

**The Glen of Pacific Grove Homeowners Association**  
c/o Regency Management Group  
24571 Silver Cloud Court, Suite 101  
Monterey, CA 93940  
(831) 647-2442

April 2, 2019

Dear The Glen of Pacific Grove Homeowner,

As required per Civil Code 5305, I have enclosed a copy of the 2018 reviewed financial statements which were prepared by Levy, Erlanger & Company Certified Public Accountants.

Please take a few moments to review the enclosed documents, and feel free to call me if you have any questions. Make sure to keep current copy of the Associations financial statements with your other Association related documents.

If you have questions or concerns, please feel free to contact Liane at the Regency office at (831) 647-2442 or via email at [lcunningham@regencymg.com](mailto:lcunningham@regencymg.com).

Cordially,



Carolyn Donaway  
General Manager  
Regency Management Group

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

**FINANCIAL STATEMENTS  
AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**LEVY, ERLANGER & COMPANY LLP  
Certified Public Accountants  
San Francisco, California**

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

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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**LEVY, ERLANGER & COMPANY LLP**  
Certified Public Accountants

290 King Street, Suite 12  
San Francisco, CA 94107

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

Board Of Directors  
**The Glen Of Pacific Grove Homeowners' Association, Inc.**  
Pacific Grove, California

We have reviewed the accompanying financial statements of **The Glen Of Pacific Grove Homeowners' Association, Inc.** (the Association) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in fund balances and cash flows, for the years then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Board Of Directors  
**The Glen Of Pacific Grove Homeowners' Association, Inc.**  
Independent Accountant's Review Report (Continued)

**Future Major Repairs and Replacements**

As further discussed in the notes to the financial statements, the Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting replacement reserve funding plan is a function of the completeness of the major component list and the accuracy of the estimated quantity, useful and remaining lives, and replacement costs of those components.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until sufficient funds are available.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed or compiled the required supplementary information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

*Terry. Erlanger : Company LLP*

March 5, 2019

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

**BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017**

	2018			2017
	Operations Fund	Replacement Fund	Total Funds	Total Funds
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 4,089	\$ 33,849	\$ 37,938	\$ 113,503
Investment in certificates of deposit (Note 2)		470,000	470,000	360,000
Assessments receivable (Note 2)	384		384	1,865
Prepaid insurance	3,608		3,608	1,596
Prepaid income taxes				30
Other prepaid expenses	3		3	
Total assets	<u>\$ 8,084</u>	<u>\$ 503,849</u>	<u>\$ 511,933</u>	<u>\$ 476,994</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 17,863	\$ -	\$ 17,863	\$ 3,160
Assessments paid in advance	5,567		5,567	1,643
Income taxes payable		795	795	180
Due to (due from) other fund	(32,571)	32,571		
Future major repairs and replacements (Note 3)	-	-	-	-
Total liabilities	<u>(9,141)</u>	<u>33,366</u>	<u>24,225</u>	<u>4,983</u>
<b>COMMITMENTS (NOTE 4)</b>	-	-	-	-
<b>FUND BALANCE (DEFICIT)</b>	<u>17,225</u>	<u>470,483</u>	<u>487,708</u>	<u>472,011</u>
Total liabilities and fund balance	<u>\$ 8,084</u>	<u>\$ 503,849</u>	<u>\$ 511,933</u>	<u>\$ 476,994</u>

See independent accountant's review report and accompanying notes.

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

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCES  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>			<u>2017</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>REVENUES</b>				
Assessments	\$ 158,160	\$ 72,240	\$ 230,400	\$ 223,200
Interest income (Note 2)		4,579	4,579	2,671
Late charges and other income	668		668	1,408
Total revenues	<u>158,828</u>	<u>76,819</u>	<u>235,647</u>	<u>227,279</u>
<b>EXPENSES</b>				
<u>Administration</u>				
Income tax provision (Note 2)	-	925	925	296
Insurance	19,850		19,850	24,310
Legal and accounting	1,490		1,490	1,935
Management	18,440		18,440	20,075
Office, printing and postage	4,905		4,905	2,992
Reserve study		925	925	900
	<u>44,685</u>	<u>1,850</u>	<u>46,535</u>	<u>50,508</u>
<u>Maintenance and operations</u>				
Gate maintenance	1,268	-	1,268	1,011
Gutter and downspouts	5,100		5,100	4,588
Lake maintenance	5,433		5,433	8,377
Landscape maintenance	61,333		61,333	48,841
Plumbing maintenance	2,652		2,652	1,448
Tree maintenance	183		183	500
Other maintenance and operations	8,699		8,699	10,672
	<u>84,668</u>	<u>-</u>	<u>84,668</u>	<u>75,437</u>
<u>Utilities</u>				
Gas and electricity	6,458	-	6,458	5,989
Telephone	978		978	1,213
Water and sewer	14,284		14,284	14,046
	<u>21,720</u>	<u>-</u>	<u>21,720</u>	<u>21,248</u>

See independent accountant's review report and accompanying notes.

