

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

(A California Nonprofit Mutual Benefit Corporation)

FINANCIAL STATEMENTS,

ACCOUNTANT'S REVIEW REPORT

AND

SUPPLEMENTARY INFORMATION

AUGUST 31, 1995 AND 1994

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

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HEATHER J. BLAKE

CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors and Members
The Glen of Pacific Grove Homeowners' Association, Inc.
Pacific Grove, 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, 1995 and 1994 and the related statement of revenues, expenses, changes in fund balances and cash flow 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, Inc.

A review consists principally of inquiries of the Association's management company 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 reviews, 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, a study of the current replacement reserve funding program has determined that funding is not 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.

Heather J. Blake, CPA

September 20, 1995
Redwood City, California

The Glen of Pacific Grove Homeowners' Association, Inc.
BALANCE SHEET
August 31, 1995 and 1994

(See Accountant's Review Report)

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>1995 TOTAL</u>	<u>1994 TOTAL</u>
<u>ASSETS</u>				
Cash and cash equivalent	\$ 2,370	\$ 97,052	\$ 99,422	\$ 69,961
Certificate of deposit		100,000	100,000	100,000
Assessments receivable	362		362	280
Prepaid insurance	0		0	824
Refundable income taxes	0		0	404
TOTAL ASSETS	<u>\$ 2,732</u>	<u>\$ 197,052</u>	<u>\$ 199,784</u>	<u>\$ 171,469</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 3,963	\$	\$ 3,963	\$ 2,508
Assessments paid in advance	1,450		1,450	3,630
Income tax payable	635		635	0
Other payables	210		210	55
TOTAL LIABILITIES	<u>\$ 6,258</u>	<u>\$ 0</u>	<u>\$ 6,258</u>	<u>\$ 6,193</u>
FUND BALANCES	\$ (3,526)	\$ 197,052	\$ 193,526	\$ 165,276
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,732</u>	<u>\$ 197,052</u>	<u>\$ 199,784</u>	<u>\$ 171,469</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, 1995 and 1994

(See Accountant's Review Report)

	OPERATING FUND	REPLACEMENT FUND	1995 TOTALS	1994 TOTALS
<u>REVENUES</u>				
Membership assessments	\$ 72,302	\$ 35,698	\$ 108,000	\$ 99,360
Interest income	217	8,151	8,368	5,522
Other income	46		46	317
TOTAL REVENUES	\$ 72,565	\$ 43,849	\$ 116,414	\$ 105,199
 <u>EXPENSES</u>				
Management fee	4,494		4,494	5,414
Landscaping	35,962		35,962	36,582
Administrative expense	5,851		5,851	4,619
Insurance	9,244		9,244	8,202
Legal and accounting	1,230		1,230	2,134
Repair and maintenance	5,949		5,949	5,088
Utilities	9,684		9,684	13,944
Replacement expenditures		14,015	14,015	14,592
Income taxes	1,735		1,735	1,096
TOTAL EXPENSES	\$ 74,149	\$ 14,015	\$ 88,164	\$ 91,671
 Excess (deficit) of revenues over expenses	 \$ (1,584)	 \$ 29,834	 \$ 28,250	 \$ 13,528
 FUND BALANCES, September 1,	 (1,942)	167,218	165,276	151,748
 FUND BALANCES, August 31,	 \$ (3,526)	 \$ 197,052	 \$ 193,526	 \$ 165,276

The accompanying notes are an integral
part of this financial statement

The Glen of Pacific Grove Homeowners' Association, Inc.
Statement of Cash Flows
For the Year Ended August 31, 1995 and 1994

(See Accountant's Review Report)

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>1995 TOTALS</u>	<u>1994 TOTALS</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess (deficit) of revenues over expenses	\$ (1,584)	\$ 29,834	\$ 28,250	\$ 13,528
(Increase) decrease in:				
Assessments receivable	(82)		(82)	(280)
Refundable income taxes	404		404	(404)
Prepaid insurance	824		824	(824)
Increase (decrease) in:				
Accounts payable	1,455		1,455	(1,115)
Assessments paid in advance	(2,180)		(2,180)	910
Income tax payable	635		635	(119)
Other payable	155		155	55
Net cash provided (used) by operating activities	\$ (373)	\$ 29,834	\$ 29,461	\$ 11,751
Cash at September 1,	\$ 2,743	\$ 67,218	\$ 69,961	\$ 58,210
Cash at August 31,	\$ <u>2,370</u>	\$ <u>97,052</u>	\$ <u>99,422</u>	\$ <u>69,961</u>
Supplemental disclosure:				
Income taxes paid			\$ <u>696</u>	\$ <u>1,500</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, 1995 and 1994

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

The Glen of Pacific Grove Homeowners' Association, Inc. (a California Nonprofit Mutual Benefit Corporation) was formed in June 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 the homeowners. Voting members of the Association consist of all owners and are entitled to one vote for each unit owned. Members are obligated to pay annual assessments to the Association on each unit owned for 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 the annual assessment, special assessments may be levied by the association.

