39,810	-	39,810	39,621
Assessments receivable, net of allowance for doubtful accounts of \$5,562 and \$5,562	11,058	-	-	-	11,058	12,670
Refunds receivable	-	-	-	-	-	31,890
Other accounts receivable	185	-	-	-	185	-
Prepaid insurance	1,060	-	-	-	1,060	3,128
Prepaid taxes	464	-	-	-	464	-
Deposits	1,000	-	-	-	1,000	-
Property and equipment, net of accumulated depreciation of \$446,539 and \$252,733	-	4,511,847	-	-	4,511,847	4,646,733
Interfund balance	148,394	-	(51,422)	(96,972)	-	-
Total assets	\$ 167,380	\$ 4,511,847	\$ 95,482	\$ (96,972)	\$ 4,677,737	\$ 5,037,356
<b>LIABILITIES AND FUND BALANCE</b>						
Accounts payable	\$ 12,097	\$ -	\$ -	\$ -	\$ 12,097	\$ 36,643
Deferred revenue	22,953	-	-	-	22,953	22,297
Assessments received in advance	38,741	-	-	-	38,741	36,651
Loan payable	-	-	-	2,341,633	2,341,633	2,624,200
Income taxes payable	333	-	-	-	333	500
Total liabilities	74,124	-	-	2,341,633	2,415,757	2,720,291
Fund balance	93,256	4,511,847	95,482	(2,438,605)	2,261,980	2,317,065
Total liabilities and fund balance	\$ 167,380	\$ 4,511,847	\$ 95,482	\$ (96,972)	\$ 4,677,737	\$ 5,037,356

See accompanying notes and independent accountant's review report.

**Oak Hills Home Owners Association**  
**Statements of Revenues and Expenses**  
**For the Years Ended September 30, 2019 and 2018**

	Operating Fund	Fixed Asset Fund	Replacement Fund	Construction Project Fund	2019 Total	2018 Total
<b>REVENUES</b>						
Regular assessments	\$ 307,500	\$ -	\$ 50,000	\$ -	\$ 357,500	\$ 357,500
Special assessments	-	-	-	321,358	321,358	417,372
Drop box income	2,903	-	-	-	2,903	2,866
Recreation income	116,713	-	-	-	116,713	152,893
Interest	581	-	1,322	-	1,903	886
Late fees	5,217	-	-	-	5,217	4,867
Other income	32,600	-	2,500	-	35,100	49,200
Total revenues	465,514	-	53,822	321,358	840,694	985,584
<b>EXPENSES</b>						
Property maintenance	105,562	-	-	-	105,562	112,473
Major repairs and replacements	-	-	113,461	-	113,461	23,669
Recreation expenses	107,430	-	-	-	107,430	126,644
Utilities	85,696	-	-	-	85,696	111,815
Landscaping	71,193	-	-	-	71,193	72,726
Pool and spa	14,289	-	-	-	14,289	8,911
Insurance	10,028	-	-	-	10,028	10,364
Management fees	33,362	-	-	-	33,362	32,355
Professional fees	10,424	-	-	-	10,424	8,538
Office expense	17,236	-	-	-	17,236	11,955
Licenses, permits and fees	1,903	-	-	-	1,903	816
Income taxes	4,369	-	-	-	4,369	500
Depreciation	-	193,805	-	-	193,805	191,924
Interest on loan	-	-	-	114,052	114,052	123,610
Other	12,969	-	-	-	12,969	7,105
Total expenses	474,461	193,805	113,461	114,052	895,779	843,405
Excess of revenues over (under) expenses	\$ (8,947)	\$ (193,805)	\$ (59,639)	\$ 207,306	\$ (55,085)	\$ 142,179

See accompanying notes and independent accountant's review report.



**Oak Hills Home Owners Association**  
**Statements of Changes in Fund Balance**  
**For the Years Ended September 30, 2019 and 2018**

