



# Lake Mission Viejo Association

# 2001 AUDIT REPORT

APRIL, 2002

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 **KEYHAN HEWITT ACCOUNTANCY CORPORATION**. This report reflects the financial status of Lake Mission Viejo Association for the calendar year ending in December 2001.*

*The 2001 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, 2001, 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, 2001, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Keyhan Hewitt Accountancy Corporation  
February 21, 2002

**LAKE MISSION VIEJO ASSOCIATION  
SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES**

**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, 2001, the development consisted of 23,017 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, 2001 total \$570,283, all of which is kept in a UBOC Investment Services, Inc. account, which invests 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 2.7% to 6.5%. 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 2001, for the purpose of estimating the remaining useful lives and the replacement costs of the components of common property. The table included in the accompanying unaudited supplemental information on Future Major Repairs and Replacements is based upon the Study.

**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 \$267,600 has been included in the 2002 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

**LAKE MISSION VIEJO ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2001**

<b>ASSETS</b>					
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,009,826	\$ -	\$ -	\$ -	\$ 1,009,826
Investments, net	35,210	1,833,510	1,542,361	250,000	3,661,081
Assessments receivable, net of allowance for uncollectible assessments of \$49,280	31,858	-	-	-	31,858
Prepaid expenses and other current assets	43,387	-	-	-	43,387
	<u>\$ 1,120,281</u>	<u>\$ 1,833,510</u>	<u>\$ 1,542,361</u>	<u>\$ 250,000</u>	<u>\$ 4,746,152</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 43,050	\$ -	\$ -	\$ -	\$ 43,050
Accrued payroll and related expenses	105,054	-	-	-	105,054
Deferred revenues	965,279	-	-	-	965,279
Other payables	6,898	-	-	-	6,898
	<u>1,120,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,120,281</u>
<b>COMMITMENTS AND CONTINGENCIES</b>					
<b>FUND BALANCE</b>	<u>-</u>	<u>1,833,510</u>	<u>1,542,361</u>	<u>250,000</u>	<u>3,625,871</u>
	<u>\$ 1,120,281</u>	<u>\$ 1,833,510</u>	<u>\$ 1,542,361</u>	<u>\$ 250,000</u>	<u>\$ 4,746,152</u>

**LAKE MISSION VIEJO ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN FUND BALANCE  
DECEMBER 31, 2001**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
<b>REVENUES</b>					
Assessments	\$ 3,709,249	\$ 236,400	\$ 351,060	\$ -	\$ 4,296,709
Boat rental and storage	258,400	-	-	-	258,400
Interest	225,236	-	-	-	225,236
Recreation and sales	150,614	-	-	-	150,614
Other	206,188	-	-	-	206,188
	<u>4,549,687</u>	<u>236,400</u>	<u>351,060</u>	<u>-</u>	<u>5,137,147</u>
<b>EXPENSES</b>					
Concerts and special events	271,015	-	-	12,866	283,881
Consulting and outside services	213,728	-	-	3,549	217,277
Fish stocking	108,759	-	-	-	108,759
General and administrative	267,562	-	-	-	267,562
Insurance	118,354	-	-	-	118,354
Lake refill and quality management	171,084	-	-	-	171,084
Maintenance and repairs	327,163	150,998	103,167	40,740	622,068
Patrol services	30,853	-	-	-	30,853
Professional services	77,637	-	-	-	77,637
Salaries and related	2,600,001	-	-	-	2,600,001
Utilities	124,681	-	-	-	124,681
	<u>4,310,837</u>	<u>150,998</u>	<u>103,167</u>	<u>57,155</u>	<u>4,622,157</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	238,850	85,402	247,893	(57,155)	514,990
<b>BEGINNING FUND BALANCE</b>	-	1,748,108	1,121,455	241,318	3,110,881
<b>INTERFUND TRANSFER</b>	<u>(238,850)</u>	<u>-</u>	<u>173,013</u>	<u>65,837</u>	<u>-</u>
<b>ENDING FUND BALANCE</b>	<u>\$ -</u>	<u>\$ 1,833,510</u>	<u>\$ 1,542,361</u>	<u>\$ 250,000</u>	<u>\$ 3,625,871</u>

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, 2001 the contributions, in addition to the budgeted amounts, to the capital expansion and contingency funds totaled \$173,013 and \$65,837, 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.

During the year ended December 31, 2000, the Association settled a claim with the city of Mission Viejo (the "City"), whereby the Association and the City shall share equally the cost related to any construction, design, initial landscape and initial hardscape involved in improving a certain easement along the southern end of the lake along Alicia Parkway. The Association's 50% contributory share shall not exceed \$378,414.

**LMVA STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (deficiency) of revenues over expenses	\$ 238,850	\$ 85,402	\$ 247,893	\$ (57,155)	\$ 514,990
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Interfund borrowings	-	-	-	-	-
Interfund transfers	(238,850)	-	173,013	65,837	-
(Increase) decrease in:					
Assessment receivable	(25,449)	-	-	-	(25,449)
Prepaid expenses and other assets	31,090	-	-	-	31,090
Increase (decrease) in:					
Accounts payable and accrued expenses	(4,998)	-	-	-	(4,998)
Accrued payroll and related expenses	10,908	-	-	-	10,908
Deferred revenues	460,237	-	-	-	460,237
Other payables	6,898	-	-	-	6,898
	<u>478,686</u>	<u>85,402</u>	<u>420,906</u>	<u>8,682</u>	<u>993,676</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Redemptions of investments	-	396,000	-	-	396,000
Purchase of investments	(35,210)	(522,283)	(420,906)	(8,682)	(987,081)
	<u>(35,210)</u>	<u>(126,283)</u>	<u>(420,906)</u>	<u>(8,682)</u>	<u>(591,081)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	443,476	(40,881)	-	-	402,595
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>566,350</u>	<u>40,881</u>	<u>-</u>	<u>-</u>	<u>607,231</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,009,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,009,826</u>

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