

IMPORTANT

DRAFT

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Financial Statements

December 31, 2004

**The Board of Directors
Muir Terrace Homeowners' Association, Inc.**

We have reviewed the accompanying balance sheets of Muir Terrace Homeowners' Association, Inc. as of December 31, 2004 and the related statements of revenues and expenses, changes in members' equity and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Association.

A review consists principally of inquiries of personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole; accordingly, we do not express such an opinion.

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

The schedule of future major repairs and replacements 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.

March 23, 2005

Hacker, Rasmell & Associates

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Balance Sheet
December 31, 2004

ASSETS

Operating Assets:

Cash and Cash Equivalents	\$ 20,227
Short-Term Investments	68,516
Member Assessments Receivable	27,096
Prepaid Income Taxes	<u>256</u>
Total Assets	<u>\$ 116,095</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Accounts Payable	\$ 5,476
Prepaid Assessments	<u>166</u>
Total Liabilities	5,642

Members' Equity	<u>110,453</u>
Total Liabilities and Members' Equity	<u>\$ 116,095</u>

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Statement of Revenues and Expenses
Year Ended December 31, 2004

Revenues:	
Member Assessments:	
Operations.....	\$ 287,880
Future Major Repairs and Replacements.....	12,000
Interest Earned.....	<u>729</u>
Total Revenues.....	300,609
Expenses:	
Landscaping.....	15,346
Pool Maintenance.....	5,403
Management Fees.....	23,760
Administrative.....	1,903
Elevator Maintenance.....	4,630
Legal and Professional.....	14,538
Insurance.....	76,703
Fire Extinguisher Maintenance.....	2,328
Security.....	4,320
Janitorial.....	18,221
Pest Control.....	1,567
Gate Maintenance.....	380
Maintenance.....	8,220
Utilities.....	76,040
Bad Debt.....	-2,000
Provision For Income Taxes.....	792
Other Tax and Licenses.....	<u>60</u>
Total Expenses.....	<u>252,211</u>
Excess Revenues Over Expenses Before Replacement Fund Allocations.....	48,398
Major Repairs and Replacements.....	<u>(52,848)</u>
Excess (Deficit) Revenues Over Expenses.....	<u>\$ (4,450)</u>

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Statement of Changes in Members' Equity
Year Ended December 31, 2004

	<u>Future Major Repairs and Replacements</u>	<u>Retained Earnings</u>	<u>Total Members' Equity</u>
Members' Equity - January 1, 2004.....	\$ 119,570	\$ (4,667)	\$ 114,903
Excess Revenue (Deficit) over Expenses	-	(4,450)	(4,450)
Amounts Allocated to Major Repairs and Replacements	(43,058)	43,058	-
Transfer From Future Major Repairs and Replacements to Retained Earnings.....	<u>(63)</u>	<u>63</u>	<u>-</u>
Members' Equity - December 31, 2004.....	<u>\$ 76,449</u>	<u>\$ 34,004</u>	<u>\$ 110,453</u>

The accompanying notes are an integral part of the financial statements.

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Statement of Cash Flows
Year Ended December 31, 2004

Cash Flows from Operating Activities:

Excess Revenues (Deficit) over Expenses.....	\$	(4,450)
Adjustments to Reconcile Excess Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:		
Provision For Losses on Assessments Receivable		(2,000)
(Increase) Decrease in Member Assessments Receivable		(23,471)
(Increase) Decrease in Prepaid Insurance		-
(Increase) Decrease in Prepaid Taxes		21
Increase (Decrease) in Accounts Payable		(2,795)
Increase (Decrease) in Taxes Payable.....		(15)
Increase (Decrease) in Prepaid Assessments		<u>166</u>
Net Cash Provided (Used) by Operating Activities.....		<u>(32,544)</u>
 Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year		 <u>121,287</u>
 Cash, Cash Equivalents, and Short-Term Investments at End of Year	\$	<u>88,743</u>
 Analysis of Cash and Cash Equivalents:		
Cash, Cash Equivalents - Operations.....	\$	12,432
Cash, Cash Equivalents, and Short-Term Investments - Future Major Repairs and Replacements		<u>76,311</u>
 Total Cash, Cash Equivalents, and Short-Term Investments:	\$	<u>88,743</u>

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Schedule of Expenditures for Major Repairs and Replacements
Year Ended December 31, 2004

Expenditures:

Building Repairs.....	\$ 5,985
Doors	2,240
Elevators	23,769
Floors.....	340
Paint.....	1,700
Landscape.....	395
Lighting	478
Plumbing	1,540
Roof.....	1,500
Termite	650
Water Heater/Boiler	2,417
Reserve Interest	(666)
General	<u>\$ 12,500</u>

Total Expenditures for Major Repairs and Replacements **\$ 52,848**

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Notes to Financial Statements
December 31, 2004

(1) Organization

Muir Terrace Homeowners' Association, Inc. is a statutory association organized as a not-for-profit corporation for the purposes of maintaining and preserving common property of Muir Terrace Homeowners' Association, Inc. at Monterey Hills. Muir Terrace Homeowners' Association, Inc. consists of 90 residential units. The Association began its operations in November 1981.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. Accordingly, revenues and expenses are recorded when recognized. Disbursements from replacement funds generally may be made only for designated purposes.

