One S.W. Columbia, Suite 625
Portland, Oregon 97258-2004

P. 503.546.9346
F. 503.546.9275
www.williamsoncpa.com

Williamson
& Associates, LLP
Certified Public Accountants

9370 SW Greenburg Rd, Suite 421
Portland, Oregon 97223

P. 503.293.0690
F. 503.293.5066
www.williamsoncpa.com

Setting a New Standard

To the Board of Directors
Mountain Park Home Owners Association

Independent Auditor's Report

We have audited the accompanying balance sheets of Mountain Park Home Owners Association as of December 31, 2010 and 2009, and the related statements of revenue, expenses and changes in fund balances and cash flows for the for the years then ended. These financial statements are the responsibility of Mountain Park Home Owners Association. Our responsibility is to express an opinion of these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 Mountain Park Home Owners Association as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements of Mountain Park Home Owners Association, but is supplementary information required by the American Institute of Certified Public Accountants. 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.

Williamson & Associates, LLP

March 4, 2011
Portland, Oregon

MOUNTAIN PARK HOME OWNERS ASSOCIATION

BALANCE SHEETS

December 31, 2010 (With Comparative Totals for 2009)

	Operating Fund	Replacement Fund	Totals 2010	Totals 2009
ASSETS				
CURRENT ASSETS				
Cash, including interest bearing deposits	$ 459,604	$ 508,745	$ 968,349	$ 276,347
Assessments and other receivables, less allowance for doubtful accounts of $15,000 in 2010 ($25,000 in 2009)	98,583	-	98,583	102,902
Other assets	20,000	-	20,000	18,324
Interfund borrowings	(203,893)	203,893	-	-
Total Current Assets	374,294	712,638	1,086,932	397,573
Investments	28,691	-	28,691	28,691
Fixtures and equipment (net of accumulated depreciation of $138,049 in 2010 ($117,939 in 2009)	64,401	-	64,401	84,511
Prepaid loan fee	-	45,348	45,348	45,174
Total Assets	$ 467,386	$ 757,986	$ 1,225,372	$ 555,949
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable	39,172	$ 1,845	$ 41,017	$ 932,833
Accrued payroll and related liabilities	57,501	-	57,501	47,700
Deferred revenue	23,624	-	23,624	14,285
Deposits	7,070	-	7,070	6,722
Income taxes payable	150	-	150	150
Current portion of long - term debt	-	140,173	140,173	10,763
Total Current Liabilities	127,517	142,018	269,535	1,012,453
Long - term debt	-	5,109,827	5,109,827	2,990,417
Total Liabilities	127,517	5,251,845	5,379,362	4,002,870
Fund balance (deficit)	339,869	(4,493,859)	(4,153,990)	(3,446,921)
Total Liabilities and Fund Balances (Deficit)	$ 467,386	$ 757,986	$ 1,225,372	$ 555,949

See accompanying notes to financial statements

MOUNTAIN PARK HOME OWNERS ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2010 (With Comparative Totals for 2009)

	Operating Fund	Replacement Fund	Totals 2010	Totals 2009
REVENUE				
Assessments	$ 1,645,774	$ 492,351	$ 2,138,125	$ 2,143,257
Playschool tuition	359,414	-	359,414	359,940
Fitness center	137,877	-	137,877	75,614
Vehicle storage	30,578	-	30,578	30,753
Interest income	6,069	287	6,356	6,043
Other income	30,422	-	30,422	10,597
	2,210,134	492,638	2,702,772	2,626,204
EXPENSES				
Administrative expenses	657,564	-	657,564	644,402
Playschool	273,482	1,230	274,712	299,032
Fitness center	775,373	21,534	796,907	544,183
Landscape and paving	394,535	106,338	500,873	441,800
Interest expense	-	278,227	278,227	33,022
Construction in progress	-	878,972	878,972	4,523,397
Amortization of loan fees	-	2,326	2,326	2,326
Depreciation	20,110	-	20,110	18,377
	2,121,064	1,288,627	3,409,691	6,506,539
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES BEFORE TAXES	89,070	(795,989)	(706,919)	(3,880,335)
Income tax expense	150	-	150	150
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	88,920	(795,989)	(707,069)	(3,880,485)
BEGINNING FUND BALANCES (DEFICIT)	250,949	(3,697,870)	(3,446,921)	433,564
ENDING FUND BALANCES (DEFICIT)	$ 339,869	$ (4,493,859)	$ (4,153,990)	$ (3,446,921)