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

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCES  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>			<u>2017</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>EXPENSES (CONTINUED)</b>				
<u>Major repairs and replacements</u>				
Dry rot repairs	\$ -	\$ 5,613	\$ 5,613	\$ 2,660
Entry and security system		5,055	5,055	
Lakes, ponds and waterways		2,307	2,307	
Landscaping, trees and irrigation		24,260	24,260	8,740
Lighting and electrical systems				3,986
Painting and waterproofing		2,999	2,999	
Paving and concrete		3,109	3,109	
Retaining and other walls				6,104
Sewer and drainage		6,063	6,063	
Sidewalks, paths and walkways				5,200
Other major repairs and replacements		17,621	17,621	21,896
	<u>-</u>	<u>67,027</u>	<u>67,027</u>	<u>48,586</u>
 Total expenses	 <u>151,073</u>	 <u>68,877</u>	 <u>219,950</u>	 <u>195,779</u>
 <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	 7,755	 7,942	 15,697	 31,500
 <b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	 (30,541)	 30,541	 -	 -
 <b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	 <u>40,011</u>	 <u>432,000</u>	 <u>472,011</u>	 <u>440,511</u>
 <b>FUND BALANCE (DEFICIT), END OF YEAR</b>	 <u>\$ 17,225</u>	 <u>\$ 470,483</u>	 <u>\$ 487,708</u>	 <u>\$ 472,011</u>

See independent accountant's review report and accompanying notes.



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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>Operations Fund</u>	<u>2018 Replacement Fund</u>	<u>Total Funds</u>	<u>2017 Total Funds</u>
<b>OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenues over expenses	\$ 7,755	\$ 7,942	\$ 15,697	\$ 31,500
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Decrease (increase) in assets:				
Assessments receivable	1,481	-	1,481	27
Interest receivable				896
Prepaid insurance	(2,012)		(2,012)	3,680
Prepaid income taxes		30	30	195
Other prepaid expenses	(3)		(3)	1,600
Increase (decrease) in liabilities:				
Accounts payable	14,703		14,703	(6,388)
Assessments paid in advance	3,924		3,924	(901)
Income taxes payable		615	615	26
Due to (due from) other fund	(31,671)	31,671		
Total adjustments	(13,578)	32,316	18,738	(865)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(5,823)</b>	<b>40,258</b>	<b>34,435</b>	<b>30,635</b>
<b>INVESTING ACTIVITIES</b>				
Net (purchase) sale of certificates of deposit	-	(110,000)	(110,000)	(110,000)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>-</b>	<b>(110,000)</b>	<b>(110,000)</b>	<b>(110,000)</b>

See independent accountant's review report and accompanying notes.

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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>Operations Fund</u>	<u>2018 Replacement Fund</u>	<u>Total Funds</u>	<u>2017 Total Funds</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (5,823)	\$ (69,742)	\$ (75,565)	\$ (79,365)
<b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	(30,541)	30,541	-	-
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>40,453</u>	<u>73,050</u>	<u>113,503</u>	<u>192,868</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,089</u>	<u>\$ 33,849</u>	<u>\$ 37,938</u>	<u>\$ 113,503</u>
 <b><u>Supplemental Disclosures</u></b>				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 280</u>	<u>\$ 280</u>	<u>\$ 75</u>

See independent accountant's review report and accompanying notes.

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

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **1. THE ASSOCIATION**

**The Glen Of Pacific Grove Homeowners' Association, Inc.** (the Association) is a common interest development located in Pacific Grove, California which consists of 60 residential units and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in June 1982 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Assessments.** Association members are subject to annual assessments, usually payable in equal monthly installments, to provide funds for operating expenses and major repairs and replacements. In addition to regular annual assessments, special and/or emergency assessments may be imposed by the Association's Board Of Directors, under certain circumstances without member approval. Any excess assessments at year end are retained by the Association for use in the succeeding year. Revenues and expenses and information about future major repairs and replacements are explained in greater detail in the annually-distributed pro forma operating budget (pursuant to California Civil Code Section 5300).

**Assessments receivable** at the balance sheet date represents the aggregate amount of assessments due from unit owners. The Association's policy is to retain a collection service and/or legal counsel and place liens on the properties of owners whose assessments are delinquent. In certain instances, foreclosure may be necessary. The collection process is explained in greater detail in the annually distributed annual statement of collection procedure (pursuant to California Civil Code Section 5730). Because of these collection procedures, the Board believes that, subject to a reasonable allowance for doubtful accounts, if any, all assessments are collectible. The estimate of allowance for doubtful accounts, if any, is based, generally, on amounts past due greater than 90 to 120 days.

