

PACIFIC PALMS HOMEOWNERS' ASSOCIATION

November 17, 2003

To: All Homeowners
Pacific Palms Homeowner's Association

In compliance with the California Civil Section 1365, attached to this letter please find the following:

October 2003 Financial Balance Sheet

The proposed operating budget for the 2004 fiscal year effective January 1, 2004.

The collection and delinquency policy including policy for alternate dispute resolution in accordance with amended civil code 1354.

The rules enforcement policy and fine schedule.

Summary of the association's insurance coverage in accordance with civil code 1365.9.

The budget reflects the efforts of the Board of Directors to maintain and enhance the Association's common area in order to preserve the quality of life, while keeping expenditures in line. *The proposed budget does not call for an increase in assessments at this time.*

The Association's Board of Directors holds an ANNUAL meeting and homeowners are welcome to attend these meetings.

The Board of Directors
Pacific Palms Homeowners' Association

Pacific Palms Owners Association
BALANCE SHEET
for the period ending October 31, 2003

	ASSETS	
102	Checking	10,300.60
114	Accounts Receivable	-750.00
	Total Assets	\$9,550.60
	RESERVES	
310	Capital	11,335.94
399	Suspense Account	-106.00
===	Prior Retained Earnings	-2,727.97
---	Net since 10/01/03	1,048.63
	Total Reserves	\$9,550.60

Prepared on November 17, 2003 by Management.
Unaudited Statement; Assessments are Accrued; Expenses are Cash Basis.

Pacific Palms Owners Association
BUDGET
for the period January 1, 2004 to December 31, 2004

	REVENUE	
402	Assessments	12,000
403	Special Assessments	1,875
	Total Revenue	\$13,875
	EXPENDITURES	
693	Gas & Electric	840
702	Insurance	1,800
712	Legal and Professional	100
716	Management Fees	1,500
650	Bank Charges	120
725	Office Expenses & Misc.	145
754	Repairs & Maintenance	1,000
789	Trash	360
797	Water and Sewer	2,100
804	Gardening-Landscaping	600
	Total Expenditures	\$8,565
	NET to RESERVES	\$5,310

PROPOSAL

Prepared on November 17, 2003 by Management.
Unaudited Statement; Assessments are Accrued; Expenses are Cash Basis.

PACIFIC PALMS HOMEOWNERS' ASSOCIATION

INSURANCE INFORMATION FOR OWNERS

November 2003

To: All Homeowners

In accordance with Amended California civil Code, Section 1365, the following is a summary of the terms, policy limits and applicable deductible for Pacific Palms HOA Master Insurance Policy. The master policy is through Allstate Insurance Company.

Agent for the Association is Jordie J. Fuller. Mr. Fuller has assisted the Association in the development and establishment of the general liability policy limits. The Agency address is 5790 Miramar Road, Suite 210, San Diego, CA 92121. Their phone number is (858) 452-5505.

The building coverage limit of the Pacific Palms building is \$582,000. The deductible is \$500.00. The insurance coverage does not include personal property, household furnishings, drapes, interior wall upgrades such as mirrors, wallpaper, etc., of the individual owners and tenants.

Liability coverage is carried in the amount of \$2,000,000 with no deductible. The Association carries Directors and Officers liability coverage in the amount of \$2,000,000. With no deductible.

Pacific Palms does not carry earthquake insurance.

Pacific Palms does not carry flood insurance.

The Association is in compliance with California Civil Code, Section 1365.9. An action for negligence may not be brought against the individual homeowners merely by virtue of common area ownership. Owners may be individually liable by virtue of their common area ownership only for their proportional share of assessments which the Association may levy to pay the amount of any judgement which exceeds the limits of the Association's insurance.

In the event of a loss for which the Association's insurance coverage is used, the responsibility for payment of any deductible shall be as follows:

- A. Owners shall be responsible for the cost of any deductible if the damage or loss occurs to an item of personal property, or for which the owners are responsible.
- B. The Association shall be responsible for the cost of any deductible if the damage or loss occurs to any item owned by the Association, or for which the Association is responsible.

