

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

FINANCIAL STATEMENTS

August 31, 2014

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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, 2014, 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 10, 2014

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
AUGUST 31, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash - Checking	\$ 49,447	\$ 37,234	\$ 86,681
Cash - Certificate of Deposit	-	370,000	370,000
Owner Receivables	341	-	341
Interest Receivable	-	221	221
Prepaid Income Tax	98	-	98
Prepaid Insurance	4,298	-	4,298
Interfund Receivable (Payable)	<u>(18,077)</u>	<u>18,077</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 36,107</u>	<u>\$ 425,532</u>	<u>\$ 461,639</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 5,316	\$ -	\$ 5,316
Prepaid Assessments	<u>4,836</u>	<u>-</u>	<u>4,836</u>
TOTAL LIABILITIES	10,152	-	10,152
FUND BALANCES	<u>25,955</u>	<u>425,532</u>	<u>451,487</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 36,107</u>	<u>\$ 425,532</u>	<u>\$ 461,639</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, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessment Income	\$ 146,056	\$ 77,144	\$ 223,200
Late Fees	62	-	62
Interest Charges	3	-	3
Other Income	225	-	225
Interest Income	-	736	736
	<u>146,346</u>	<u>77,880</u>	<u>224,226</u>
TOTAL REVENUES	146,346	77,880	224,226
EXPENDITURES			
Utilities	29,176	-	29,176
Landscape	42,897	-	42,897
Building and Grounds	25,418	-	25,418
Administration	50,015	97	50,112
Repairs	-	4,847	4,847
Door Replacement	-	1,620	1,620
Landscaping	-	6,966	6,966
Gutters/Downspouts	-	4,560	4,560
Concrete Surfaces Repair	-	2,800	2,800
Grass Removal Project	-	9,695	9,695
Tree Removal	-	3,000	3,000
Lake Timer	-	2,900	2,900
	<u>147,506</u>	<u>36,485</u>	<u>183,991</u>
TOTAL EXPENDITURES	147,506	36,485	183,991
EXCESS OF REVENUES/(EXPENDITURES)	(1,160)	41,395	40,235
FUND BALANCES - BEGINNING OF THE YEAR	<u>27,115</u>	<u>384,137</u>	<u>411,252</u>
FUND BALANCES - END OF THE YEAR	<u>\$ 25,955</u>	<u>\$ 425,532</u>	<u>\$ 451,487</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, 2014

	<u>OPERATING</u> <u>FUND</u>	<u>REPLACEMENT</u> <u>FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess Revenues/(Expenditures)	\$ (1,160)	\$ 41,395	\$ 40,235
ADJUSTMENTS TO RECONCILE EXCESS REVENUES OVER EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
(INCREASE) DECREASE IN:			
Owners Receivables	1,395	-	1,395
Interest Receivable	-	10	10
Prepaid Income Tax	39	-	39
Prepaid Insurance	2,060	-	2,060
INCREASE (DECREASE) IN:			
Accounts Payable	(862)	-	(862)
Prepaid Assessments	496	-	496
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,968	41,405	43,373
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemptions (Investments) in Certificates of Deposit (Net)	-	200,461	200,461
CASH PROVIDED (USED) BY FINANCING ACTIVITIES			
Interfund Receivable/Payables	18,550	(18,550)	-
NET INCREASE (DECREASE) IN CASH	20,518	223,316	243,834
CASH - BEGINNING OF YEAR	28,929	183,918	212,847
CASH - END OF YEAR	<u>\$ 49,447</u>	<u>\$ 407,234</u>	<u>\$ 456,681</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, 2014

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, and money market mutual funds purchased to be cash or 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.

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, 2014

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, 2014, the Association had delinquent assessments and related charges of \$341. 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, 2014. 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 tax, and (b) nonexempt income (interest, laundry, etc., net of related expenses) is subject to income tax. For 2014, the Association had no taxable income on its nonexempt activities net of related expenses for federal purposes. The State of California taxable income was \$436 and state taxes were \$39. As of August 31, 2014 the Association has prepaid state taxes of \$98. The only periods subject to examination for the Association's income tax returns are the August 31, 2010 through August 31, 2014 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 August 28, 2014. The Replacement Fund balance at August 31, 2014 consisted of \$425,532 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 10, 2014 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, 2014

