



April 30, 1999

Dear Homeowner,

Enclosed you will find the Association's audit for the calendar year of 1998 which was prepared by Francis J. Keenan, Certified Public Accountant.

The audit was conducted in accordance with generally accepted auditing standards and generally accepted accounting principles which represent fairly the financial position of Park Paseo as of December 31, 1998 and 1997 respectively.

Additionally, you will find enclosed the following disclosures required by California Civil Code:

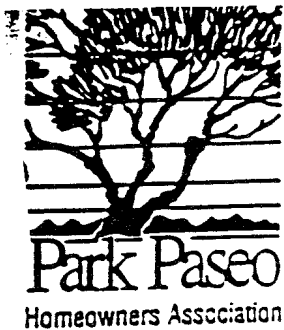
1. Summary of Alternative Dispute Resolution
2. Schedule of Fines and Fees

Pursuant to California Civil Code Section 1363.05(e), you are hereby notified that the minutes of any meeting of the Board of Directors, other than executive session, shall be made available to members within thirty days from the date of the meeting by making a written request to the Association's Manager at 25 Christamon West, Irvine, CA 92620.

Please call the Association office if you have questions.

Sincerely,

Percy Carter  
General Manager



## SUMMARY OF CALIFORNIA CIVIL CODE § 1354(b) RELATING TO ENFORCEMENT OF GOVERNING DOCUMENTS THROUGH ALTERNATIVE DISPUTE RESOLUTION

PLEASE TAKE NOTICE: *California Civil Code § 1354 addresses your rights to sue the association or another member of the association regarding the enforcement of the governing documents. The following is a summary of the provisions of Civil Code § 1354, as amended effective January 1, 1994:*

In general, Civil Code § 1354 encourages parties to a dispute involving enforcement of an association's governing documents to submit the dispute to a form of alternative dispute resolution (ADR) such as mediation or arbitration prior to filing a lawsuit. The intent of the statute is to promote speedy and cost-effective resolution of such disputes, to better preserve community cohesiveness and to channel CC&R disputes away from our state's court system.

Under Civil Code § 1354, the form of alternative dispute resolution may be binding or non-binding and the costs will be borne as agreed to by the parties involved.

Any party to a dispute regarding enforcement of the governing documents may initiate the process of ADR by serving a Request for Resolution on another party to the dispute. A Request for Resolution must contain (1) a brief description of the nature of the dispute, (2) a request for ADR, and (3) a notice that the party receiving the Request for Resolution is required to respond within 30 days of receipt or the Request will be deemed rejected.

If the Request is accepted, the ADR must be completed within 90 days of receipt of the acceptance, unless otherwise agreed by the parties. Any Request for Resolution sent to the owner of a separate interest must include a copy of Civil Code § 1354 in its entirety.

**FAILURE BY ANY MEMBER OF THE ASSOCIATION TO COMPLY WITH THE  
PREFILING REQUIREMENTS OF SECTION 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.**

Should the association or an individual member wish to file a lawsuit for enforcement of the association's governing documents, the law requires the association or the individual to file a certificate with the court stating that ADR has been completed prior to the filing of the suit. Failure to file this certificate can be grounds for dismissing the lawsuit. There are limited exceptions to the filing of this required certificate when (1) one of the other parties to the dispute refused ADR prior to the filing of the complaint, (2) preliminary or temporary injunctive relief is necessary, or (3) the statute of limitations period for filing the suit will expire within 120 days of the lawsuit being filed. Each of these exceptions, however, must also be certified in writing to avoid the court's dismissing the action.

Furthermore, in any lawsuit to enforce the governing documents, while the prevailing party may be awarded attorney's fees and costs, under Civil Code § 1354 the court may consider any party's refusal to participate in ADR prior to the lawsuit being filed when it determines the amount of the award.

PARK PASEO HOMEOWNERS ASSOCIATION

**SCHEDULE OF FINES AND FEES**  
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Whereas it is the policy of the Park Paseo Homeowners Association to protect the rights and priveleges of the members and to enforce the CC&Rs and Rules and Regulations of the Association, therefore pursuant to the authority vested in the Board of Directors by the CC&Rs and the Bylaws, the following schedule of fines and fees is hereby established and supercedes all previously adopted schedules for such fines and fees:

TYPE OF VIOLATION	1st OFFENSE	2nd OFFENSE	3rd OFFENSE
A. Failure to comply with animal control	Warning	\$25.00	\$50.00 plus possible suspension of privileges.
B. Damage to Association property.	\$50.00 plus repair & legal costs.	\$100.00 plus repair & legal costs.	Legal Action.
C. Littering or disposal of debris on or around common areas.	Warning	\$25.00	\$100.00 plus possible suspension of privileges.
D. Trash containers put out earlier than evening before scheduled pick up and left after eve of pick up.	Warning	\$25.00	\$50.00
E. Unauthorized vehicles in driveway (boats, trailers, RV, etc.)	Warning	\$25.00	\$50.00
F. Use of motor driven vehicles on common area.	Warning	\$50.00	\$100.00 plus suspension and legal action.