VARATIONS

RENEWAL DECLARATION
SPECIAL FORM CUSTOMIZER POLICY NO. 0 50 249707 08/29

Insured
Billing Address

PACIFIC PALMS HOA HILL TOP COMM EXECUTIVES
PO BOX 34398-205
SAN DIEGO CA 92163

LOCATION OF INSURED PREMISES
4010-4018 IOWA ST SAN DIEGO CA 92104
MASONRY CONDOMINIUM BUILDING

Policy Period From AUG 29, 2003 To AUG 29, 2004

BEGINNING AND ENDING 12 01 A.M., STANDARD TIME AT THE ADDRESS OF THE
INSURED STATED ABOVE

Insured is A CONDO ASSN

Additional Interests
This policy also covers the interests of any of the following when indicated by an "X" and named below.

The Mortgagee, under Coverage A — Part One	The Loss Payee, under Coverage A — Part Two	Other
The Additional Insured for Leased Premises, under Coverage B — Part One	The Vendor under Coverage B — Part One	

Name
Address

Policy Coverage provided
This policy applies to each of the Coverages and Parts shown below. Under Coverage A, Coverage is provided only for property at the Insured premises for which a specific limit of liability is shown.

COVERAGE A — Business Property			Limits of Liability
Part	Buildings		
Line	REPLACEMENT COST SAFEGUARD		\$ 582,000
	The Property Insurance Adjustment Condition IS applicable to this policy		
Who	Business Contents		\$

DEDUCTIBLE \$ 500 Applicable to each adjusted loss.

COVERAGE B — Business Liability		Title	Limits of Liability
Part			\$ 2,000,000 Each Accidental Event
Line	Comprehensive Liability		\$ 50,000 Each Accidental Event
	Fire and Specified Peril Legal Liability		\$ 100,000
Who	Advertising Injury Liability		\$ 55,000 Each Person
	Medical Payments		25,000 Each Accident

Additional Coverages
The following optional coverages, if any, are provided under this policy.

Loc. No.	Coverage	Part	Title
JUL 001	A	6	EMPL DIS-LIMIT 10,000
JUL 001	B	3	EMPLOYERS NON-OWNED AUTO
			SEE SUPPLEMENTAL DECLARATION - ITEM 6

Annual Premium for the Policy and Optional Coverages INCLUDES CA SURCHARGE \$ 26.80 \$ 1,366.80

Endorsements: The following endorsements amend this policy.

05550A, 805583-1, 805651-7, 805754, 805756-1, 805766, 805767, 805806, 804258-1,
05552, 805564-1, 805622, 805697, 805770, C. 470A

Endorsed By

JURIE J. FULLER

Authorized Agent

858 452-5505

INSURANCE STATEMENT

This summary of the association's policies of insurance provides only certain information, as required by subdivision (e) of Section 1365 of the Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any association member may, upon request and provision of reasonable notice, review the association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the association maintains the policies of insurance specified in this summary, the association's policies of insurance may not cover your property, including personal property or, real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage.

Special Statutory Notice To Homeowners

The California Legislature has established a public policy in this state that encourages the use of Alternative Dispute Resolution ("ADR") to resolve conflicts that arise in condominiums, homeowner associations and other common interest developments. The law requires each association to distribute a summary of California Civil Code Section 1354 to its members annually.

PLEASE NOTE: 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.

We are providing a copy of Section 1354 in its entirety below.

Cal. Civil Code § 1354. Enforceability of covenants and restrictions as equitable servitudes; Alternative dispute resolution

- (a) The covenants and restrictions in the declaration shall be enforceable equitable servitudes, unless unreasonable, and shall inure to the benefit of and bind all owners of separate interests in the development. Unless the declaration states otherwise, these servitudes may be enforced by any owner of a separate interest or by the association, or by both.
- (b) Unless the applicable time limitation for commencing the action would run within 120 days, prior to the filing of a civil action by either an association or an owner or a member of a common interest development solely for declaratory relief or injunctive relief, or for declaratory relief or injunctive relief in conjunction with a claim for monetary damages, other than association assessments, not in excess of five thousand dollars (\$ 5,000), related to the enforcement of the governing documents, the parties shall endeavor, as provided in this subdivision, to submit their dispute to a form of alternative dispute resolution such as mediation or arbitration. The form of alternative dispute resolution chosen may be binding or nonbinding at the option of the parties. Any party to such a dispute may initiate this process by serving on another party to the dispute a Request for Resolution. The Request for Resolution shall include (1) a brief description of the dispute between the parties, (2) a request for alternative dispute resolution, and (3) a notice that the party receiving the Request for Resolution is required to respond thereto within 30 days of receipt or it will be deemed rejected. Service of the Request for Resolution shall be in the same manner as prescribed for service in a small claims action as provided in Section 116.340 of the Code of Civil Procedure. Parties receiving a Request for Resolution shall have 30 days following service of the Request for Resolution to accept or reject alternative dispute resolution and, if not accepted within the 30-day period by a party, shall be deemed rejected by that party. If alternative dispute resolution is accepted by the party upon whom the Request for Resolution is served, the alternative dispute resolution shall be completed within 90 days of receipt of the acceptance