<u>Account #</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
	(Compiled)		
OPERATING REVENUES			
3001.01 Assessment Income	\$ 146,056	\$ 146,056	\$ -
3003.01 Late Fees	62	-	62
3005.01 Interest Charges	3	-	3
3020.01 Other Income	<u>225</u>	<u>-</u>	<u>225</u>
TOTAL OPERATING REVENUES	<u>146,346</u>	<u>146,056</u>	<u>290</u>
OPERATING EXPENDITURES			
UTILITIES			
5040.01 Electricity	5,434	4,100	(1,334)
5041.01 Water	<u>23,742</u>	<u>12,000</u>	<u>(11,742)</u>
TOTAL UTILITIES	<u>29,176</u>	<u>16,100</u>	<u>(13,076)</u>
LANDSCAPE			
6051.01 Landscape Maintenance	34,420	41,300	6,880
6052.01 Other Landscape	1,711	4,800	3,089
6063.01 Trees	6,050	6,500	450
6064.01 Irrigation	<u>716</u>	<u>1,000</u>	<u>284</u>
TOTAL LANDSCAPE	<u>42,897</u>	<u>53,600</u>	<u>10,703</u>
BUILDING AND GROUNDS			
6050.01 Tennis Court Maintenance	-	120	120
7060.01 Lakes & Waterways	6,870	1,000	(5,870)
7074.01 Gate	398	600	202
5045.01 Gate Telephone	689	500	(189)
7080.01 Repair And Maintenance	<u>17,461</u>	<u>16,000</u>	<u>(1,461)</u>
TOTAL BUILDING AND GROUNDS	<u>25,418</u>	<u>18,220</u>	<u>(7,198)</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, 2014

<u>Account #</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
	(Compiled)		
ADMINISTRATION			
4010.01 Insurance	26,592	32,600	6,008
4011.01 Legal	-	1,000	1,000
4012.01 Tax Return Preparation & Review	1,732	1,610	(122)
4013.01 Taxes	39	150	111
4089.01 Filing Fees	45	-	(45)
4014.01 Reserve Study	720	720	-
4017.01 General Office	1,209	1,500	291
4018.01 Social Committee	459	700	241
4019.01 Education & Seminars	275	650	375
4020.01 Website	80	250	170
4030.01 Management	18,850	18,720	(130)
4035.01 Resident Services	14	200	186
	<u>50,015</u>	<u>58,100</u>	<u>8,085</u>
TOTAL ADMINISTRATION			
	<u>147,506</u>	<u>146,020</u>	<u>(1,486)</u>
TOTAL OPERATING EXPENDITURES			
EXCESS OPERATING REVENUES/(EXPENDITURES)	<u>\$ (1,160)</u>	<u>\$ 36</u>	<u>\$ (1,196)</u>

See independent accountants' review report.

THE GLEN OF PACIFIC GROVE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
AUGUST 31, 2014
(Compiled)

As of August 31, 2014 the Replacement Fund balance was \$425,532. A study to estimate the remaining useful lives and replacement costs of the components of common property was conducted by Association Reserves dated August 28, 2014. Estimates used in the study were based on an annual inflation rate of 3.0% and net after tax interest accruing to reserves of 1.0%. 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	Estimated Years Remaining Life
Concrete Surfaces - Repair	\$ 37,450	10	8
Asphalt - Resurface	113,000	30	28
Asphalt - Seal/Repair	9,840	5	3
Pole Lights - Replace	45,800	30	11
Wall Lights - Replace	12,000	25	7
Mailboxes - Replace	15,050	25	5
Chain Link Fence - Replace	13,500	30	8
Metal Fence - Replace	20,850	30	27
Wood Fence - Partial Replace	6,605	10	3
Vehicle Gates - Replace	15,050	30	11
Intercom - Replace	4,825	15	0
Gate Operators - Replace	9,745	10	8
Backflow Device - Replace	7,500	25	5
Trees - Remove (2015)	5,000	N/A	0
Landscaping\Dredging	20,000	N/A	0
Metal Fence - Repaint	3,750	5	2
Exterior Surfaces - Repaint	177,500	10	1
Exterior Surfaces - Repair	22,450	10	1
Comp Shingle Roof - Replace	477,000	30	24
Gutters/Downspouts - Replace (ph. 1)	62,700	30	15
Gutters/Downspouts - Replace (ph. 2)	31,350	30	20
Creek Bridge - Replace	16,700	25	19
Total	\$ 1,127,665		

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

See independent accountants' review report.