

PARK PASEO HOMEOWNERS ASSOCIATION  
(A CALIFORNIA NONPROFIT CORPORATION)

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Financial Statements  
For the Year Ended December 31, 1995

Francis J. Keenan  
Certified Public Accountant

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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, 1995 and 1994 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, 1995 and 1994, 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  
March 5, 1996

Park Paseo Homeowners Association  
Balance Sheet  
December 31, 1995 and 1994

	1995	1994
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 258,018	\$ 206,002
U.S. government securities mutual fund (Franklin Fund)	113,440	103,791
Assessments receivable (Note A)	11,406	9,537
Prepaid expenses	10,206	10,664
Other	1,260	1,260
	\$ 394,330	\$ 331,254
<b>Total assets</b>	<b>\$ 394,330</b>	<b>\$ 331,254</b>
<b>LIABILITIES AND ASSOCIATION EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,557	\$ 3,785
Assessments collected in advance (Note A)	2,992	2,835
Income taxes (Note A)	2,710	
	10,259	6,620
<b>Total liabilities</b>	<b>10,259</b>	<b>6,620</b>
<b>Association equity</b>		
Reserves for major repairs and replacements (Note B)	306,636	264,702
Unappropriated	77,435	59,932
	384,071	324,634
<b>Total association equity</b>	<b>384,071</b>	<b>324,634</b>
<b>Total liabilities and association equity</b>	<b>\$ 394,330</b>	<b>\$ 331,254</b>

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Statement of Operations  
For the Years Ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
<b>Revenue</b>		
Member assessments	\$ 412,500	\$ 405,000
(Less) transfer to reserves for major repairs & replacements	( 60,680)	( 60,680)
Net member assessments	351,820	344,320
Interest income	19,353	3,398
Other	10,171	13,955
Total revenue	381,344	361,673
<b>Expenses</b>		
General & administrative	137,011	133,314
Maintenance & repairs	178,541	181,861
Utilities	48,289	44,4
Total expenses	363,841	359,622
Excess of revenue over costs and expenses	\$ 17,503	\$ 2,051

See accompanying notes to financial statements.  
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Park Paseo Homeowners Association  
Statement of Association Equity  
For the Year Ended December 31, 1995

	<u>Balance</u> <u>12/31/94</u>	<u>Oper-</u> <u>ations</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/95</u>
Repair and replacement reserves					
Painting	\$ 7,154	\$	\$ 2,824	\$	\$ 9,978
Roofing	18,562		5,121		23,683
Parking lot	6,657		1,766		8,423
Lighting	14,703		1,345	( 1,115)	14,933
Pools/Spa/Wader	61,217		9,286	( 8,130)	62,373
Pool furniture	22,127		5,362	( 6,296)	21,193
Play equipment & sand	11,425		3,198		14,623
Recreational area	16,976		2,752	( 648)	19,080
Fences	14,841		5,049	( 2,557)	17,333
Clubhouse furniture, fixtures & equipment	29,088		6,538		35,626
Clubhouse restrooms	2,283		3,303		5,586
Clubhouse heat/air conditioning	19,772		1,239		21,011
Tennis court	21,144		4,160		25,304
Irrigation controller	3,823		907		4,730
Tree trimming	7,220		7,564		14,784
Contingency	7,710		266		7,976
Total reserves	<u>264,702</u>		<u>60,680</u>	<u>(18,746)</u>	<u>306,636</u>
Unappropriated	59,932	17,503			77,435
Total association equity	<u>\$324,634</u>	<u>\$ 17,503</u>	<u>\$60,680</u>	<u>\$(18,746)</u>	<u>\$384,071</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Cash Flow Statements  
For the Years Ended December 31, 1995 and 1994

	1995	1994
<b>Cash flows from operating activities:</b>		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 17,503	\$ 2,051
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	( 1,869)	( 1,110)
(Increase) decrease in prepaid expenses	458	( 6,196)
Increase (decrease) in accounts payable	772	( 495)
Increase (decrease) in assessments collected in advance	157	543
Increase (decrease) in income taxes payable	2,710	
	2,228	( 7,258)
Net cash provided (used) by operating activities	19,731	( 5,207)
<b>Cash flows from repair &amp; replacement reserves:</b>		
Assessments for repair & replacement reserves	60,680	60,680
Repair & replacement reserves disbursements	( 18,746)	( 68,704)
Net cash provided (used) by repair and replacement reserves	41,934	( 8,024)
<b>Net increase (decrease) in cash and equivalents</b>	<b>61,665</b>	<b>( 13,231)</b>
Cash and equivalents, beginning	309,793	323,024
Cash and equivalents, ending	\$ 371,458	\$ 309,793

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Statement of Association Equity  
For the Year Ended December 31, 1995

