
PON & STIFF

CERTIFIED PUBLIC ACCOUNTANTS, INC.

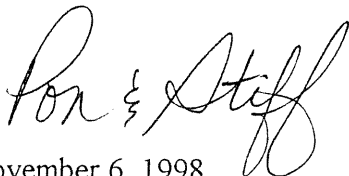
INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of The Glen of Pacific Grove Homeowners' Association, Inc. as of August 31, 1998, and the related statement of revenues, expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of The Glen of Pacific Grove Homeowners' Association, Inc. Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audit provides a reasonable basis for our opinion.

In our 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, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.



November 6, 1998

LINDA PON, CPA • MARY JANE STIFF, CPA • LINDA KOSER, CPA

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THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
AUGUST 31, 1998

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THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

BALANCE SHEET

AUGUST 31, 1998

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents	\$ 7,025	\$ 18,084	\$ 25,109
Investments, certificate of deposit		50,206	50,206
Assessments receivable	35		35
Prepaid insurance	9,964		9,964
Prepaid income taxes	682		682
Due from operating fund	<u>(15,057)</u>	<u>15,057</u>	<u> </u>
	<u>\$ 2,649</u>	<u>\$ 83,347</u>	<u>\$ 85,996</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 7,250	\$	\$ 7,250
Accrued liability	264		264
Assessments paid in advance	<u>3,394</u>	<u> </u>	<u>3,394</u>
TOTAL LIABILITIES	10,908		10,908
FUND BALANCE	<u>(8,259)</u>	<u>83,347</u>	<u>75,088</u>
	<u>\$ 2,649</u>	<u>\$ 83,347</u>	<u>\$ 85,996</u>

See independent auditor's report and accompanying notes.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
YEAR ENDED AUGUST 31, 1998

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
REVENUES			
Regular assessments	\$ 83,157	\$ 39,243	\$ 122,400
Interest income	4,742		4,742
Late payment charges	15		15
	<u>87,914</u>	<u>39,243</u>	<u>127,157</u>
EXPENSES			
Administrative expenses	32,252		32,252
Repairs and maintenance	50,400		50,400
Utilities	9,714		9,714
Income taxes	918		918
Replacement fund expenses		82,198	82,198
	<u>93,284</u>	<u>82,198</u>	<u>175,482</u>
(DEFICIENCY) OF REVENUES OVER EXPENSES	(5,370)	(42,955)	(48,325)
BEGINNING FUND BALANCES (DEFICIT)	<u>(2,889)</u>	<u>126,302</u>	<u>123,413</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$ (8,259)</u>	<u>\$ 83,347</u>	<u>\$ 75,088</u>

See independent auditor's report and accompanying notes.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 1998

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficiency) of revenues over expenses	\$ (5,370)	\$ (42,955)	\$ (48,325)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Interfund (receivable) payable	12,744	(12,744)	
(Increase) decrease in:			
Assessments receivable	188		188
Prepaid insurance	(9,964)		(9,964)
Prepaid income tax	88		88
Increase (decrease) in:			
Accounts payable	4,556		4,556
Accrued liability	111		111
Prepaid assessments	1,679		1,679
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,032	(55,699)	(51,667)
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemption of certificates of deposit		50,000	50,000
Reinvested interest		(206)	(206)
NET CASH PROVIDED BY INVESTING ACTIVITIES		49,794	49,794
CASH AT BEGINNING OF YEAR	2,993	23,989	26,982
CASH AT END OF YEAR	\$ 7,025	\$ 18,084	\$ 25,109
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ 830	\$	\$ 830
Interest paid	0		0

See independent auditor's report and accompanying notes.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1998

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Glen of Pacific Grove Homeowners' Association, Inc., a California Non-Profit Corporation, was incorporated on June 28, 1982, for the purpose of managing the common elements of the planned unit development, which consists of 60 units and is located in Monterey County, California.

The Board of Directors formulates all policy decisions. Major decisions, as required by the governing documents, are referred to the general Association membership before action is taken.

The books and records are maintained by the management company under the control of the Board of Directors. The books are kept on the accrual method of accounting for income tax and financial reporting purposes.

Estimates

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

Fund Accounting

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 repairs and replacements.

Capitalization Policy and Depreciation

Real and personal property acquired by the original homeowners from the developer are not capitalized on the Association financial statements, as the individual owners and not the Association own them.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1998
(Continued)

Capitalization Policy and Depreciation (Continued)

Replacements and improvements to the real property are not capitalized, as the improvements would also belong to the owners and not the Association. They are instead charged directly to either operating or replacement funds in the period they are incurred.

Cash Equivalents

Cash deposits maturing in 90 days or less are considered cash equivalents.

Allowance for Doubtful Accounts

The Board has determined that the Association does not regularly incur bad debts due to the Board's collection process which includes: late fees, delinquent dues reminder notices, itemized warning letters noting costs of collection and intent to foreclose. The foreclosure process culminates with the sale of the property.

