



June 3, 1993

Dear Home Owner:

Enclosed is the Annual Audit for the 1993 fiscal year and a copy of the new Architectural Guidelines for Park Paseo.

You will find, from a review of the audit, that the condition of the Association is very sound. We have continued to maintain and enhance the facilities by the use of designated reserve funds. At the same time, our reserves are still significant and are more than sufficient to cover any immediate emergency or to pay the deductible necessary in the event of an insurance claim. Park Paseo is financially solvent.

The Architectural Guidelines were written to provide the homeowner with more information with respect to the process involved in making improvements to his/her home. These Guidelines were developed by the Architectural Committee with input from homeowners. It is customary in the case of new rules to allow a grace period before the rules are enforced. With that in mind, the date set for the guidelines to become effective is August 1, 1993. If you have any questions concerning the guidelines or their implementation, call the Association office at 730-1560.

Thank you for your help, your input, and your cooperation in the management of our Association.

The Board of Directors

# Park Paseo Homeowners Association

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## SUMMARY OF CIVIL CODE SECTION 1354 · ALTERNATIVE DISPUTE RESOLUTION ·

Pursuant to the requirements of California Civil Code § 1354, we are notifying you that on August 25, 1993, Assembly Bill 55 was passed requiring that, under certain circumstances, all California community associations and their individual members are to offer to participate in some form of Alternative Dispute Resolution ("ADR") prior to initiating certain types of lawsuits. This new legislation is contained within California Civil Code §1354, which will become law effective January 1, 1994.

Please be advised that § 1354 could be subject to different interpretations as the statutory language has not yet been interpreted by any court. This summary, therefore, represents Fiore, Nordberg, Walker & Woolf-Willis' best interpretation, given the currently available information. Each homeowner should consult with his/her own attorney regarding appropriate compliance with the statute.

### I. SCOPE OF NEW STATUTE:

The new legislation applies only to lawsuits filed by either individual homeowners or community associations, involving enforcement of the governing documents, where the lawsuit seeks:

- A. Declaratory relief only; or
- B. Permanent injunctive relief only (no request for temporary restraining order or preliminary injunction); or
- C. Either declaratory relief or injunctive relief, which also includes a claim for monetary damages of \$5,000.00 or less, and which does not relate to the collection of association assessments.

If the lawsuit does not involve at least one of the above causes of action, neither the Association nor the member is legally required to offer to participate in some form of Alternative Dispute Resolution.

### II. PROVISIONS OF THE NEW STATUTE:

Assuming that the intended lawsuit involves at least one of the above categories of relief, then the party seeking to bring the lawsuit must first notify and offer to all of the parties in the dispute an opportunity to resolve the matter first by some form of Alternative Dispute Resolution (such as mediation or arbitration, either binding or non-binding) before bringing the lawsuit.

The only exceptions to this requirement are:

- A. Where any applicable statute of limitations will run within 120 days following the filing of the lawsuit;
- B. Where the party filing the lawsuit certifies that either preliminary or temporary injunctive relief is necessary;
- C. For claims of monetary damages exceeding \$5,000.00;
- D. For claims involving recovery of delinquent association assessments, late charges, interest, or costs of collection, including attorneys' fees; or

- E. The statute does not apply to any cross-complaint.
- F. Where one of the parties has already refused some form of ADR prior to the filing of the lawsuit.
- G. Where any party demonstrates to the court that dismissal of the action for failure to comply with the new ADR statute would result in "substantial prejudice" to one of the parties.

### III. COMPLIANCE PROCEDURES:

The ADR process is initiated by one party serving all other parties with a "Request for Resolution," which shall include:

- A. A brief statement of the facts in dispute;
- B. A request for some form of ADR. The request must be accompanied by a copy of the new statute and served in the same manner as in small claims actions as provided in § 116.340 of the California Code of Civil Procedure.
- C. A notice to all parties that they are required to respond within 30 days of receipt, or else the offer of ADR is deemed rejected.
- D. If the request for resolution is accepted by the "other party," the ADR procedure (such as mediation or arbitration) must be completed within 90 days of the receipt of the acceptance, unless the parties sign a written agreement extending the completion date.

The cost of ADR is to be borne by the parties. Unless the parties agree, no oral or written evidence or statements made in the ADR proceeding are admissible as evidence in the later lawsuit. The form of ADR may either be binding or non-binding, at the option of the parties.

