

**THE GLEN OF PACIFIC GROVE
HOMEOWNERS' ASSOCIATION, INC.**

FINANCIAL STATEMENTS

August 31, 2013

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying balance sheet of The Glen of Pacific Grove Homeowners' Association, Inc. as of August 31, 2013, and the related statements of revenues, expenditures, and changes in fund balances and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, 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 accounting principles generally accepted in the United States of America.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplemental schedule of operating revenues and expenditures on pages 7 and 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, we do not express an opinion or provide any assurance on such required supplementary information.

Condo CPA, Inc.

Certified Public Accountants

Felton, California
November 9, 2013

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
AUGUST 31, 2013

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash - Checking	\$ 28,929	\$ 83,918	\$ 112,847
Cash - Certificate of Deposit	-	100,000	100,000
Investment in Certificates of Deposit	-	200,461	200,461
Owner Receivables	1,736	-	1,736
Interest Receivable	-	231	231
Prepaid Income Tax	137	-	137
Prepaid Insurance	6,358	-	6,358
Interfund Receivable (Payable)	473	(473)	-
TOTAL ASSETS	<u>\$ 37,633</u>	<u>\$ 384,137</u>	<u>\$ 421,770</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 6,178	\$ -	\$ 6,178
Prepaid Assessments	4,340	-	4,340
TOTAL LIABILITIES	10,518	-	10,518
FUND BALANCES	<u>27,115</u>	<u>384,137</u>	<u>411,252</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 37,633</u>	<u>\$ 384,137</u>	<u>\$ 421,770</u>

See accompanying notes and independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED AUGUST 31, 2013

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Operating Fees	\$ 146,815	\$ 76,385	\$ 223,200
Late Fees	775	-	775
Owner Interest Fees	38	-	38
Interest Income	-	908	908
TOTAL REVENUES	<u>147,628</u>	<u>77,293</u>	<u>224,921</u>
EXPENDITURES			
Utilities	20,596	-	20,596
Landscape	48,943	-	48,943
Building and Grounds	22,175	-	22,175
Administration	50,719	64	50,783
Pathways	-	3,950	3,950
Gate	-	9,430	9,430
Repairs	-	2,833	2,833
Streets	-	104,961	104,961
Landscaping	-	1,937	1,937
TOTAL EXPENDITURES	<u>142,433</u>	<u>123,175</u>	<u>265,608</u>
EXCESS OF REVENUES/(EXPENDITURES)	5,195	(45,882)	(40,687)
FUND BALANCES - BEGINNING OF THE YEAR	<u>21,920</u>	<u>430,019</u>	<u>451,939</u>
FUND BALANCES - END OF THE YEAR	<u>\$ 27,115</u>	<u>\$ 384,137</u>	<u>\$ 411,252</u>

See accompanying notes and independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>OPERATING</u> FUND	<u>REPLACEMENT</u> FUND	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess Revenues/(Expenditures)	\$ 5,195	\$ (45,882)	\$ (40,687)
ADJUSTMENTS TO RECONCILE EXCESS REVENUES OVER EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
(INCREASE) DECREASE IN:			
Owners Receivables	(1,704)	-	(1,704)
Interest Receivable	-	60	60
Prepaid Income Tax	48	-	48
Prepaid Insurance	4	-	4
INCREASE (DECREASE) IN:			
Accounts Payable	4,240	(9,816)	(5,576)
Prepaid Assessments	619	-	619
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	8,402	(55,638)	(47,236)
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemptions (Investments) in Certificates of Deposit (Net)	-	49,539	49,539
CASH PROVIDED (USED) BY FINANCING ACTIVITIES			
Interfund Receivable/Payables	(473)	473	-
NET INCREASE (DECREASE) IN CASH	7,929	(5,626)	2,303
CASH - BEGINNING OF YEAR	21,000	189,544	210,544
CASH - END OF YEAR	<u>\$ 28,929</u>	<u>\$ 183,918</u>	<u>\$ 212,847</u>

See accompanying notes and independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
As of August 31, 2013

NOTE 1 - NATURE OF ORGANIZATION

The Glen of Pacific Grove Homeowners' Association, Inc. was incorporated on June 22, 1982 in the State of California to provide for the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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 using fund accounting on the accrual basis. 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: The fund is used to accumulate financial resources designated for future major repairs and replacements.

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 (if any) at cost and depreciates it using the straight line method.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Association considers all demand deposit accounts, money market accounts, certificates of deposit with a maturity of three months or less, and money market mutual funds purchased to be cash equivalents. Certificates of Deposit often are not subject to withdrawal limitations although withdrawal before maturity may result in a loss of a portion of the interest earned. Money market funds may have withdrawal restrictions that if implemented would impact the amount reported as cash equivalents.

Investments

Investments consist of certificates of deposit with a maturity of more than three months.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.

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.

THE GLEN OF PACIFIC GROVE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
As of August 31, 2013

Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policies provide for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. At August 31, 2013, the Association had delinquent assessments and related charges of \$1,736. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments.

