

Barron square

**TO: ALL MEMBERS OF
BARRON SQUARE HOMEOWNERS ASSOCIATION**

**FROM: THOMAS HILL, PML MANAGEMENT CORP.
ASSOCIATION MANAGER**

**SUBJECT: COPY OF INDEPENDENT AUDITORS' REPORT
FOR YEARS ENDED DEC. 31, 2005 AND 2004**

DATE: APRIL 28, 2006

Enclosed please find your copy of the *Financial Statements and Independent Auditors' Report for the Years Ended December 31, 2005 and 2004*, more commonly referred to as the AUDIT, for Barron Square Homeowners Association as prepared by Levy, Erlanger & Company, CPA's, the Association's auditors. This audit is being mailed to you as specified in Section 1365 of the California Civil Code.

Please keep your copy of the AUDIT with your other Association documents for easy reference and for availability in the event that you should sell or refinance your unit.

If you have any question regarding the AUDIT, please submit them, *in writing*, to the Board of Governors, in care of PML Management at the address below.

Encl.

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THE BARRON SQUARE HOMEOWNERS ASSOCIATION

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YEARS ENDED DECEMBER 31, 2005 AND 2004**

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LEVY, ERLANGER & COMPANY
Certified Public Accountants

222 Front Street, Suite 700
San Francisco, CA 94111

INDEPENDENT AUDITORS' REPORT

Board Of Directors
The Barron Square Homeowners Association
Palo Alto, California

We have audited the accompanying balance sheets of **The Barron Square Homeowners Association** (the Association) as of December 31, 2005 and 2004 and the related statements of revenues, expenses and changes in fund balances and the statements of cash flows for the years then ended. These statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 **The Barron Square Homeowners Association** as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As further discussed in the notes to the financial statements and the accompanying supplementary information, 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 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.

Board Of Directors
The Barron Square Homeowners Association
Independent Auditors' Report (Continued)

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 delay repair and replacement until sufficient funds are available.

The Supplementary Information on Future Major Repairs And Replacements that accompanies the financial statements 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 therefore express no opinion on it.

Levy, Ellery & Company

February 21, 2006

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**BALANCE SHEETS
DECEMBER 31, 2005 AND 2004**

	2005			2004
	Operations Fund	Replacement Fund	Total Funds	Total Funds
ASSETS				
Cash and cash equivalents (Note 2)	\$ 10,116	\$ 46,675	\$ 56,791	\$ 92,811
Investment in certificates of deposit		590,000	590,000	460,000
Assessments receivable (Note 3)	61		61	60
Interest receivable		5,585	5,585	3,248
Other receivables				518
Prepaid insurance	20,326		20,326	20,777
Other prepaid expenses	6,761		6,761	978
	-----	-----	-----	-----
Total assets	\$ 37,264	\$ 642,260	\$ 679,524	\$ 578,392
	=====	=====	=====	=====
LIABILITIES				
Accounts payable	\$ 4,275	\$ 1,174	\$ 5,449	\$ 5,950
Assessments paid in advance	1,839		1,839	5,547
Income taxes payable	19	1,274	1,293	59
Interfund reclassifications and transfers	22,776	(22,776)		
Future major repairs and replacements (Note 4)	-	-	-	-
	-----	-----	-----	-----
Total liabilities	28,909	(20,328)	8,581	11,556
COMMITMENTS (NOTE 5)				
	-	-	-	-
FUND BALANCE (DEFICIT)				
	8,355	662,588	670,943	566,836
	-----	-----	-----	-----
Total liabilities and fund balances	\$ 37,264	\$ 642,260	\$ 679,524	\$ 578,392
	=====	=====	=====	=====

