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To the Board of Directors and Members
The Glen of Pacific Grove Homeowners Association

I have reviewed the accompanying balance sheet of The Glen of Pacific Grove Homeowners Association as of August 31, 2003, and the related statements of revenue and expenses and changes in fund balances, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information is the representation of the management of The Glen of Pacific Grove Homeowners Association.

A review consists principally of inquiries of association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The supplementary information about future repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have compiled the supplementary information from information that is the representation of management of The Glen of Pacific Grove Homeowners Association, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

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December 12, 2003

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
BALANCE SHEET August 31 , 2003

	Operating Fund	Replacement Fund	Total Funds
ASSETS:			
Cash & cash equivalents	\$ 631	72,242	72,873
Accounts receivable, members	568		568
Investment in certificates of deposit		205,636	205,636
Due from operating fund		32,413	32,413
Prepaid insurance	10,284		10,284
Prepaid income tax	560		560
Total assets	\$ 12,043	310,291	322,334
 LIABILITIES AND FUND BALANCES:			
Accounts payable	\$ 7,888		7,888
Assessments received in advance	5,885		5,885
Due to replacement fund	32,413		32,413
Total liabilities	46,186	0	46,186
Fund balances	(34,143)	310,291	276,148
Total liabilities and fund balances	\$ 12,043	310,291	322,334

SEE ACCOUNTANT'S REVIEW REPORT
SEE NOTES TO FINANCIAL STATEMENTS

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**THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION STATEMENT OF
REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES Year Ended
August 31 , 2003**

	Operating Fund	Replacement Fund	Total Funds
REVENUE:			
Regular assessments (Note B)	\$ 117,828	58,572	176,400
Interest income (Note A3)	3,319		3,319
Other income	34		34
Total revenue	121,181	58,572	179,753
EXPENSES:			
Management	8,008		8,008
Insurance	25,776		25,776
Legal and accounting	3,125		3,125
Other administrative expenses	3,982		3,982
Gas and electricity	3,591		3,591
Water and sewer	7,886		7,886
Landscape maintenance	43,778		43,778
Lakes & waterways	1,874	6,754	8,628
Irrigation repair	765		765
Pest control	4,478		4,478
Roof repair	4,538		4,538
Security	804		804
Electrical & plumbing	2,670		2,670
Bay windows	23,590		23,590
Other common area repair	22,629	2,174	24,803
Income taxes (Note D)	620		620
Total expenses	158,114	8,928	167,042
Excess (deficiency) of revenue over expenses	(36,933)	49,644	12,711
Beginning fund balances	2,790	260,647	263,437
Ending fund balances	\$ (34,143)	310,291	276,148

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS Year Ended August 31 , 2003

	Operating Fund	Replacement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficiency) of revenue over expenses	\$ (36,933)	49,644	12,711
Adjustments to reconcile net income to net cash provided by operating activities: (Increase) decrease in:			
Accounts receivable	58		58
Prepaid insurance	247		247
Prepaid income tax	46		46
Due from operating fund		(11,899)	(11,899)
Increase (decrease) in:			
Accounts payable	3,216		3,216
Assessments paid in advance	2,341		2,341
Due to replacement fund	11,899		11,899
Net cash flows provided (used) by operating activities	<u>(19,126)</u>	<u>37,745</u>	<u>18,619</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of certificates of deposit		(97,967)	(97,967)
Proceeds from maturing of certificates of deposit		55,563	55,563
Net cash flows used by investing activities	<u>0</u>	<u>(42,404)</u>	<u>(42,404)</u>
Net decrease in cash	(19,126)	(4,659)	(23,785)
Cash at beginning of year	19,757	76,901	96,658
Cash at end of year	<u>\$ 631</u>	<u>72,242</u>	<u>72,873</u>

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SEE NOTES TO FINANCIAL STATEMENTS

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS August 31 , 2003

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Organization

The Association was incorporated June 28, 1982 to provide for the orderly maintenance, preservation, and architectural control of the common areas within the development, which consists of 60 units in a planned development located in the City of Pacific Grove, California.

