

Barron square

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

**FROM: DEBORAH McGRAW, CCAM
ASSOCIATION MANAGER**

**SUBJECT: COPY OF INDEPENDENT AUDITORS' REPORT
FOR YEARS ENDED DECEMBER 31, 2008 AND 2007**

DATE: JULY 1, 2009

Enclosed please find your copy of the *Financial Statements and Independent Auditors' Report for the Years Ended December 31, 2008 and 2007*, more commonly referred to as the **2008 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 **2008 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 **2008 AUDIT**, please submit them, *in writing*, to the Board of Governors, in care of PML Management at the address below.

Encl.

audit cover letter 2008.bs

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**CONTENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
BALANCE SHEETS	3
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES	4 - 5
STATEMENTS OF CASH FLOWS	6 - 7
NOTES TO FINANCIAL STATEMENTS	8 - 12
SUPPLEMENTARY INFORMATION	
Supplementary Information On Future Major Repairs And Replacements At December 31, 2008	13 - 17

LEVY, ERLANGER & COMPANY
Certified Public Accountants

290 King Street, Suite 12
San Francisco, CA 94109

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, 2008 and 2007 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 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 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, 2008 and 2007, 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, 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.

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 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.

The Supplementary Information On 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 therefore express no opinion on it.

Levy, Elmer & Company

March 9, 2009

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

	<u>2008</u>		<u>2007</u>	
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 80,652	\$ 220,655	\$ 301,307	\$ 361,895
Investment in certificates of deposit (Note 2)		665,000	665,000	540,000
Assessments receivable (Note 2)	97		97	2,917
Interest receivable		6,634	6,634	7,067
Prepaid insurance	35,503		35,503	
Other prepaid expenses	2,120		2,120	527
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 118,372</u>	<u>\$ 892,289</u>	<u>\$ 1,010,661</u>	<u>\$ 912,406</u>
LIABILITIES				
Accounts payable	\$ 5,045	\$ -	\$ 5,045	\$ 26,443
Assessments paid in advance	4,523		4,523	4,301
Income taxes payable	4	349	353	1,803
Interfund reclassifications and transfers	81,032	(81,032)		
Future major repairs and replacements (Note 3)	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	90,604	(80,683)	9,921	32,547
COMMITMENTS (NOTE 4)				
	-	-	-	-
FUND BALANCE (DEFICIT)				
	<u>27,768</u>	<u>972,972</u>	<u>1,000,740</u>	<u>879,859</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 118,372</u>	<u>\$ 892,289</u>	<u>\$ 1,010,661</u>	<u>\$ 912,406</u>

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, 2008 AND 2007**

	2008			2007
	Operations Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Assessments	\$ 262,644	\$ 145,044	\$ 407,688	\$ 407,688
Interest income (Note 2)	299	35,881	36,180	34,381
Late charges and other income	440		440	460
Total revenues	<u>263,383</u>	<u>180,925</u>	<u>444,308</u>	<u>442,529</u>
EXPENSES				
<u>Administration</u>				
Income tax provision (Note 2)	78	7,715	7,793	7,403
Insurance	61,994		61,994	52,866
Legal and accounting	10,897		10,897	4,400
Management	24,340		24,340	23,040
Office, printing and postage	8,248		8,248	6,587
Reserve study	3,288		3,288	
	<u>108,845</u>	<u>7,715</u>	<u>116,560</u>	<u>94,296</u>
<u>Maintenance and operations</u>				
Landscape maintenance	60,749	-	60,749	60,703
Pest control	14,077		14,077	14,453
Pool and spa maintenance	5,159		5,159	5,993
Other maintenance and operations	24,033		24,033	25,477
	<u>104,018</u>	<u>-</u>	<u>104,018</u>	<u>106,626</u>
<u>Utilities</u>				
Cable television	1,595	-	1,595	1,885
Gas and electricity	6,550		6,550	5,141
Water and sewer	21,489		21,489	24,254
	<u>29,634</u>	<u>-</u>	<u>29,634</u>	<u>31,280</u>