See accompanying notes to financial statements

MOUNTAIN PARK HOME OWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2010 (With Comparative Totals for 2009)

	Operating Fund	Replacement Fund	Totals 2010	Totals 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficit) of revenue over expenses	$ 88,920	$ (795,989)	$ (707,069)	$ (3,880,485)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided (used) by operating activities:				
Depreciation expense	20,110	-	20,110	18,377
Amortization of loan fee	-	2,326	2,326	2,326
Gain on disposal of assets	-	-	-	3,674
Increase in reserves for bad debts	-	-	-	15,000
(Increase) decrease in:				
Assessments and other receivables	4,319	-	4,319	(2,312)
Other assets	(4,176)	-	(4,176)	(2,135)
Interfund transfers	92,732	(92,732)	-	-
Increase (decrease) in:				
Accounts payable	(11,790)	(885,346)	(897,136)	892,106
Accrued payroll and related liabilities	9,801	-	9,801	(3,139)
Deferred revenue	9,339	-	9,339	14,285
Deposits	348	-	348	2,087
Income taxes payable	-	-	-	(850)
Net cash provided (used) by operating activities	209,603	(1,771,741)	(1,562,138)	(2,941,066)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of fixed assets-Playschool	-	-	-	(124,859)
Net cash provided (used) by investing activities	-	-	-	(124,859)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings on long-term debt	-	2,248,820	2,248,820	3,001,180
Net cash provided (used) by financing activities	-	2,248,820	2,248,820	3,001,180
Net increase (decrease) in cash	209,603	477,079	686,682	(64,745)
CASH, beginning of year	244,681	31,666	276,347	341,092
CASH, end of year	$ 454,284	$ 508,745	$ 963,029	$ 276,347
SUMMARY OF CASH ACCOUNTS				
Operating funds-undesignated			$ 459,604	$ 244,681
Designated for future repairs and replacements			508,745	31,666
			$ 968,349	$ 276,347
Supplemental Disclosure				
Cash paid for income taxes	$ 150	$ -	$ 150	$ 20
Cash paid for interest	$ -	$ 278,227	$ 278,227	$ 33,022

See accompanying notes to financial statements

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

DESCRIPTION OF ORGANIZATION-

Mountain Park Home Owners Association (the Association) was incorporated in 1968 under the provisions of the State of Oregon Nonprofit Corporation Act. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 3,716 residential units between Portland and Lake Oswego, Oregon on 700 acres.

Members of the Association have the right of easement and enjoyment of the common property subject to rights of the Association to limit the number of guests or members, charge admission or other fees, suspend members' rights for nonpayment of assessments, mortgage common property as security for loan, and transfer all or any part of the common property to any municipal corporation, public agency or authority. The Association may only be dissolved upon a minimum two-thirds vote of all voting members. Upon dissolution of the Association, the assets would be transferred to an appropriate municipal corporation or other public agency that would use the property for purposes similar to those of the Association.

In October, 2008, the Association approved renovation of the pool and recreation center which was completed in early 2010.

Mountain Park Homeowners Association also provides early education classes for children of members and other individuals as a for-profit activity. These services are provided using Association facilities.

SUMMARY OF SIGNIFICANT 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. Disbursements from this fund may be made only for designated purposes.

SUMMARY OF SIGNIFICANT POLICIES- (Continued)

Cash and cash equivalents
For purposes of the statements of cash flows, the Association considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Member assessments
Association members are subject to 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 represents fees from homeowners. The Association's policy is to notify the homeowners with a series of letters demanding immediate payment. If these measures are not successful, the accounts are turned over to attorneys to continue to pursue collection. The collection expenses are added to the homeowners' balance by the attorney and collected by them with the net dues remitted to the Association. If the assessments remain unpaid after eighteen months, suit will be filed against the homeowners.