by the party initiating the Request for Resolution, unless extended by written stipulation signed by both parties. The costs of the alternative dispute resolution shall be borne by the parties.

- (c) At the time of filing a civil action by either an association or an owner or a member of a common interest development solely for declaratory relief or injunctive relief, or for declaratory relief or injunctive relief in conjunction with a claim for monetary damages not in excess of five thousand dollars (\$ 5,000), related to the enforcement of the governing documents, the party filing the action shall file with the complaint a certificate stating that alternative dispute resolution has been completed in compliance with subdivision (b). The failure to file a certificate as required by subdivision (b) shall be grounds for a demurrer pursuant to Section 430.10 of the Code of Civil Procedure or a motion to strike pursuant to Section 435 of the Code of Civil Procedure unless the filing party certifies in writing that one of the other parties to the dispute refused alternative dispute resolution prior to the filing of the complaint, that preliminary or temporary injunctive relief is necessary, or that alternative dispute resolution is not required by subdivision (b), because the limitation period for bringing the action would have run within the 120-day period next following the filing of the action, or the court finds that dismissal of the action for failure to comply with subdivision (b) would result in substantial prejudice to one of the parties.
- (d) Once a civil action specified in subdivision (a) to enforce the governing documents has been filed by either an association or an owner or member of a common interest development, upon written stipulation of the parties the matter may be referred to alternative dispute resolution and stayed. The costs of the alternative dispute resolution shall be borne by the parties. During this referral, the action shall not be subject to the rules implementing subdivision (c) of Section 68603 of the Government Code.
The requirements of subdivisions (b) and (c) shall not apply to the filing of a cross-complaint.
- (e) In any action specified in subdivision (a) to enforce the governing documents, the prevailing party shall be awarded reasonable attorney's fees and costs.
- (f) Upon motion by any party for attorney's fees and costs to be awarded to the prevailing party in these actions, the court, in determining the amount of the award, may consider a party's refusal to participate in alternative dispute resolution prior to the filing of the action.
- (g) Unless consented to by both parties to alternative dispute resolution that is initiated by a Request for Resolution under subdivision (b), evidence of anything said or of admissions made in the course of the alternative dispute resolution process shall not be admissible in evidence, and testimony or disclosure of such a statement or admission may not be compelled, in any civil action in which, pursuant to law, testimony can be compelled to be given.
- (h) Unless consented to by both parties to alternative dispute resolution that is initiated by a Request for Resolution under subdivision (b), documents prepared for the purpose or in the course of, or pursuant to, the alternative dispute resolution shall not be admissible in evidence, and disclosure of these documents may not be compelled, in any civil action in which, pursuant to law,

testimony can be compelled to be given.

- (i) Members of the association shall annually be provided a summary of the provisions of this section, which specifically references this section. The summary shall include the following language: "Failure by any member of the association to comply with the pre-filing 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." The summary shall be provided either at the time the pro forma budget required by Section 1365 is distributed or in the manner specified in Section 5016 of the Corporations Code. Any Request for Resolution sent to the owner of a separate interest pursuant to subdivision (b) shall include a copy of this section.

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PACIFIC PALMS OWNER'S ASSOCIATION

November 17, 2003

RULES ENFORCEMENT PROCEDURE

The following procedure will apply to all violations and infractions of the governing documents and rules and regulations. Owners may report violations to the Management Company or Board of Directors by submitting a written notice describing the violation. The Board of Directors, Management Company, or committee appointed by the Board may also note any violation discovered during walk-throughs or by personal knowledge of any of its members or representatives.