### IV. FAILURE TO PARTICIPATE IN SOME FORM OF ADR:

Should a party refuse to participate in ADR before the lawsuit is filed, the court may, in its discretion, take this refusal into consideration in determining the amount of attorneys' fees and costs ultimately awarded at trial, even if the refusing party ultimately prevails at trial in the main action. In accordance with California Civil Code § 1354, the Board of Directors of the Association hereby advises you of the following:

**"Failure by any member of the Association to comply with the prefiling requirements of § 1354 of the Civil Code may result in the loss of your rights to sue the Association or another member of the Association regarding enforcement of the governing documents"**

### V. NO EFFECT ON VOLUNTARY PARTICIPATION IN ADR:

The parties may still agree, in writing, to refer any dispute involving enforcement of the Association's governing documents to some form of ADR, even in those categories of disputes which are technically outside of the new statute.

PARK PASEO HOMEOWNERS ASSOCIATION  
(A CALIFORNIA NONPROFIT CORPORATION)

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Financial Statements  
For the Year Ended December 31, 1993

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, 1993 and 1992 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, 1993 and 1992, 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 25, 1994

Park Paseo Homeowners Association  
Balance Sheet  
December 31, 1993 and 1992

	1993	1992
<b>ASSETS</b>		
Current assets		
Cash	\$ 216,943	\$ 191,754
U.S. government securities mutual fund (Franklin Fund)	106,081	104,560
Assessments receivable (Note A)	8,427	10,024
Allowance for doubtful accounts (Note A)		( 2,096)
Prepaid expenses	4,468	5,894
Other	1,260	1,260
	\$ 337,179	\$ 311,396
Total assets	\$ 337,179	\$ 311,396
<b>LIABILITIES AND ASSOCIATION EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,280	\$ 11,229
Assessments collected in advance (Note A)	2,292	2,781
Income taxes		322
	6,572	14,332
Total liabilities	6,572	14,332
Association equity		
Reserves for major repairs and replacements (Note B)	257,730	234,756
Unappropriated	72,877	62,308
	330,607	297,064
Total association equity	330,607	297,064
Total liabilities and association equity	\$ 337,179	\$ 311,396

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Statement of Operations  
For the Years Ended December 31, 1993 and 1992

	<u>1993</u>	<u>1992</u>
<b>Revenue</b>		
Member assessments	\$ 397,500	\$ 397,500
(Less) transfer to reserves for major repairs & replacements	( 60,680)	( 60,680)
Net member assessments	<u>336,820</u>	<u>336,820</u>
Interest income	7,177	10,203
Other	15,115	13,691
Total revenue	<u>359,112</u>	<u>360,714</u>
<b>Expenses</b>		
General & administrative	126,577	127,624
Maintenance & repairs	174,440	169,771
Utilities	47,526	40,04
Total expenses	<u>348,543</u>	<u>337,443</u>
Excess of revenue over costs and expenses	<u>\$ 10,569</u>	<u>\$ 23,271</u>

See accompanying notes to financial statements.  
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Park Paseo Homeowners Association  
Statement of Association Equity  
For the Year Ended December 31, 1993

	<u>Balance</u> <u>12/31/92</u>	<u>Oper-</u> <u>ations/</u> <u>transfer</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/93</u>
Repair and replacement reserves					
Painting	\$	\$ 5,136	\$ 2,824	\$( 1,370)	\$ 6,590
Roofing	17,675	( 707)	5,122		22,090
Parking lot	6,616	( 1,773)	1,767		6,610
Lighting		10,720	1,345	( 446)	11,619
Pools/Spa/Wader	42,276	806	9,286	( 290)	52,078
Pool furniture	19,330	( 3,182)	5,361	( 2,376)	19,133
Play equipment & sand	13,664	3,877	3,198	( 7,859)	12,880
Recreational area	9,591	3,659	2,752	( 515)	15,487
Fences	12,754	( 457)	5,048	( 3,405)	13,940
Clubhouse furniture, fixtures & equipment	32,882	(18,406)	6,538	( 2,086)	18,928
Clubhouse restrooms	1,953	( 4,412)	3,303	( 230)	614
Clubhouse heat/air conditioning	16,864	( 1,700)	1,239		16,403
Tennis court	19,054	6,333	4,160	( 7,720)	21,827
Irrigation controller	6,698	10,558	907	(10,163)	8,000
Tree trimming	29,677	(13,217)	7,564		24,024
Contingency	5,722	2,765	266	( 1,246)	7,507
<b>Total reserves</b>	<b>234,756</b>		<b>60,680</b>	<b>(37,706)</b>	<b>257,730</b>
Unappropriated	62,308	10,569			72,877
<b>Total association equity</b>	<b>\$297,064</b>	<b>\$ 10,569</b>	<b>\$60,680</b>	<b>\$(37,706)</b>	<b>\$330,607</b>

See accompanying notes to financial statements.



