

Lake Mission Viejo Association

2002 AUDIT REPORT

APRIL, 2003

MISSION VIEJO. CA

**To: *The Members of
Lake Mission Viejo***

Within the pages of this special publication you will find the certified independent audit report from the KEYHAN HEWITT ACCOUNTANCY CORPORATION. This report reflects the financial status of Lake Mission Viejo Association for the calendar year ending in December 2002.

The 2002 Audit Report provides each member with an in-depth study of the Lake Association's financial situation. It is provided to meet the State statutory requirements. The importance of this financial report cannot be overemphasized.

If you have any questions, please submit them in writing to the Lake Mission Viejo Association at 22555 Olympiad Road, Mission Viejo, CA 92692.

*Sincerely,
Lake Mission Viejo Association
Board of Directors*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lake Mission Viejo Association

We have audited the accompanying balance sheet of Lake Mission Viejo Association (the "Association"), a California non-profit corporation, as of December 31, 2002, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 Lake Mission Viejo Association as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The supplementary information on future major repairs and replacements as of December 31, 2002 is not a required part of the basic financial statements of Lake Mission Viejo Association, 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 method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion or any other form of assurance on it.

Keyhan Hewitt Accountancy Corporation

February 13, 2003

**LAKE MISSION VIEJO ASSOCIATION
SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES
FOR THE YEAR ENDED
DECEMBER 31, 2002**

Organization

Lake Mission Viejo Association (the "Association") was incorporated in California in November 1976. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of residential units and apartment units located in Mission Viejo, California. At December 31, 2002, the development consisted of 23,130 units.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and management. Disbursements from the replacement, capital expansion, and contingency funds, generally may be made only for designated purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Cash balances are maintained at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. Periodically, due to the Association's assessment billing cycle, operating cash accounts may exceed the FDIC limits.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less when purchased. The Association's cash equivalent balances as of December 31, 2002 totaled approximately \$1,100,000, of which approximately \$900,000 is kept in a UBOC Investment Services, Inc. account and approximately \$200,000 in Monarch funds, which invest in government securities and are not FDIC insured.

Investments and Interest Earnings

Investments consist of time certificates of deposit with annual interest rates ranging from 1.83% to 3.35%. Investments are recorded at amortized cost, which approximates fair market value. The Association intends to hold all investments until maturity. All interest earnings are allocated to and recorded in the operating fund.

Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and replacement fund requirements. Assessments receivable at the balance sheet date represent fees due from members. The Association's governing documents and legislated laws provide for various collection remedies for delinquent assessments including late charges, filing of liens, foreclosing on the member's property within the Association, and obtaining judgment on other assets of the member.

Allowance for Uncollectible Assessments

Allowance for uncollectible assessments is based upon historical experience and management's evaluation of outstanding assessments receivable at year-end.

Prepaid Assessments

Assessments collected in advance are deferred and recognized as revenue in the year in which the related services are rendered.

Property and Equipment

The developer of the Association donated the majority of the property and equipment. Valuation of these items was made as of the date of transfer to the Association. Personal property purchased by the Association and replacements and improvements to the real property are not capitalized and are expensed as incurred. The expense is charged to either the replacement or the capital expansion funds, in accordance with the guidelines within those funds.

Income Taxes

The Association has obtained exemption from taxation under Internal Revenue Code (501)(c)(4) and related California Revenue and Taxation Code sections. Accordingly, no provision for Federal or state taxes has been made in the accompanying financial statements.

Replacement Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are kept in separate accounts and are generally not available for normal operations. Disbursements are to be made only if specifically approved by the Board of Directors.

An independent study (the "Study") of the Association's replacement fund was conducted in September 2002, for the purpose of estimating the remaining useful lives and the replacement costs of the components of common property.

**LAKE MISSION VIEJO ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2002**

ASSETS

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,216,438	\$ -	\$ -	\$ -	\$ 1,216,438
Investments, net	-	2,005,459	1,455,036	250,000	3,710,495
Assessments receivable, net of allowance for uncollectible assessments of \$46,360	34,692	-	-	-	34,692
Prepaid expenses and other current assets	50,292	-	-	-	50,292
	<u>\$ 1,301,422</u>	<u>\$ 2,005,459</u>	<u>\$ 1,455,036</u>	<u>\$ 250,000</u>	<u>\$ 5,011,917</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 78,748	\$ -	\$ -	\$ -	\$ 78,748
Accrued payroll and related expenses	134,206	-	-	-	134,206
Deferred revenues	1,080,739	-	-	-	1,080,739
Other payables	7,729	-	-	-	7,729
	<u>1,301,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,301,422</u>
COMMITMENTS AND CONTINGENCIES					
FUND BALANCE	-	2,005,459	1,455,036	250,000	3,710,495
	<u>\$ 1,301,422</u>	<u>\$ 2,005,459</u>	<u>\$ 1,455,036</u>	<u>\$ 250,000</u>	<u>\$ 5,011,917</u>

**LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN FUND BALANCE
DECEMBER 31, 2002**

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
REVENUES					
Assessments	\$ 3,978,408	\$ 267,600	\$ 119,400	\$ -	\$ 4,365,408
Boat rental and storage	262,607	-	-	-	262,607
Interest	130,133	-	-	-	130,133
Recreation and sales	193,614	-	-	-	193,614
Other	212,388	-	-	-	212,388
	<u>4,777,150</u>	<u>267,600</u>	<u>119,400</u>	<u>-</u>	<u>5,164,150</u>
EXPENSES					
Concerts and special events	166,894	-	-	-	166,894
Consulting and outside services	224,927	-	-	-	224,927
Bad Debt	12,000	-	-	-	12,000
Fish stocking	112,812	-	-	-	112,812
General and administrative	356,502	-	-	-	356,502
Insurance	112,361	-	-	-	112,361
Lake refill and quality management	221,292	-	-	-	221,292
Maintenance and repairs	353,031	95,651	389,802	5,365	843,849
Patrol services	28,365	-	-	-	28,365
Professional services	91,468	-	-	-	91,468
Salaries and related	2,771,978	-	-	-	2,771,978
Utilities	137,078	-	-	-	137,078
	<u>4,588,708</u>	<u>95,651</u>	<u>389,802</u>	<u>5,365</u>	<u>5,079,526</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	188,442	171,949	(270,402)	(5,365)	84,624
BEGINNING FUND BALANCE	-	1,833,510	1,542,361	250,000	3,625,871
INTERFUND TRANSFER	(188,442)	-	183,077	5,365	-
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ 2,005,459</u>	<u>\$ 1,455,036</u>	<u>\$ 250,000</u>	<u>\$ 3,710,495</u>

**NOTE 1: COMMITMENTS AND CONTINGENCIES
Replacement Fund**

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the Study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$261,600 has been included in the 2003 budget.

Funds are being accumulated in the repair and replacement fund based on estimates of future needs for repairs and replacements of common area property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the repair and replacement fund may not be sufficient to meet all future repairs and replacements. If additional funds are necessary, the Association has the right to increase regular assessments, approve special assessments, or delay major repairs and replacements until funds are available.

Capital Expansion and Contingency Funds

The Association has established a policy to accumulate funds for capital expansion and other unforeseen expenses. Annually the Association includes nominal amounts in the budget for capital expansion and contingency funds. Upon completion of accounting at each year-end, in accordance with the Association's policy, excess operating income, if any, is transferred to the capital expansion and contingency funds. For year ended December 31, 2002 the contributions, in addition to the budgeted amounts, to the capital expansion and contingency funds totaled \$183,077 and \$5,365, respectively.

Litigation

At times, the Association is involved in litigation arising out of the normal course of business. Management, after consultation with outside counsel, believes there is no likelihood that the Association will incur any material loss as a result of these lawsuits. Therefore no provision for loss resulting from these lawsuits has been made in the accompanying financial statements.

**LMVA STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$ 188,442	\$ 171,949	\$ (270,402)	\$ (5,365)	\$ 84,624
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Interfund transfers	(188,442)	-	183,077	5,365	-
(Increase) decrease in:					
Assessment receivable	(2,834)	-	-	-	(2,834)
Prepaid expenses and other assets	(6,905)	-	-	-	(6,905)
Increase (decrease) in:					
Accounts payable and accrued expenses	35,698	-	-	-	35,698
Accrued payroll and related expenses	29,152	-	-	-	29,152
Deferred revenues	115,460	-	-	-	115,460
Other payables	831	-	-	-	831
	<u>171,402</u>	<u>171,949</u>	<u>(87,325)</u>	<u>-</u>	<u>256,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of investments	35,210	2,179,000	690,672	-	2,904,882
Purchase of investments	-	(2,350,949)	(603,347)	-	(2,954,296)
	<u>35,210</u>	<u>(171,949)</u>	<u>87,325</u>	<u>-</u>	<u>(49,414)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	206,612	-	-	-	206,612
BEGINNING CASH AND CASH EQUIVALENTS					
	<u>1,009,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,009,826</u>
ENDING CASH AND CASH EQUIVALENTS					
	<u>\$ 1,216,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,216,438</u>

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