



April 30, 2001

Dear Homeowner,

Enclosed you will find the Association's audit for the calendar year of 2000 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, 2000 and 1999 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

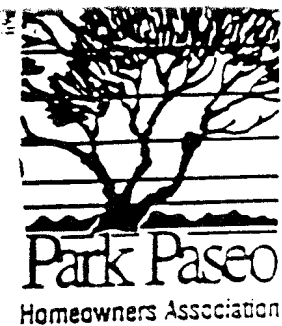
Pursuant to California Civil Code Section 1363.05(e), you are hereby notified that the minutes of any meeting of the Board of Directors, other than executive session, shall be made available to members within thirty days from the date of the meeting by making a written request to the Association's Manager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

Please call the Association office if you have questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Percy Carter", is written over the typed name.

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

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.

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

Financial Statements
For the Year Ended December 31, 2000

Francis J. Keenan
Certified Public Accountant

Independent auditor's report

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, 2000 and 1999, 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, 2000 and 1999, 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
May 4, 2001

Park Paseo Homeowners Association
Balance Sheet
December 31, 2000 and 1999

	2000	1999
ASSETS		
Current assets		
Cash	\$ 386,069	\$ 345,687
U.S. Government securities (Franklin Fund)	148,521	139,795
Total cash and equivalents	534,590	485,482
Assessments receivable	13,699	19,834
Prepaid expenses	15,738	16,098
Other	1,260	1,260
Total assets	\$ 565,287	\$ 522,674
LIABILITIES AND ASSOCIATION EQUITY		
Current liabilities		
Accounts payable	\$ 6,952	\$ 5,283
Assessments paid in advance	4,481	3,949
Income taxes	1,919	426
Total liabilities	13,352	9,658
Association equity		
Reserves for major repairs and replacements	354,766	337,101
Unappropriated	197,169	175,915
Total association equity	551,935	513,016
Total liabilities and association equity	\$ 565,287	\$ 522,674

Park Paseo Homeowners Association
Statement of Operations
For the Years Ended December 31, 2000 and 1999

	2000	1999
Revenue		
Member assessments	\$ 442,550	\$ 442,500
(Less) transfer to reserves for major repairs and replacements	(60,551)	(58,777)
Net member assessments	381,999	383,723
Interest income	26,517	17,090
Other	15,405	17,863
Total revenue	423,921	418,676
Expenses		
General and administrative	149,317	148,546
Maintenance and repairs	207,682	196,301
Utilities	45,668	45,577
Total expenses	402,667	390,424
Excess of revenue over costs and expenses	\$ 21,254	\$ 28,252

Park Paseo Homeowners Association
Statement of Association Equity
For the Year Ended December 31, 2000

	<u>Balance</u> <u>12/31/1999</u>	<u>Operations/</u> <u>transfers</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/2000</u>
Repair and replacement reserves					
Painting	\$15,735	(\$7,029)	\$3,131	(\$7,500)	\$4,337
Roofing	4,167	1,588	199		5,954
Parking lot	2,679	80	1,140		3,899
Lighting	26,406	(2,547)	2,584	(980)	25,463
Pools/Spa/Wader	39,930	2,037	8,496	(800)	49,663
Pool area	30,931	(660)	5,228		35,499
Recreation area - east side	22,272	5,236	2,539	(6,695)	23,352
Recreation area - main	12,820	125	2,589		15,534
Fences/gates/walls	26,625	(3,302)	3,388		26,711
Clubhouse furniture, fixtures and equipment	80,775	7,656	9,767	(6,181)	92,017
Tennis court	28,912	(5,998)	2,661		25,575
Landscape	38,289	8,627	10,508	(20,730)	36,694
Contingency	7,560	(5,813)	8,321		10,068
Total reserves	<u>337,101</u>		<u>60,551</u>	<u>(42,886)</u>	<u>354,766</u>
Unappropriated	175,915	21,254			197,169
 Total association equity	 <u>\$513,016</u>	 <u>\$21,254</u>	 <u>\$60,551</u>	 <u>(\$42,886)</u>	 <u>\$551,935</u>