The Association derives its authority and responsibilities from its Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations, but major decisions are referred to the general association membership if required by the governing documents.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

(2) Funds

Since the Association is a not-for-profit organization, the accompanying financial statements have been prepared using a fund method of accounting. Under this method of accounting, funds are separated into two categories, operating funds and replacement funds. Operating funds are those whose disposition is at the discretion of the Board of Directors and are generally used for regular operating expenses. Replacement funds are those funds that have been limited to specific purposes by the membership or the Board of Directors.

(3) Interest Earned

It is the policy of the Board of Directors that interest earned on restricted savings is not restricted and is transferred to the operating fund when earned.

(4) Capitalization Policy and Depreciation

The Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. This policy of noncapitalization is widely followed in the homeowners association industry as all beneficial rights of ownership belong to the unit owners and not to the Association.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS August 31, 2003

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-Continued

(4) Capitalization Policy and Depreciation

Replacements and improvements to the real property are not capitalized for the same reasons described above. They are instead charged directly to either operating or restricted funds in the period they are incurred.

(5) Statement of Cash Flow Information

For purposes of the Statement of Cash Flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

(6) Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner.

(7) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(8) - REGULAR
ASSESSMENTS

During the fiscal year ended August 31, 2003, regular annual assessments were payable to the Association in monthly installments of \$245 per unit per month.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2003

(B) - REGULAR ASSESSMENTS-Continued

The annual budget and owners' assessments are determined by the Board of Directors and the homeowners. Annual budgets are approved and assessments are divided between the operating fund to meet normal operating costs and contributions to the replacement funding program.

Delinquent assessments may be secured by a lien on the property against which the assessments are made, and the Association has the power to foreclose the property of any owner who fails to pay assessments.

It is the Association policy that any excess operating funds at the end of a fiscal year be applied to the following year's assessment.

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM

Restricted funds represent amounts designated for specific uses by the membership or Board of Directors; generally these funds are set-aside in interest bearing accounts to be retained for the designated purpose. Restricted replacement funds are amounts to be spent on future repair and replacement of selected Association common areas.

A long-term, formal funding program is one that is based on a study that identifies specific common area components such as roofs, streets, paint, decks, etc., the expected replacement costs and expected remaining service lives of each, and provides a plan for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

A formal study to determine the adequacy of the current funding program for the replacement of selected Association common areas was conducted by Sunstone Consulting, Inc. in July 2001. The 2003/2004 annual budget, which was approved by the Board of Directors in June 2003, does not provide for sufficient contributions to catch up the under funded amount by August 31, 2004. Consequently, the replacement fund is estimated to be under funded by approximately \$45,394 (\$757 per unit) by August 31, 2004. Accordingly, it is expected that higher regular assessments or special assessments may be necessary in the future.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2003

(0)- INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended August 31, 2003, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

Income tax expense at August 31, 2003 was \$620. During the year ending August 31, 2003, the Association paid \$574 in cash for income taxes.

(E) - CONTINGENCY

As more fully described in note C to the financial statements, the Association's funding program may not be adequate to meet all replacement needs as they come due, and this could result in higher regular assessments or special assessments in the future.

(F) - UNINSURED CASH BALANCES

The Association has interest bearing accounts in two commercial banks. At August 31, 2003, the Association's deposits exceeded federal depository insurance coverage by approximately \$33,205.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS
ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
August 31, 2003
(UNAUDITED)

Sunstone Consulting, Inc. conducted a study in July 2001 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future replacement costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 4% inflation factor between the date of the study and the date that the components will require repair and replacement.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	
Roof	3 yrs. 18		\$ 390,807
Gutters & downspouts	yrs 3 yrs.	51,975	
Exterior paint components	3 yrs. 3-	116,483	
Asphalt driveways Tennis /	8 yrs. 0-	45,023	
sports court Siding / trim	13 yrs. 8	5,315	
Decks	yrs. 1-7	469,671	
Fence / bridge	yrs. 1-18	2,016	
Area lighting	yrs. 0-2	24,854	
Landscape / irrigation	yrs. 3-13	7,200	
Miscellaneous	yrs.	15,600	
		<u>12,200</u>	
Total			<u>\$1.141.144</u>

The Association uses the cash flow method of funding the replacement fund. Under the cash flow method, the funding for each individual component is not separately calculated. The actual fund balance at August 31, 2003, is \$310,291 with expected contributions of \$58,572 for the year ending August 31, 2004.

See accountant's review report