

**MOUNTAIN PARK
HOME OWNERS ASSOCIATION**

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS

Year Ended December 31, 2011

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Independent Auditor's Report

To the Board of Directors
Mountain Park Home Owners Association
Lake Oswego, Oregon

We have audited the accompanying balance sheet of **Mountain Park Home Owners Association** as of December 31, 2011, and the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of **Mountain Park Home Owners Association's** management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 our audit provides a reasonable basis for our opinion.

As more fully described in Note 4 to the financial statements, the Association has included amounts in Member's assessments receivables that it does not expect to collect in the near term. In our opinion, such receivables should be segregated into long term receivable amounts and an estimate of the uncollectible amounts should be made based on this segregation. The effects on the financial statements of the preceding practice are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Mountain Park Home Owners Association** as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the schedule of future repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Currie & McLain P.S.

CURRIE & McLAIN, P.S.
February 27, 2012

MOUNTAIN PARK HOME OWNERS ASSOCIATION

BALANCE SHEET

December 31, 2011

	Operating Fund	Reserve Fund	2011 Total
ASSETS			
Cash	\$ 272,646	\$ 778,328	\$ 1,050,974
Members' assessments receivable, less allowance for doubtful accounts of \$15,000	110,287	-	110,287
Accounts receivable, other	10,124	-	10,124
Prepaid expenses	18,280	-	18,280
Investment	28,691	-	28,691
Prepaid loan fee, net of accumulated amortization of \$6,978	-	43,022	43,022
Fixtures and equipment, net of accumulated depreciation of \$64,135	138,315	-	138,315
TOTAL ASSETS	\$ 578,343	\$ 821,350	\$ 1,399,693
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 49,991	\$ -	\$ 49,991
Accrued wages and payroll taxes	23,766	-	23,766
Accrued income tax	2,539	-	2,539
Accrued compensated absences	36,558	-	36,558
Members' assessments received in advance	21,590	-	21,590
Other liabilities	14,470	-	14,470
Long-term debt	-	5,109,827	5,109,827
 Total liabilities	 148,914	 5,109,827	 5,258,741
 Total fund balances	 429,429	 (4,288,477)	 (3,859,048)
TOTAL LIABILITIES AND FUND BALANCES	\$ 578,343	\$ 821,350	\$ 1,399,693

See accompanying notes to financial statements.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES

Year Ended December 31, 2011

	Operating Fund	Reserve Fund	2011 Total
REVENUES			
Members' assessments	\$ 1,507,940	\$ 668,268	\$ 2,176,208
Fitness	200,245	-	200,245
Playschool	453,407	-	453,407
Landscape	34,227	-	34,227
Member services	8,006	-	8,006
Special events	53,826	-	53,826
Other income - general and administrative	18,762	-	18,762
Interest income	6,339	2,949	9,288
Dividend income	625	-	625
	<u>2,283,377</u>	<u>671,217</u>	<u>2,954,594</u>
EXPENSES			
General and administrative	547,538	128,551	676,089
Fitness	279,397	-	279,397
Playschool	313,160	25,717	338,877
Landscape and paving	389,621	34,888	424,509
Maintenance	432,293	-	432,293
Member services	167,914	-	167,914
Marketing	17,965	-	17,965
Special events	57,776	-	57,776
Interest expense	-	331,458	331,458
Depreciation	20,110	-	20,110
Loan fees expense	-	2,326	2,326
Bad debt expense	27,467	-	27,467
Federal and state income tax	3,420	-	3,420
	<u>2,256,661</u>	<u>522,940</u>	<u>2,779,601</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 26,716</u>	<u>\$ 148,277</u>	<u>\$ 174,993</u>

See accompanying notes to financial statements.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

