

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

(A California Nonprofit Mutual Benefit Corporation)

FINANCIAL STATEMENTS,

ACCOUNTANT'S AUDIT REPORT

AND

SUPPLEMENTARY INFORMATION

AUGUST 31, 1997 AND 1996

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

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HEATHER J. BLAKE

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying balance sheet of The Glen of Pacific Grove Homeowners' Association, Inc. (a California Nonprofit Mutual Benefit Corporation) as of August 31, 1997 and the related statement of revenues, expenses, changes in fund balances and cash flow for the year then ended.

I conducted an audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Glen of Pacific Grove Homeowners' Association, Inc. as of August 31, 1997 and the results of its operations and cash flows for the year then ended 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 because the Board funds its Reserve Account on a cash flow basis and monthly dues for the reserve account are scheduled to increase to \$71.52 per unit in 2008 and to \$83.43 in 2012. The Association has the right to increase assessments, pass special assessments, or delay replacement activity until funds are available.

The financial statements for the year ended August 31, 1996 were reviewed by me, and my report thereon, dated October 24, 1996, stated I was not aware of any material modifications that should be made to those financial statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of our opinion on the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Heather J. Blake".

November 18, 1997
San Carlos, California

The Glen of Pacific Grove Homeowners' Association, Inc.
BALANCE SHEET
August 31, 1997 and 1996

(See Accountant's Audit Report)

	OPERATING FUND	REPLACEMENT FUND	1997 TOTAL	1996 TOTAL
<u>ASSETS</u>				
Cash and cash equivalent	\$ 2,993	\$ 23,989	\$ 26,982	\$ 24,602
Certificate of deposit		100,000	100,000	150,000
Assessments receivable	223		223	82
Refundable income taxes	770		770	353
Due from Operating Fund		2,313	2,313	8,213
 TOTAL ASSETS	\$ 3,986	\$ 126,302	\$ 130,288	\$ 183,250
 <u>LIABILITIES</u>				
Accounts payable	\$ 2,694	\$	\$ 2,694	\$ 91,618
Assessments paid in advance	1,715		1,715	2,328
Other payable	153		153	63
Due to Replacement Fund	2,313		2,313	8,213
 TOTAL LIABILITIES	\$ 6,875	\$ 0	\$ 6,875	\$ 102,222
 FUND BALANCES	\$ (2,889)	\$ 126,302	\$ 123,413	\$ 81,028
 TOTAL LIABILITIES AND FUND BALANCES	\$ 3,986	\$ 126,302	\$ 130,288	\$ 183,250

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, 1997 and 1996

(See Accountant's Audit Report)

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>1997 TOTALS</u>	<u>1996 TOTALS</u>
<u>REVENUES</u>				
Membership assessments	\$ 78,221	\$ 44,179	\$ 122,400	\$ 111,600
Interest income	6,305		6,305	9,501
Other income	10		10	75
TOTAL REVENUES	<u>\$ 84,536</u>	<u>\$ 44,179</u>	<u>\$ 128,715</u>	<u>\$ 121,176</u>
 <u>EXPENSES</u>				
Management fee	5,820		5,820	4,350
Landscaping	36,376		36,376	37,424
Administrative expense	4,918		4,918	4,774
Insurance	16,529		16,529	18,877
Legal and accounting	1,250		1,250	1,295
Repair and maintenance	5,277		5,277	3,388
Utilities	11,683		11,683	10,769
Replacement expenditures		3,207	3,207	150,800
Income taxes	1,270		1,270	1,997
TOTAL EXPENSES	<u>\$ 83,123</u>	<u>\$ 3,207</u>	<u>\$ 86,330</u>	<u>\$ 233,674</u>
 Excess (deficit) of revenues over expenses	 \$ 1,413	 \$ 40,972	 \$ 42,385	 \$ (112,498)
 FUND BALANCES, September 1,	 \$ (4,302)	 \$ 85,330	 \$ 81,028	 \$ 193,526
 FUND BALANCES, August 31,	 <u>\$ (2,889)</u>	 <u>\$ 126,302</u>	 <u>\$ 123,413</u>	 <u>\$ 81,028</u>