Assessments are collected in the operating fund and transferred to the replacement fund based on a board approved budget.

Deferred revenue consists of assessment payments received by the Association in advance of the billing period.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various 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 these estimates.

Interest income
Interest income is paid to each fund based on the interest-bearing deposits in its account.

Income taxes
Homeowners' associations may be taxed either as homeowners' associations or as regular corporations if certain requirements are met. The Association will be taxed as a regular corporation for the years ended December 31, 2010 and 2009 since it is not eligible to file as a homeowner due to revenues from the playschool. The Association is taxed only on non-membership income, such as interest earnings and its net playschool operations, at applicable federal and state corporate tax rates.

SUMMARY OF SIGNIFICANT POLICIES- (Continued)

Property, improvements and equipment
Common property consists of common area land and improvements which were purchased and contributed by the developer to the Association. The Association's duty is to maintain these assets.

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. In addition, the property may not be sold or transferred at the discretion of the Board of Directors.

The Association capitalizes all purchased equipment to which it has title or other evidence of ownership and that is income producing. At December 31, 2010 and 2009, property not capitalized consists of walking trails, recreation center, tennis courts, maintenance facility, pool and related equipment, greenbelt areas and any real property directly associated with the units. The only capitalized assets relate to the Playschool operations. During 2010, the Association changed its accounting policy to reflect this and restated the Operating Fund balances for both 2009 and 2008 and removed the 2009 charge for depreciation in accordance with generally accepted accounting principles.

A recreation center was deeded to the Association by the original developer of the Mountain Park community. During subsequent periods, the developer and its successor also deeded the common area land to the Association as required by the original declaration. The value of these assets has not been recorded in the financial statements.

Depreciation
Revenue producing equipment and improvements acquired is depreciated over its estimated useful life using the straight-line method of depreciation.

Comprehensive income
The Association has no other comprehensive income. Comprehensive income consists of certain net unrealized gains or losses from securities along with other transactions not included in these statements.

ASSESSMENTS AND OTHER RECEIVABLES-

At December 31, 2010, the Association had assessments and other receivables of $113,583 ($127,902 in 2009). The Board of Directors elected to provide an allowance for doubtful accounts based on a review of current receivables due to the uncertainty with foreclosures and bankruptcies. The allowance for doubtful accounts was $15,000 in 2010 ($25,000 in 2009).

FIXURES AND EQUIPMENT-

Fixtures and equipment consist of the following as of December 31:

	2010	2009
Playschool improvements	$202,450	$ 202,450
Less accumulated depreciation	(138,049)	(117,939)
	$ 64,401	$ 84,511

FUTURE MAJOR REPAIRS AND REPLACEMENTS-

The Association's governing documents require funds to be accumulated for maintenance of the clubhouse, recreation facilities and common area maintenance. Accumulated (deficit) funds, which aggregate $(4,493,859) and ($3,697,870) at December 31, 2010 and 2009, respectively, are held in separate accounts and are generally not available for expenditures for normal operations. The deficit balance at December 31, 2010 and 2009 is covered by a long-term loan.

The Association conducted a study in 2010 using their renovation contractor and other experts familiar with the property to estimate the remaining useful lives and the replacement costs of the common property components.

The Board will be funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. The funding requirement of $668,268 was estimated and included in the 2011 budget, which includes funding for the renovation debt repayment.

Actual expenditures 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 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.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

INCOME TAXES-

Income taxes for the years ended December 31, 2010 and 2009 consisted of the following:

		2010	2009
Current:			
	Federal	$ -	$ -
	State	150	150
		$ 150	$ 150

Income taxes are due on net investment income. Income taxes are not considered due on membership dues. There was no excess net investment income for the years ended December 31, 2010 and 2009. The Association has incurred an operating loss of approximately $19,000 on its operations for tax purposes which will be available to offset future operating income through 2019.

The Association has no deferred tax assets or liabilities.