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, 2008 AND 2007**

	2008			2007
	Operations Fund	Replacement Fund	Total Funds	Total Funds
EXPENSES (CONTINUED)				
<u>Major repairs and replacements</u>				
Balconies, decks and patios	\$ -	\$ 28,209	\$ 28,209	\$ -
Fences, walls, gates and railings				23,138
Landscaping, trees and irrigation				14,997
Other building exterior				31,625
Roofs		12,645	12,645	
Other major repairs and replacements		32,361	32,361	32,631
	-	73,215	73,215	102,391
 Total expenses				
	242,497	80,930	323,427	334,593
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	20,886	99,995	120,881	107,936
 FUND BALANCE (DEFICIT), BEGINNING OF YEAR (NOTE 5)	6,882	872,977	879,859	771,923
 FUND BALANCE (DEFICIT), END OF YEAR	\$ 27,768	\$ 972,972	\$ 1,000,740	\$ 879,859

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008		2007	
	Operations Fund	Replacement Fund	Total Funds	Total Funds
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 20,886	\$ 99,995	\$ 120,881	\$ 107,936
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Decrease (increase) in assets:				
Assessments receivable	2,820	-	2,820	(2,268)
Interest receivable		433	433	1,581
Prepaid insurance	(35,503)		(35,503)	26,104
Other prepaid expenses	(1,593)		(1,593)	2,359
Increase (decrease) in liabilities:				
Accounts payable	(2,959)	(18,439)	(21,398)	24,319
Assessments paid in advance	222		222	(1,538)
Income taxes payable	(14)	(1,436)	(1,450)	(410)
Interfund reclassifications and transfers	4,381	(4,381)		
Total adjustments	(32,646)	(23,823)	(56,469)	50,147
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(11,760)	76,172	64,412	158,083
INVESTING ACTIVITIES				
Net (purchase) sale of certificates of deposit	-	(125,000)	(125,000)	90,000
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	-	(125,000)	(125,000)	90,000

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>			<u>2007</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (11,760)	\$ (48,828)	\$ (60,588)	\$ 248,083
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>92,412</u>	<u>269,483</u>	<u>361,895</u>	<u>113,812</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 80,652</u>	<u>\$ 220,655</u>	<u>\$ 301,307</u>	<u>\$ 361,895</u>
<u>Supplemental Disclosures</u>				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 92</u>	<u>\$ 9,151</u>	<u>\$ 9,243</u>	<u>\$ 7,813</u>

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

1. THE ASSOCIATION

The Barron Square Homeowners Association (the Association) is a common interest development located in Palo Alto, California which consists of 65 residential units and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in April 1979 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. Revenue and expenses and information about future major repairs and replacements is explained in greater detail in the annually distributed pro forma operating budget (pursuant to California Civil Code Section 1365).

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 delinquent assessment collection policy (pursuant to California Civil Code Section 1365.1). Because of these collection procedures, the Board believes that, subject to a reasonable allowance for doubtful accounts, if any, all assessments are collectible.

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

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, 2008 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.

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 auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

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 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 graduated rates from 15% to 39% on net nonmember income; in the latter case it is taxed on net nonexempt function income (which is generally similar to net nonmember income) at a flat 30% rate. California income taxes normally approximate 9% of taxable income.

Interest earned on operating 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.

3. 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 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.

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

3. FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

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 cost increase (aka inflation) and interest earning rates.

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 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.

Additional information about future major repairs and replacements may be found in the annually-distributed assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 1365.2.5).

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' notice.

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

5. PRIOR PERIOD ADJUSTMENT

The balance sheet at the beginning of the year ended December 31, 2007 had been restated to adjust fund balances for the overstatement of replacement reserve expenses in 2006. Accordingly, the beginning fund balances had been restated as follows:

	<u>Year Ended 12-31-07</u>
FUND BALANCE (DEFICIT) BEGINNING OF YEAR	
As previously reported	\$ 742,589
Adjustment for overstatement of replacement reserve expenses	<u>29,334</u>
As restated	<u>\$ 771,923</u>

See independent auditors' report.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(UNAUDITED)**

The following information on common area major components was compiled by Reserve Analysis Consulting, LLC of Sausalito, California as of November 2008 and has served as the basis for the current estimates of replacement reserve funding:

