

DIABLO VIEW HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

Year Ended December 31, 2006

KILIAN & COMPANY

Certified Public Accountants

DIABLO VIEW HOMEOWNERS ASSOCIATION
FINANCIAL STATEMENTS
Year Ended December 31, 2006

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Chimes Block Building
5290 College Avenue
Oakland, California 94618
(510) 414-2536 • Fax (510) 547-1623

Independent Auditors' Report

The Board of Directors
Diablo View Homeowners Association
Martinez, California

We have audited the accompanying balance sheet of Diablo View Homeowners Association (the Association) as of December 31, 2006 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 based 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, 2006 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.

Kilian & Company

February 5, 2007

DIABLO VIEW HOMEOWNERS ASSOCIATION
BALANCE SHEET
December 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
ASSETS			
Cash and cash equivalents	\$ 9,105	\$ 89,740	\$ 98,845
Assessments receivable	1,220	-	1,220
Prepaid income taxes	<u>269</u>	<u>-</u>	<u>269</u>
	<u>\$ 10,594</u>	<u>\$ 89,740</u>	<u>\$100,334</u>
LIABILITIES			
Accounts payable	\$ 1,965	\$ -	\$ 1,965
Assessments paid in advance	4,515	-	4,515
Liability for replacement of major components (Note 3)	-	-	-
Commitments and contingencies (Note 4)	<u>-</u>	<u>-</u>	<u>-</u>
	6,480	-	6,480
FUND BALANCES	<u>4,114</u>	<u>89,740</u>	<u>93,854</u>
	<u>\$ 10,594</u>	<u>\$ 89,740</u>	<u>\$100,334</u>

See independent auditors' report and accompanying notes.

DIABLO VIEW HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
Year Ended December 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
REVENUES			
Homeowner assessments	\$ 99,876	\$ -	\$ 99,876
Interest	-	2,537	2,537
Late charges and other	<u>1,881</u>	<u>-</u>	<u>1,881</u>
	<u>101,757</u>	<u>2,537</u>	<u>104,294</u>
EXPENSES			
Insurance	5,975	-	5,975
Water and sewer	3,997	-	3,997
Electricity and gas	117	-	117
Maintenance	1,676	3,141	4,817
Landscape	19,020	1,775	20,795
Weed abatement	2,450	-	2,450
Trees	225	-	225
Management fees	22,620	-	22,620
Office expenses	1,582	-	1,582
Accounting and legal	1,909	-	1,909
Income taxes	222	-	222
Social functions	668	-	668
Website	107	-	107
Reserve study	-	400	400
Seal asphalt	-	4,300	4,300
Irrigation repairs	-	1,370	1,370
Miscellaneous	<u>1,729</u>	<u>2,350</u>	<u>4,079</u>
	<u>62,297</u>	<u>13,336</u>	<u>75,633</u>
Excess (deficiency) of revenues over expenses	39,460	(10,799)	28,661
Beginning fund balances	(2,606)	67,799	65,193
Interfund transfers	<u>(32,740)</u>	<u>32,740</u>	<u>-</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 4,114</u>	<u>\$ 89,740</u>	<u>\$ 93,854</u>

See independent auditors' report and accompanying notes.

DIABLO VIEW HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006

	Operating Fund	Replacement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 39,460	\$ (10,799)	\$ 28,661
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	390	-	390
Prepaid income taxes	(269)	-	(269)
Increase (decrease) in:			
Accounts payable	470	-	470
Assessments paid in advance	1,642	-	1,642
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	41,693	(10,799)	30,894
INTERFUND TRANSFERS	(32,740)	32,740	-
NET INCREASE (DECREASE) IN CASH	8,953	21,941	30,894
CASH AT BEGINNING OF YEAR	152	67,799	67,951
CASH AT END OF YEAR	\$ 9,105	\$ 89,740*	\$ 98,845

*Comprised of:

First Bank Money Market	\$ 26,316
Community Association Bank:	
C/D, mat. 3/22/07, 4.500%	42,825
C/D, mat. 4/29/07, 3.920%	20,599
	\$ 89,740

See independent auditors' report and accompanying notes.

DIABLO VIEW HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2006

1. ORGANIZATION

Diablo View Homeowners' Association (the Association) is a common interest subdivision located in Martinez, California which 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 and personal 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 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. Other amounts received by the Association do not qualify as exempt income and are taxed, net of their related expenses.

DIABLO VIEW HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
Year Ended December 31, 2006

3. LIABILITY FOR REPLACEMENT OF MAJOR COMPONENTS

Under provisions of its governing documents, the Board of Directors is responsible for the repair and maintenance of the common area property. The Association has had an replacement reserve study performed on November 7, 2006 by Reserve Analysis Consulting, L.L.C. This replacement reserve study is a guide for the Board and future Boards of Directors to budget funds for long-term replacement of major components.

Based on estimated current replacement costs of \$356,245 the replacement reserve study update indicates that as of December 31, 2006 the amount that should be in the replacement fund for non-land related capital improvements, the accumulated replacement liability, was approximately \$130,186. Therefore, the replacement fund balance as of December 31, 2006 (approximately \$89,740) does not represent 100% funding of the anticipated future major repairs and replacements.

Accordingly, the current funding program may or may not be sufficient to meet all future major component repair and replacement costs. The ability of the Association to meet all future major component repair and replacement costs is dependent upon annual increases in that portion of the regular assessment which is allocated to the replacement fund, and/or special assessments. In the event that sufficient funds are not available for the repair and replacement of major components, the Board may increase regular assessments, levy special assessments, or delay repair and replacement until sufficient funds are available.

4. COMMITMENTS

The Association contracts for management and certain maintenance services on an annual basis. The contracts are generally cancellable on 30 to 90 days notice.

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The Board of Directors
Diablo View Homeowners Association
Martinez, California

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.

Kilian & Company

February 5, 2007

DIABLO VIEW HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 Year Ended December 31, 2006

The Association has had a replacement fund study update performed, dated November 7, 2006, by Reserve Analysis Consulting, L.L.C. to estimate the remaining useful lives and replacement costs of the components of 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 presents significant information about the components of common property:

	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Replacement Fund Balance at December 31, 2006</u>
<u>Components</u>			
Asphalt:			
Bike Paths	2 - 4	\$ 26,860	\$
Concrete:			
Drainage Gutter Repairs	5	13,500	
Signage	18	3,100	
Retaining Walls	25	25,310	
Fencing	8 - 13	212,500	
Landscape/Irrigation	6 - 13	31,150	
Common Area	3	5,825	
Tot Lot Replacement	10	35,000	
Spring Riders	7	3,000	
Replacement Fund Balance		<u> -</u>	<u>89,740</u>
		<u>\$ 356,245</u>	<u>\$ 89,740</u>