G. Failure to comply with or violation of CC&Rs or Rule not set forth above.	Warning	\$25.00	\$50.00 plus possible suspension of privileges.
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**ADMINISTRATIVE FEES:**

**A. Facility Keys:**

If both keys are lost, two new keys will be issued at a charge of \$200.00. If one key is lost, the remaining key must be turned in and two new keys will be issued at a charge of \$100.00.

**B. Escrow Fees:**

1. Provision of a copy of CC&Rs, Bylaws and Articles of Incorporation to escrow will cost \$50.00 or \$25.00 each if the set is not needed.

2. Escrow transfer fee is \$100.00.

3. Lenders certification letter fee is \$25.00.

**C. Delinquent Account Collection :**

1. Preparation of lien and release documents will be charged at attorney's fees plus actual costs.

2. Attorney's fees are as charged to the Association.

3. Foreclosure costs are attorney's fees plus actual costs.

This Schedule of Fines and Fees was adopted by the Association's Board of Directors on March 11, 1996 and shall be binding on the members of the Association, and shall not be the exclusive remedy of the Association to deal with violations of the CC&Rs, Bylaws or Rules and Regulations. Members shall be responsible for the acts or omissions of their guests, lessees or invitees.

All fines and fees, pursuant to this shedule, shall be imposed by action of the Board of Directors after reasonable notice and hearing.

PARK PASEO HOMEOWNERS ASSOCIATION

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**PARK PASEO HOMEOWNERS ASSOCIATION**

Financial Statements  
For the Year Ended December 31, 1998

Francis J. Keenan -  
Certified Public Accountant

Francis J. Keenan  
Certified Public Accountant

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, 1998 and 1997, 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, 1998 and 1997, 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 8 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.



Irvine, California  
March 31, 1999

Park Paseo Homeowners Association  
Balance Sheet  
December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 281,546	\$ 267,736
U.S. Government securities (Franklin Fund)	133,776	128,654
Total cash and equivalents	415,322	396,390
Assessments receivable	10,855	16,810
Prepaid expenses	17,098	1,980
Other	2,943	1,260
Total assets	\$ 446,218	\$ 416,440
<b>LIABILITIES AND ASSOCIATION EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,081	\$ 4,240
Assessments paid in advance	3,950	3,313
Income taxes		2,725
Other		250
Total liabilities	8,031	10,528
Association equity		
Reserves for major repairs and replacements	290,524	286,163
Unappropriated	147,663	119,749
Total association equity	438,187	405,912
Total liabilities and association equity	\$ 446,218	\$ 416,440



Park Paseo Homeowners Association  
Statement of Operations  
For the Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Revenue		
Member assessments	\$ 427,500	\$ 427,500
(Less) transfer to reserves for major repairs and replacements	<u>(35,467)</u>	<u>(60,680)</u>
Net member assessments	<u>392,033</u>	<u>366,820</u>
Interest income	15,549	24,071
Other	<u>10,203</u>	<u>15,340</u>
Total revenue	<u>417,785</u>	<u>406,231</u>
 Expenses		
General and administrative	153,268	157,575
Maintenance and repairs	193,776	192,453
Utilities	<u>42,827</u>	<u>46,839</u>
Total expenses	<u>389,871</u>	<u>396,867</u>
 Excess of revenue over costs and expenses	 <u>\$ 27,914</u>	 <u>\$ 9,364</u>

Park Paseo Homeowners Association  
Statement of Association Equity  
For the Year Ended December 31, 1998

	<u>Balance</u> <u>12/31/97</u>	<u>Oper-</u> <u>ations</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/98</u>
Repair and replacement reserves					
Painting	\$9,204	\$1,501	\$697		\$11,402
Roofing	3,658	121	157		3,936
Parking lot	478	740	342		1,560
Lighting	21,727	(590)	3,025		24,162
Pools/Spa/Wader	35,392	14,868	6,684	(19,517)	37,427
Pool furniture	19,282	755	1,654		21,691
Play equipment and sand	5,280	4,125	2,243	(4,897)	6,751
Recreational area	22,340	579	1,642		24,561
Fences/gates/walls/	26,415	(3,156)	1,867		25,126
Clubhouse furniture, fixtures and equipment	43,944	(9,081)	7,727	(3,063)	39,527
Clubhouse restrooms	10,073	109	1,769		11,951
Clubhouse heat/air conditioning	20,056	617	773		21,446
Tennis court	25,606	(704)	2,521		27,423
Irrigation controller	10,128	(875)	2,492		11,745
Tree trimming	5,757	8,617	806		15,180
Contingency	26,823	(17,626)	1,068	(3,629)	6,636
Total reserves	<u>286,163</u>		<u>35,467</u>	<u>(31,106)</u>	<u>290,524</u>
Unappropriated	119,749	27,914			147,663
Total association equity	<u>\$405,912</u>	<u>\$27,914</u>	<u>\$35,467</u>	<u>(\$31,106)</u>	<u>\$438,187</u>