<i>Component</i>	Pres. Est. - Cost	Est. Use. Life	Est. Rem. Life	Req'd Bal at 12/31/08
SIGNAGE				
Entry Sign (Monument) Replace	2,500	21	9	1,429
Mapboard - Replace	2,500	12	8	833
Building/Unit Number Signs Replace	3,250	12	8	1,083
PAVING & CONCRETE				
Asphalt Paving - Seal Coat	8,596	5	0	8,596
Asphalt Paving - Parking Striping	581	5	0	581
Asphalt Paving - Curb Painting	1,082	5	0	1,082
Asphalt Paving - Minor Repair - 5%	10,746	5	0	10,746
Asphalt Paving - Major Repair - 25%	53,728	10	10	0
Concrete Repairs - Repair/Replace - Minor	1,000	1	0	1,000
Concrete Repairs - Repair/Replace - Major	9,000	10	8	1,800
Concrete - Pool Deck Repair/Replace	53,040	35	5	45,463
FENCES, RETAINING WALLS & GATES				
Fence - Wood @ Patio - Repair/Replace Allowan	10,000	5	3	4,000
Fence - Wood - G.N. @ Clubhouse Driveway	2,160	25	19	518
Fence - Wood - G.N. @ Clubhouse to Building 10	4,920	25	19	1,181
Fence - Wood - @ Building 9 Drive and Open Space	7,630	25	16	2,747
Fence - Wood - @ Building 10 Drive and Open Space	5,250	25	24	210
Fence - Wood - G.N. behind Buildings 4, 5, 6, 7, 8, 9	14,460	25	16	5,206
Fence - Wood - G.N. behind Buildings 1, 2, 3, 4	11,140	25	16	4,010
Fence - Wood - Pool Area Fences	940	25	21	150
Fence - Cyclone @ Tennis Court - Replace	10,800	40	10	8,100
Retaining - Wood @ Units 4122 and 4124	1,855	30	16	866
Retaining - Masonry Retaining Wall @ Tennis	27,000	55	25	14,727
Retaining - Wood @ Pool Area	6,500	25	19	1,560
Gates - El Camino Car Gates - Replace	1,500	25	11	840
Gate - El Camino Pedestrian Gate - Replace	1,500	25	23	120
Gates - Pool Gates - Replace	3,000	25	21	480
Gates - Cyclone @ Tennis Court - Replace	500	25	11	280
Gates - Wood @ Maintenance Area	1,000	15	6	600

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(UNAUDITED)**

IRRIGATION & LANDSCAPING				
Irrigation Controllers - To Be Done	8,000	15	15	0
Irrigation Controllers - To Be Done	4,000	15	6	2,400
Backflow Preventors	10,000	25	11	5,600
Irrigation Replace Allowance (Valves, Pipes, Head)	1,500	1	0	1,500
Large Tree Care	5,000	3	0	5,000
Large Landscape Enhancements	5,000	3	2	1,667
LIGHTING				
Lighting Wiring and Controllers Repair Allowance	1,000	1	0	1,000
Light Fixtures - @ Landscaping & Wiring	19,800	35	5	16,971
Light Poles @ Site - Pole, Light Fixture & Wiring	4,000	35	5	3,429
Light Poles @ Pool Area - Poles, Fixtures & Wiring	3,000	35	5	2,571
Lights - Clubhouse Building Exterior	450	35	5	386
Lights - Wall Mount @ Garages	6,750	30	0	6,750
Lights - Residential Building Exterior - Unit #				
Lighted Signs	9,750	30	0	9,750
Lights - Residential Building Exterior - Entry/Balc./Stairs	29,250	30	0	29,250
MAILBOX KIOSKS				
Kiosks Rebuild (Structure, Siding, Roof)	9,000	25	11	5,040
Mailboxes	11,700	25	11	6,552
TENNIS COURT AREA				
Tennis Court - Resurface/Lines	7,200	5	0	7,200
Tennis Court - Replace	36,000	45	15	24,000
Tennis Court Net - Replace	350	5	1	280
SWIMMING POOL				
Plaster - Resurface	7,733	15	9	3,093
Coping - Replace	2,400	30	24	480
Tile - Replace	2,400	30	24	480
Seal Coping/Deck Joint - Replace Mastic	720	15	9	288
Rails - Replace	2,000	30	24	400
Lights - Replace	300	15	9	120
Heater - Replace	2,850	10	1	2,565
Filter - Replace	2,250	10	1	2,025
Filter - Pump Replace	850	10	1	765
Solar Controller - Replace	750	15	6	450
Solar Pump - Replace	850	10	1	765
Solar Panels - Replace	9,000	15	6	5,400
Solar Panels - Structure Replace	5,400	15	6	3,240
Pool Signs - Replace	250	5	0	250
Pool Furniture - Replace	2,500	10	5	1,250