STATEMENT OF CHANGES IN FUND BALANCES

Year Ended December 31, 2011

	Operating Fund	Reserve Fund	2011 Total
BEGINNING FUND BALANCES	\$ 339,897	\$ (4,493,859)	\$ (4,153,962)
PRIOR PERIOD ADJUSTMENT - See Note 10	<u>346,717</u>	<u>(226,796)</u>	<u>119,921</u>
BEGINNING FUND BALANCES, RESTATED	686,614	(4,720,655)	(4,034,041)
NET INCOME	26,716	148,277	174,993
INTERFUND TRANSFERS	<u>(283,901)</u>	<u>283,901</u>	<u>-</u>
ENDING FUND BALANCES	<u>\$ 429,429</u>	<u>\$ (4,288,477)</u>	<u>\$ (3,859,048)</u>

See accompanying notes to financial statements.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

	Operating Fund	Reserve Fund	2011 Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 26,716	\$ 148,277	\$ 174,993
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	20,110	-	20,110
Bad debt expense	27,467	-	27,467
(Increase) decrease in assets:			
Members' assessments receivable	(19,975)	-	(19,975)
Accounts receivable, other	(3,396)	-	(3,396)
Prepaid expenses	1,720	-	1,720
Prepaid construction loan	-	2,326	2,326
Due to reserve fund	-	203,893	203,893
Increase (decrease) in liabilities:			
Accounts payable	10,818	(1,845)	8,973
Accrued wages and payroll taxes	2,030	-	2,030
Accrued income tax	2,389	-	2,389
Accrued compensated absences	1,115	-	1,115
Members' assessments received in advance	(2,034)	-	(2,034)
Refundable deposits	7,080	-	7,080
Due from operating fund	(203,893)	-	(203,893)
Net cash provided by operating activities	<u>(129,853)</u>	<u>352,651</u>	<u>222,798</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	-	(140,173)	(140,173)
Interfund transfers, net (board approved)	<u>(283,901)</u>	<u>283,901</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(283,901)</u>	<u>143,728</u>	<u>(140,173)</u>
NET INCREASE (DECREASE) IN CASH	(413,754)	496,379	82,625
CASH BEGINNING - See Note 10	<u>686,400</u>	<u>281,949</u>	<u>968,349</u>
CASH ENDING	<u>\$ 272,646</u>	<u>\$ 778,328</u>	<u>\$ 1,050,974</u>

SUPPLEMENTARY DISCLOSURES

Cash paid during period for:

Interest	\$331,458
Federal and state taxes	\$1,031

See accompanying notes to financial statements.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – NATURE OF THE ORGANIZATION

Mountain Park Home Owners Association (the “Association”) is a nonprofit Oregon corporation established in 1968 as a planned unit development for the purpose of providing managerial and operational services on behalf of the homeowners. The Association is responsible for preserving and maintaining the common property. The development is located on 700 acres between Portland and Lake Oswego, Oregon and consists of 3,716 residential units.

The 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.

NOTE 2 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 27, 2012 the date that the financial statements were available to be issued.

NOTE 3 – 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.

Reserve Fund—This fund is used to accumulate financial resources designated for future major repairs and replacements as well as for loan and contingency reserves. The Reserve Fund is comprised of the cash accounts designated to Mandatory Reserves, New Capital Fund, Construction Loan and to the Interest Contingency account.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as members’ assessments received in advance on the balance sheet and represent dues that are retained by the Association for use in the succeeding year.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Members' Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Members' assessments receivable represent fees due from owners. The Association's policy is to notify the homeowners with a series of letters for immediate payment of past due assessments. If this measure is not successful, the accounts are turned over to legal counsel and collected by them with the net dues remitted to the Association. If the assessment remains unpaid after eighteen months, suit will be filed against the homeowner.

Future Major Repairs and Replacements

The Association's governing documents require the Association to finance estimated future major repairs and replacements through common assessments. An on-site reserve study was conducted in 2010 to determine the remaining useful lives of the components of common properties and to estimate the current costs of the major repairs and replacements that may be required in future years. The Association plans to have adequate reserves as needed for these major repairs and replacements. The reserve fund cash balance totaled \$778,328 at December 31, 2011 for this purpose.

