



To The Board of Directors and Members
The Oaks of Del Rey Homeowners Association

We have reviewed the accompanying balance sheet of The Oaks of Del Rey Homeowners Association as of December 31, 2001, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management of The Oaks of Del Rey Homeowners Association.

A review consists principally of inquiries of association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our reviews were made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the schedule of operating fund revenues and expenses-budget and actual on page 9 is presented only for supplementary analysis purposes. Such information (except for the budget information, which was compiled without audit or review from the information that is the representation of management, on which we do not express an opinion or any other form of assurance) has been subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements, and we are not aware of any material modifications that should be made to it.

The supplementary information about future repairs and replacements included in this report on page 10 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of The Oaks of Del Rey Homeowners Association. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Stennes & Sabath, CPA

Gilroy, Ca.
February 28, 2002

THE OAKS OF DEL REY HOMEOWNERS
ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2001

CONTENTS

	<u>Page</u>
ACCOUNTANTS REVIEW REPORT	
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Revenue, Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8
SUPPLEMENTARY	
Schedule of Operating Fund Revenues and Expenses-Budget and Actual	9
Schedule of Future Major Repairs and Replacements	10

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
Balance Sheet
December 31, 2001

	Operating Fund	Replacement Fund	Retrofit Fund	Total 2001
ASSETS				
Cash, including interest-bearing deposits	\$ 6,675	\$ 118,421	\$ 14,633	\$ 139,729
Assessments receivable	2,368			2,368
Due from operating fund		13,102	2,709	15,811
Equipment(net of depreciation)	1,208			1,208
Prepaid expenses	909			909
	<u>\$ 11,160</u>	<u>\$ 131,523</u>	<u>\$ 17,342</u>	<u>\$ 160,025</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 6,424			\$ 6,424
Assessments received in advance	1,642			1,642
Due from operating fund	15,811			15,811
Income taxes payable	626			626
	<u>\$ 24,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,503</u>
TOTAL LIABILITIES				
Fund Balances	<u>(13,343)</u>	<u>131,523</u>	<u>17,342</u>	<u>135,522</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 11,160</u>	<u>\$ 131,523</u>	<u>\$ 17,342</u>	<u>\$ 160,025</u>

See accompanying notes and accountant's report

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
Statement of Revenues, Expenses, And Changes in Fund Balances
Year Ended December 31, 2001

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Retrofit Fund</u>	<u>Total 2001</u>
REVENUES				
Regular assessments	\$ 207,924	\$ 88,020	\$ -	\$ 295,944
Interest income	394	1,888	440	2,722
Late charges	1,624			1,624
Other income	348			348
TOTAL REVENUES	\$ 210,290	\$ 89,908	\$ 440	\$ 300,638
EXPENSES				
Administration	2,304			2,304
Copies/office	3,122			3,122
Depreciation	354			354
Fire alarm monitor	11,899			11,899
Insurance	60,230	4,881		65,111
Insurance claim	3,835			3,835
Landscape	6,312			6,312
License and permits	510			510
Payroll and related costs	75,982			75,982
Pool maintenance	3,148			3,148
Property management	19,200			19,200
Repairs and Maintenance	9,965	3,247		13,212
Taxes	2,659			2,659
Utilities	43,136			43,136
Workers compensation	2,657			2,657
TOTAL EXPENSES	\$ 245,313	\$ 8,128	\$ -	\$ 253,441
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (35,023)	\$ 81,780	\$ 440	\$ 47,197
PRIOR PERIOD ADJUSTMENT			5,870	5,870
BEGINNING FUND BALANCES (DEFICIT)	<u>21,680</u>	<u>49,743</u>	<u>11,032</u>	<u>82,455</u>
ENDING FUND BALANCES	<u><u>\$ (13,343)</u></u>	<u><u>\$ 131,523</u></u>	<u><u>\$ 17,342</u></u>	<u><u>\$ 135,522</u></u>

See accompanying notes and accountant's report

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
Statement of Cash Flows
Year Ended December 31, 2001

