

**PARK PASEO HOMEOWNERS ASSOCIATION
(A CALIFORNIA NONPROFIT CORPORATION)**

Financial Statements
For the Year Ended December 31, 1991

Francis J. Keenan
Certified Public Accountant

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The board of directors and members
of the Park Paseo Homeowners Association

I have examined the accompanying balance sheets of the Park Paseo Homeowners Association as of December 31, 1991 and 1990 and the related statements of operations, association equity, cash flows and schedule of expenses for the years then ended. These financial statements are the responsibility of the association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly in all material respects the financial position of the Park Paseo Homeowners Association as of December 31, 1991 and 1990, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on future major repairs and replacements on page 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Costa Mesa, California
April 27, 1992

Park Paseo Homeowners Association
Balance Sheet
December 31, 1991 and 1990

	1991	1990
ASSETS		
Current assets		
Cash	\$ 170,536	\$ 273,796
U.S. government securities mutual fund (Franklin Fund)	100,433	
Assessments receivable (Note A)	6,379	7,024
Prepaid expenses	7,859	5,788
Other	1,260	1,260
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Total assets	\$ 286,467	\$ 287,868
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LIABILITIES AND ASSOCIATION EQUITY		
Current liabilities		
Accounts payable	\$ 16,889	\$ 19,250
Assessments collected in advance (Note A)	1,809	865
Income taxes		219
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Total liabilities	18,698	20,334
Association equity		
Reserves for major repairs and replacements (Note B)	228,732	231,583
Unappropriated	39,037	35,951
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Total association equity	267,769	267,534
Total liabilities and association equity	<hr/>	<hr/>
	\$ 286,467	\$ 287,868
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See accompanying notes to financial statements.

Park Paseo Homeowners Association
Statement of Operations
For the years ended December 31, 1991 and 1990

	1991	1990
Revenue		
Member assessments	\$ 375,000	\$ 371,250
(Less) transfer to reserves for major repairs & replacements	(47,760)	(52,795)
Net member assessments	<u>327,240</u>	<u>318,455</u>
Interest income	13,805	22,163
Other	22,139	16,814
Total revenue	<u>363,184</u>	<u>357,432</u>
Expenses		
General & administrative	125,723	116,651
Maintenance & repairs	179,271	163,754
Utilities	55,104	49,852
Total expenses	<u>360,098</u>	<u>330,257</u>
Excess of revenue over costs and expenses	<u>\$ 3,086</u>	<u>\$ 27,175</u>

See accompanying notes to financial statements.
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Park Paseo Homeowners Association
Statement of Association Equity
For the Year Ended December 31, 1991

	<u>Balance</u> 12/31/90	<u>Oper-</u> <u>ations/</u> <u>transfer</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> 12/31/91
Repair and replacement reserves					
Painting	\$ 1,836	\$ 3,452	\$ 2,824	\$ (3,520)	\$ 4,592
Roofing	325	10,707	1,521		12,553
Parking lot	5,348	1,135	566		7,049
Lighting	10,881	(11,116)	1,345	(347)	763
Pools/Spa/Wader	38,089	(3,960)	8,086	(3,939)	38,276
Pool furniture	8,731	(123)	5,361		13,969
Play equipment & sand	6,993	6,614	1,999		15,606
Recreational area	7,095	(966)	1,552		7,681
Fences	47,173	(8,249)	3,848	(19,410)	23,362
Clubhouse furniture, fixtures & equipment	34,894	(4,510)	6,538		36,922
Clubhouse restrooms		(903)	903		
Clubhouse heat/air conditioning	13,763	623	1,239		15,625
Tennis court	14,997	(3,344)	3,241		14,894
Irrigation controller	12,600	(4,424)	907	(1,083)	8,000
Tree trimming	22,113	14,748	7,564	(22,312)	22,113
Contingency	6,745	316	266		7,327
Total reserves	231,583		47,760	(50,611)	228,732
Unappropriated	35,951	3,086			39,037
Total association equity	<u>\$267,534</u>	<u>\$ 3,086</u>	<u>\$47,760</u>	<u>\$(50,611)</u>	<u>\$267,769</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Cash Flow Statements
For the years ended December 31, 1991 and 1990