Park Paseo Homeowners Association  
Cash Flow Statements  
For the Years Ended December 31, 1993 and 1992

	1993	1992
Cash flows from operating activities:		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 10,569	\$ 23,271
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	( 499)	( 1,549)
(Increase) decrease in prepaid expenses	1,426	1,965
Increase (decrease) in accounts payable	( 6,949)	( 5,660)
Increase (decrease) in assessments collected in advance	( 489)	972
Increase (decrease) in income taxes payable	( 322)	322
Total adjustments	( 6,833)	( 3,950)
Net cash provided (used) by operating activities	3,736	19,321
Cash flows from repair & replacement reserves:		
Assessments for repair & replacement reserves	60,680	60,680
Repair & replacement reserves disbursements	( 37,706)	( 54,656)
Net cash provided (used) by repair and replacement reserves	22,974	6,024
<b>Net increase (decrease) in cash and equivalents</b>	<b>26,710</b>	<b>25,345</b>
Cash and equivalents, beginning	296,314	270,969
Cash and equivalents, ending	\$ 323,024	\$ 296,314

See accompanying notes to financial statements.  
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Park Paseo Homeowners Association  
Schedule of Expenses  
For the Years Ended December 31, 1993 and 1992

	<u>1993</u>	<u>1992</u>
<b>General &amp; administrative</b>		
Management	\$ 40,757	\$ 42,499
Insurance	17,610	18,636
Legal & accounting	6,258	9,610
Provision for doubtful accounts	( 1,271)	2,096
Telephone	1,461	1,444
Printing, postage & supplies	13,004	9,632
Income taxes	1,516	2,013
Security service	22,413	21,024
Lifeguard service	18,923	15,792
Other	5,906	4,878
	<u>\$ 126,577</u>	<u>\$ 127,624</u>
<b>Maintenance &amp; repairs</b>		
Landscape, contract	\$ 116,375	\$ 113,834
Landscape, other	11,636	8,798
Pool, contract	10,133	10,999
Pool, other	3,186	4,229
Janitorial	9,265	9,473
Repairs	20,517	17,095
Other	3,328	5,343
	<u>\$ 174,440</u>	<u>\$ 169,771</u>
<b>Utilities</b>		
Electricity	\$ 20,346	\$ 21,333
Gas	12,051	10,060
Water	15,129	8,655
	<u>\$ 47,526</u>	<u>\$ 40,048</u>

See accompanying notes to financial statements.

Park Paseo Homeowners Association  
Notes to Financial Statements  
December 31, 1993

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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 April 1993, reported that reserves were 99% funded in relation to an "ideal" accumulation considering the then current monthly reserve allocation and reserve balances. It is currently estimated that reserves are 100% funded in relation to an "ideal" accumulation. 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, 1993

COMPONENT	Estimated Remaining Useful Life (Years)	Estimated Current replace- ment cost	Designated for Reserves December 31, 1993
Painting	2 to 4	\$ 12,097	\$ 6,590
Roofing	1 to 3	23,762	22,090
Parking lot	2 to 3	9,333	6,610
Lighting	3 to 8	23,420	11,619
Pools/spa/wader	0 to 6	73,631	52,078
Pool furniture	1 to 3	31,184	19,133
Play equipment & sand	3 to 14	40,074	12,880
Recreational area	2 to 8	21,046	15,487
Fences	0 to 16	67,365	13,940
Clubhouse furniture, fixtures & equipment	1 to 20	58,286	18,928
Clubhouse restrooms	11 to 16	17,078	614
Clubhouse heat/air conditioning	2 to 8	21,021	16,403
Tennis court	2 to 9	25,060	21,827
Irrigation controller	10	14,893	8,000
Tree trimming	0	24,024	24,024
Contingency			7,507
<b>TOTALS</b>		<b>\$ 462,274</b>	<b>\$ 257,730</b>

The Association retained a consultant who conducted a study, dated April 1993, 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.