

MAY 07 2009

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(retired)  
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Jeffrey Crosson C.P.A.

Karen A. Hillman Partner

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, 2008, 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, 2008 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.

*Murphy, Murphy & Murphy, Inc.*

March 30, 2009

The Accountancy Firm of  
**Murphy, Murphy & Murphy, Inc.**  
Certified Public Accountants

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PARK PASEO HOMEOWNERS ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2008

**ASSETS**

	<u>Operating Fund</u>	<u>Replace- ment Fund</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 25,302	\$ 115,035	\$ 140,337
Investments		485,034	485,034
Interest receivable	6,860		6,860
Assessments receivable	4,848		4,848
Prepaid income taxes	522		522
Total assets	<u>\$ 37,532</u>	<u>\$ 600,069</u>	<u>\$ 637,601</u>

**LIABILITIES AND FUND BALANCES**

<b><u>Liabilities</u></b>			
Accounts payable	\$ 4,238	\$ -	\$ 4,238
Prepaid assessments	10,924		10,924
Income taxes payable	45		45
Total liabilities	<u>15,207</u>	<u>-</u>	<u>15,207</u>
<b><u>Fund balance</u></b>			
Accumulated excess of revenues over expenses	32,671	600,069	632,740
Accumulated other comprehensive income - net unrealized losses on investment (Franklin Fund)	<u>(10,346)</u>		<u>(10,346)</u>
Total fund balance	<u>22,325</u>	<u>600,069</u>	<u>622,394</u>
Total liabilities and fund balance	<u>\$ 37,532</u>	<u>\$ 600,069</u>	<u>\$ 637,601</u>

**PARK PASEO HOMEOWNERS ASSOCIATION**

**STATEMENT OF REVENUES AND EXPENSES AND**

**CHANGES IN FUND BALANCES**

*For the year ended December 31, 2008*

	Operating Fund	Replace- ment Fund	Total
<b><u>Revenues</u></b>			
Member assessments	\$ 410,509	\$ 114,491	\$ 525,000
Interest	25,284		25,284
Late charges and lien fees	4,570		4,570
Other charges to owners	9,973		9,973
Total revenues	<u>450,336</u>	<u>114,491</u>	<u>564,827</u>
<b><u>Expenses</u></b>			
Utilities	72,775		72,775
Landscape maintenance	141,330		141,330
Pool and spa	21,119	1,297	22,416
Lifeguards	15,176		15,176
Common areas	30,315	1,000	31,315
Security	50,534		50,534
Management fees	65,029		65,029
Insurance	18,109		18,109
Legal and professional	10,626		10,626
Income taxes	7,414		7,414
Print, postage, & supplies	9,842		9,842
Newsletter	4,223		4,223
Other	17,544		17,544
Clubhouse		114,927	114,927
Total expenses	<u>464,036</u>	<u>117,224</u>	<u>581,260</u>
Deficiency of revenues over expenses	(13,700)	(2,733)	(16,433)
Beginning fund balances	46,371	602,802	649,173
<b>ENDING FUND BALANCES</b>	<u><u>\$ 32,671</u></u>	<u><u>\$ 600,069</u></u>	<u><u>\$ 632,740</u></u>