Park Paseo Homeowners Association  
Statement of Cash Flows  
For the years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flow from operating activities:		
Member assessments	\$ 398,625	\$ 361,191
Interest income	15,549	24,071
Other revenue	9,953	15,390
General and administrative expenses	(172,913)	(150,121)
Maintenance and repairs	(194,218)	(190,754)
Utilities	(42,425)	(46,887)
Net cash provided (used) by operating activities	<u>14,571</u>	<u>12,890</u>
Cash flows from repair and replacement reserves		
Assessments for repair and replacement reserves	35,467	60,680
Repair and replacement reserves disbursements	(31,106)	(113,356)
Net cash provided (used) by investing activities	<u>4,361</u>	<u>(52,676)</u>
Net increase (decrease) in cash and equivalents	<u>18,932</u>	<u>(39,786)</u>
Cash and equivalents, beginning of year	<u>396,390</u>	<u>436,176</u>
Cash and equivalents, end of year	<u>\$ 415,322</u>	<u>\$ 396,390</u>

See accompanying notes to financial statements

Park Paseo Homeowners Association  
Statement of Cash Flows, continued  
For the Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 27,914	\$ 9,364
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	5,955	(5,774)
(Increase) decrease in prepaid expenses	(15,118)	5,035
(Increase) decrease in other assets	(1,683)	
Increase (decrease) in accounts payable	(159)	1,345
Increase (decrease) in assessments paid in advance	637	145
Increase (decrease) in income taxes payable	(2,725)	2,725
Increase (decrease) in other liabilities	(250)	50
Total adjustments	<u>(13,343)</u>	<u>3,526</u>
Net cash provided (used) by operating activities	<u>\$ 14,571</u>	<u>\$ 12,890</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income Tax	<u>\$ 7,516</u>	<u>\$ 592</u>

Park Paseo Homeowners Association  
Schedule of Expenses  
For the Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
General and administrative		
Management	\$ 49,712	\$ 47,398
Insurance	20,074	23,864
Legal and accounting	5,557	10,462
Telephone	1,528	1,483
Printing, postage and supplies	12,988	11,682
Income taxes	3,108	4,852
Security service	36,578	36,147
Lifeguard service	20,968	19,312
Other	2,755	2,375
Total general and administrative	<u>\$ 153,268</u>	<u>\$ 157,575</u>
Maintenance and repairs		
Landscape, contract	\$ 120,860	\$ 119,880
Landscape, other	22,134	31,445
Pool, contract	9,836	10,712
Pool, other	9,024	4,800
Janitorial	10,463	10,219
Repairs	17,196	10,276
Other	4,263	5,121
Total maintenance and repairs	<u>\$ 193,776</u>	<u>\$ 192,453</u>
Utilities		
Electricity	\$ 17,601	\$ 16,476
Gas	12,496	13,594
Water	12,730	16,769
Total utilities	<u>\$ 42,827</u>	<u>\$ 46,839</u>

See accountant's report and notes to financial statements

Park Paseo Homeowners Association  
Notes to Financial Statements

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 and 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 August, 1998, reported that reserves were 100% funded in relation to an "ideal" accumulation considering the then current monthly reserve allocation and reserve balances. 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, 1998

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replace- ment Cost	Designated for Reserves December 31, 1998
Painting	0 to 8	\$13,647	\$11,402
Roofing	1 to 25	4,150	3,936
Parking lot	2 to 18	7,293	1,560
Lighting	0 to 13	34,289	24,162
Pools/spa/wader	0 to 15	91,804	37,427
Pool furniture	0 to 2	24,942	21,691
Play equipment and sand	0 to 18	36,130	6,751
Recreational area	0 to 8	28,331	24,561
Fences/gates/walls	1 to 11	44,606	25,126
Clubhouse furniture, fixtures and equipment	0 to 14	63,976	39,527
Clubhouse restrooms	6 to 16	25,972	11,951
Clubhouse heat/air conditioning	0 to 3	22,374	21,446
Tennis court	0 to 4	32,650	27,423
Irrigation controller	6	23,490	11,745
Tree trimming	1	23,712	15,180
Contingency			6,636
Totals		<u>\$477,366</u>	<u>\$290,524</u>

The Association retained a consultant who conducted a study, dated August 8, 1998, 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.