	<u>Balance</u> <u>12/31/94</u>	<u>Oper-</u> <u>ations</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/95</u>
Repair and replacement reserves					
Painting	\$ 7,154	\$	\$ 2,824	\$	\$ 9,978
Roofing	18,562		5,121		23,683
Parking lot	6,657		1,766		8,423
Lighting	14,703		1,345	( 1,115)	14,933
Pools/Spa/Wader	61,217		9,286	( 8,130)	62,373
Pool furniture	22,127		5,362	( 6,296)	21,193
Play equipment & sand	11,425		3,198		14,623
Recreational area	16,976		2,752	( 648)	19,080
Fences	14,841		5,049	( 2,557)	17,333
Clubhouse furniture, fixtures & equipment	29,088		6,538		35,626
Clubhouse restrooms	2,283		3,303		5,586
Clubhouse heat/air conditioning	19,772		1,239		21,011
Tennis court	21,144		4,160		25,304
Irrigation controller	3,823		907		4,730
Tree trimming	7,220		7,564		14,784
Contingency	7,710		266		7,976
Total reserves	<u>264,702</u>		<u>60,680</u>	<u>(18,746)</u>	<u>306,636</u>
Unappropriated	59,932	17,503			77,435
Total association equity	<u>\$324,634</u>	<u>\$ 17,503</u>	<u>\$60,680</u>	<u>\$(18,746)</u>	<u>\$384,071</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Cash Flow Statements  
For the Years Ended December 31, 1995 and 1994

	1995	1994
<b>Cash flows from operating activities:</b>		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 17,503	\$ 2,051
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
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Total adjustments	2,228	( 7,258)
Net cash provided (used) by operating activities	19,731	( 5,207)
<b>Cash flows from repair &amp; replacement reserves:</b>		
Assessments for repair & replacement reserves	60,680	60,680
Repair & replacement reserves disbursements	( 18,746)	( 68,704)
Net cash provided (used) by repair and replacement reserves	41,934	( 8,024)
<b>Net increase (decrease) in cash and equivalents</b>	<b>61,665</b>	<b>( 13,231)</b>
Cash and equivalents, beginning	309,793	323,024
Cash and equivalents, ending	\$ 371,458	\$ 309,793

See accompanying notes to financial statements.



Park Paseo Homeowners Association  
 Schedule of Expenses  
 For the Years Ended December 31, 1995 and 1994

	1995	1994
<b>General &amp; administrative</b>		
Management	\$ 41,441	\$ 42,823
Insurance	23,498	20,219
Legal & accounting	5,231	6,246
Provision for doubtful accounts		1,692
Telephone	1,501	1,544
Printing, postage & supplies	11,248	11,158
Income taxes	3,662	952
Security service	27,850	23,919
Lifeguard service	16,402	16,058
Other	6,178	8,703
<b>Total general &amp; administrative</b>	<b>\$ 137,011</b>	<b>\$ 133,314</b>
<b>Maintenance &amp; repairs</b>		
Landscape, contract	\$ 119,880	\$ 116,400
Landscape, other	16,690	20,357
Pool, contract	10,118	9,802
Pool, other	5,423	4,095
Janitorial	9,183	9,088
Repairs	13,357	13,632
Other	3,890	8,487
<b>Total maintenance &amp; repairs</b>	<b>\$ 178,541</b>	<b>\$ 181,861</b>
<b>Utilities</b>		
Electricity	\$ 21,171	\$ 19,728
Gas	13,365	12,490
Water	13,753	12,229
<b>Total utilities</b>	<b>\$ 48,289</b>	<b>\$ 44,447</b>

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Notes to Financial Statements  
December 31, 1995

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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, 1995

COMPONENT	Estimated Remaining Useful Life (Years)	Estimated Current replace- ment cost	Designated for Reserves December 31, 1995
Painting	0 to 7	\$ 12,799	\$ 9,978
Roofing	0	19,569	23,683
Parking lot	1 to 4	8,917	8,423
Lighting	3 to 9	29,295	14,933
Pools/spa/wader	0 to 4	76,032	62,373
Pool furniture	0 to 6	22,127	21,193
Play equipment & sand	1 to 12	38,004	14,623
Recreational area	1 to 11	26,025	19,080
Fences	1 to 10	44,130	17,333
Clubhouse furniture, fixtures & equipment	0 to 17	67,723	35,626
Clubhouse restrooms	9 to 14	24,363	5,586
Clubhouse heat/air conditioning	0 to 6	21,792	21,011
Tennis court	1 to 7	33,617	25,304
Irrigation controller	9	22,935	4,730
Tree trimming	1	21,660	14,784
Contingency			7,976
<b>TOTALS</b>		<b>\$ 468,988</b>	<b>\$ 306,636</b>

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.