

**THE GLEN OF PACIFIC GROVE
HOMEOWNERS ASSOCIATION**

FINANCIAL STATEMENTS

AUGUST 31, 2006

Peter J. Tansill, C.P.A.
706 Forest Avenue
Pacific Grove, California 93950

Independent Auditor's Report

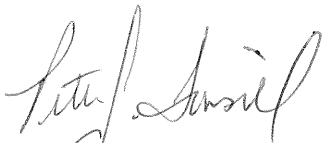
The Board of Directors and Members of
The Glen of Pacific Grove Homeowners Association

I have audited the accompanying balance sheet of The Glen of Pacific Grove Homeowners Association as of August 31, 2006 and the related statements of revenue and expenditures and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. 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 at August 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Supplementary Information on Future Major Repairs and Replacements that accompanies the financial statements is not a required part of the basic financial statements 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.



May 4, 2007

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
BALANCE SHEET
AUGUST 31, 2006

	Operating Fund	Replacement Fund	Total Funds
Assets:			
Cash and cash equivalents	\$ 19,295	\$ 113,271	\$ 132,566
Investments in certificates of deposit		256,429	256,429
Due to operating fund	17,697		17,697
Interest receivable		3,294	3,294
Prepaid insurance	4,875		4,875
Total assets	\$ 41,867	\$ 372,994	\$ 414,861
 Liabilities and Fund Balances:			
Accounts payable and accrued expenses	\$ 10,927	\$ -	\$ 10,927
Assessments received in advance	9,456		9,456
Due to replacement fund		33,916	33,916
Income tax payable	193		193
Total liabilities	20,576	33,916	54,492
Fund balances	21,291	339,078	360,369
Total liabilities and fund balances	\$ 41,867	\$ 372,994	\$ 414,861

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED AUGUST 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Revenue:			
Regular Assessments	\$ 169,920	\$ 82,080	\$ 252,000
Interest income	24	6,583	6,607
Other income	264	-	264
Total revenue	<u>170,208</u>	<u>88,663</u>	<u>258,871</u>
Expenditures			
Management and bookkeeping	9,088		9,088
Insurance	38,300		38,300
Legal and accounting	6,670		6,670
Other administrative expenses	6,737		6,737
Gas and electricity	3,428		3,428
Water and sewer	7,548		7,548
Landscape maintenance	57,709		57,709
Lakes and waterways	2,263		2,263
Pest control	1,505		1,505
Roof repair	711		711
Section 1 repairs	8,617		8,617
Fence repair		1,550	1,550
Other common area repair	3,262		3,262
Provision for repairs			-
Income taxes	1,519		1,519
Total expenditures	<u>147,357</u>	<u>1,550</u>	<u>148,907</u>
Excess of revenues over expenditures	22,851	87,113	109,964
Beginning fund balances	<u>(1,560)</u>	<u>251,965</u>	<u>250,405</u>
Ending fund balances	<u>\$ 21,291</u>	<u>\$ 339,078</u>	<u>\$ 360,369</u>

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED AUGUST 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Cash flows from operating activities:			
Excess of revenue over expenditures	\$ 22,851	\$ 87,113	\$ 109,964
Adjustments to reconcile net income to cash provided (used) by operating activities:			
Accounts receivable	569		569
Interest receivable		(2,439)	(2,439)
Prepaid insurance	(95)		(95)
Accounts payable	(3,643)	(4,200)	(7,843)
Assessments received in advance	32		32
Due to / from other fund	(30,510)	46,729	16,219
Income taxes payable	<u>16</u>		<u>16</u>
Net cash flows provided (used) by operating activities	<u>(10,780)</u>	<u>127,203</u>	<u>116,423</u>
Cash flows from investing activities:			
Purchase of certificates of deposit		<u>(79,789)</u>	<u>(79,789)</u>
Net cash flows used by investing activities	<u>-</u>	<u>(79,789)</u>	<u>(79,789)</u>
Net increase (decrease) in cash	(10,780)	47,414	36,634
Cash at beginning of year	<u>30,075</u>	<u>65,857</u>	<u>95,932</u>
Cash at end of year	<u>\$ 19,295</u>	<u>\$ 113,271</u>	<u>\$ 132,566</u>

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2006

(A) -ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Organization

The Association was incorporated June 28, 1982 to provide for the orderly maintenance, preservation, and architectural control of the common areas within the development, which consists of 60 units in a planned development located in the City of Pacific Grove, California.

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 if required by the governing documents

Membership in the Association is mandatory for homeowners. Voting members consist of all owners. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

(2) Funds

The accompanying financial statements have been prepared using a fund method of accounting because the Association is a not-for-profit organization. Under this method of accounting, funds have been 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 purposes by the membership or the Board of Directors.

(3) Interest Earned

It is the policy of the Board of Directors that interest earned on restricted savings is restricted and is transferred to the replacement fund when earned.

(4) 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 homeowners association industry as all beneficial rights of ownership belong to the unit owners and not to the Association.

Replacements 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, 2006

(A) -ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

(5) Statement of Cash Flow Information

For purposes of the Statement of Cash Flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

(6) Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgments on other assets of the unit owner.

(7) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimated 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.

(B) – REGULAR ASSESSMENTS

During the fiscal year ended August 31, 2006, regular annual assessments were payable to the Association in monthly installments of \$350 per unit per month.

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

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

It is the Association policy that any excess operating funds at the end of a fiscal year be applied to the following year's assessment.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2006

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM

Restricted 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. Restricted replacement 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 expected remaining service lives of each, and provides a plan for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

A formal study to determine the adequacy of the current funding program for the replacement of selected Association common areas was conducted by Barrera and Company, Inc. in October 2005. The 2005/2006 annual budget, which was approved by the Board of Directors in July 2005, does not provide for sufficient contributions to catch up the under funded amount by August 31, 2006. Consequently, the replacement fund is under funded by \$463,956 at August 31, 2006. Accordingly, it may be necessary to have higher regular assessments or special assessments in the future.

However, actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, 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.

(D) - INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended August 31, 2006, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

Income tax expense for the year ended August 31, 2006 was \$1,519. During the year ended August 31, 2006, the Association paid \$802 of income taxes.

(E) - CONTINGENCY

As more fully described in note C to the financial statements, the Association's funding program may not be adequate to meet all replacement needs as they come due, and this could result in higher regular assessments or special assessments in the future.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 August 31, 2006
 UNAUDITED

Barrera and Company, Inc. conducted a study in October 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future replacement costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 3% inflation factor between the date of the study and the date that the components will require repair and replacement. A 3% pre-tax interest rate has been applied to the cash flow.

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

Components	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Roofing	0 - 29	\$ 441,000
Painting	5	160,000
Asphalt and concrete	0 - 7	63,664
Fencing, gates and bridge	3 - 17	47,470
Water features	0 - 10	40,000
Landscaping	3 - 14	9,900
Lighting	2	31,500
Tennis courts	4	3,500
Miscellaneous	3 - 12	6,000
Total		<u>\$ 803,034</u>

The Association uses the cash flow method of funding the replacement fund. Under the cash flow method, the funding for each individual component is not separately calculated. The actual fund balance at August 31, 2006, is \$339,078.