



May 2, 2002

Dear Homeowner,

Enclosed you will find the Association's audit for the calendar year of 2001 which was prepared by Bradford G. Benton, Certified Public Accountant.

Pursuant to California Civil Code Section 1363.05(e), you are hereby notified that the minutes of any meeting of the Board of Directors, other than executive session, shall be made available to members within thirty days from the date of the meeting by making a written request to the Association's Manager at 25 Christamon West, Irvine, CA 92620.

Please call the Association office at (714) 730-1560 if you have questions.

Sincerely,

Gus Aarnaes
Gus Aarnaes
Property Manager

**PARK PASEO HOMEOWNERS
ASSOCIATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2001**



CERTIFIED PUBLIC ACCOUNTANT

BRADFORD G. BENTON

Independent Auditor's Report

Board of Directors
Park Paseo Homeowners Association:

We have audited the accompanying balance sheet of Park Paseo Homeowners Association as of December 31, 2001, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 that our audit provides 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 Park Paseo Homeowners Association as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements 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.

Bradford G. Benton

February 26, 2002

PARK PASEO HOMEOWNERS ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2001

ASSETS

	Operating Fund	Replace- ment Fund	Total
Assets			
Cash and cash equivalents	\$ 240,347	\$ 123,012	\$ 363,359
Investments		249,082	249,082
Assessments receivable	14,575	-	14,575
 Total assets	 <u>\$ 254,922</u>	 <u>\$ 372,094</u>	 <u>\$ 627,016</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	\$ 5,893	\$ -	\$ 5,893
Prepaid assessments	3,157		3,157
Income taxes payable	2,099		2,099
Total liabilities	<u>11,149</u>	<u>-</u>	<u>11,149</u>
 Fund balance			
Accumulated excess of revenues over expenses	252,154	372,094	624,248
Accumulated other comprehensive income			
Net unrealized losses on investment (Franklin Fund)	(8,381)		(8,381)
Total fund balance	<u>243,773</u>	<u>372,094</u>	<u>615,867</u>
 Total liabilities and fund balance	 <u>\$ 254,922</u>	 <u>\$ 372,094</u>	 <u>\$ 627,016</u>

The accompanying notes are an integral part
of these financial statements.

PARK PASEO HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES AND

CHANGES IN FUND BALANCES

For the year ended December 31, 2001

	Operating Fund	Replace- ment Fund	Total
Revenues			
Member assessments	\$ 404,586	\$ 37,914	\$ 442,500
Interest	33,230	-	33,230
Late charges and lien fees	1,504		1,504
Other charges to owners	9,903		9,903
Other	7,162		7,162
Total revenues	<u>456,385</u>	<u>37,914</u>	<u>494,299</u>
Expenses			
Utilities	50,544		50,544
Landscape maintenance	137,945	2,289	140,234
Pool and spa	18,161	17,117	35,278
Lifeguards	23,961		23,961
Common areas	29,432	1,180	30,612
Security	47,913		47,913
Management fees	52,887		52,887
Insurance	17,652		17,652
Legal and professional	6,850		6,850
Income taxes	7,419		7,419
Print, postage, & supplies	11,496		11,496
Newsletter	2,156		2,156
Other	4,983		4,983
Total expenses	<u>411,399</u>	<u>20,586</u>	<u>431,985</u>
Excess of revenues over expenses	44,986	17,328	62,314
Prior period adjustment	9,999		9,999
Beginning fund balances	<u>197,169</u>	<u>354,766</u>	<u>551,935</u>
ENDING FUND BALANCES	<u><u>\$ 252,154</u></u>	<u><u>\$ 372,094</u></u>	<u><u>\$ 624,248</u></u>

The accompanying notes are an integral part
of these financial statements.

PARK PASEO HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2001

	Operating Fund	Replace- ment Fund	Total
Excess (deficiency) of revenues over expenses	\$ 44,986	\$ 17,328	\$ 62,314
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase)/Decrease in:			
Assessments receivable	(876)		(876)
Prepaid expenses	15,738		15,738
Other assets	1,260		1,260
Increase/(Decrease) in:			
Accounts payable	(1,059)		(1,059)
Prepaid assessments	(1,324)		(1,324)
Income taxes payable	180		180
Total adjustments	13,919	-	13,919
Net cash provided (used) by operating activities	58,905	17,328	76,233
Cash flows from investing activities:			
Maturity of investments		71,057	71,057
Interfund transfers	1,618	(1,618)	-
Net increase/(decrease) in cash and cash equivalents	60,523	86,767	147,290
Cash and cash equivalents at beginning of year	179,824	36,245	216,069
Cash and cash equivalents at end of year	<u>\$ 240,347</u>	<u>\$ 123,012</u>	<u>\$ 363,359</u>

The accompanying notes are an integral part
of these financial statements.

