



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, 2007, 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, 2007 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.

The supplementary information on future major repairs and replacements on page 7 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, 2008

PARK PASEO HOMEOWNERS ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2007

ASSETS

	<u>Operating Fund</u>	<u>Replace- ment Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 56,564	\$ 57,393	\$ 113,957
Investments		545,409	545,409
Interest receivable	3,374		3,374
Assessments receivable	6,299		6,299
Total assets	<u>\$ 66,237</u>	<u>\$ 602,802</u>	<u>\$ 669,039</u>

LIABILITIES AND FUND BALANCES

<u>Liabilities</u>			
Accounts payable	\$ 4,263	\$ -	\$ 4,263
Prepaid assessments	19,505		19,505
Income taxes payable	6,199		6,199
Total liabilities	<u>29,967</u>	<u>-</u>	<u>29,967</u>
<u>Fund balance</u>			
Accumulated excess of revenues over expenses	46,371	602,802	649,173
Accumulated other comprehensive income - net unrealized losses on investment (Franklin Fund)	(10,101)		(10,101)
Total fund balance	<u>36,270</u>	<u>602,802</u>	<u>639,072</u>
Total liabilities and fund balance	<u>\$ 66,237</u>	<u>\$ 602,802</u>	<u>\$ 669,039</u>

See accompanying notes to financial statements.

PARK PASEO HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES

For the year ended December 31, 2007

	Operating Fund	Replace- ment Fund	Total
Revenues			
Member assessments	\$ 416,344	\$ 93,656	\$ 510,000
Interest	25,392		25,392
Late charges and lien tees	4,597		4,597
Other charges to owners	23,555		23,555
Other - sale of easement	16,700		16,700
Total revenues	<u>486,588</u>	<u>93,656</u>	<u>580,244</u>
Expenses			
Utilities	69,884		69,884
Landscape maintenance	147,702		147,702
Pool and spa	19,965	14,787	34,752
Lifeguards	14,894		14,894
Common areas	32,011		32,011
Security	47,116		47,116
Management tees	62,493		62,493
Insurance	17,860		17,860
Legal and professional	16,516		16,516
Income taxes	14,571		14,571
Print, postage, & supplies	11,524		11,524
Newsletter	3,602		3,602
Other	15,109		15,109
Clubhouse		16,422	16,422
Total expenses	<u>473,247</u>	<u>31,209</u>	<u>504,456</u>
Excess of revenues over expenses	13,341	62,447	75,788
Beginning fund balances	33,030	540,355	573,385
ENDING FUND BALANCES	<u>\$ 46,371</u>	<u>\$ 602,802</u>	<u>\$ 649,173</u>

See accompanying notes to financial statements.

PARK PASEO HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2007

	Operating Fund	Replace- ment Fund	Total
Excess (deficiency) of revenues over expenses	<u>\$ 13,341</u>	<u>\$ 62,447</u>	<u>\$ 75,788</u>
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase)/Decrease in:			
Assessments receivable	(3,463)		(3,463)
Interest receivable	2,301		2,301
Prepaid income taxes			
Increase/(Decrease) in:			
Accounts payable	(2,512)		(2,512)
Prepaid assessments	726		726
Income taxes payable	1,604		1,604
Total adjustments	<u>(1,344)</u>	<u>-</u>	<u>(1,344)</u>
Net cash provided (used) by operating activities	11,997	62,447	74,444
Cash flows from investing activities:			
Purchase of CDs		(19,413)	(19,413)
Net unrealized loss on investment	(259)		(259)
Net increase/(decrease) in cash and cash equivalents	11,738	43,034	54,772
Cash and cash equivalents at beginning of year	<u>44,826</u>	<u>14,359</u>	<u>59,185</u>
Cash and cash equivalents at end of year	<u>\$ 56,564</u>	<u>\$ 57,393</u>	<u>\$ 113,957</u>

See accompanying notes to 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 funds on deposit at financial institutions did not exceed the \$100,000 federally insured limit during the period.

PARK PASEO HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Cash and Cash Equivalents at December 31, 2007

<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			\$ 45,127	\$ 17,387	\$ 62,514
Savings	0.20%		5,261		5,261
Wells Fargo			5,676	-	5,676
Petty Cash			500		500
Smith Barney MM	4.86%		-	6,623	6,623
Edward Jones MM	4.54%			33,383	33,383
Total cash and equivalents			<u>\$ 56,564</u>	<u>\$ 57,393</u>	<u>\$ 113,957</u>
Investments consist of the following:					
Franklin Adjustable US Govt. Securities					
Fund - at current value (a) (b)			\$ -	\$ 104,545	\$ 104,545
Wachovia	5.41%	03/12/07		95,864	95,864
Smith Barney CDs:					
Bank Hapoalim	5.15%	02/27/08		52,000	52,000
Countrywide	5.00%	03/14/08		40,000	40,000
Capmark	5.15%	06/19/08		40,000	40,000
Bank Hapoalim	4.70%	08/29/08		35,000	35,000
Edward Jones:					
Discover Bank	5.15%	06/23/08		48,000	48,000
GMAC	5.15%	09/19/08		65,000	65,000
Southern Community	5.00%	03/07/08		65,000	65,000
Total investments			<u>\$ -</u>	<u>\$ 545,409</u>	<u>\$ 545,409</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 securities, 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 2007 were \$68.00. Of this amount, \$12.48 was allocated to the replacement fund during the year. At December 31, 2007 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 October 2007 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, 2007 were adequate. The table included in the unaudited supplementary information of Future Major Repairs and Replacements is based on the study.

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, 2007 the Association filed as a homeowner association.

Income taxes consist of:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Income taxes	\$ 10,961	\$ 3,610	\$ 14,571
less payments made	(6,300)	(2,072)	(8,372)
Balance due (prepaid)	<u>\$ 4,661</u>	<u>\$ 1,538</u>	<u>\$ 6,199</u>

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

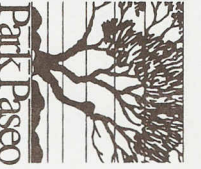
December 31, 2007
(Unaudited)

In October 2007 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, 2007 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
Roofs	0-3	\$ 9,979
Painting	0	29,866
Fencing	1-16	97,902
Parking lot	0-12	9,768
Lighting	1-14	47,398
Pool/spa & pool area	0-10	207,963
Rec area	0-11	73,766
Tennis court	0-6	45,349
Clubhouse	1-22	225,306
Irrigation & tree trimming	0-1	104,942
Other	0-6	84,993
		<u>\$ 937,232</u>

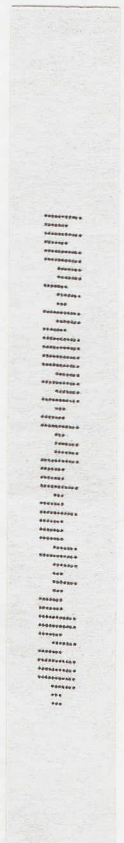
The study recommended a replacement fund balance of \$661,476, at December 31, 2007. The Association's balance of reserves at December 31, 2007 is \$602,802. The study also recommended that \$114,491 be contributed to the fund during 2008. The Association's budget for 2008 provides for a reserve contribution of \$114,491.



Homeowners Association
25 Christiamon West
Irvine, California 92620

ADDRESS SERVICE REQUESTED

Schwartz, Arthur/17 Giorieta E.
7383 Chapman Pl. Unit A
Goleta, CA 93117-2827



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