NOTE 3 - INCOME TAXES

The Glen of Pacific Grove Homeowners' Association, Inc. has adopted tax-exempt status under Section 528 of the Internal Revenue Code for the year ended August 31, 2013. Pursuant thereto, (a) the Association's "exempt function income" (consisting of the excess of common area maintenance assessments over related expenses) is not subject to income, and (b) nonexempt income (interest, laundry, etc., net of related expenses) is subject to income tax. For 2013, the Association had no taxable income on its nonexempt activities net of related expenses for federal purposes. The State of California taxable income was \$544 and state taxes were \$48. As of August 31, 2013 the Association has prepaid state taxes of \$137. The only periods subject to examination for the Association's income tax returns are the August 31, 2009 through August 31, 2013 tax years.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has adopted a program to accumulate funds for estimated future major repairs and replacements, as required by its governing documents. The funding program is based on a study performed by Association Reserves dated June 26, 2013. The Replacement Fund balance at August 31, 2013 consisted of \$384,137 and is generally not available for operating purposes.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimate of future replacement costs, considering amounts previously accumulated in the Replacement Fund. Actual expenditures, however, 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, the Association has the right, subject to member approval, to increase monthly assessments, pass special assessments, borrow funds from a financial institution or delay replacement until funds are available.

NOTE 5 – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 9, 2013 the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES AND EXPENDITURES
 FOR THE YEAR ENDED AUGUST 31, 2013

<u>Account #</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
	(Compiled)		
	OPERATING REVENUES		
4311.01	\$ 146,815	\$ 146,815	\$ -
4312.01	775	-	775
4313.01	38	-	38
	<u>147,628</u>	<u>146,815</u>	<u>813</u>
	OPERATING EXPENDITURES		
	UTILITIES		
6001.01	4,433	4,164	(269)
6005.01	16,163	12,500	(3,663)
	<u>20,596</u>	<u>16,664</u>	<u>(3,932)</u>
	LANDSCAPE		
6011.01	37,862	41,304	3,442
6012.01	1,246	360	(886)
6013.01	3,666	4,800	1,134
6014.01	6,169	3,800	(2,369)
	<u>48,943</u>	<u>50,264</u>	<u>1,321</u>
	BUILDING AND GROUNDS		
6030.01	-	120	120
6040.01	398	800	402
6041.01	478	480	2
6070.01	948	120	(828)
6080.01	18,701	17,975	(726)
6081.01	1,650	-	(1,650)
	<u>22,175</u>	<u>19,495</u>	<u>(2,680)</u>

See independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES AND EXPENDITURES
 FOR THE YEAR ENDED AUGUST 31, 2013

<u>Account #</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
	(Compiled)		
ADMINISTRATION			
6090.01 Management	18,720	18,720	-
6095.01 Education & Seminars	-	1,012	1,012
6100.01 Resident Services	47	240	193
6110.01 Legal	185	2,000	1,815
6130.01 Accounting And Tax Preparation	1,610	1,650	40
6131.01 Taxes: Federal	-	300	300
6132.01 Taxes: State	48	300	252
6134.01 Filing Fees	10	-	(10)
6140.01 Reserve Study	1,008	720	(288)
6141.01 General Office	1,810	1,500	(310)
6150.01 Social Committee	456	1,000	544
6180.01 Insurance	26,586	32,400	5,814
6190.01 Website	239	250	11
8180 Contingency	-	300	300
TOTAL ADMINISTRATION	<u>50,719</u>	<u>60,392</u>	<u>9,673</u>
TOTAL OPERATING EXPENDITURES	<u>142,433</u>	<u>146,815</u>	<u>4,382</u>
EXCESS OPERATING REVENUES/(EXPENDITURES)	<u>\$ 5,195</u>	<u>\$ -</u>	<u>\$ 5,195</u>

See independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
AUGUST 31, 2013
(Compiled)

As of August 31, 2013 the Replacement Fund balance was \$384,137 with expected contributions of \$77,144 for the year ending August 31, 2014. A study to estimate the remaining useful lives and replacement costs of the components of common property was conducted by Association Reserves dated June 26, 2013. Estimates used in the study were based on an annual inflation rate of 2.0% and net after tax interest accruing to reserves of .10%. The following information is based on the study and presents significant information about the components of common property as of the date of the study.

RESERVE COMPONENTS	Estimated Current Average Cost	Estimated Years Useful Life	Remaining Life
Concrete Surfaces - Repair	\$ 35,700	10	9
Asphalt - Resurface	108,435	30	29
Asphalt - Seal/Repair	9,395	5	4
Pole Lights - Replace	44,175	30	12
Wall Lights - Replace	11,425	25	8
Mailboxes - Replace	14,280	25	6
Chain Link Fence - Replace	12,850	30	9
Metal Fence - Replace	19,865	30	28
Wood Fence - Partial Replace	6,350	10	4
Vehicle Gates - Replace	14,280	30	12
Intercom - Replace	4,600	15	0
Gate Operators/Remotes - Replace	9,480	10	9
Backflow Device - Replace	7,150	25	6
Irrigation System - Repair/Replace	15,000	N/A	0
Landscaping - Replenish	20,000	N/A	0
Metal Fence - Repaint	3,500	5	3
Exterior Surfaces - Repaint	171,000	10	2
Exterior Surfaces - Repair	21,500	10	2
Comp Shingle Roof - Replace	454,500	30	25
Gutters/Downspouts - Replace (ph. 1)	59,650	30	16
Gutters/Downspouts - Replace (ph. 2)	29,850	30	21
Creek Bridge - Replace	15,900	25	20
Total	\$ 1,088,885		

N/A - Useful life of "N/A" means a one-time expense, not expected to repeat.

See independent accountants' review report.