

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, 1996 AND 1995

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, 1996 and 1995 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 Blake, CPA

October 24, 1997
San Carlos, California

The Glen of Pacific Grove Homeowners' Association, Inc.
BALANCE SHEET
August 31, 1996 and 1995

(See Accountant's Review Report)

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>1996 TOTAL</u>	<u>1995 TOTAL</u>
<u>ASSETS</u>				
Cash and cash equivalent	\$ 9,166	\$ 15,436	\$ 24,602	\$ 99,422
Certificate of deposit		150,000	150,000	100,000
Assessments receivable	82		82	362
Refundable income taxes	353		353	0
Due from Operating Fund		8,213	8,213	0
TOTAL ASSETS	\$ <u>9,601</u>	\$ <u>173,649</u>	\$ <u>183,250</u>	\$ <u>199,784</u>
 <u>LIABILITIES</u>				
Accounts payable	\$ 3,299	\$ 88,319	\$ 91,618	\$ 3,963
Assessments paid in advance	2,328		2,328	1,450
Income tax payable	0		0	635
Other payable	63		63	210
Due to Replacement Fund	8,213		8,213	0
TOTAL LIABILITIES	\$ <u>13,903</u>	\$ <u>88,319</u>	\$ <u>102,222</u>	\$ <u>6,258</u>
 FUND BALANCES	 \$ (4,302)	 \$ 85,330	 \$ 81,028	 \$ 193,526
 TOTAL LIABILITIES AND FUND BALANCES	 \$ <u>9,601</u>	 \$ <u>173,649</u>	 \$ <u>183,250</u>	 \$ <u>199,784</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, 1996 and 1995

(See Accountant's Review Report)

	OPERATING FUND	REPLACEMENT FUND	1996 TOTALS	1995 TOTALS
<u>REVENUES</u>				
Membership assessments	\$ 81,848	\$ 29,752	\$ 111,600	\$ 108,000
Interest income	175	9,326	9,501	8,368
Other income	75		75	46
TOTAL REVENUES	\$ 82,098	\$ 39,078	\$ 121,176	\$ 116,414
<u>EXPENSES</u>				
Management fee	4,350		4,350	4,494
Landscaping	37,424		37,424	35,962
Administrative expense	4,774		4,774	5,851
Insurance	18,877		18,877	9,244
Legal and accounting	1,295		1,295	1,230
Repair and maintenance	3,388		3,388	5,949
Utilities	10,769		10,769	9,684
Replacement expenditures		150,800	150,800	14,015
Income taxes	1,997		1,997	1,735
TOTAL EXPENSES	\$ 82,874	\$ 150,800	\$ 233,674	\$ 88,164
Excess (deficit) of revenues over expenses	\$ (776)	\$ (111,722)	\$ (112,498)	\$ 28,250
FUND BALANCES, September 1,	\$ (3,526)	\$ 197,052	\$ 193,526	\$ 165,276
FUND BALANCES, August 31,	\$ (4,302)	\$ 85,330	\$ 81,028	\$ 193,526

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, 1996 and 1995

(See Accountant's Review Report)

	OPERATING FUND	REPLACEMENT FUND	1996 TOTALS	1995 TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess (deficit) of revenues over expenses	\$ (776)	\$ (111,722)	\$ (112,498)	\$ 28,250
(Increase) decrease in:				
Assessments receivable	280		280	(82)
Refundable income taxes	(353)		(353)	404
Prepaid insurance	0		0	824
Increase (decrease) in:				
Accounts payable	(664)	88,319	87,655	1,455
Assessments paid in advance	878		878	(2,180)
Income tax payable	(635)		(635)	635
Other payable	(147)		(147)	155
Net cash provided (used) by operating activities	\$ (1,417)	\$ (23,403)	\$	\$ 29,461
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of certificate of deposit		(50,000)	(50,000)	0
CASH FLOWS FROM FINANCING ACTIVITIES:				
Due from Operating Fund		(8,213)	(8,213)	0
Due to Replacement Fund	8,213		8,213	0
Net increase (decrease) in cash	\$ 6,796	\$ (81,616)	\$ (74,820)	\$ 29,461
Cash at September 1,	\$ 2,370	\$ 97,052	\$ 99,422	\$ 69,961
Cash at August 31,	\$ <u>9,166</u>	\$ <u>15,436</u>	\$ <u>24,602</u>	\$ <u>99,422</u>
Supplemental disclosure:				
Income taxes paid			\$ <u>2,985</u>	\$ <u>696</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, 1996 and 1995

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.
Notes to Financial Statements
August 31, 1996 and 1995

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, 1996 and 1995, delinquent dues assessments and late charges amounted to \$82 and \$362 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, 1996 and 1995

NOTE 2 - REPLACEMENT FUND FOR FUTURE REPLACEMENTS (CONTINUED)

Changes in the Replacement Fund are as follows:

	1996	1995
Balance, September 1,	\$ 197,052	\$ 167,218
Contributions	39,078	43,849
Replacement expenditures	(150,800)	(14,015)
Balance, August 31,	\$ 85,330	197,052

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.

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, 1996 and 1995

NOTE 4 - INCOME TAXES

The provision for income taxes at August 31, 1996 and 1995 was as follows:

	1996	1995
Federal	\$ 1,132	\$ 975
California	865	760
Total	\$ 1,997	\$ 1,735

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, 1996	7,189
August 31, 1995	\$ 7,111
August 31, 1994	5,345
Total	\$ 19,645

NOTE 5 - DUE FROM OPERATING FUND/DUE TO REPLACEMENT FUND

Interest earned on the Replacement Fund certificates of deposit were deposited on a monthly basis to the Operating Fund checking account. These funds should be transferred into a Replacement Fund cash account. The amount of interest that remained in the Operating Fund checking account at August 31, 1996 was \$8,213.

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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

October 24, 1996
San Carlos, California

The Glen of Pacific Grove Homeowners' Association, Inc.
 Supplementary Information on Future Major
 Repairs and replacements (Unaudited)
 August 31, 1996

A reserve study was prepared for the Association on July 12, 1996 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, 1996
Roofs & Gutters	12	\$ 227,970	\$ 44,363
Asphalt	1 to 8	64,126	15,328
Fences	18	27,212	4,237
Lighting	8 to 18	41,826	7,124
Lakes	1 to 4	35,646	11,954
Irrigation system	9	6,180	241
Painting & iron fence	2 to 6	80,245	0
Entry gate	7	5,305	619
Bridge	8	4,774	1,115
Tennis court	5	3,140	349
TOTALS		\$ 496,424	\$ 85,330