Interest Earned

The Association's policy is to allocate to replacement funds interest earned on all cash accounts net of income taxes.

Cash Equivalents

Highly liquid investments with original maturities of three months or less are considered cash equivalents.

Short - Term Investments

Investments with maturities between three and twelve months are considered to be short-term investments. Investments consist of Certificate of Deposits as of December 31, 2004. The Association adopted Statement of Financial Accounting Standards No. 115, Accounting For Certain Investments in Debt and Equity Securities (SFAS No. 115). This standard requires that certain debt and equity securities be adjusted to market value at the end of each accounting period. Unrealized market value gains and losses are changed to earnings and are included in interest earned.

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Notes to Financial Statements
December 31, 2004

(3) Income Taxes

For the year ended December 31, 2004, the Association has been granted tax-exempt status under Federal and California income tax codes. The codes permit the Association to elect to have members' dues and assessments exempt from income taxes. In 2004, the Association elected to file as a homeowners' association in accordance with Internal Revenue Service Code section 527. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to homeowners. The Association's investment income and other non-exempt income were subject to tax at a rate of 30 percent for federal and 8.84 for California.

The Association had taxable income of \$338 and \$454 for federal and state, respectively. The tax provision for the year ended December 31, 2004 consisted of the following:

Federal Provision.....	\$ 101
State Provision	40
	141
Less: Prior Year's Credits & Estimated Tax Payments	<u>(397)</u>
	<u>\$ (256)</u>

(4) Homeowner Assessments

Monthly assessments to owners were based on the layout and size of each unit. Assessments ranged from \$238 to \$308 for the year ended December 31, 2004. Of that amount, \$11 was designated to replacement funds.

The annual budget and assessments of homeowners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Notes to Financial Statements
December 31, 2004

(5) Cash

The Association's cash, cash equivalents, and investment account balances as of December 31, 2004 were as follows:

<u>Institution</u>	<u>Interest Rate</u>	<u>Amount</u>
Cash and Cash Equivalents for Operations:		
Citizens Bank	-	\$ 12,432
Total Cash and Cash Equivalents for Operations		12,432
Cash, Cash Equivalents and Investments For Future Major Repairs and Replacements:		
First American Bank	various	\$ 7,795
Citibank - 1826	0.80%	22,498
Citibank - 9742	1.09%	<u>46,018</u>
Total Cash, Cash Equivalents, and Short-Term Investments - For Future Major Repairs and Replacements		76,311
Total Cash, Cash Equivalents and Investments		<u>\$ 88,743</u>

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Notes to Financial Statements
December 31, 2004

(6) Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

Reserve Data Analysis conducted a study on October 4, 2004 to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future.

Funds are not being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material, therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

(7) Assessments Receivable

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears. It is the opinion of the Association that it will prevail against homeowners whose assessments are delinquent.

(8) Litigation

The Association is currently a defendant in a Superior Court action, filed by a few Association homeowners. The parties have discussed settlement of a nominal amount, but the matter has not been resolved. Should this matter go to trial, the Association's potential liability is estimated to be minimal.

**MUIR TERRACE
HOMEOWNERS' ASSOCIATION, INC.**

Supplementary Information on Future Major
Repairs and Replacements
December 31, 2004

(Unaudited)

Reserve Data Analysis conducted a study in 2004 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates are based on future estimated replacement costs. Funding requirements were based on an annual inflation rate of 3.00 percent and interest of 2.00 percent, net of taxes, on amounts funded for future major repairs and replacements costs.

<u>Components</u>	<u>Estimated Remaining Useful Life in Years</u>	<u>Estimated Replacement Costs</u>	<u>2005 Funding Requirement</u>	<u>Components of Fund Balance at December 31, 2004</u>
Concrete	0-2	\$ 5,163	\$ 2,329	\$ 4,755
Roofs	17	661,139	27,370	1,500
Painting	1	110,120	33,766	16,288
Fencing	1-7	48,780	17,905	-
Access-Entry	1-10	77,030	11,815	2,245
Pool & Spa	6-9	18,202	2,012	8,378
Pool & Spa Area	0-7	60,523	14,214	6,057
Rec Room HVAC	3	6,529	2,083	5,452
North & South Lobby	9-29	55,521	1,909	-
Elevators	1-3	121,295	71,713	(82)
Halls	1-20	112,569	76,882	43,493
Mailboxes/Signs	7-15	13,369	1,081	4,200
Fire Alarm/Extinguisher	7-23	59,366	2,405	-
Hot Water Boiler	17	43,238	1,790	(317)
Landscape	6	3,998	597	2,657
Reserve Interest Income	-	-	-	663
Contingency	-	-	8,076	-
General Operating	-	-	-	(18,500)
		<u>\$ 1,396,842</u>	<u>\$ 275,947</u>	<u>\$ 76,449</u>