

**THE GLEN OF PACIFIC GROVE OWNERS' ASSOCIATION**

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S  
REVIEW REPORT AND FINANCIAL STATEMENTS  
AUGUST 31, 1993**



We have reviewed the accompanying balance sheet of The Glen of Pacific Grove Homeowners' Association as of August 31, 1993 and the related statements of support, revenue, and expenses, and changes in members equity for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The Glen of Pacific Grove Homeowners' Association.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted accounting principles, 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.

On the basis of our review, we are not aware of any material modifications that should be made to the accompanying financial statements, except for the omission of the statement of cash flows, and supplementary replacement fund data, in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the Association completed a study to estimate its obligation for the future repair, replacement or additions to those major components which it is obligated to maintain. The adequacy of this study is a function of the assumptions, and underlying data, estimated useful lives and replacement costs of the major components

Accordingly, the current reserve funding program may be inadequate to meet all the future major component repair and replacement costs. In the event that inadequate funding of the major components exists, the Association, may, subject to the legal and statutory restrictions of its governing documents, and California law, increase member assessments, impose special assessments and modify the timing of the repair of the major components.

September 21, 1993

*Gregory J. Kelly & Co.*  
**Gregory J. Kelly & Co.**  
**Certified Public Accountants**

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION  
BALANCE SHEET

AUGUST 31, 1993

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ASSETS

ASSETS:

Cash in Checking	\$ 8,238
Cash in Investments	<u>149,972</u>

TOTAL ASSETS	<u>\$158,210</u>
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LIABILITIES AND FUND BALANCES

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LIABILITIES:

Accounts payable	\$ 3,623
Income Tax Payable	119
Advance Member Assessments	<u>2,720</u>

Total Liabilities	6,462
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FUND BALANCES:

Operating	-
Replacement	<u>\$151,748</u>

Total Fund Balance	151,748
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TOTAL LIABILITIES AND FUND BALANCES	<u>\$158,210</u>
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See accountants' review report and notes to financial statements  
(Unaudited)

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION  
SUPPORT, REVENUE, EXPENSES AND CHANGES IN MEMBERS EQUITY

AUGUST 31, 1993

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total ACTIVITY</u>
<b>SUPPORT AND REVENUE:</b>			
Regular Assessments	67,476	31,884	99,360
Interest Income	5,426		5,426
Other Income	<u>274</u>	<u>      </u>	<u>274</u>
 Total Support and Revenue	 73,176	 31,884	 105,060
 <b>EXPENSES:</b>			
Administrative	6,870		6,870
Insurance	8,404		8,404
Utilities	12,774		12,774
Landscape	36,503		36,503
Repairs & Maintenance	4,790	10,473	15,263
Accounting and Legal	3,303		3,303
Taxes on Income (Note 4)	<u>1,119</u>	<u>      </u>	<u>1,119</u>
 Total Expenses	 73,763	 10,473	 84,236
Excess (Deficiency) of Support over Expenses:	( 587)	21,411	20,824
 Beginning Fund Balance: (Transfers)	 - 587	 130,924 ( 587)	 130,924
 Ending Fund Balance:	 \$ <u>      -</u>	 <u>\$151,748</u>	 <u>\$151,748</u>

See accountants' review report and notes to financial statements  
(Unaudited)

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION  
Notes to Financial Statements  
August 31, 1993

(1) Organization and Significant Accounting Policies

(a) Organization

The Association was incorporated in December of 1982 to provide for the orderly maintenance, preservation, and architectural control of the common areas within the development.

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.

(b) Funds

Since the Association is a non-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 purpose by the membership or the Board of Directors.

(c) 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 non-capitalization is widely followed in the Common Interest Realty Association industry, as all beneficial and Common area rights of ownership, belong to the unit owner and not the Association.

Replacement 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.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION  
Notes to Financial Statements  
August 31, 1993

(2) Regular Assessments

During the fiscal year ended August 31, 1993, regular annual assessments were payable to the Association in monthly installments. The Association consists of 60 units.

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

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

(3) Reserve Funds and Replacement Funding Program

Reserve 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.

Replacement reserve 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 the estimated expected remaining service lives of each.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION  
Notes to Financial Statements  
August 31, 1993

(4) Income Taxes

Under Section 528 of the Internal Revenue Code and California Code Section 23701(t), qualified homeowners association may elect to be treated as tax-exempt organizations. Electing Associations are generally taxed only on income from investments and business with homeowners (Non-exempt function income).

For Federal taxes, the election may be made or waived each year, using Form: 1120-H. For California taxes, the election is generally permanent, and generally must be made prior to the year in which the tax-exempt status is to become effective. Under tax-exempt status, non-exempt function income, is taxable at current tax rates (Cal. 9.3%).

If tax-exempt status is not elected, all net revenues of the Association (including owner assessments) are subject to tax, except Special assessments, for capital improvements. In addition (Rev.-Ruling: 70-604), preserves tax exempt status for the operating fund surplus, when transferred to the replacement reserve funds, and approved by a vote of the members. Under non-exempt status, the Federal tax rates begin at 15%.

Regardless of which tax status is chosen, the Association is always taxed on its membership non-exempt function income, such as investment interest income on savings accounts.