	Operating Fund	Fixed Asset Fund	Replacement Fund	Construction Project Fund	Total
Fund balance, as of September 30, 2017, as previously stated	\$ 4,979,128	\$ -	\$ 191,660	\$ (2,976,893)	\$ 2,193,895
Prior period adjustments	<u>(27,669)</u>	<u>-</u>	<u>-</u>	<u>5,825</u>	<u>(21,844)</u>
Fund balance, as of September 30, 2017, as restated	4,951,459	-	191,660	(2,971,068)	2,172,051
Excess of revenues over (under) expenses	<u>(173,468)</u>	<u>-</u>	<u>22,380</u>	<u>293,267</u>	<u>142,179</u>
Fund balance, as of September 30, 2018, as previously stated	4,777,991	-	214,040	(2,677,801)	2,314,230
Prior period adjustments	<u>(4,675,788)</u>	<u>4,646,733</u>	<u>-</u>	<u>31,890</u>	<u>2,835</u>
Fund balance, as of September 30, 2018, as restated	102,203	4,646,733	214,040	(2,645,911)	2,317,065
Excess of revenues over (under) expenses	(8,947)	(193,805)	(59,639)	207,306	(55,085)
Interfund transfer	<u>-</u>	<u>58,919</u>	<u>(58,919)</u>	<u>-</u>	<u>-</u>
Fund balance, as of September 30, 2019	<u>\$ 93,256</u>	<u>\$ 4,511,847</u>	<u>\$ 95,482</u>	<u>\$ (2,438,605)</u>	<u>\$ 2,261,980</u>

See accompanying notes and independent accountant's review report.



**Oak Hills Home Owners Association**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2019 and 2018**

	Operating Fund	Fixed Asset Fund	Replacement Fund	Construction Project Fund	2019 Total	2018 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Excess of revenues over (under) expenses	\$ (8,947)	\$ (193,805)	\$ (59,639)	\$ 207,306	\$ (55,085)	\$ 142,179
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided (used) by operating activities:						
Depreciation expense	-	193,805	-	-	193,805	191,924
Interest earned on investments	-	-	(189)	-	(189)	(51)
Decrease (Increase) in assets:						
Assessments receivable, net of allowance for doubtful accounts	1,612	-	-	-	1,612	5,937
Refunds receivable	-	-	-	31,890	31,890	18,036
Other accounts receivable	(185)	-	-	-	(185)	-
Prepaid insurance	2,068	-	-	-	2,068	(2,326)
Prepaid income taxes	(464)	-	-	-	(464)	-
Deposits	(1,000)	-	-	-	(1,000)	-
Increase (Decrease) in liabilities:						
Accounts payable	(17,146)	-	-	(7,400)	(24,546)	(215,953)
Other accounts payable	656	-	-	-	656	2,273
Assessments received in advance	2,090	-	-	-	2,090	2,365
Income taxes payable	(167)	-	-	-	(167)	(340)
Net cash provided (used) by operating activities	(21,483)	-	(59,828)	231,796	150,485	144,044
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of fixed assets	-	(58,919)	-	-	(58,919)	(4,962)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Interfund balance	(96,892)	-	46,121	50,771	-	-
Interfund transfer	-	58,919	(58,919)	-	-	-
Payments on loan principal	-	-	-	(282,567)	(282,567)	(156,465)
Net cash provided (used) by financing activities	(96,892)	58,919	(12,798)	(231,796)	(282,567)	(156,465)
<b>NET DECREASE IN CASH</b>	(118,375)	-	(72,626)	-	(191,001)	(17,383)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	123,594	-	179,720	-	303,314	320,697
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 5,219	\$ -	\$ 107,094	\$ -	\$ 112,313	\$ 303,314

Income taxes paid amounted to \$840 and \$5,000 during the years ended September 30, 2018 and 2019 respectively.

Interest paid on loan amounted to \$114,052 and \$123,610 during the years ended September 30, 2019 and 2018 respectively.

See accompanying notes and independent accountant's review report.



**Oak Hills Home Owners Association**  
**Notes to Financial Statements – Continued**  
**September 30, 2019 and 2018**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The preparation of financial statement 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.

**Capitalization and Depreciation**

The Association records capitalized assets at cost and depreciation on the straight-line basis over the estimated useful life of the asset.

**Note 3 - Investments**

The Association's investments consist of a certificate of deposit (CD). The Association has the positive intent and ability to hold investments to maturity. At September 30, 2019, the fair market value approximated the carrying value. The investments are carried on the Association's financial statements at cost plus earned interest and consisted of the following.

<u>Term</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
15-Month CD	October 7, 2019	0.50%	\$ 39,810

**Note 4 - Refunds Receivable**

As of September 30, 2018, refund of a construction bond was receivable. See Note 15.

**Note 5 - Interfund Balance**

As of September 30, 2019, operating funds of \$51,422 were held in the replacement fund and the construction project fund owed \$96,972 to the operating fund. As of September 30, 2018, operating funds of \$5,301 were held in the replacement fund and the construction project fund owed \$46,201 to the operating fund.

