

# ALLEN & COOK, INC.

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

We have reviewed the accompanying balance sheet of The Glen of Pacific Grove Homeowners Association as of August 31, 2000, 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, we do not express such an opinion.

Based on our review, we are 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. We 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, we do not express an opinion or any other form of assurance on the supplementary information.

*Allen & Cook, Inc.*

January 18, 2001

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**THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION**  
**BALANCE SHEET**  
August 31, 2000

	Operating Fund	Replacement Fund	Total Funds
<b>ASSETS:</b>			
Cash & cash equivalents	\$ 2,627	32,900	35,527
Accounts receivable, members	902		902
Investments in certificates		101,362	101,362
Due from operating fund		3,908	3,908
Prepaid insurance	<u>10,393</u>		<u>10,393</u>
 Total assets	 <u>\$ 13,922</u>	 <u>138,170</u>	 <u>152,092</u>
 <b>LIABILITIES AND FUND BALANCES:</b>			
Accounts payable	\$ 2,707		2,707
Assessments received in advance	5,377		5,377
Income tax payable	221		221
Due to replacement fund	<u>3,908</u>		<u>3,908</u>
 Total liabilities	 12,213		 12,213
 <b>Fund balances</b>	 <u>1,709</u>	 <u>138,170</u>	 <u>139,879</u>
 Total liabilities and fund balances	 <u>\$ 13,922</u>	 <u>138,170</u>	 <u>152,092</u>

SEE NOTES TO FINANCIAL STATEMENTS  
SEE ACCOUNTANTS REVIEW REPORT

**THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION**  
**STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES**  
Year Ended August 31, 2000

	Operating Fund	Replacement Fund	Total Funds
<b>REVENUE:</b>			
Regular assessments (Note B)	\$ 114,216	44,184	158,400
Interest income (Note A3)	3,626		3,626
Other income	134		134
	<u>117,976</u>	<u>44,184</u>	<u>162,160</u>
<b>EXPENSES:</b>			
Management	7,960		7,960
Insurance	21,522		21,522
Legal and accounting	12,278		12,278
Other administrative expenses	1,727		1,727
Gas and electricity	2,903		2,903
Water and sewer	6,425		6,425
Landscape maintenance	37,261		37,261
Pest control	215		215
Irrigation repair	610		610
Security	1,966		1,966
Other common area repair	21,575	640	22,215
Income taxes (Note D)	711		711
	<u>115,153</u>	<u>640</u>	<u>115,793</u>
<b>Excess (deficiency) of revenue over expenses</b>	2,823	43,544	46,367
<b>Beginning fund balances</b>	<u>(1,114)</u>	<u>94,626</u>	<u>93,512</u>
<b>Ending fund balances</b>	<u>\$ 1,709</u>	<u>138,170</u>	<u>139,879</u>

SEE NOTES TO FINANCIAL STATEMENTS  
SEE ACCOUNTANTS REVIEW REPORT

**THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
Year Ended August 31, 2000

	Operating Fund	Replacement Fund	Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess (deficiency) of revenue over expenses                   \$	2,823	43,544	46,367
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) decrease in:			
Accounts receivable	(598)		(598)
Interfund receivable		15,009	15,009
Prepaid insurance	95		95
Prepaid income tax	257		257
Increase (decrease) in:			
Accounts payable	(960)		(960)
Assessments received in advance	189		189
Interfund payable	(15,009)		(15,009)
Other liabilities	(331)		(331)
Income tax payable	221		221
Net cash flows from operating activities	(13,313)	58,553	45,240
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of certificates of deposit		(101,362)	(101,362)
Net cash flows from investing activities	_____	(101,362)	(101,362)
Net increase in cash	(13,313)	42,809	56,122
Cash at beginning of year	15,940	75,709	91,649
Cash at end of year           \$	2,627	32,900	35,527

SEE NOTES TO FINANCIAL STATEMENTS  
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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2000

(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.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2000

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-Continued

(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.

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.

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THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2000

(B) - REGULAR ASSESSMENTS

During the fiscal year ended August 31, 2000, regular annual assessments were payable to the Association in monthly installments of \$220 per unit per month.

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 Beatty & Company in 2000.

(CONTINUED)

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2000

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM-Continued

The 2000/2001 annual budget, which was approved by the Board of Directors on June 20, 2000, incorporates the reserve funding requirements determined by the study.

However, actual expenditures, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

(D) - INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended August 31, 2000, 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 nonmembership income, such as interest earnings, at regular federal and state corporate rates.

Income tax expense at August 31, 2000 was \$711. During the year ending August 31, 2000, the Association paid \$233 in cash for income taxes.

(E) - SUBSEQUENT EVENT

The Association settled its lawsuit with a painting contractor in December 2000. The Association received \$42,500.

(F) - UNINSURED CASH BALANCES

The Association has interest bearing accounts in various commercial banks. At August 31, 2000, the Association's deposits exceeded federal depository insurance coverage by approximately \$37,000.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS

August 31, 2000  
 (UNAUDITED)

Beatty & Company conducted a study in 2000, 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 3% 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>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Building Exteriors	4 yrs.	\$ 140,462
Fencing / Walls	3-5 yrs.	8,155
Gates	5-8 yrs.	10,200
Landscaping	1-6 yrs.	18,300
Light Fixtures	5 yrs.	6,000
Paved Surfaces	2-5 yrs.	22,388
Recreational Facilities	7-9 yrs.	1,735
Roofing System	7 yrs.	<u>435,852</u>
 Total		 <u>\$ 643,092</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, 2000, is \$138,170 with expected contributions of \$44,179 for the year ending August 31, 2001.

SEE ACCOUNTANTS REVIEW REPORT