Fund Accounting and Tax Basis

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts, prepares its financial statements, and files its Federal and state income tax returns using fund accounting and the accrual basis of accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repair and replacements.

Interest Income

It is the Association's policy that interest earned on Replacement Fund savings remains in the Replacement Fund as realized.

The Glen of Pacific Grove Homeowners' Association, Inc.
Statement of Cash Flows
For the Year Ended August 31, 1995 and 1994

(See Accountant's Review Report)

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The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1995 and 1994

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The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1995 and 1994

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

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 deficient dues judgment against the property owner for the amount of delinquent dues and all related costs of collection. At August 31, 1995 and 1994, delinquent dues assessments and late charges amounted to \$362 and \$280 respectively.

Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with stated maturity of three months or less to be cash equivalents.

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 association may elect to be treated as tax-exempt organizations. The Association has elected to be taxed only on income from investments and business with non-members. For Federal tax purposes, the election may be made or waived each year. Under Federal tax-exempt status, nonexempt income (such as interest) is subject to tax after deducting directly related expenses. For California tax purposes the election is usually permanent, and must be made prior to the year in which tax-exempt status is to become effective. Under California tax-exempt status, nonexempt income is subject to tax after deduction a specific homeowners deduction.

NOTE 2 - REPLACEMENT FUND FOR FUTURE REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements of common area assets. The Replacement Fund represents these assets.

The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1995 and 1994

NOTE 2 - REPLACEMENT FUND FOR FUTURE REPLACEMENTS (CONTINUED)

Changes in the Replacement Fund are as follows:

	1995	1994
Balance, September 1,	\$ 167,218	\$ 151,748
Contributions	43,849	30,062
Replacement expenditures	(14,015)	(14,592)
Balance, August 31,	\$ 197,052	167,218

A study was prepared to estimate the remaining useful lives and the replacement costs of the common area property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the Replacement Fund. The study indicates that reserves are presently underfunded. Contributions to the Replacement Fund will increase 5% per year which will remedy this deficit. Actual expenditures, however, may vary from the estimated amounts and the variation may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, 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.

*source of
revenue -
fund?*

NOTE 3 - MANAGEMENT AGREEMENT

The Association employs the services of an outside property management company. The management fee is approximately \$6 per unit, per month.

The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1995 and 1994

NOTE 4 - INCOME TAXES

The provision for income taxes at August 31, 1995 and 1994 was as follows:

		1995		1994
Federal	\$	975	\$	601
California		760		495
Total	\$	1,735	\$	1,096

The Association incurred a net membership loss for tax purposes at August 31, 1995. The Association has elected to carry forward the net membership losses for Federal tax purposes in the amounts of :

August 31, 1995	\$	7,111
August 31, 1994		5,345
Total	\$	12,456

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Members
The Glen of Pacific Grove Homeowners' Association, Inc.
Pacific Grove, California

The supplementary information on future major repairs and replacements on Page 13 is not required part of the basic financial statements of The Glen of Pacific Grove Homeowners' Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 20, 1995
Redwood City, California

The Glen of Pacific Grove Homeowners' Association, Inc.
 Supplementary Information on Future Major
 Repairs and replacements (Unaudited)
 August 31, 1995

A reserve study was prepared for the Association on July 10, 1995 by Community Associations Consulting to estimate the remaining useful lives and the replacement costs of the components of the common area. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The estimates are based on independent cost estimates, current homeowner association cost experience, and assumes no irregularities which would cause the cost basis to increase.

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

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost *	Replacement Fund Balance at August 31, 1995
Roofs & Gutters	13	\$ 221,331	\$ 80,246
Asphalt	1 to 9	57,855	27,957
Fences	23	26,420	4,876
Lighting	9 to 23	40,608	9,411
Lakes	2 to 5	34,608	20,349
Irrigation system	10	6,000	0
Painting	1	77,908	51,037
Entry gate	8	5,150	815
Bridge	9	4,635	2,017
Tennis court	6	3,049	344
TOTALS		\$ 481,967	\$ 197,052

** See projected costs in 1994 Reserve report table 2 ; where is 1995 report?*