II. OWNERS' ASSESSMENTS

The Board determines the annual budget and owners' assessments. Annual budgets are approved and assessments are divided between the operating fund to meet normal operating costs and contributions to the replacement fund. During the fiscal year ended August 31, 1998, the regular assessments were \$180 per unit per month; the budget allocated \$61.36 of this amount to the replacement fund.

III. RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM

The Association is accumulating funds for future major repairs and replacements. The funds are held in money market savings accounts and certificates of deposit and are not available for operating fund expenditures.

Funds are accumulated in the replacement fund based on current estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board has the right to increase regular assessments, pass special assessments, or delay replacement until funds are available. Certain assessments require approval of the homeowners.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1998
(Continued)

IV. FEDERAL AND STATE TAXES

Qualified homeowners associations are not taxed on amounts received as assessments from owners. All other amounts received are taxed, net of related expenses. The Association for the current year had taxable income on the interest earned on its savings accounts, certificates of deposit, and laundry income net of related expenses. The tax provision for the fiscal year ended August 31, 1998, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Provision for tax	\$ 546	\$ 372	\$ 918
Prepayment	(900)	(700)	(1,600)
Tax due (overpayment)	\$ (354)	\$ (328)	\$ (682)

V. INTERFUND RECEIVABLE/PAYABLE

At August 31, 1997, the operating fund owed the replacement fund \$2,313. In the fiscal year ended August 31, 1998, one months replacement fund contribution of \$3,682 was not made, and \$1,058 of interest was retained by the replacement fund. Because of cash flow considerations, the Association will not transfer the \$4,937 and considers the amount to be a reduction of the August 31, 1998, replacement fund contribution.

During the fiscal year August 31, 1998, the insurance premium of \$15,057 was paid from replacement funds. The Association plans to repay this amount in the fiscal year ending August 31, 1999.

VI. CONTINGENCIES

As explained in Note III, the Association's replacement funding program may not be sufficient to meet all future replacement costs which could result in increases in the regular assessments and/or special assessments in the future.

SUPPLEMENTARY INFORMATION

PON & STIFF

CERTIFIED PUBLIC ACCOUNTANTS, INC.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the basic financial statements The Glen of Pacific Grove Homeowners' Association, Inc. on for the year ended August 31, 1998, appears on page 1. This audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Operating Fund Expenses and Schedule of Replacement Fund Expenses on page 9 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information on future major repairs and replacements on page 10 is not a required part of the basic financial statements 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.



November 6, 1998

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THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING FUND EXPENSES
AND SCHEDULE OF REPLACEMENT FUND EXPENSES
YEAR ENDED AUGUST 31, 1998

ADMINISTRATIVE EXPENSES

Insurance	\$ 19,774
Legal and accounting	5,749
Property management	5,096
Additional administrative expenses	<u>1,633</u>
TOTAL ADMINISTRATIVE EXPENSES	\$ <u><u>32,252</u></u>

REPAIRS AND MAINTENANCE

Landscaping and irrigation	\$ 36,393
General repairs and maintenance	13,101
Security	<u>906</u>
TOTAL REPAIRS AND MAINTENANCE	\$ <u><u>50,400</u></u>

UTILITIES

Water	\$ 6,729
Electricity	<u>2,985</u>
TOTAL UTILITIES	\$ <u><u>9,714</u></u>

REPLACEMENT FUND EXPENSES

Lake improvements	\$ 32,378
Rock removal and drains	28,071
Roofing	11,614
Trees	6,450
General improvements	<u>3,685</u>
TOTAL REPLACEMENT FUND EXPENSES	\$ <u><u>82,198</u></u>

See independent auditor's report on supplementary information.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AUGUST 31, 1998
(Unaudited)

Sunstone Consulting in June 1998, updated the study conducted in July 1997 by Construction Management Associates, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components. The updated study uses an inflation rate of 4% and an interest rate of 4.5% net of tax.

The following information is based on the study and presents significant information about the components of common property. The funding program does not include provision for replacement of any component not specifically listed.

<u>Component</u>	<u>Estimated Useful Lives(Years)</u>	<u>Estimated Remaining Useful Lives(Years)</u>	<u>Estimated Replacement Cost</u>
Roofs and gutters	25	14	\$ 344,921
Painting	5	3	58,299
Asphalt driveways	5-20	2-13	45,459
Siding and trim	25-30	3-19	458,970
Concrete	50	3-44	118,311
Fencing	20-25	3-19	25,601
Lighting	15	1-9	16,500
Irrigation system	12-15	1-9	10,000
Tennis courts	5	1	5,460
Wood deck	20	9	4,200
Mail box kiosk	20-25	2-19	2,600
Security gate	25	9	9,000
Gate openers	10	4	1,400
Bridge	20-25	9	6,000
Lake pumps	n/a	n/a	<u>30,000</u>
			<u>\$ 1,136,721</u>

The replacement fund had cash and investments for a total of \$68,290 at August 31, 1998. The Association has budgeted \$61.36 per unit per month for replacement funding for the year ending August 31, 1999. This information was provided to the association members with the distribution of the fiscal year August 31, 1999, Budget Pro-forma as required under California Civil Section 1365.

See independent auditor's report on supplementary information.