See independent accountant's review report.

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of presentation.** The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

**Cash and cash equivalents.** 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. Cash equivalents are classified with cash in the balance sheet.

**Concentrations of credit risk.** Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Association maintains its financial instruments with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash, cash equivalents and investments in excess of federal deposit insurance (FDIC) coverage limits as of December 31, 2018 totaled approximately \$-0-.

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

**Fund accounting.** The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in two funds established according to their nature and purpose. The operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

See independent accountant's review report.

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income taxes** are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income, less related nonmembership expenses, subject to federal and California income taxes includes interest earned on cash and cash equivalents, and investments.

For federal purposes, the Association may elect to be taxed as either a regular corporation or as a homeowners association. In the former instance, it is taxed at a flat 21% rate on net nonmember income; in the latter case it is taxed at a flat 30% rate on net nonexempt function income (which is generally similar to net nonmember income). California income tax approximates 9% of net nonmember income.

The Association's tax filings are subject to audit by various taxing authorities: federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service and California income tax returns for the previous four years remain open to examination by the Franchise Tax Board. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

**Interest earned** on operations and replacement funds, net of related income taxes, is retained in said respective funds.

**Investments** consist of federally-insured certificates of deposit stated at cost which approximates market value.

**Membership** in the Association is mandatory by virtue of unit ownership.

**Real and personal common property** acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board Of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

See independent accountant's review report.

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**3. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents, and California state law (Civil Code Section 5300), require that the Board Of Directors provide for the repair and replacement of Association common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of day-to-day operating expenses.

The Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting reserve funding plan is a function of the completeness of the major component list, the accuracy of the estimated quantity, useful and remaining lives and current replacement costs of those components, and the reasonableness of significant funding assumptions, including but not limited to the projected major component cost increases (aka inflation) and interest earning rate(s) on replacement fund cash balances.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material.

Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until funds are available.

Additional information about future major repairs and replacements may be found in the annually-distributed pro forma operating budget and related assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 5300).

See independent accountant's review report.

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**4. COMMITMENTS**

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

**5. DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 5, 2019, the date that the financial statements were available to be issued.

See independent accountant's review report.

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

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2018  
(UNAUDITED)**

The following information on common area major components was compiled by Association Reserves of San Francisco, California **as of August 2018** and has served as the basis for the current estimates of replacement reserve funding:

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
<b>Common Area Components</b>			
103 Concrete Surfaces - Repair	10	5	\$65,000
201 Asphalt - Resurface	30	24	\$165,000
202 Asphalt - Seal/Repair	5	1	\$16,000
319 Pole Light Posts - Replace	50	23	\$45,000
320 Pole Light Fixtures - Replace	25	7	\$8,400
324 Wall Lights - Replace	25	23	\$13,500
403 Mailboxes - Replace	30	5	\$18,000
502 Chain Link Fence - Replace	30	4	\$15,500
503 Metal Fence - Replace	30	23	\$24,500
505 Wood Fence - Partial Replace	10	6	\$7,700
702 Vehicle Gates - Replace	30	7	\$18,000
704 Intercom - Replace	15	0	\$5,650
706 Gate Operators - Replace	10	4	\$11,500
1001 Backflow Device - Replace	25	1	\$8,750
1008 Trees - Removal & Replacement	10	5	\$52,000
1009 Lake - Dredge/Repair	7	3	\$57,000
1107 Metal Fence - Repaint	5	3	\$4,450
1116 Exterior Surfaces - Repaint	10	6	\$165,000
1121 Exterior Surfaces - Repair	10	6	\$27,000
1303 Comp Shingle Roof - Replace	30	20	\$495,000
1310 Gutters/Downspouts - Replace (ph.1)	30	28	\$73,000
1311 Gutters/Downspouts - Replace (ph.2)	30	16	\$36,500
1603 Tennis Court - Refurbish	10	2	\$8,650
1701 Creek Bridge - Replace	25	15	\$19,500
1703 Pond Sump Pumps - Replace	10	9	\$5,000
1811 Plumbing - Repair/Replace	10	7	\$30,000
<b>26 Total Funded Components</b>			

See independent accountant's review report and accompanying notes.



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

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2018  
(UNAUDITED)**

The Association has conducted a study to estimate the useful and remaining lives and current replacement costs of common property major components. Funding requirements consider an estimated **after-tax interest rate** of **1%** on replacement fund cash balances and an annual **inflation rate** of **3%** on major component replacement costs. The replacement fund **cash** and investment balances at December 31, 2018 totaled **\$503,849**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$530,000**. The portion of **2019** regular **assessments** budgeted to be allocated to the replacement fund totals **\$74,640**.

See independent accountant's review report and accompanying notes.