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005			2004
	Operations Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Assessments	\$ 188,004	\$ 172,512	\$ 360,516	\$ 342,553
Major repairs special assessment		8,061	8,061	
Interest income (Note 2)	247	16,038	16,285	10,233
Late charges and other income	151		151	1,546
Total revenues	188,402	196,611	385,013	354,332
EXPENSES				
<u>Maintenance and operations</u>				
Landscape maintenance	52,212	-	52,212	52,839
Facilities maintenance	36,402		36,402	25,986
Pool and spa maintenance	4,853		4,853	5,740
	93,467	-	93,467	84,565
<u>Administration</u>				
Insurance	44,929	-	44,929	46,010
Management	22,620		22,620	21,865
Office expense	7,476		7,476	5,635
Income tax provision (Note 2)	50	3,283	3,333	1,979
Legal and accounting	2,645		2,645	3,666
Reserve study	1,530		1,530	
	79,250	3,283	82,533	79,155
<u>Major repairs and replacements</u>				
Gutters and downspouts	-	41,600	41,600	44,300
Landscaping		9,891	9,891	22,016
Clubhouse				12,103
Paving				11,991
Decks, stairs and balconies				53,044
Other major repairs and replacements		27,552	27,552	27,318
	-	79,043	79,043	170,772
<u>Utilities</u>				
Water and sewer	18,764	-	18,764	14,966
Gas and electricity	5,539		5,539	4,948
Cable TV	1,560		1,560	1,430
	25,863	-	25,863	21,344
Total expenses	198,580	82,326	280,906	355,836

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2005 AND 2004
(CONTINUED)

	2005			2004
	Operations Fund	Replacement Fund	Total Funds	Total Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (10,178)	\$ 114,285	\$ 104,107	\$ (1,504)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	18,533	548,303	566,836	568,340
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 8,355</u>	<u>\$ 662,588</u>	<u>\$ 670,943</u>	<u>\$ 566,836</u>

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005			2004
	Operations Fund	Replacement Fund	Total Funds	Total Funds
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ (10,178)	\$ 114,285	\$ 104,107	\$ (1,504)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Decrease (increase) in assets:				
Assessments receivable	(1)	-	(1)	1
Special assessment receivable				12,861
Interest receivable		(2,337)	(2,337)	217
Other receivables	518		518	(518)
Prepaid insurance	451		451	2,347
Prepaid income taxes				629
Other prepaid expenses	(5,783)		(5,783)	(76)
Increase (decrease) in liabilities:				
Accounts payable	(1,675)	1,174	(501)	(4,886)
Assessments paid in advance	(3,708)		(3,708)	374
Income taxes payable	19	1,215	1,234	59
Interfund reclassifications and transfers	870	(870)		
Total adjustments	(9,309)	(818)	(10,127)	11,008
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(19,487)	113,467	93,980	9,504
INVESTING ACTIVITIES				
(Purchase) sale of certificates of deposit	-	(130,000)	(130,000)	(45,000)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	-	(130,000)	(130,000)	(45,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,487)	(16,533)	(36,020)	(35,496)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,603	63,208	92,811	128,307
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 10,116	\$ 46,675	\$ 56,791	\$ 92,811

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(CONTINUED)**

	----- 2005 -----			----- 2004 -----
	Operations Fund	Replacement Fund	Total Funds	Total Funds
	-----	-----	-----	-----
<u>Supplemental Disclosures</u>				
Interest paid	\$ -	\$ -	\$ -	\$ -
	=====	=====	=====	=====
Income taxes paid	\$ 31	\$ 2,068	\$ 2,099	\$ 1,291
	=====	=====	=====	=====

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 1 - THE ASSOCIATION

The Barron Square Homeowners Association (the Association) is a common interest subdivision located in Palo Alto, California which consists of 65 residences and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in April 1976 to provide for management and maintenance of the common area property.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Fund accounting is helpful in segregating differing types of activities. Expenses related to day-to-day management and maintenance of the Association are generally made from the operations fund. Expenditures for major component repairs and replacements are generally made from the replacement fund.

Cash and cash equivalents consist of cash, bank and savings deposits or other short-term investments with maturities of three months or less from the date they were purchased.

Cash and investments in excess of federal deposit insurance corporation (FDIC) coverage as of December 31, 2005 totaled approximately \$-0-.