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, 1997 and 1996

(See Accountant's Audit Report)

	OPERATING FUND	REPLACEMENT FUND	1997 TOTALS	1996 TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess (deficit) of revenues over expenses	\$ 1,413	\$ 40,972	\$ 42,385	\$ (112,498)
(Increase) decrease in:				
Assessments receivable	(141)		(141)	280
Refundable income taxes	(417)		(417)	(353)
Increase (decrease) in:				
Accounts payable	(605)	(88,319)	(88,924)	87,655
Assessments paid in advance	(613)		(613)	878
Income tax payable	0		0	(635)
Other payable	90		90	(147)
Net cash provided (used) by operating activities	\$ (273)	\$ (47,347)	\$ (47,620)	\$ (24,820)
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Purchase) mature of certificate of deposit		50,000	50,000	(50,000)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Due from Operating Fund		5,900	5,900	(8,213)
Due to Replacement Fund	(5,900)		(5,900)	8,213
Net increase (decrease) in cash	\$ (6,173)	\$ 8,553	\$ 2,380	\$ (74,820)
Cash at September 1,	\$ 9,166	\$ 15,436	\$ 24,602	\$ 99,422
Cash at August 31,	\$ 2,993	\$ 23,989	\$ 26,982	\$ 24,602
Supplemental disclosure:				
Income taxes paid			\$ 1,687	\$ 2,985

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, 1997 and 1996

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 be classified as operating income as realized.

The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1997 and 1996

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, 1997 and 1996, delinquent dues assessments and late charges amounted to \$223 and \$82 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.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles required 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.

The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1997 and 1996

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.

Changes in the Replacement Fund are as follows:

	1997	1996
Balance, September 1,	\$ 85,330	\$ 197,052
Contributions	44,179	39,078
Replacement expenditures	(3,207)	(150,800)
Balance, August 31,	\$ 126,302	85,330

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 be increased 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 \$8 per unit, per month.

The Glen of Pacific Grove Homeowners' Association, Inc.
Notes to Financial Statements
August 31, 1997 and 1996

NOTE 4 - INCOME TAXES

The provision for income taxes at August 31, 1997 and 1996 was as follows:

	1997	1996
Federal	\$ 702	\$ 1,132
California	568	865
Total	\$ 1,270	\$ 1,997

The Association incurred a net membership loss for tax purposes at August 31, 1997. The Association has elected to carry forward the net membership losses for Federal tax purposes in the amounts of :

August 31, 1997	\$ 2,563
August 31, 1996	7,189
August 31, 1995	7,111
August 31, 1994	5,345
Total	\$ 22,208

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.

November 18, 1997
San Carlos, California

The Glen of Pacific Grove Homeowners' Association, Inc.
 Supplementary Information on Future Major
 Repairs and replacements (Unaudited)
 August 31, 1997

A reserve study was prepared for the Association on July 12, 1997 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 Required at August 31, 1997
Roofs & Gutters	15	\$ 275,087	\$ 137,968
Exterior paint	4	58,299	11,660
Asphalt driveways	3 to 14	45,459	14,456
Siding & trim	4 to 20	458,970	91,794
Concrete	4 to 45	118,311	23,662
Fencing	4 to 20	25,601	10,240
Lighting	2 to 10	16,500	13,200
Irrigation system	2 to 10	10,000	1,667
Tennis court	2	5,460	3,276
Wood deck	10	4,200	2,100
Mail box kiosk	3 to 20	2,600	1,040
Security entry gate	10	9,000	5,400
Bridge	10	6,000	3,273/
Gate openers	5	1,400	700
TOTALS		\$ 1,036,887	\$ 320,436