Common Real Property and Equipment

Common real property acquired by the original homeowners from the developer and related improvements to such property are not capitalized on the Association's financial statements. The Association complies with this prevalent industry practice regarding homeowner associations.

The Association only capitalizes purchased equipment to which it has title or other evidence of ownership and produces income, and all other personal property is expensed as incurred. At December 31, 2011, property not capitalized consists of walking trails, a recreation center, tennis courts, maintenance facility, pool and related equipment, greenbelt areas and any real property directly associated with the residential units. The only capitalized assets relate to the Playschool operations.

The revenue producing equipment and improvements acquired are depreciated over the estimated useful life using the straight-line method of depreciation.

Playschool improvements	\$ 202,450
Less accumulated depreciation	(64,135)
	<u>\$ 138,315</u>

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

The Association accrues personal time off (PTO) for full-time employees and the amount of PTO employees receive depends on their length of employment. An employee can accrue up to a maximum of 150% of their annual accrual of PTO days.

NOTE 4 – ASSESSMENTS AND OTHER RECEIVABLES

At December 31, 2011, the Association had assessments and other receivables of \$135,411. The Board of Directors elected to provide an allowance for doubtful accounts based on a review of current receivables due to the uncertainty of foreclosures and bankruptcies. The allowance for doubtful accounts was \$15,000 in 2011.

The over 90 days past due assessments receivable were \$115,565 at December 31, 2011 of which \$43,474 is due from owners under various payment plans that span beyond 2012. Management expects to receive 100% of the \$43,474 within the next three years.

NOTE 5 – INVESTMENT

The investment consists of a publically traded stock and is valued at \$28,691. The carrying value as presented is a reasonable estimate of fair value based on the active markets and broker statements (Level 1). Management's intent is to hold the stock until further review and recommendations by the Association's financial committee.

NOTE 6 – INCOME TAXES

Homeowners associations may be taxed either as a residential association under Internal Revenue Code ("IRC") Section 528 or under IRC Section 277 which applies to certain membership organizations. For the year ended December 31, 2011, the Association is taxed under the provisions of IRC Section 277. Under IRC Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses. Each component is taxed separately; however, net membership income is exempt from federal taxation if certain elections are made. For the year ended December 31, 2011, the Association's net non-membership income was \$10,261, resulting in federal income taxes of \$1,539.

For state income tax purposes, the Association is either taxed on the Association's net non-membership income or as a minimum determined by the gross revenues collected. The Association was taxed by the state of Oregon as a minimum of gross revenues collected resulting in state taxes of \$1,500.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 7 – UNCERTAIN TAX POSITIONS

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. The income tax returns for December 31, 2008, December 31, 2009 and December 31, 2010 remain open to examination.

NOTE 8 – 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 annual members' assessments. The Association has a net prepaid loan fee of \$43,022 at December 31, 2011. Payments to amortize the loan as of January 2011 were \$39,303 per month including interest.

Long-term debt	\$ 5,109,827
Less current maturities in 2012	<u>148,654</u>
Long-term debt, net of current portion	<u>\$ 4,961,173</u>

Maturities due over the subsequent five-year period are as follows:

2013 - \$159,366
2014 - \$169,849
2015 - \$171,022
2016 - \$202,117
2017 - \$205,566

NOTE 9 – 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 contribution for the year ended December 31, 2011 was \$13,027.

MOUNTAIN PARK HOME OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The following details prior period adjustments made to the beginning operating fund balance. The beginning accounts receivable were understated after discovering that the general ledger balance at December 31, 2010 was used rather than the subsidiary ledger balance. The accumulated depreciation at December 31, 2010 was overstated after reconciling to the 2010 fixed asset schedule.

Beginning cash was also reclassified from the reserve cash balance to the operating cash balance for \$226,796. This reclassification, however, did not affect the total beginning fund equity. The prior period adjustments did not affect net income for 2011.

Accounts receivable balance, beginning	\$ 25,897
Accumulated depreciation, beginning	<u>94,024</u>
Prior period adjustment	<u>\$119,921</u>