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

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Real and personal common property acquired by the original homeowners 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, repairs, replacements and improvements to real and personal common property are not recognized.

Income taxes are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income on which the Association is subject to federal and California income taxes includes interest earned on accumulated cash balances.

Use of 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.

NOTE 3 - ASSESSMENTS RECEIVABLE

Because assessments are enforceable by placing a lien against title to the individual residence of a delinquent owner, and, ultimately, through the process of foreclosure, the Board of Directors believes that such procedures will result in collection of the assessments receivable.

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(CONTINUED)**

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, and California state law (Civil Code Section 1365), require that the Board of Directors provide for the repair and replacement of common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of everyday 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 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 until funds are available.

NOTE 5 - COMMITMENTS

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

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2005
(UNAUDITED)**

The following information on common area major components was compiled by Carter-Gough & Company of Martinez, California as of December 2002, and has served as a basis for the current estimates of replacement reserve funding:

Component	Pres. Est. Cost	Est. Use. Life	Est. Rem. Life
UILDING EXTERIORS			
Shingles, Residential & Clbhse - Repair	21,425	3	0
T-111 Siding - Repair	32,137	3	0
Termite Fumigation & Repairs (2006)	15,000	10	0
Termite Fumigation & Repairs (2007)	15,000	10	1
Termite Fumigation & Repairs (2008)	15,000	10	2
Termite Fumigation & Repairs (2009)	15,000	10	3
Straight Stairs & Entr Dk - Replace (6) @ \$8500	54,638	28	25
Straight Stairs & Entr Dk - Replace (3) @ \$8500	27,324	28	11
U-Shaped Stairs & Dk - Replace (7) @ \$15000	112,484	28	25
U-Shaped Stairs & Dk - Replace (2) @ \$15000	32,137	28	14
L-Shaped Stairs & Dk - Replace (8) @ \$12000	102,838	28	25
L-Shaped Stairs & Dk - Replace (1) @ \$12000	12,855	28	5
L-Shaped Stairs & Dk - Replace (3) @ \$12000	38,564	28	12
Other Stairs & Dk - Repair	30,108	6	4
Small Balconies - Replace (4) @ \$7330	31,412	30	27
Small Balconies - Replace (4) @ \$7330	31,412	30	7
Small Balconies - Replace (2) @ \$7330	15,711	30	13
Townhouse Balconies - Replace (3) @ \$12300	39,537	30	3
Townhouse Balconies - Replace (2) @ \$12300	26,361	30	9
Large Balconies - Replace (23)	421,317	30	27
Large Balconies - Replace (8)	146,546	30	9
Large Balconies - Replace (10)	183,185	30	13
Large Balconies - Replace (10)	183,185	30	17
Large Balconies - Replace (10)	183,185	30	21
Large Balconies - Replace (5)	91,598	30	25
Repair Small, Large, & Twnhse Balconies	98,553	6	3
Gutters & Downspouts - Replace + Paint	94,175	25	24
Trash Enclosure Doors - Replace & Paint (68)	12,606	20	14
GROUNDS			
Entry Sign (Monument)	2,256	21	12
Signs & Mapboard - Replace	2,381	12	11
Concrete Repairs	7,000	3	0
Fence - Chain-Link - Replace	11,354	30	5
Fence - Wood - Property Line	8,280	20	18
Fence - Property line	20,700	20	14
Fence - Wood - Patio Fences	20,358	18	17
Fence - Wood - Patio Fences	20,358	18	7
El Camino & Steel Pool Gates - Replace	7,763	25	4
Wood Gates - Clbhse - Replace	652	20	1
Irrigation (Controllers, Valves , etc.)	35,211	13	3
Large Tree Care	15,525	2	0
Light Fixtures	48,421	25	10
Mail Kiosks	12,969	23	12
Television System - MATV	6,427	15	2
PAVING			
Asphalt Paving - Major Repair	57,008	40	18
Asphalt Paving - Slurry Coating & Repairs	14,764	5	3
ROOFS - FLAT			
Buildings 1, 4, 5 & 7 - Replace	30,794	20	11
Buildings 2, 3 & 6 - Replace	26,288	20	10
Building 8 - Replace	6,751	20	14
Buildings 9,10,11 &12 - Replace	30,623	20	13
Clubhouse & Garages - Replace	34,155	20	14
All Res., Garages, & Clbhse - Repair	15,008	5	0