**Note 6 - Deferred Revenue**

For the year ended September 30, 2018, deferred revenue included a \$620 donation, to be used to purchase a memorial bench, and proceeds of \$34,425 from the sale of pavers net of the cost of pavers of \$12,748. For the year ended September 30, 2019, deferred revenue included proceeds of \$35,701 from the sale of pavers net of the cost of pavers of \$12,748. The Association is raising money through the sale of pavers and intends to use the proceeds to pay for playground equipment.

**Note 7 - Loan Payable**

On December 22, 2015, the Association secured a 15-year loan for up to \$4,225,000 at an interest rate of 4.5% to help fund the demolition and rebuilding of the existing recreation facilities. The note is secured by, but not limited to all money, accounts and deposit accounts of the Association and the rights of the Association to levy and collect all assessments levied by the Association in accordance with its governing documents and applicable law. The loan agreement requires the Association to apply all prepayments on special assessments toward repayment of the loan. As of September 31, 2019, the Association had spent a portion of cash received for special assessment prepayments on other expenditures. Future required payments on principal are as follows:

Year ended September 30, 2020	\$ 165,177
Year ended September 30, 2021	\$ 172,765
Year ended September 30, 2022	\$ 180,702
Year ended September 30, 2023	\$ 189,004
Year ended September 30, 2024	\$ 197,686
Thereafter	\$ 1,436,299

See Independent Accountant's Review Report



**Oak Hills Home Owners Association**  
**Notes to Financial Statements – Continued**  
**September 30, 2019 and 2018**

**Note 8 - Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended September 30, 2018, the Association elected to be taxed as a non-exempt membership organization. Under IRC Section 277, Common Interest Realty Associations may be taxed on both net membership and net non-membership income, at applicable federal and state tax rates. Associations that appropriately vote on revenue ruling 70-604 and adhere to certain restrictions and requirements may elect to defer net membership income to the following year. For the year ended September 30, 2019, 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 9 - 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. However, common real property that generates significant revenues is capitalized. The Association's policy is to expense all personal property acquisitions of \$1,500 or less. Common areas are restricted to use by Association members, their tenants, and guests. As of September 30, 2019, property and equipment consisted of the following.

Recreation center	\$	4,776,298
Improvements		82,772
Furniture and equipment		40,397
Groundskeeping equipment		58,919
Accumulated depreciation		(446,539)
Total property and equipment	\$	<u>4,511,847</u>

**Note 10 - Compensated Absences**

Paid time off for regular full-time employees accrues after one calendar year of employment. Eligible employees receive two weeks of vacation in their first eligible year. Thereafter, full-time employees accrue an increasing number of days per year, up to four weeks. Any unused vacation time at the end of each calendar year is forfeited by employees upon the next anniversary date.

**Note 11 - 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 \$95,482 and \$214,040 at September 30, 2019 and 2018, are generally not available for operating purposes. The Oregon Planned Community Act restricts the permanent transfer of funds from the replacement fund.

The Association engaged a consultant who conducted a study dated in July 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 following the funding schedule indicated in the reserve study. Hence, the Association is deferring maintenance and repairs of certain components. The ultimate effect of not funding and maintaining association property is not known at this time, and 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 or levy special assessments, or it may delay major repairs and replacements until funds are available.



**Oak Hills Home Owners Association**  
**Notes to Financial Statements – Continued**  
**September 30, 2019 and 2018**

**Note 12 - Special Serial Assessments**

In August 2015, the Association approved a special serial assessment for the demolition and reconstruction of recreation facilities. Owners were given three payment options: The first option was a prepayment of \$6,500 per lot November 9, 2015, which reflected a discount from the total monthly assessments. The second option provides owners the option of prepaying 12 monthly assessments of \$49.73 due by November 9th each year for 15 years. The third is a monthly assessment of \$49.73 beginning December 8, 2015 for 15 years. As of September 30, 2019, 432 owners were being assessed monthly.

**Note 13 - Late Fees**

Owner late fees are reported net of a 50% administrative charge and late fee write-offs.