Park Paseo Homeowners Association
Statement of Cash Flows
December 31, 2000 and 1999

	2000	1999
Cash flow from operating activities:		
Member assessments	\$ 388,666	\$ 374,743
Interest income	26,517	17,090
Other revenue	15,405	17,863
General and administrative expenses	(144,797)	(145,437)
Maintenance and repairs	(208,610)	(195,134)
Utilities	(45,738)	(45,542)
Net cash provided (used) by operating activities	31,443	23,583
Cash flows from repair and replacement reserves		
Assessments for repair and replacement reserves	60,551	58,777
Repair and replacement reserves disbursements	(42,886)	(12,200)
Net cash provided (used) by repair and replacement reserves	17,665	46,577
Net increase (decrease) in cash and equivalents	49,108	70,160
Cash and equivalents, beginning of year	485,482	415,322
Cash and equivalents, end of year	\$ 534,590	\$ 485,482
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income Tax	\$ 3,814	\$ 1,425

Park Paseo Homeowners Association
Statement of Cash Flows, continued
December 31, 2000 and 1999

	2000	1999
Reconciliation of excess of revenue over costs and expenses to net cash provided by operating activities		
Excess of revenue over costs and expenses	\$ 21,254	\$ 28,252
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	6,135	(8,979)
(Increase) decrease in prepaid expenses	360	1,000
(Increase) decrease in other assets		1,683
Increase (decrease) in accounts payable	1,669	1,202
Increase (decrease) in assessments paid in advance	532	(1)
Increase (decrease) in income taxes payable	1,493	426
Total adjustments	10,189	(4,669)
Net cash provided (used) by operating activities	\$ 31,443	\$ 23,583

Park Paseo Homeowners Association
Schedule of Expenses
For the Years Ended December 31, 2000 and 1999

	2000	1999
General and administrative		
Management	\$ 50,733	\$ 49,984
Insurance	18,560	19,587
Legal and accounting	7,235	6,150
Telephone	1,913	1,505
Printing, postage and supplies	13,703	12,432
Income taxes	5,307	3,534
Security service	33,011	33,396
Lifeguard service	17,050	20,462
Other	1,805	1,496
Total general and administrative	<u>\$ 149,317</u>	<u>\$ 148,546</u>
 Maintenance and repairs		
Landscape, contract	\$ 120,080	\$ 121,752
Landscape, other	35,163	22,693
Pool, contract	10,650	10,210
Pool, other	8,794	4,037
Janitorial	9,204	9,298
Repairs	15,418	22,220
Other	8,373	6,091
Total maintenance and repairs	<u>\$ 207,682</u>	<u>\$ 196,301</u>
 Utilities		
Electricity	\$ 19,511	\$ 19,347
Gas	10,315	10,741
Water	15,842	15,489
Total utilities	<u>\$ 45,668</u>	<u>\$ 45,577</u>

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 September, 2000, 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, 2000

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replace- ment Cost	Designated for Reserves December 31, 2000
Painting	0 to 6	\$16,101	\$4,337
Roofing	0 to 3	4,390	5,954
Parking lot	2 to 16	7,697	3,899
Lighting	4 to 11	35,759	25,463
Pools/spa/wader	0 to 8	91,682	49,663
Pool area	0 to 9	36,458	35,499
Recreation area - east side	0 to 18	39,782	23,352
Recreation area - main	2 to 16	44,240	15,534
Fences/gates/walls	5 to 9	43,305	26,711
Clubhouse furniture, fixtures and equipment	0 to 14	116,742	92,017
Tennis courts	0 to 5	31,339	25,575
Landscape	2 to 4	44,869	36,694
Contingency			10,068
Totals		<u>\$512,364</u>	<u>\$354,766</u>

The Association retained a consultant who conducted a study, dated September 7, 2000, 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.