**PARK PASEO HOMEOWNERS ASSOCIATION**

**STATEMENT OF CASH FLOWS**

*For the year ended December 31, 2008*

	Operating Fund	Replace- ment Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Excess (deficiency) of revenues over expenses	\$ (13,700)	\$ (2,733)	\$ (16,433)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase)/Decrease in:			
Assessments receivable	1,451		1,451
Interest receivable	(3,486)		(3,486)
Prepaid income taxes	(522)		(522)
Increase/(Decrease) in:			
Accounts payable	(25)		(25)
Prepaid assessments	(8,581)		(8,581)
Income taxes payable	(6,154)		(6,154)
Total adjustments	<u>(17,317)</u>	<u>-</u>	<u>(17,317)</u>
<b>Net cash provided (used) by   operating activities</b>	<b>(31,017)</b>	<b>(2,733)</b>	<b>(33,750)</b>
Cash flows from investing activities:			
Redemption of CDs		60,375	60,375
Net unrealized loss on investment	(245)		(245)
<b>Net increase/(decrease) in cash   and cash equivalents</b>	<b>(31,262)</b>	<b>57,642</b>	<b>26,380</b>
Cash and cash equivalents at beginning of year	<u>56,564</u>	<u>57,393</u>	<u>113,957</u>
<b>Cash and cash equivalents   at end of year</b>	<b><u>\$ 25,302</u></b>	<b><u>\$ 115,035</u></b>	<b><u>\$ 140,337</u></b>

See accompanying notes to financial statements.

## PARK PASEO HOMEOWNERS ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS

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#### 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 \$250,000 federally insured limit during the period.

**PARK PASEO HOMEOWNERS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS**

2. Summary of Cash and Cash Equivalents at December 31, 2008

<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			\$ 24,802	\$ 52,790	\$ 77,592
Savings	0.09%			5,268	5,268
Petty Cash			500		500
Smith Barney MM	1.74%		-	40,587	40,587
Edward Jones MM	0.76%			16,390	16,390
Total cash and equivalents			<u>\$ 25,302</u>	<u>\$ 115,035</u>	<u>\$ 140,337</u>
Investments consist of the following:					
Franklin Adjustable US Govt. Securities					
Fund - at current value (a) (b)			\$ -	\$ 108,289	\$ 108,289
Wachovia CD	3.10%	01/17/09		98,745	98,745
National City Bank				27,000	27,000
Smith Barney CDs:					
Johnson Bank	3.50%	03/30/09		45,000	45,000
G E Capital Bank	3.40%	05/06/09		27,000	27,000
G E Money Bank	3.79%	06/25/09		40,000	40,000
Edward Jones CDs:					
Washington Mutual	3.40%	02/10/09		40,000	40,000
N Y Community Bank	3.20%	01/16/09		26,000	26,000
G E Money Bank	3.75%	11/06/09		25,000	25,000
Parkway Bank	3.80%	06/30/09		48,000	48,000
Total investments			<u>\$ -</u>	<u>\$ 485,034</u>	<u>\$ 485,034</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 2008 were \$70.00. Of this amount, \$15.27 was allocated to the replacement fund during the year. At December 31, 2008 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 September 2008 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, 2008 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, 2008 the Association filed as a homeowner association.

Income taxes consist of:

	Federal	State	Total
Income taxes	\$ 5,508	\$ 1,906	\$ 7,414
less payments made	(5,463)	(2,428)	(7,891)
Balance due (prepaid)	<u>\$ 45</u>	<u>\$ (522)</u>	<u>\$ (477)</u>

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

**December 31, 2008**  
**(Unaudited)**

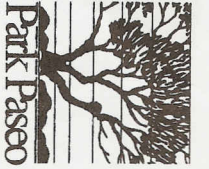
In September 2008, the Association retained an independent company, which specializes in conducting reserve studies, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.5 percent and interest earned at 3.0 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, 2008 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	0-37	\$ 29,500
Painting	0-10	23,965
Fencing	0-25	138,979
Parking lot	0-8	16,477
Lighting	2-13	85,942
Pool/spa & pool area	0-11	243,738
Rec area	0-8	76,256
Tennis court	0-5	47,563
Clubhouse	0-27	300,031
Irrigation & tree trimming	0-2	112,256
Other	0-3	27,433
		<u>\$ 1,102,140</u>

The study recommended a replacement fund balance of \$778,440 at December 31, 2008. The Association's balance of reserves at December 31, 2008 is \$600,069. The study also recommended that \$144,665 be contributed to the fund during 2009. The Association's budget for 2009 provides for a reserve contribution of \$144,665.





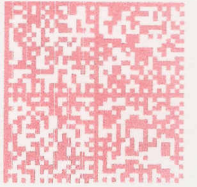
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