**Note 14 - Other Income and Expenses**

For the year ended September 30, 2018, other operating fund income includes, RV lot income of \$14,984, move in/out income of \$650, community garden income of \$907, field and facility use income of \$35,759, a donation of \$5,000 from the Oak Hills Soccer Club for installation of a new irrigation system, a gain on the sale of equipment of \$2,500, fines for rule violations, and other miscellaneous income. Additionally, the Association allows maintenance to be performed on components inside owners' units, pays for the maintenance, and then bills owners for the reimbursement of those expenses. These expenses are reported net of reimbursements in other income. Other 2018 replacement fund income includes a bond deposit refund. Other 2018 expenses include employee testing of \$300 and communications of \$6,805.

For the year ended September 30, 2019, other operating fund income includes donations for a memorial bench of \$620, rental income of \$11,836, key income of \$1,670, RV lot income of \$16,065, move income of \$650, community garden income of \$413, and other miscellaneous income of \$1,346. Additionally, the Association allows maintenance to be performed on components inside owners' units, pays for the maintenance, and then bills owners for the reimbursement of those expenses. These expenses are reported net of reimbursements in other income. Other 2019 replacement fund income consists of a \$2,500 gain on the sale of fixed assets. Other 2019 expenses include software fees of \$2,202, employee testing of \$39, communications of \$4,801, and unknown expenses of \$5,927.

**Note 15 - Prior Period Adjustments**

**2017**

Prior period adjustments are reported to restate the September 30, 2017 operating fund balance and construction project fund balance, the deferred revenue balance, the property and equipment asset and depreciation expense balances, and the refunds receivable and other income balances. A transfer from the construction project fund to the operating fund of \$5,825 was reversed because the Association received a refund for this previously capitalized expense. Property and equipment balances were also decreased by \$5,825 and the related accumulated depreciation removed. The operating fund was decreased by \$20,024 to reclassify proceeds raised for the playground equipment project from revenue to deferred revenue. A final payment of \$19,253 was reclassified from the expense account to fixed assets, because this amount should have been part of the capitalized cost of the recreation center. The prior year's fixed asset balance increased and the related change to depreciation resulted in an increase in accumulated depreciation. A reclassification of tax payments for the prior year's tax expense and a reclassification of prepaid taxes on the books as of September 30, 2017 was found to have been refunded in August 2017.

The adjustment to the construction project fund consisted of the \$5,825 reversal of transfer. Total adjustments to the operating fund consisted of decreases of \$20,024 for the reclassification of deferred proceeds, \$5,825 for the reversal of transfer, \$1,442 for the reclassification of income tax payments and prepaid taxes, and \$378 for the change in depreciation. Total adjustments to fixed assets included a removal of \$5,825, addition of \$19,253, and an increase in accumulated depreciation of \$378. Prior year refunds receivable was increased by \$5,925 and prior year deferred revenue increased to \$20,024. These restatements are reported on the balance sheet as of September 30, 2017 and on the statements of revenues and expenses, changes in fund balance, and cash flows for the year ended September 30, 2017.



Oak Hills Home Owners Association  
Notes to Financial Statements – Continued  
September 30, 2019 and 2018

**Note 15 - Prior Period Adjustments (Continued)**

2018

Prior period adjustments are reported to restate the September 30, 2018 operating fund balance, fixed asset fund balance, construction project fund balance, property and equipment and accumulated depreciation balances, and refunds receivable balance.

An insurance bond of \$31,890 on the construction project that had been previously capitalized, was reclassified from property and equipment to refunds receivable as of September 30, 2018 and the related accumulated depreciation of \$2,835 was removed. Additionally, the balance of property and equipment net of accumulated depreciation as of September 30, 2018 was reclassified from the operating fund to a separate fixed asset fund.

**Note 16 - Interfund Transfer**

During the year ended September 30, 2019, the Association transferred \$58,919 from the replacement fund to the fixed asset fund for the purchase of equipment capitalized in the fixed asset fund.

**Note 17 - Prior Year Summarized Comparative Information**

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended September 30, 2018 from which the summarized information was derived and the explanation for the prior period adjustment in Note 15.

**Note 18 - Recent Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. In May 2020, FASB approved extending the effective date by one year for all nonpublic entities that have not yet issued their financial statements. Application is now required for annual periods beginning after December 15, 2019. The Association continues to evaluate the impact of the new accounting guidance on its financial statements.

**Note 19 - Subsequent Event**

The COVID-19 global pandemic has caused business disruption through mandated and voluntary closings for services and production across a range of industries. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The extent of the impact of COVID-19 will depend on certain developments and may negatively impact certain financial conditions, however, it cannot be reasonably estimated at this time.

**Note 20 - 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 14, 2020, the date the financial statements were available to be issued.