LONG-TERM DEBT-

The Association, in November 2008, entered into an agreement with a bank to provide funds to finance the renovation costs of the clubhouse, common areas and equipment. The loan commitment, which enabled the Association to borrow $5,250,000 is amortized over 20 years. The loan carries an interest rate of 6.3% for the first 54 months, starting January 2011. After that, the rate will adjust every three years based on the 3-year constant rate maturity rate, plus 2.5%. When the rate adjusts, it can be no lower than 5.8% and no higher than 8.8%. The loan is to be fully paid off in 20 years. This commitment is collateralized by all of the Association's personal property and proceeds from the Mountain Park Home Owners Association annual dues. The Association has a net prepaid loan commitment fee of $45,348 at December 31, 2010. Payments to amortize the loan commenced in January, 2011 and are $39,303 monthly including interest.

	2010	2009
Ironstone Bank	$5,250,000	$3,001,108
Less current maturities	140,173	10,763
Long-term debt	$5,109,827	$2,990,417

Maturities due over the subsequent five-year period are as follows: 2011-$140,173; 2012-$148,654; 2013-$159,366; 2014-$169,849; 2015-$181,022.

RETIREMENT PLAN-

The Association established a 401(k) plan on January 1, 1991. All employees who worked at least 1,000 hours during the plan year are eligible to participate in the plan. Participating employees are eligible to contribute a portion of their wages to the plan. The Association pays a matching contribution on employee contributions up to 3% of the participants' compensation for the plan year. The Association's contributions for the years ended December 31, 2010 and 2009 were $19,219 and $18,395, respectively.

CONCENTRATION OF CREDIT RISK-

The Association maintains cash balances at financial institutions located in the Portland, Oregon metropolitan area. The cash balances on accounts that are not interest bearing are insured in full by the Federal Deposit Insurance Corporation (FDIC) and interest bearing accounts are insured up to $250,000. As of December 31, 2010, the Association had $258,745 that exceeded the FDIC limits. The Board does not feel that the risk is significant.

RESTATEMENT-

The current financial statements have been restated in accordance with Generally Accepted Accounting Principles that allow assets to be capitalized only if they are income producing. The Association completed its clubhouse renovation in 2010 and when it resumed swim pool and fitness operations in the remodeled facilities the Board decided to continue the policy of providing fitness facilities as part of their fees and not as a separate revenue center. Therefore assets of $447,879, accumulated depreciation of $224,377 and depreciation expense for 2009 of $55,317 were removed from the books with corresponding adjustment of the operating fund balance. The statements now accurately reflect assets available to fund Association needs.

SUBSEQUENT EVENTS-

In preparation of the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 4, 2011, the date that the financial statements were available to be issued. No items were noted.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)

December 31, 2010

The Association's Board of Directors, in 2010, used an independent consultant to prepare a study of the remaining useful lives and replacement costs of the components of common property with remaining lives between three and forty-five years. The estimates were obtained from licensed contractors and suppliers who were familiar with the property. Replacement costs were based on estimated costs to repair or replace the common components at the date of the study assuming 1.6% annual inflation and 0% investment yield net of taxes.

The following information is based on the study and presents significant information about the components of common property with lives of 3 to 45 years:

Components	Estimated Remaining Useful Life (Years)	Estimated 2011 Reserve Study Costs	Estimated Current Replacement Costs
Administrative furniture and equipment	1 to 25	$ 17,272	$ 115,850
Landscape, paths, monuments	1 to 40	115,824	1,565,197
Landscape equipment	1 to 7	11,176	244,192
Recreation facilities	1 to 45	-	3,573,730
Recreation equipment	5 to 23	27,534	114,250
Clubhouse building	1 to 45	58,064	2,158,025
Maintenance facilities	1 to 3	13,187	8,629
Maintenance equipment	16	-	18,000
Playschool	1 to 35	-	354,350
Totals		$243,057	$8,152,223

The Association borrowed $5,250,000 to complete the clubhouse renovation which is to be paid back over 20 years. At December 31, 2010, $712,638 was available for future reserve expenditures and to meet the debt service requirements.

See accountants' report