

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
(A California Nonprofit Mutual Benefit Corporation)

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FINANCIAL STATEMENTS  
AND  
ACCOUNTANTS' REVIEW REPORT

AUGUST 31, 1991

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

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# Timothy Collins & Co.

CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors  
THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
San Jose, California

We have reviewed the accompanying balance sheet of THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC. (a California Nonprofit Mutual Benefit Corporation) as of August 31, 1991 and the related statements of revenues, expenses and changes in fund balances and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in this report is the representation of the management of the The Glen of Pacific Grove Homeowners' Association, Inc.

A review consists principally of inquiries of Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination 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.

As described in Note 2 to the financial statements, the current replacement reserve funding program may not be adequate to meet future replacement needs. Accordingly, the Association has the right to increase assessments, pass special assessments, or delay replacement activity until funds are available.

*Timothy Collins & Co.*

October 1, 1991  
Redwood City, CA

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
BALANCE SHEET  
AUGUST 31, 1991

(See Accountants' Review Report)

ASSETS

OPERATING FUND ASSETS:	
Cash	\$ 21,125
Assessments receivable	59
Prepaid insurance	<u>2,243</u>
TOTAL OPERATING FUND ASSETS	23,427
RESERVE FUND ASSETS:	
Cash	85,135
Due from Operating Fund	<u>15,000</u>
TOTAL RESERVE FUND ASSETS	<u>100,135</u>
	\$ <u><u>123,562</u></u>

LIABILITIES AND FUND BALANCES

OPERATING FUND LIABILITIES:	
Accounts payable	\$ 2,515
Assessments paid in advance	2,955
Income taxes payable	296
Other payables	27
Due to Reserve Fund	<u>15,000</u>
TOTAL OPERATING FUND LIABILITIES	20,793
FUND BALANCES:	
Operating Fund	\$ 2,634
Reserve Fund	<u>100,135</u>
	<u>102,769</u>
	\$ <u><u>123,562</u></u>

The accompanying notes are an integral part of this financial statement.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
 For the year ended August 31, 1991

(See Accountants' Review Report)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>REVENUES:</b>			
Assessments	\$ 62,876	\$ 36,484	\$ 99,360
Special assessments		18,540	18,540
Interest revenue	602	4,527	5,129
Other revenue	<u>53</u>		<u>53</u>
<b>TOTAL REVENUES</b>	<b>63,531</b>	<b>59,551</b>	<b>123,082</b>
<b>EXPENSES:</b>			
Utilities	8,324		8,324
Landscaping	36,089		36,089
Buildings and grounds	2,494		2,494
Management	3,799		3,799
Legal services	978		978
Accounting - audit	1,500		1,500
Accounting - management	2,510		2,510
Administration	842		842
Insurance	7,437		7,437
Income taxes	1,026		1,026
Reserve expenditures		<u>18,592</u>	<u>18,592</u>
<b>TOTAL EXPENSES</b>	<b><u>64,999</u></b>	<b><u>18,592</u></b>	<b><u>83,591</u></b>
Excess (deficit) of expenses over revenues	(1,468)	40,959	39,491
<b>FUND BALANCES,</b> September 1, 1990	<u>4,102</u>	<u>59,176</u>	<u>63,278</u>
<b>FUND BALANCES,</b> August 31, 1991	\$ <u><u>2,634</u></u>	\$ <u><u>100,135</u></u>	\$ <u><u>102,769</u></u>

The accompanying notes are an integral  
part of this financial statement.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
 STATEMENT OF CHANGES IN FINANCIAL POSITION  
 For the year ended August 31, 1991

(See Accountants' Review Report)

	OPERATING FUND	RESERVE FUND
Working Capital Provided By: Excess (deficit) of expenses over revenues	\$(1,468)	\$ 40,959
Net increase (decrease) in Working Capital	\$( <u>1,468</u> )	\$ <u>40,959</u>

INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT

	OPERATING FUND	RESERVE FUND
Cash	\$ 15,801	\$ 25,959
Assessments receivable	(260)	
Prepaid insurance	197	
Refundable income taxes	(329)	
Due from Operating Fund		15,000
Accounts payable	(407)	
Assessments paid in advance	(1,162)	
Other payables	(12)	
Income taxes payable	(296)	
Due to Reserve Fund	( <u>15,000</u> )	
Net increase (decrease) in Working Capital	\$ ( <u>1,468</u> )	\$ <u>40,959</u>

The accompanying notes are an integral  
 part of this financial statement.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 1991

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

The Glen of Pacific Grove Homeowners' Association, Inc. was formed December 1, 1982. Its primary purpose is to provide for the maintenance, preservation and architectural control of the grounds and common area of the 60 units in the Association.

Membership in the Association is mandatory for homeowners. Voting members of the Association consist of all owners, who are entitled to one vote for each unit owned.

Each member is obligated to pay annual assessments to the Association for amounts to be expended for the benefit of the residents and the maintenance of the common area. Annual assessments are payable to the Association in monthly installments and may be secured by a lien upon the property against which the assessment is made. In addition to regular annual assessments, special assessments may be levied for special purposes.

Accounting Basis

The Association maintains its records on the accrual basis of accounting and annually converts to the cash basis of accounting for Federal and state income tax purposes.

Collection Process

The Association's collection process for past due membership dues and assessments includes the levy of late charges, mailing delinquent dues reminder notices and sending itemized warning letters noting costs of collection and intent to process foreclosure. The judicial foreclosure process culminates with the sale of the property and a deficiency judgment against the property owner for the amount of delinquent dues and all related costs of collection. Assessment receivable amounted to \$59 at August 31, 1991.

Interest Income

It is the Association's policy that interest earned on Reserve Fund savings accounts is reserved and remains in Reserve Funds when earned.

Reserve Fund for Future Replacements

The Association has established a funding program for the future replacement of common areas. Under this program, funds are deposited monthly to various reserve savings accounts to be used for the replacement and major repair of common areas.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 1991

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are provided for in accordance with current regulations and case law pertaining to homeowners Associations. Under Section 528 of the Internal Revenue Code and California Revenue and Taxation Act Section 23701t, qualified homeowners associations may elect to be treated as tax-exempt organizations. Electing associations are generally taxed only on income from investments and business with nonmembers. For Federal tax purposes, the election may be made or waived each year. For California tax purposes, the election is generally permanent and must be made prior to the year in which tax-exempt status is to become effective. Under this tax-exempt status, nonexempt income (such as interest) is subject to tax after deducting directly related expenses.

NOTE 2 - RESERVE FUND FOR FUTURE REPLACEMENTS

The Reserve Fund for future replacements represents funds set aside for long-term maintenance within the development.

Changes in the Reserve Fund are as follows:

Balance, September 1, 1990	\$ 59,176
Net contributions	59,551
Reserve expenditures	(18,592)
Balance, August 31, 1991	<u>\$ 100,135</u>

An independent study to determine the adequacy of the current funding program for the replacement and maintenance of Association common areas and capital improvements has not been conducted. Accordingly, the current program may not be sufficient to meet all future replacement and major maintenance costs. The Association has the right to increase monthly assessments, pass special assessments or delay replacement activity until funds are available.

NOTE 3 - SPECIAL ASSESSMENTS

The Association passed a special assessment to install rain gutters at the complex. The special assessment of \$309 per unit was due and payable at year end.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 1991

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NOTE 4 - DUE FROM OPERATING FUND / DUE TO RESERVE FUND

The Board approved the transfer of \$15,000 from the Operating Fund to the Reserve Fund for the common area lake at the Association.

NOTE 5 - MANAGEMENT AGREEMENT

The Association employs the service of an outside management company. Management fees were approximately \$5 per unit, per month.

NOTE 6 - INCOME TAXES

The provision for income taxes at August 31, 1991, was as follows:

Federal	\$ 558
California	<u>468</u>
	<u>\$ 1,026</u>