	1991	1990
Cash flows from operating activities:		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 3,086	\$ 27,175
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	645	(4,063)
(Increase) decrease in prepaid expenses	(2,071)	(978)
(Increase) decrease in other assets		(3,043)
Increase (decrease) in accounts payable	(2,361)	1,240
Increase (decrease) in assessments collected in advance	944	865
Increase (decrease) in income taxes payable	(219)	772
Total adjustments	(3,062)	(5,207)
Net cash provided (used) by operating activities	24	21,968
Cash flows from repair & replacement reserves:		
Assessments for repair & replacement reserves	47,760	52,795
Repair & replacement reserves disbursements	(50,611)	(83,585)
Net cash provided (used) by repair and replacement reserves	(2,851)	(30,790)
Net increase (decrease) in cash and equivalents	(2,827)	(8,822)
Cash and equivalents, beginning of year	273,796	282,618
Cash and cash equivalents, end of year	\$ 270,969	\$ 273,796

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Schedule of Expenses
For the years ended December 31, 1991 and 1990

	1991	1990
General & administrative		
Management	\$ 40,296	\$ 39,345
Insurance	16,264	13,799
Legal & audit	7,803	4,506
Telephone	1,378	1,345
Printing, postage & supplies	11,902	10,053
Income taxes	3,120	5,069
Security service	21,435	27,359
Lifeguard service	16,106	12,150
Other	7,419	3,025
Total general & administrative	\$ 125,723	\$ 116,651
Maintenance & repairs		
Landscape, contract	\$ 113,916	\$ 113,916
Landscape, other	8,256	12,720
Pool, contract	10,337	10,989
Pool, other	7,125	4,059
Janitorial	9,925	7,646
Repairs	22,077	9,446
Other	7,635	4,978
Total maintenance & repairs	\$ 179,271	\$ 163,754
Utilities		
Electricity	\$ 21,315	\$ 20,627
Gas	17,122	12,907
Water	16,667	16,318
Total utilities	\$ 55,104	\$ 49,852

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Notes to Financial Statements
December 31, 1991

Note A: Nature of organization and summary of significant accounting policies

Park Paseo Homeowners Association (hereinafter referred to as the "Association") was incorporated in California on June 9, 1977 as a nonprofit corporation to, among other things, own and maintain the common areas within the Association.

Each homeowner in the Association is subject to pay the assessments set by the board of directors to cover the expenses and costs of the Association.

The common areas, clubhouse, and other recreational amenities within the Association boundaries are owned by the Association. Common area land costs and the original construction costs of the clubhouse and recreational amenities were paid for by the developer of the property managed by the Association. Because these common areas and amenities were transferred by the developer to the Association at no cost to the Association, they are not recorded in the financial statements.

The association is exempt from paying taxes on the excess of homeowner assessments over expenses. The Association is required to pay corporate income taxes on nonexempt income which includes, among other things, interest earned on savings accounts.

Note B: Reserves for major maintenance & replacements

The Association allocates funds from current member assessments to reserves for future maintenance and replacement requirements.

A study to determine a current funding program of Association future major maintenance and replacement requirements has been conducted. The study was based on estimates subject to unanticipated future events and, therefore, the possibility exists that the current reserve funding allocations and reserve balances may not be sufficient to meet all major maintenance and replacement costs.

Park Paseo Homeowners Association
 Supplementary Information on Future Major Repairs
 and Replacements (Unaudited)
 December 31, 1991

COMPONENT	Estimated Remaining Useful Life (Years)	Estimated Current Replace- ment Cost	Designated for Reserves December 31, 1991
Painting	1 to 4	\$ 15,339	\$ 4,592
Roofing	3 to 10	18,071	12,553
Parking lot	0 to 3	7,583	7,049
Lighting	9 to 15	23,080	763
Pools/spa/wader	0 to 8	74,668	38,276
Pool furniture	3	29,684	13,969
Play equipment & sand	5 to 8	25,462	15,606
Recreational area	2 to 15	19,478	7,681
Fences	0 to 23	59,071	23,362
Clubhouse furniture, fixtures & equipment	0 to 14	49,641	36,922
Clubhouse restrooms	13 to 23	17,078	
Clubhouse heat/air conditioning	2 to 10	21,021	15,625
Tennis court	0 to 11	32,036	14,894
Irrigation controller	0	8,000	8,000
Tree trimming	2	22,113	22,113
Contingency	-		7,327
TOTALS		\$ 422,325	\$ 228,732

The Association retained a consultant who conducted a study, dated May 1992, to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.