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October 27, 1987

Mr. Del Wallis  
129 Canyon Vista Drive  
Danville, CA 94526

Re: Homeowners' Association  
Our File: 4016.15076

Dear Del:

At George Flavin's request, I have prepared the enclosed documents necessary to amend the homeowners' association articles, including:

1. A certificate of amendment of articles of incorporation, adopting the amendment the Internal Revenue Service apparently is requiring;
2. A consent of members approving the amendment; and
3. A consent of directors approving the amendment.

Please have the documents signed as indicated and return them to me. I will file the certificate of amendment with the Secretary of State and then forward to Mr. Flavin a copy of the filed document.

It is possible the IRS still may not approve the exemption under the section of the Internal Revenue code Mr. Flavin is relying on, which governs operation of "mutual ditch or irrigation companies, mutual or cooperative telephone companies or like organizations." He has determined, however, that the other exemption sections of the code are inapplicable to the association, and that the association probably does not qualify for an automatic exemption election generally used by residential homeowners' associations.

Mr. Delwyn H. Wallis  
October 27, 1987  
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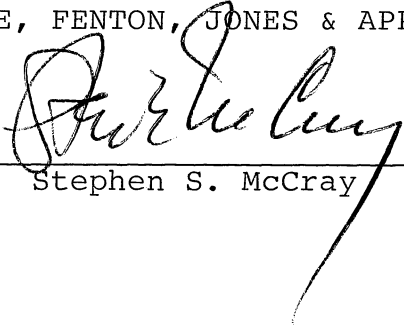
Should the IRS reject the application--or should the exemption be lost in the future through an audit--then the entity would be taxable. Mr. Flavin does not see this as a problem at the federal level, however, since it is doubtful the organization will have net taxable income in the foreseeable future; in other words, expenses should equal income. On the state level, an annual \$300 minimum franchise tax payment will be required if the organization is not exempt.

Please call if you have any questions.

Very truly yours,

HOGE, FENTON, JONES & APPEL, INC.

By

  
\_\_\_\_\_  
Stephen S. McCray

SSM/mrj  
Enclosures