	Operating Fund	Replacement Fund	Retrofit Fund	Total 2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ (35,023)	\$ 81,780	\$ 440	\$ 47,197
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Prior period adjustment			5,870	5,870
Depreciation	354			354
(Increase) decrease in:				
Assessments receivable	(2,368)			(2,368)
Prepaid insurance	7,954			7,954
Due to reserve fund		(1,439)		(1,439)
Due to retrofit fund			0	0
Prepaid expenses	1,953			1,953
Increase (decrease) in:				
Accounts payable	384		(5,830)	(5,446)
Due from operating	1,439			1,439
Prepaid assessments	(214)			(214)
Income taxes payable	626			626
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (24,895)	\$ 80,341	\$ 480	\$ 55,926
CASH FLOWS FROM INVESTING				
Purchase of equipment	(1,071)			(1,071)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ (1,071)	\$ -	\$ -	\$ (1,071)
NET INCREASE (DECREASE) IN CASH	\$ (25,966)	\$ 80,341	\$ 480	\$ 54,855
CASH AT BEGINNING OF YEAR	32,641	38,080	14,153	84,874
CASH AT END OF YEAR	\$ 6,675	\$ 118,421	\$ 14,633	\$ 139,729
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	\$ -			
Interest paid	\$ -			

See accompanying notes and accountant's report

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE A-NATURE OF ORGANIZATION

The Oaks of Del Rey Homeowners Association was incorporated on June 6, 1986, in the State of California. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 150 residential units located in Monterey County, California.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for the future major repairs and replacements.

Retrofit Fund - This fund is used to account for the settlement proceeds received for reconstruction purposes.

Member Assessments

Association members are subject to monthly assessments that range from \$143 to \$170 per unit, of which \$48.90 has been allocated to replacement reserves to provide funds for the Association's major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to place liens on the properties of homeowners whose assessments are 45 days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Income Taxes

Homeowners' Associations may be taxed either as Homeowners' Associations or as regular corporations. For the year ended December 31, 2001. The Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates.

The tax provisions for the year ended December 31, 2001, are as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Provision for tax	\$ 385	\$ 241	\$ 626
Prepayment	<u>(409)</u>	<u>(500)</u>	<u>(909)</u>
Tax Due	\$ <u>(24)</u>	\$ <u>(259)</u>	\$ <u>(283)</u>

Property and Equipment

The association does not capitalize the real and personal property acquired from the developer by the original homeowners, as they are owned by the individual owners and not the association.

Replacements and improvements to the real property are not capitalized, as the improvements would also belong to the individual owners and not the association. They are instead charged directly either to operating or replacement funds in the period they are incurred.

Fixed assets and depreciation of furniture and equipment are recorded at cost and are depreciated over their useful lives, which range from five to seven years using the straight line method.

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

During the year December 31, 2001, the association invested in three different accounts totaling \$126,815. The one interest bearing checking account at San Jose National Bank pays a rate of 1.89%. Please see note below regarding the retrofit bank account.

Uninsured Cash Balances

The association maintains its cash at one financial institution in San Jose, California. The FDIC insures deposits of up to \$100,000 at each institution. The total deposits at San Jose National Bank as of December 31, 2001 exceed the FDIC limit by \$16,344.

Retrofit Account

In preparing the financial statements, we were not able to review the activity, if any, for the retrofit account, but we were able to confirm the year-end balance. After accounting for the prior years accrued expenses, there was a cumulative adjustment to the retrofit account of \$5,870, which has been reflected in the statement of revenues, expenses, and changes in fund balances as a separate line item

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

Insurance

Due to the large insurance claim, the liability insurance premium has increased to approximately \$52,000 for the calendar year 2001. This unforeseen increase was significantly over the budgeted amount of \$38,000. As a result of this budget shortfall, there may be a need for a special assessment to cover this additional cost.

THE OAKS OF DEL REY HOMEOWNERS ASSOCIATION
Schedule of Operating Fund Revenues and Expenses-Budget and Actual
Year Ended December 31, 2001

	2001		(Compiled) Variance- Favorable (Unfavorable)
	(Compiled) Budget	Actual	
REVENUES			
Regular assessments	\$ 295,944	\$ 295,944	\$ -
Interest income		2,722	2,722
Late fees		1,624	1,624
Other		348	348
TOTAL REVENUES	\$ 295,944	\$ 300,638	\$ 4,694
EXPENSES			
Accounting and legal fees	\$ 3,960	\$ 2,276	\$ 1,684
Copies and postage	2,580	3,150	(570)
Depreciation	-	354	(354)
Electricity/Gas	10,380	12,425	(2,045)
Employee costs	69,420	75,982	(6,562)
Fire alarm	10,800	11,899	(1,099)
Garbage	15,300	15,779	(479)
General repairs	6,708	2,698	4,010
Insurance	38,400	60,230	(21,830)
Insurance claim	-	3,835	(3,835)
Irrigation	1,800	1,553	247
Landscape	7,200	6,312	888
Large tree care	2,400	550	1,850
License and permits	312	510	(198)
Lights	1,200	969	231
Management	19,200	19,200	-
Office phones	1,152	2,074	(922)
Pest control	480	4,195	(3,715)
Pool contract	2,496	3,148	(652)
Reserve payment	88,020	88,020	-
Taxes	936	2,659	(1,723)
Water	13,200	12,858	342
Workers compensation insurance	-	2,657	(2,657)
TOTAL EXPENSES	\$ 295,944	\$ 333,333	\$ (37,389)
Excess (Deficiency) of Operating Fund Revenues Over Operating Fund Expenses	<u>\$ -</u>	<u>\$ (32,695)</u>	<u>\$ (32,695)</u>