At the time a violation is noted or reported, action will be taken as follows:

1. A first notice to correct the violation will be sent by the Management Company. The notice will contain a description of the violation, and instructions regarding response to the notice and correction of the violation. The owner will be notified that a fine may be imposed if the violation is not corrected.
2. If the violation continues, or if the response is otherwise unsatisfactory after the first notice, the owner will receive a notice of a monetary penalty and be afforded an opportunity to appear before the Board or an appointed committee either by appearing personally or submitting written testimony. The hearing date shall be at least five (5) days before the effective date of the monetary penalty. The notice shall be delivered to the owner shown on the Association's records. The Board or committee shall give fair consideration to the owner's oral or written testimony in determining whether to impose a penalty.
3. If the violation continues, or if response is otherwise unsatisfactory, even after the imposition of a monetary penalty, the Board or its appointed committee may impose additional or continuing fines until such time as the matter is satisfactorily resolved.
4. If the violation continues, the Board may refer the matter to the Association's legal counsel. If a lawsuit is filed, the homeowner may be liable for the Association's legal costs and fees.

PACIFIC PALMS OWNER'S ASSOCIATION

November 17, 2003

FINE SCHEDULE

Reasonable fines for first time violations shall be levied in accordance with the following schedule:

Hazardous Activities (Risk of harm to Person or property)	<u>\$100.00</u>
Use Restrictions	<u>\$ 25.00</u>
Vehicle, Garage and Parking Restrictions	<u>\$ 25.00</u>
Unauthorized Improvements to Property	<u>\$100.00</u>
Any Violations of the Bylaws, CC&R's Or Rules and Regulations not specifically Mentioned.	<u>\$ 25.00</u>

Fines shall be in addition to an assessment levied to reimburse the Association for expenses and costs. Fines for continuing or repeated violations may be increased in \$100.00 increments at the discretion of the Board.

Four (4) or more violations assessed to a single unit in any six (6) month period may result in an additional fine of up to \$100.00 at the discretion of the Board.

Special note: In addition to the aforementioned, failure to comply with the Rules and Regulations concerning vehicles may also result in the Association having the vehicle towed away and impounded. All costs incurred will be charged to the owner of the vehicle involved.

Mailed to the Membership 11/17/03

PACIFIC PALMS OWNER'S ASSOCIATION

COLLECTION POLICY

Effective November 1, 1999

The Pacific Palms Owner's Association is responsible for managing and operating the common areas of the project and for the collection of annual homeowners' assessments.

The timely collection of the assessments from all homeowners is important to the management and operation of the project, and to the preservation of property values. Pursuant to California Civil Code, Sections 1365 and 1366, the Association has adopted the following policy for the collection of delinquent assessments.

1. **Assessment Due Date.** Assessments and special assessments shall be paid in monthly installments and are due on the first day of each month, or on the due date otherwise specified by the Board of Directors.

2. **Late Fees.** Regular and special assessments shall be delinquent if not paid within fifteen (15) days after they become due. Any installment not paid by close of business on the fifteenth (15th) day of the month will be assessed a late charge of ten percent (10%) of the amount of dues owed, or ten dollars (\$10.00), whichever is greater.

3. **Returned Checks.** A \$15.00 fee will be applied to the owners account for each check returned for any reason (Le. NSF, account closure).

4. **Interest Charges.** If an assessment payment is delinquent for more than thirty (30) days, interest shall be imposed on all sums due, including the delinquent assessment, collection costs, and late charges, at an annual percentage rate of ten percent (10%).

Number of Days
After Due Date

Action to be Taken:

- | | |
|-------|--|
| 15 | a. Late Charge. Payment is considered late if not received before close of business on the 15th day of the month. A late fee in the amount of 10% or \$10.00 will be applied to the owner's account on or after the 16th day of the month. |
| 30-60 | b. Payor Lien Warning Letter. Prior to filing a lien for delinquent assessments, the Association shall send a "Payor Lien" warning letter via certified and regular mail to the unit owner when the account is more than thirty (30) days past due allowing at least fifteen (15) days for the account to |

be brought current. Interest charges will commence on the entire balance at an annual percentage rate of ten percent (10%). The sending of this letter will result in an additional \$55.00 charge to the owner's account.

