

DIABLO VIEW HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

Year Ended December 31, 2007

**KILIAN & COMPANY**  
*Certified Public Accountants*

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Certified Public Accountants

Chimes Block Building  
5290 College Avenue  
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(510) 414-2536 • Fax (510) 547-1623

## Independent Auditors' Report

The Board of Directors and Members  
Diablo View Homeowners Association  
Martinez, California

We have audited the accompanying balance sheet of Diablo View Homeowners Association (Association) as of December 31, 2007 and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. Our responsibility is to express an opinion on these financial statements 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 Diablo View Homeowners Association as of December 31, 2007 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

January 21, 2008

DIABLO VIEW HOMEOWNERS ASSOCIATION  
STATEMENT OF REVENUES AND EXPENSES  
AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>REVENUES</b>			
Homeowners assessments	\$ 173,952	\$ -	\$ 173,952
Interest income	-	11,963	11,963
Late charges and other	1,443	-	1,443
	<u>175,395</u>	<u>11,963</u>	<u>187,358</u>
<b>EXPENSES</b>			
Insurance	14,893	20,175	35,068
Gas and electricity	4,349	-	4,349
Water and sewer	11,562	-	11,562
Refuse removal	7,294	-	7,294
Maintenance	3,785	1,117	4,902
Pest control	1,775	-	1,775
Landscape	11,307	-	11,307
Pool	3,965	-	3,965
Income taxes	1,497	860	2,357
Management fees	11,160	-	11,160
Other administrative	1,387	-	1,387
Legal and accounting	1,390	-	1,390
Project management	-	7,932	7,932
Paving	-	5,930	5,930
Concrete	-	2,205	2,205
Miscellaneous	641	-	641
	<u>75,005</u>	<u>38,219</u>	<u>113,224</u>
Excess (deficiency) of revenues over expenses	100,390	(26,256)	74,134
Beginning fund balances	30,090	225,991	256,081
Interfund transfers	<u>(93,227)</u>	<u>93,227</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u><u>\$ 37,253</u></u>	<u><u>\$ 292,962</u></u>	<u><u>\$ 330,215</u></u>

See independent auditors' report and accompanying notes.

DIABLO VIEW HOMEOWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses	\$ 40,074	\$ (23,214)	\$ 16,860
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	(2,183)	-	(2,183)
Other receivable	(1,940)	-	(1,940)
Prepaid taxes	269	-	269
Increase (decrease) in:			
Accounts payable	(1,965)	-	(1,965)
Assessments paid in advance	406	-	406
	<u>34,661</u>	<u>(23,214)</u>	<u>11,447</u>
<b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
<b>INTERFUND TRANSFERS</b>	<u>(34,055)</u>	<u>34,055</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	606	10,841	11,447
<b>CASH AT BEGINNING OF YEAR</b>	<u>9,105</u>	<u>89,740</u>	<u>98,845</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 9,711</u></u>	<u><u>\$ 100,581</u></u> *	<u><u>\$ 110,292</u></u>

\* Comprised of:

First Bank:

    Money Market

\$ 14,052

    C/D, mat. 5/15/08, 4.65%

20,000

Community Association Bank:

    C/D, mat. 3/22/08, 4.97%

44,955

    C/D, mat. 4/29/08, 4.97%

21,574

\$ 100,581

See independent auditors' report and accompanying notes.

DIABLO VIEW HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2007

1. ORGANIZATION

Diablo View Homeowners Association (the Association) is a common interest subdivision located in Martinez, California that consists of 203 residences and certain common area property. The Association was incorporated as a California nonprofit corporation on April 4, 1985 to provide for management and maintenance of the common area property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts of the Association are maintained, and the accompanying financial statements are prepared, on the accrual basis of accounting.

(b) Fund Accounting

The funds of the Association are segregated according to the fund method of accounting. This methodology requires that funds, such as funds for operations, and funds for future major repairs and replacements, be classified separately for accounting and financial reporting purposes.

(c) Real and Personal Common Property

Real common property acquired by the original homeowners from the developer is not recognized on the Association's financial statements, because it is commonly owned by individual owners and its disposition by the Board of Directors is restricted. Similarly, replacements and improvements to real common property are not recognized.

(d) Income Taxes

Homeowners associations are not taxed on amounts received as assessments from owners, subject to certain regulations and the timely filing of tax returns. Income taxes are paid on income sources other than that related to the tax-exempt purposes of the Association, net of their related expenses. Non-exempt income on which the Association is taxable consists of interest income.

(e) Estimates

The preparation of financial statements in conformity with generally accepted accounting principle requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

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The supplementary information on future major repairs and replacements on page 8 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.

January 21, 2008

DIABLO VIEW HOMEOWNERS ASSOCIATION  
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS  
 AND REPLACEMENTS (UNAUDITED)  
 Year Ended December 31, 2007

The Association has had a replacement fund study performed, dated October 10, 2007, by Reserve Analysis Consulting, L.L.C. to estimate the remaining lives and replacement costs of the components or common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives.

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

	<u>Est. Use. Life</u>	<u>Est. Rem. Life</u>	<u>Current Replacement Cost</u>	<u>Replacement Fund Balance as of 12/31/2007</u>
<u>COMPONENTS</u>				
Asphalt:				
Bike Paths	5 - 40	3 - 16	\$ 26,860	\$
Concrete:				
Drainage Gutter Repairs	10	4	13,500	
Signage	Var.	17	3,100	
Retaining Walls	25 - 60	24	25,310	
Fencing	15	7 - 12	212,500	
Landscape/Irrigation	Var.	5 - 12	31,150	
Common Area	25	23	5,825	
Tot Lot Replacement	15	9	35,000	
Spring Riders	10	6	3,000	
Replacement Fund Balance			-	100,581
			<u>\$ 356,245</u>	<u>\$ 100,581</u>