See accountant's report

Oaks of Del Rey HOA

Del Rey Oaks, CA

Reserve Component Worksheet

150 Units
November, 1999

COMPONENT	Avg Life	Rem Life	Cost Per Unit	Approx Quantity	Present Cost	Future Cost	Source Code
ROOFING							
Fiberglass Roofing (Bldgs/Crpts) (Includes Sheathing, Vents & Flashing)	40	40	285.00 /sq	1,196	340,860	1,303,916	4
Fiberglass Roofing Repairs (Bldgs/Crpts)	10	10	25.00 /sq	1,196	29,900	40,751	4
Gutters & Downspouts	40	40	6.00 /lf	22,734	136,404	521,796	4
Chimney Trim	20	20	1.35 /lf	1,100	1,485	2,855	4
TOTAL REPLACEMENT COST					\$508,649	\$1,869,318	
PAINTING							
Paint Trellis Structures	6	6	0.50 /sf	3,528	1,764	2,095	1
Paint Carports	6	6	0.60 /sf	28,180	16,908	20,081	1
Paint Gutters & Downspouts	12	12	4.50 /lf	22,734	102,303	149,359	1
Paint Fascia	6	6	4.25 /lf	8,708	37,009	43,955	1
Paint Stairs Metal Guard Rails	6	6	3.25 /lf	1,638	5,324	6,323	1
Paint Stairs Steel Stringers	6	6	1.30 /lf	1,218	1,583	1,881	1
Paint Wall Handrails	6	6	0.75 /lf	1,280	960	1,140	1
Paint Stucco Surfaces (Bldgs.)	12	12	0.85 /sf	124,474	105,803	154,469	4
Rem/Repl Caulking	12	12	0.40 /lf	4,872	1,949	2,845	1
Paint Eaves	6	6	0.45 /sf	28,482	12,817	15,222	1
Paint Exterior Doors (1-side)	12	12	Lump Sum	349	7,500	10,950	1
Paint/Repair Trim Band & Flashing	6	6	1.00 /lf	17,742	17,742	21,072	1
Paint/Repair Chimney Trim	6	6	1.00 /lf	1,100	1,100	1,306	1
Paint Trash Encl./Trellis (Entry/Mbxs)	6	6	250.00 /ea	8	2,000	2,375	1
Paint Block Retaining Walls	6	6	Lump Sum	Total	1,500	1,782	4
Paint Balcony Rails/Structure	6	6	2.25 /lf	5,112	11,502	13,661	1
Paint Walkway Rails/Structure	6	6	2.25 /lf	7,696	17,316	20,566	1
Handrails (Concrete Steps)			Maintenance / Operating Budget				
TOTAL REPLACEMENT COST					\$345,080	\$469,083	
ASPHALT SURFACES							
Asphalt Overlay	20	12	1.10 /sf	137,068	150,775	220,127	1
Seal Stripe & Repair	5	1	0.25 /sf	137,068	34,267	34,267	1
TOTAL REPLACEMENT COST					\$185,042	\$254,394	
FENCING							
Open Wire Fence	30	20	10.50 /lf	400	4,200	8,075	1
Wood Retaining Walls - I	25	24	Lump Sum		2,000	4,412	4
Wood Retaining Walls (To Concrete) - II	30	1	Lump Sum		32,000	32,000	4
Chain Link Fence (Court)	28	18	16.00 /lf	244	4,392	7,882	1
Wood Posts (Screen)	20	10	20.00 /lf	170	3,400	4,634	1
Balcony/Walkway Rails	30	30	10.00 /lf	12,808	128,080	347,337	1
Chain Link Fence (Lower)	28	28	Lump Sum		12,600	31,893	4
TOTAL REPLACEMENT COST					\$186,672	\$436,238	