45-90 c. Lien Policy. After sending the "Payor Lien" letter, if an assessment payment is delinquent for more than forty-five (45) days, the Association shall refer the matter to its legal agent for collection and will cause to be recorded in the appropriate county of the County Recorder's Office a Notice of Delinquent Assessment (assessment lien) concerning all sums that are then delinquent, including the delinquent assessment, late charges, interest, costs, and legal fees. Recording this notice creates a lien, which is subject to foreclosure, against the delinquent owner's property. An additional charge to the owners account for fees and costs in connection with preparing and recording the lien shall not exceed \$425.00. Civil Code section 1366.3(a).

60-120 d. Small Claims Actions. If the account remains delinquent for more than thirty (30) days, the Association is entitled to enforce collection in any manner permitted by law, including but not limited to foreclosure on its lien or lawsuit for money damages. Charges up to and exceeding \$700.00 may be added to the owner's account should the filing of a Small Claims action be required.

120 e. Foreclosure Costs. At the Board's discretion, Foreclosure Proceedings will be initiated. All legal fees incurred by the Association will be assessed against the owner's account. If a lawsuit or foreclosure procedure is initiated by the Association to recover assessments, the Association is entitled by law (Civil Code section 1366(d) and by the Declaration of Restrictions, to recover not only the amount in default, plus late charges, but also reasonable costs of collection, including trustee fees, title company charges, and legal and attorney fees. The legal fees may likely be in excess of \$750.00 to as much as \$2,500.00. A "Preparation of File" charge in the amount of \$75.00 will be added to the owner's account by the management office.

If the matter is turned over to legal counsel for non-judicial foreclosure; the following will occur:

(a) Assessment payments will only be accepted by the law

(b) ^{firm} Notice of Default. A Notice of Default and Election to Sell ("NOD") will be recorded at the County Recorder's Office. Up to \$250.00 in attorney's fees and costs may be imposed.

(c) Notice of Trustee's Sale ("NOS"). If the delinquency is not cured within ninety (90) days after the NOD is recorded, (and a lawsuit

has not been filed) the attorney will proceed with the recording and publishing of the NOS. The Owner is responsible for all publication, recording, posting and mailing costs, as well as attorney's fees.

f. Reasonable Costs of Collection. The Association is entitled to collect all of the following as reasonable costs of collection: interest, late charges, collection expenses, administration fees, legal and attorney's fees, reimbursement assessments or any other amounts due to the Association.

g. Application of Payments. Payments received on delinquent assessments will be applied to the owner's account as follows: payments shall be applied first to the principal delinquent balance. Only after the principle is paid in full shall any payments be applied to interest, late charges, collection expenses, administration fees, attorney fees, reimbursement assessments, or any other amount due to the Association which results in continued delinquencies.

h. Payment Under Protest. If an owner disputes any late or other charge, the owner shall have the right to resolve said dispute through either Alternative Dispute Resolution ("ADRIf), or a civil action, or through the means provided within the Association's governing documents, as long as (a) all delinquent amounts are paid in full, including: the amount of the assessment(s) in dispute, late charges, interest, and all fees and costs associated with the preparation and filing of a Notice of Delinquent Assessment (assessment lien), including mailing fees and attorney fees up to \$425.00; and (b) said owner states by written notice that the amount is being paid under protest. The owner's written notice must be mailed by certified mail to the Association, *c/o* S.H.E. Manages Properties, located at 3990 Old Town Avenue, Suite 105C, San Diego, CA 92110, no more than thirty (30) days from the recording date of a Notice of Delinquent Assessment (assessment lien), in accordance with Civil Code Section 1366.3. An owner may not utilize ADR more than two (2) times in any single calendar year nor more than three (3) times within any five (5) calendar years.

i. Release of Lien. As soon as a delinquent owner has paid in full all delinquent assessments and charges, including collection and legal fees, the collection agent will cause a Release of Lien to be recorded in the County Recorder's Office of the county in which the lien was recorded. Charges of \$50.00 for Lien Release only will be added to owner's account.

j. No Waiver. Failure of the Association to strictly enforce this policy is not a waiver of its right to collect delinquent sums.

k. Right to Modify. The Board of Directors reserves the right to modify

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these procedures at any time to ensure the Association's compliance with current changes in legislation and to meet varying collection costs. The charges stated throughout this policy are approximations, and actual costs may vary between legal counsel and/or collection agents. In addition, legal agents have the right to periodically increase fees and costs upon notice to the Board of Directors.