



Dear Homeowner,

Enclosed you will find the Association's audit for the calendar year of 1996 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 and represents fairly the financial position of Park Paseo as of December 31, 1996 and 1995 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(d), 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 'Perry Carter', written over a horizontal line.

Perry 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 possible suspension of

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

C. Escrow transfer fee is \$100.00.

D. 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
(A CALIFORNIA NONPROFIT CORPORATION)**

Financial Statements
For the Year Ended December 31, 1996

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, 1996 and 1995 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, 1996 and 1995, 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 14, 1997

Park Paseo Homeowners Association
Balance Sheet
December 31, 1996 and 1995

	1996	1995
ASSETS		
Current assets		
Cash	\$ 315,777	\$ 258,018
U.S. government securities mutual fund (Franklin Fund)	120,399	113,440
Total cash & equivalents	436,176	371,458
Assessments receivable (Note A)	11,036	11,406
Prepaid expenses	7,015	10,206
Other	1,260	1,260
Total assets	\$ 455,487	\$ 394,330

LIABILITIES AND ASSOCIATION EQUITY

Current liabilities

Accounts payable	\$ 2,895	\$ 4,557
Assessments collected in advance (Note A)	3,168	2,992
Income taxes (Note A)		2,710
Other	200	
Total liabilities	6,263	10,259

Association equity

Reserves for major repairs and replacements (Note B)	338,839	306,636
Unappropriated	110,385	77,435
Total association equity	449,224	384,071
Total liabilities and association equity	\$ 455,487	\$ 394,330

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Statement of Operations
For the Years Ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Revenue		
Member assessments	\$ 420,000	\$ 412,500
(Less) transfer to reserves for major repairs & replacements	(60,680)	(60,680)
Net member assessments	<u>359,320</u>	<u>351,820</u>
Interest income	11,721	19,353
Other	15,427	10,171
Total revenue	<u>386,468</u>	<u>381,344</u>
Expenses		
General & administrative	135,956	137,011
Maintenance & repairs	173,594	178,541
Utilities	43,968	48,2
Total expenses	<u>353,518</u>	<u>363,841</u>
Excess of revenue over costs and expenses	<u>\$ 32,950</u>	<u>\$ 17,503</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, 1996

	<u>Balance</u> <u>12/31/95</u>	<u>Oper-</u> <u>ations</u>	<u>Assess</u> <u>ments</u>	<u>(Disburse</u> <u>ments)</u>	<u>Balance</u> <u>12/31/96</u>
Repair and replacement reserves					
Painting	\$ 9,978	\$(1,660)	\$ 2,824	\$	\$ 11,142
Roofing	23,683	(8,664)	5,121	(16,000)	4,140
Parking lot	8,423	(1,668)	1,766		8,521
Lighting	14,933	4,789	1,345	(1,262)	19,805
Pools/Spa/Wader	62,373	6,370	9,286	(6,331)	71,698
Pool furniture	21,193	(4,475)	5,362	524	22,604
Play equipment & sand	14,623	2,666	3,198		20,487
Recreational area	19,080	2,250	2,752	(1,035)	23,047
Fences/gates/walls	17,333	5,651	5,049	(2,676)	25,357
Clubhouse furniture, fixtures & equipment	35,626	(485)	6,538	(1,132)	40,547
Clubhouse restrooms	5,586	(73)	3,303		8,816
Clubhouse heat/air conditioning	21,011	(1,882)	1,239		20,368
Tennis court	25,304	(1,749)	4,160		27,715
Irrigation controller	4,730	2,231	907		7,868
Tree trimming	14,784	(588)	7,564	(100)	21,660
Contingency	7,976	(2,713)	266	(465)	5,064
Total reserves	306,636		60,680	(28,477)	338,839
Unappropriated	77,435	32,950			110,385
Total association equity	\$384,071	\$ 32,950	\$60,680	\$(28,477)	\$449,224

See accompanying notes to financial statements.

Park Paseo Homeowners Association
Cash Flow Statements
For the Years Ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Excess of revenues over costs and expenses (Statement of Operations, Page 2)	\$ 32,950	\$ 17,503
Adjustments to reconcile excess of revenue over costs and expenses to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	370	(1,869)
(Increase) decrease in prepaid expenses	3,191	458
Increase (decrease) in accounts payable	(1,662)	772
Increase (decrease) in assessments collected in advance	176	157
Increase (decrease) in other liabilities	200	
Increase (decrease) in income taxes payable	(2,710)	2,710
	(435)	2,228
Total adjustments		
	32,515	19,731
Net cash provided (used) by operating activities		
Cash flows from repair & replacement reserves:		
Assessments for repair & replacement reserves	60,680	60,680
Repair & replacement reserves disbursements	(28,477)	(18,746)
	32,203	41,934
Net cash provided (used) by repair and replacement reserves		
	64,718	61,665
Net increase (decrease) in cash and equivalents		
Cash and equivalents, beginning	371,458	309,793
Cash and equivalents, ending	\$ 436,176	\$ 371,458

See accompanying notes to financial statements.

Park Paseo Homeowners Association
 Schedule of Expenses
 For the Years Ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
General & administrative		
Management	\$ 44,976	\$ 41,441
Insurance	23,071	23,498
Legal & accounting	5,903	5,231
Provision for doubtful accounts	1,854	
Telephone	1,514	1,501
Printing, postage & supplies	10,143	11,248
Income taxes	2,127	3,662
Security service	27,108	27,850
Lifeguard service	17,028	16,402
Other	2,232	6,178
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Total general & administrative	\$ 135,956	\$ 137,011
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Maintenance & repairs		
Landscape, contract	\$ 120,219	\$ 119,880
Landscape, other	10,260	16,690
Pool, contract	9,762	10,118
Pool, other	2,757	5,423
Janitorial	9,559	9,183
Repairs	12,490	13,357
Other	8,547	3,890
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Total maintenance & repairs	\$ 173,594	\$ 178,541
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Utilities		
Electricity	\$ 16,883	\$ 21,171
Gas	10,876	13,365
Water	16,209	13,753
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Total utilities	\$ 43,968	\$ 48,289
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See accompanying notes to financial statements.

Park Paseo Homeowners Association
Notes to Financial Statements
December 31, 1996

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 October 1996, reported that reserves were 103% 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, 1996

COMPONENT	Estimated Remaining Useful Life (Years)	Estimated Current replace- ment cost	Designated for Reserves December 31, 1996
Painting	0 to 3	\$ 13,080	\$ 11,142
Roofing	0 to 25	4,140	4,140
Parking lot	0 to 3	9,278	8,521
Lighting	2 to 8	30,503	19,805
Pools/spa/wader	0 to 19	77,411	71,698
Pool furniture	0	22,604	22,604
Play equipment & sand	0 to 11	39,849	20,487
Recreational area	0 to 10	26,500	23,047
Fences/gates/walls	0 to 13	44,811	25,357
Clubhouse furniture, fixtures & equipment	0 to 16	65,587	40,547
Clubhouse restrooms	8 to 18	24,887	8,816
Clubhouse heat/air conditioning	0 to 5	21,825	20,368
Tennis court	0 to 6	33,928	27,715
Irrigation controller	8	23,603	7,868
Tree trimming	0	21,660	21,660
Contingency			5,064
TOTALS		\$ 459,666	\$ 338,839

The Association retained a consultant who conducted a study, dated October 18, 1996, 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.

See accountant's report.