

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

**Financial Statements
For the Year Ended December 31, 1994**

**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, 1994 and 1993 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, 1994 and 1993, 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
February 27, 1995

Park Paseo Homeowners Association
Balance Sheet
December 31, 1994 and 1993

	1994	1993
ASSETS		
Current assets		
Cash	\$ 206,002	\$ 216,943
U.S. government securities mutual fund (Franklin Fund)	103,791	106,081
Assessments receivable (Note A)	9,537	8,427
Prepaid expenses	10,664	4,468
Other	1,260	1,260
	\$ 331,254	\$ 337,179
Total assets	\$ 331,254	\$ 337,179
LIABILITIES AND ASSOCIATION EQUITY		
Current liabilities		
Accounts payable	\$ 3,785	\$ 4,280
Assessments collected in advance (Note A)	2,835	2,292
	6,620	6,572
Total liabilities	6,620	6,572
Association equity		
Reserves for major repairs and replacements (Note B)	264,702	257,730
Unappropriated	59,932	72,877
	324,634	330,607
Total association equity	324,634	330,607
Total liabilities and association equity	\$ 331,254	\$ 337,179

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Statement of Operations
For the Years Ended December 31, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Revenue		
Member assessments	\$ 405,000	\$ 397,500
(Less) transfer to reserves for major repairs & replacements	(60,680)	(60,680)
Net member assessments	<u>344,320</u>	<u>336,820</u>
Interest income	3,398	7,177
Other	13,955	15,115
Total revenue	<u>361,673</u>	<u>359,112</u>
Expenses		
General & administrative	133,314	126,577
Maintenance & repairs	181,861	174,440
Utilities	44,447	47,5
Total expenses	<u>359,622</u>	<u>348,543</u>
Excess of revenue over costs and expenses	<u>\$ 2,051</u>	<u>\$ 10,569</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Statement of Association Equity
For the Year Ended December 31, 1994

	<u>Balance</u> <u>12/31/93</u>	<u>Oper-</u> <u>ations/</u> <u>transfer</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/94</u>
Repair and replacement reserves					
Painting	\$ 6,590	\$ 1,588	\$ 2,824	\$(3,848)	\$ 7,154
Roofing	22,090	(8,649)	5,121		18,562
Parking lot	6,610	(1,015)	1,766	(704)	6,657
Lighting	11,619	3,641	1,345	(1,902)	14,703
Pools/Spa/Wader	52,078	4,574	9,286	(4,721)	61,217
Pool furniture	19,133	(1,652)	5,362	(716)	22,127
Play equipment & sand	12,880	(4,653)	3,198		11,425
Recreational area	15,487	5,257	2,752	(6,520)	16,976
Fences	13,940	4,353	5,049	(8,501)	14,841
Clubhouse furniture, fixtures & equipment	18,928	6,506	6,538	(2,884)	29,088
Clubhouse restrooms	614	(590)	3,303	(1,044)	2,283
Clubhouse heat/air conditioning	16,403	2,130	1,239		19,772
Tennis court	21,827	(4,843)	4,160		21,144
Irrigation controller	8,000	(1,340)	907	(3,744)	3,823
Tree trimming	24,024	9,752	7,564	(34,120)	7,220
Contingency	7,507	(63)	266		7,710
Total reserves	<u>257,730</u>	<u>14,996</u>	<u>60,680</u>	<u>(68,704)</u>	<u>264,702</u>
Unappropriated	72,877	(14,996) 2,051			59,932
Total association equity	<u>\$330,607</u>	<u>\$ 2,051</u>	<u>\$60,680</u>	<u>\$(68,704)</u>	<u>\$324,634</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Cash Flow Statements
For the Years Ended December 31, 1994 and 1993

	1994	1993
Cash flows from operating activities:		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 2,051	\$ 10,569
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	(1,110)	(499)
(Increase) decrease in prepaid expenses	(6,196)	1,426
Increase (decrease) in accounts payable	(495)	(6,949)
Increase (decrease) in assessments collected in advance	543	(489)
Increase (decrease) in income taxes payable	0	(322)
Total adjustments	(7,258)	(6,833)
Net cash provided (used) by operating activities	(5,207)	3,736
Cash flows from repair & replacement reserves:		
Assessments for repair & replacement reserves	60,680	60,680
Repair & replacement reserves disbursements	(68,704)	(37,706)
Net cash provided (used) by repair and replacement reserves	(8,024)	22,974
Net increase (decrease) in cash and equivalents	(13,231)	26,710
Cash and equivalents, beginning	323,024	296,314
Cash and equivalents, ending	\$ 309,793	\$ 323,024

See accompanying notes to financial statements.

Park Paseo Homeowners Association
 Schedule of Expenses
 For the Years Ended December 31, 1994 and 1993

	1994	1993
General & administrative		
Management	\$ 42,823	\$ 40,757
Insurance	20,219	17,610
Legal & accounting	6,246	6,258
Provision for doubtful accounts	1,692	(1,271)
Telephone	1,544	1,461
Printing, postage & supplies	11,158	13,004
Income taxes	952	1,516
Security service	23,919	22,413
Lifeguard service	16,058	18,923
Other	8,703	5,906
	\$ 133,314	\$ 126,577
 Maintenance & repairs		
Landscape, contract	\$ 116,400	\$ 116,375
Landscape, other	20,357	11,636
Pool, contract	9,802	10,133
Pool, other	4,095	3,186
Janitorial	9,088	9,265
Repairs	13,632	20,517
Other	8,487	3,328
	\$ 181,861	\$ 174,440
 Utilities		
Electricity	\$ 19,728	\$ 20,346
Gas	12,490	12,051
Water	12,229	15,129
	\$ 44,447	\$ 47,526

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Notes to Financial Statements
December 31, 1994

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, dated January 1995, reported that reserves were 96% funded in relation to an "ideal" accumulation considering the then current monthly reserve allocation and reserve balances. The aforementioned 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, 1994

COMPONENT	Estimated Remaining Useful Life (Years)	Estimated Current replace- ment cost	Designated for Reserves December 31, 1994
Painting	0 to 8	\$ 12,799	\$ 7,154
Roofing	0 to 1	19,569	18,562
Parking lot	1 to 5	8,917	6,657
Lighting	4 to 10	29,295	14,703
Pools/spa/wader	0 to 5	76,032	61,217
Pool furniture	0	22,127	22,127
Play equipment & sand	2 to 13	38,004	11,425
Recreational area	1 to 12	26,025	16,976
Fences	1 to 11	44,130	14,841
Clubhouse furniture, fixtures & equipment	0 to 18	67,723	29,088
Clubhouse restrooms	10 to 15	24,363	2,283
Clubhouse heat/air conditioning	0 to 7	21,792	19,772
Tennis court	1 to 8	33,617	21,144
Irrigation controller	10	22,935	3,823
Tree trimming	2	21,660	7,220
Contingency			7,710
TOTALS		\$ 468,988	\$ 264,702

The Association retained a consultant who conducted a study, dated January 23, 1995, 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.