PARK PASEO HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

a) Organization

Park Paseo Homeowners Association (the Association) was organized as a nonprofit corporation in 1977 in the state of California. Its purpose is to provide management and maintenance of the common areas within the development, which is located in the city of Irvine, California. The development consists of 625 single family dwellings.

b) Fund Accounting

The Association's operations are segregated between operating funds and replacement funds. The operating fund is used to account for normal maintenance and service operations related to the common area. Disbursements from the operating fund are generally at the discretion of the Board of Directors. The replacement fund is utilized to account for the long-term major repair and replacement requirements of the Association. Disbursements from the replacement fund may be made only for their designated purpose.

c) Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements.

d) Interest Earned

The Association's policy is to allocate to the operating fund interest earned on all replacement fund cash and investment accounts.

e) Cash and Cash Equivalents

Certificates of deposit with a maturity of three months or less at the time of purchase are considered to be cash equivalents. Those with a maturity over three months at the time of purchase are classified as investments.

f) Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

g) FDIC Insurance Limits

The Association had funds in excess of the \$100,000 federally insured limit on deposit at financial institutions during the period.

PARK PASEO HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Cash and Cash Equivalents at December 31, 2001

<u>Bank</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Operating Fund</u>	<u>Replace- ment Fund</u>	<u>Total</u>
Cash and cash equivalents consist of:					
Washington Mutual:					
Checking	0.25%		\$ 70,098	\$ -	\$ 70,098
Savings	1.25%		9,835		9,835
Wells Fargo			11,505		11,505
Petty Cash			500		500
Smith Barney:					
Money Fund	1.55%		58,409	123,012	181,421
Hudson United, CD	2.45%	03/27/02	90,000		90,000
Total cash and equivalents			<u>\$240,347</u>	<u>\$123,012</u>	<u>\$363,359</u>
Investments consist of the following:					
Franklin Adjustable US Govt. Securites					
Fund - at current value (a) (b)		N/A		\$158,943	\$158,943
World Savings, CD	2.96%	06/13/02		90,138	90,138
Total investments				<u>\$249,081</u>	<u>\$249,081</u>

(a) The investment in the Franklin Adjustable U S Government Securities Fund is recorded at fair market value. The corresponding unrealized gain or loss in the fair market value in relation to cost is accounted for as a separate item in the fund balance section of the balance sheet.

(b) This is a mutual fund that invests primarily in adjustable-rate, mortgage-backed securites, or other securities collateralized by, or representing an interest in, mortgages, issued or guaranteed by the U.S. government, its agencies or instrumentalities.

3. Owners' Assessments

Monthly assessments to owners during 2001 were \$59.00. Of this amount, \$5.06 was allocated to the replacement fund during the year. At December 31, 2001 all assessments receivable were deemed to be collectible.

The annual budget and owners' assessments were determined by the Board of Directors. Currently, the Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

PARK PASEO HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

4. Future Major Repairs and Replacements

The Association has established a policy of assessing members monthly and accumulating funds based on current estimated replacement costs. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

In August 2001 the Association retained an independent company, which specializes in conducting reserve studies, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. The study concluded that the Association's funds available for reserves at December 31, 2001 were adequate. The table included in the unaudited supplementary information of Future Major Repairs and Replacements is based on the study.

The Board of Directors included \$49,402, in the 2002 budget for reserves which is the amount recommended by the study referred to above.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

5. Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. Under the homeowners' association election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30% for federal and the regular corporate rate for state. Exempt function income, which consists primarily of member assessments, is not taxable.

For the year ended December 31, 2001 the Association filed as a regular corporation.

Income taxes consist of:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Income taxes	\$ 4,373	\$ 3,046	\$ 7,419
less payments made	(3,743)	(1,577)	(5,320)
Balance due (prepaid)	<u>\$ 630</u>	<u>\$ 1,469</u>	<u>\$ 2,099</u>

6. Contingency

During the year the Association was served with a lawsuit involving an injury which occurred in the common area. The plaintiff alleges physical and emotional injuries arising from the incident. The matter has been turned over to the Association's insurance carrier for defense. It is not possible at this time to determine if there will be any loss to the Association as a result of this claim.

PARK PASEO HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

7. Prior Period Adjustment

As indicated in Note 2 the investment in the Franklin Adjustable U. S. Government Securities Fund is recorded at fair market value. The corresponding unrealized gain or loss in the fair market value in relation to cost is accounted for as a separate item in the fund balance section of the balance sheet. A prior period adjustment was made to give effect for the net unrealized loss in the investment prior to January 1, 2001.

PARK PASEO HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2001
(Unaudited)

In August 2001, the Association retained an independent company, which specializes in conducting reserve studies, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.5 percent and interest earned at 4.0 percent on amounts funded for future major repairs and replacements. The study concluded that the Association's funds available for future major repairs and replacements at December 31, 2001 were adequate.

The following table is based on the study and presents significant information about the components of common property.

Components	Remaining Useful Lives (yr)	Estimated Current Replacement Costs	Recommended Funding for 2002	Components of Fund Balance at 12/31/01
Roofs	1-2	\$ 4,400	\$ 172	\$ 6,005
Painting	0-5	16,700	3,578	7,086
Fencing	4-8	43,500	3,959	28,106
Parking lot	1-15	7,900	415	4,204
Lighting	3-20	39,000	3,347	27,416
Pool/spa & pool area	0-10	132,400	18,073	85,494
Rec area	0-17	85,500	5,420	42,412
Tennis court	1-4	34,500	1,939	27,319
Clubhouse	0-13	118,400	7,455	96,810
Irrigation	3	25,000	2,828	-
Tree trimming	1	20,700	726	37,043
Contingency		-	1,490	10,199
		<u>\$ 528,000</u>	<u>\$ 49,402</u>	<u>\$ 372,094</u>