



Lake Mission Viejo Association
2000 AUDIT REPORT

APRIL, 2001

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 COMPANY. This report reflects the financial status of Lake Mission Viejo Association for the calendar year ending in December 2000.

The 2000 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 over-emphasized.

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, 2000, 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, 2000, 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, 2000 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.

February 16, 2001

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, 2000, the development consisted of 22,747 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, 2000 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 5.8% to 7.25%. 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 is capitalized at cost. Replacements and improvements to the real property are capitalized at cost.

Depreciation is provided over the estimated useful lives of the related property and equipment using the straight-line method.

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 2000, 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 \$236,400 has been included in the 2001 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

LAKE MISSION VIEJO ASSOCIATION
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2000

ASSETS

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 566,350	\$ 40,881	\$ -	\$ -	\$ 607,231
Investments, net	-	1,707,227	1,121,455	241,318	3,070,000
Assessments receivable, net of allowance for uncollectible assessments of \$63,330	6,409	-	-	-	6,409
Prepaid expenses and other current assets	74,477	-	-	-	74,477
	<u>\$ 647,236</u>	<u>\$ 1,748,108</u>	<u>\$ 1,121,455</u>	<u>\$ 241,318</u>	<u>\$ 3,758,117</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES					
Accounts payable and accrued expense:	\$ 48,048	\$ -	\$ -	\$ -	\$ 48,048
Accrued payroll and related expenses	94,146	-	-	-	94,146
Deferred revenues	505,042	-	-	-	505,042
	<u>647,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>647,236</u>
COMMITMENTS AND CONTINGENCIES					
FUND BALANCE	-	1,748,108	1,121,455	241,318	3,110,881
	<u>\$ 647,236</u>	<u>\$ 1,748,108</u>	<u>\$ 1,121,455</u>	<u>\$ 241,318</u>	<u>\$ 3,758,117</u>

LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2000

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
REVENUES					
Assessments	\$ 3,425,084	\$ 234,000	\$ 48,000	\$ 9,920	\$ 3,717,004
Boat rental and storage	254,506	-	-	-	254,506
Interest	229,697	-	-	-	229,697
Recreation and sales	207,840	-	-	-	207,840
Other	226,002	-	-	-	226,002
	<u>4,343,129</u>	<u>234,000</u>	<u>48,000</u>	<u>9,920</u>	<u>4,635,049</u>
EXPENSES					
Concerts and special events	245,851	-	-	-	245,851
Consulting and outside services	224,642	-	-	-	224,642
Fish stocking	109,132	-	-	-	109,132
General and administrative	303,182	-	-	-	303,182
Insurance	105,419	-	-	-	105,419
Lake refill and quality management	211,172	-	-	-	211,172
Maintenance and repairs	353,981	132,562	74,798	143,249	704,590
Patrol services	29,104	-	-	-	29,104
Professional services	40,026	-	-	7,038	47,064
Salaries and related	2,311,246	-	-	-	2,311,246
Utilities	126,823	-	-	-	126,823
	<u>4,060,578</u>	<u>132,562</u>	<u>74,798</u>	<u>150,287</u>	<u>4,418,225</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	282,551	101,438	(26,798)	(140,367)	216,824
BEGINNING FUND BALANCE	-	1,646,670	1,015,702	231,685	2,894,057
INTERFUND TRANSFER	(282,551)	-	132,551	150,000	-
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ 1,748,108</u>	<u>\$ 1,121,455</u>	<u>\$ 241,318</u>	<u>\$ 3,110,881</u>

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, 2000 the contributions,

in addition to the budgeted amounts, to the capital expansion and contingency funds totaled \$132,551 and \$150,000, 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% contribution share shall not exceed \$378,414.

LMVA STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2000

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expense \$	282,551	\$ 101,438	\$ (26,798)	\$ (140,367)	\$ 216,824
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Depreciation	-	-	-	-	-
Interfund borrowings	282,606	(333,330)	(180,961)	231,685	-
Interfund transfers	(282,551)	-	132,551	150,000	-
(Increase) decrease in:					
Assessment receivable	(3,447)	-	-	-	(3,447)
Prepaid expenses and other assets	(23,613)	-	7,656	-	(15,957)
Increase (decrease) in:					
Accounts payable and accrued expense	(52,926)	-	-	-	(52,926)
Accrued payroll and related expenses	14,395	-	-	-	14,395
Deferred revenues	(170,725)	-	-	-	(170,725)
	<u>46,290</u>	<u>(231,892)</u>	<u>(67,552)</u>	<u>241,318</u>	<u>(11,836)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of investments	-	1,087,904	200,103	-	1,288,007
Purchase of investments	-	(815,131)	(132,551)	(241,318)	(1,189,000)
	<u>-</u>	<u>272,773</u>	<u>67,552</u>	<u>(241,318)</u>	<u>99,007</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,290	40,881	-	-	87,171
BEGINNING CASH AND CASH EQUIVALENTS	<u>520,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>520,060</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 566,350</u>	<u>\$ 40,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 607,231</u>

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 Mission Viejo, CA 92692
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