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2005
(UNAUDITED)
(CONTINUED)**

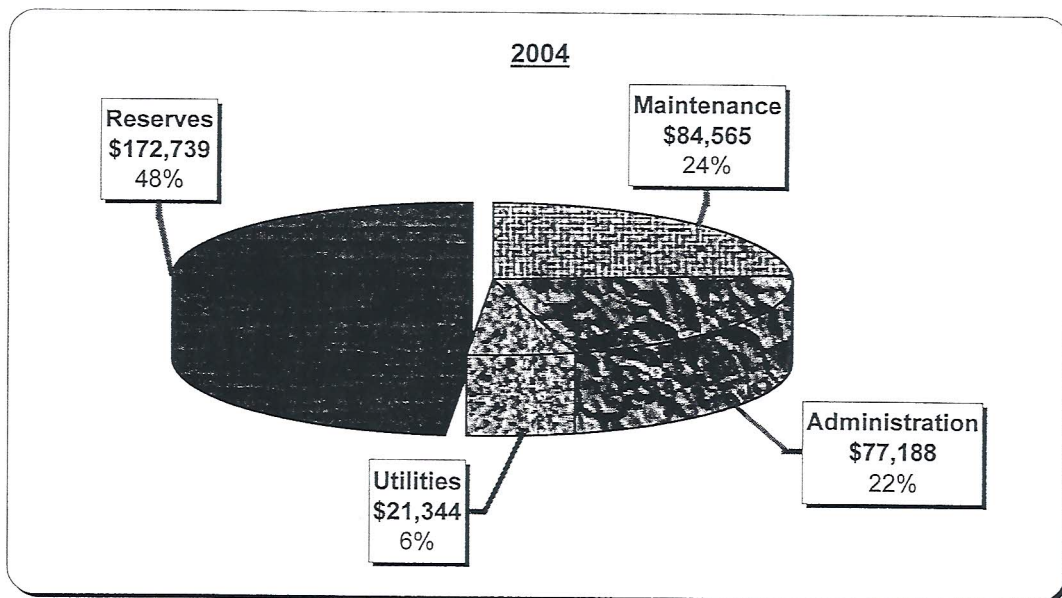
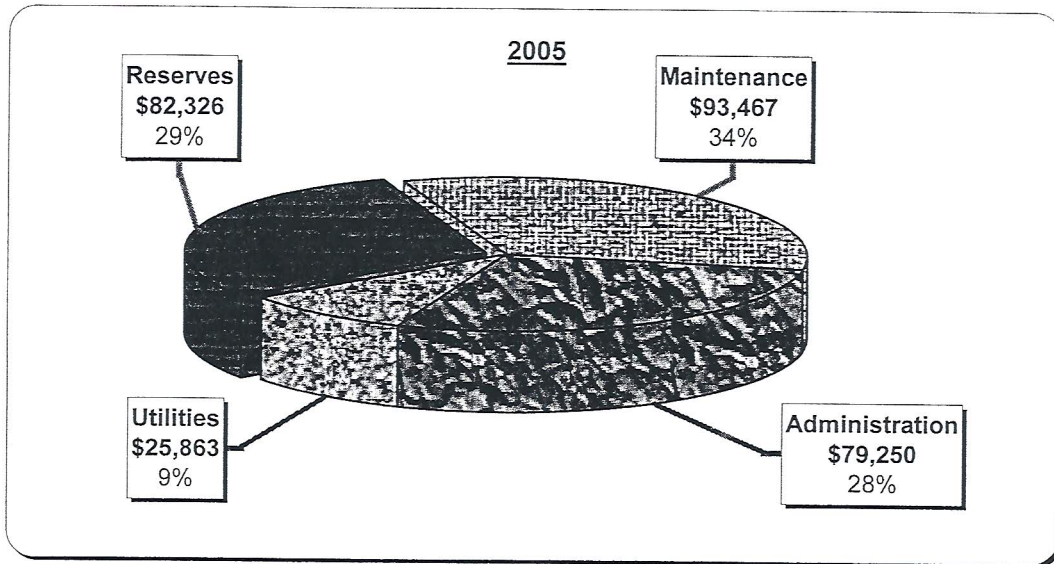
Component	Pres. Est. Cost	Est. Use. Life	Est. Rem. Life
ROOFS - SHAKE			
Buildings 1, 4, 5 & 7 - Replace	177,166	35	26
Buildings 2, 3 & 6 - Replace	102,089	35	25
Building 8 - Replace	40,828	35	29
Buildings 9, 10, 11 & 12 - Replace	184,772	35	28
Clubhouse - Replace	17,890	35	29
Garages-528,544,550,582,4128,4137, & 4139	10,012	35	23
Garages - All 57 Other Units - Replace	75,085	36	29
All Res., Garages, Clbhse - Repair	23,546	7	2
CLUBHOUSE AREA			
Carpet - Replace	2,225	10	9
Linoleum - Replace	2,000	15	0
Furniture Replace	7,540	10	9
Refrigerator - Replace	480	15	14
Disposal - Replace	279	20	1
HVAC Unit - Replace	3,500	26	1
Clubhouse & Sauna Fans - Replace	756	15	3
Sauna Room Rehabilitation	9,543	30	5
Sauna Mechanical - Replace	1,180	20	4
Spa - Replace	5,630	18	4
Pool Replaster & Tile	8,787	15	13
Pool Signs - Replace	186	6	4
Pool Area Retaining Wall/Planter - Replace	10,712	18	16
Pool Furniture - Replace	1,328	8	7
Pool/Spa Mechanical - Replace	12,969	18	12
Spa Heater - Replace	1,563	12	1
Pool/Spa Chlorinators & Filters	1,791	12	1
Pool/Spa Pumps & Motors - Replace	2,080	15	1
Storage Shed (Modular) - Replace	1,346	15	1
Clubhouse Deck & Stairs - Replace	7,876	18	9
Water Heater, 50 Gal.	942	12	1
PAINT			
Paint - Interior (Clubhouse)	4,000	10	9
Paint - Mail Kiosks, signs, etc.)	1,573	8	5
Paint - Wood Fences	20,700	8	5
Paint - Garages & Garbage Areas	24,809	8	5
Paint - Residences	43,201	8	5
Paint - Doors	7,183	8	5
TENNIS COURT			
Tennis Court - Resurface	3,405	10	1
Tennis Court Net - Replace	207	5	4
Basket Ball Pole/Net - Replace	238	10	9
MISCELLANEOUS & CONTINGENCIES			
Arborist Tree Report	5,382	5	3
Reserve Study	1,700	3	2
Merrill Lynch Service Charge			
Unallocated Items	5,175	1	0

The Association has conducted a study to estimate the remaining lives and current replacement costs of common property major components. Funding requirements consider an estimated before-tax annual interest rate of -0-% on replacement fund cash balances and an annual inflation rate of 3-1/2% on major component replacement costs. The replacement fund cash and investment balances at December 31, 2005 totaled \$636,675. The estimated liability for major repairs and replacements at this date totaled approximately \$1,228,000. The portion of 2006 regular assessments budgeted to be allocated to the replacement fund totals \$195,314.

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION - EXPENSES
YEARS ENDED DECEMBER 31, 2005 AND 2004



Note: Prior year numbers may differ from those presented in the statements of revenues, expenses and changes in fund balances due to prior year allocation of income taxes and/or other expenses between the operations fund and the replacement fund.

See independent auditors' report and accompanying notes.