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(UNAUDITED)**

SPA				
Pre-Fab Tub Replace	10,000	20	13	3,500
Rails - Replace	1,000	30	23	233
Heater - Replace	2,650	15	12	530
Filter - Replace	2,250	15	3	1,800
Filter Pump - Replace	850	10	0	850
CLUBHOUSE INTERIOR				
Paint - Interior (Clubhouse)	3,493	15	10	1,164
Carpet Floor - Replace	4,420	15	11	1,179
Tile Floor - Replace	11,000	40	10	8,250
Refrigerator - Replace	500	15	10	167
Disposal - Replace	300	15	0	300
HVAC Unit - Replace	3,000	25	0	3,000
Clubhouse & Sauna Fans - Replace	700	15	0	700
Sauna Room Rehabilitation & Door	5,000	35	5	4,286
Sauna Mechanical - Replace	2,000	35	5	1,714
Water Heater - 50 Gal	1,000	12	-1	1,083
Doors - Wood w/Glass	1,200	45	15	800
Doors - Solid Wood	2,400	45	15	1,600
Lights	2,850	35	30	407
Restroom Upgrade	10,000	15	10	3,333
Kitchen Area Upgrade	5,000	15	10	1,667
Furniture Replace	7,000	10	6	2,800
CLUBHOUSE BUILDING EXTERIOR				
Gutter & Downspout - Replace	2,176	25	21	348
Clubhouse Deck & Stairs - Replace - Redwood	15,000	20	19	750
Clubhouse Deck & Stairs - Sealing/Leak Maintenance	1,446	5	4	289
Doors - Wood/Glass Entry Doors	3,400	45	15	2,267
Doors - Solid Wood Entry Door - Pool Equipment Room	600	45	15	400
Doors - Metal/Glass Sliding Doors	2,850	35	5	2,443
Windows	5,000	35	5	4,286
GARAGE & TRASH ENCLOSURE				
Doors - Single Car Garage Doors	70,000	30	0	70,000
Doors - Wood/Glass Pedestrian Door	7,500	30	0	7,500
Doors - Solid Wood Doors @ Walk in Garbages	6,000	30	25	1,000
Trash Enclosure Rebuild Allowance	10,000	10	8	2,000
RESIDENTIAL BUILDING EXTERIORS - STAIRS				
Straight Stair & Landing - Replace (6) Saarmar	51,000	30	23	11,900
Straight Stair & Landing - Replace (3)	25,500	30	10	17,000
U-Shaped Stair & Landing - Replace (7) Saarmar	105,000	30	23	24,500

See independent auditors' report and accompanying notes.

THE BARRON SQUARE HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(UNAUDITED)**

U-Shaped Stair & Landing - Replace (2)	30,000	30	13	17,000
L-Shaped Stairs & Landing - Replace (8) Saarna	96,000	30	23	22,400
L-Shaped Stairs & Landing - Replace (1)	12,000	30	0	12,000
L-Shaped Stairs & Landing - Replace (3)	36,000	30	11	22,800
Stairs & Landing - Repair Allowance	2,500	1	0	2,500
RESIDENTIAL BUILDING EXTERIORS - BALCONIES				
Small Balconies - Replace (4) Saarnan	32,000	30	23	7,467
Small Balconies - Replace (2)	16,000	30	10	10,667
Small Balconies - Replace (4)	32,000	30	4	27,733
Large Balconies - Replace (23) Saarnan	421,317	30	23	98,307
Large Balconies - Replace (5)	91,598	30	22	24,426
Large Balconies - Replace (10)	183,185	30	18	73,274
Large Balconies - Replace (10)	183,185	30	14	97,699
Large Balconies - Replace (10)	183,185	30	10	122,123
Large Balconies - Replace (8)	146,546	30	6	117,237
Townhouse Balconies - Replace (2)	25,000	30	6	20,000
Townhouse Balconies - Replace (3)	37,500	30	0	37,500
Repair Small, Large & Townhouse Balconies Allowance	2,500	1	0	2,500
BUILDING EXTERIOR - ROOFS				
Flat Roofs - Residences	148,440	20	8	89,064
Flat Roofs - Clubhouse & Garages	48,246	20	10	24,123
Shake Roofs - Residence	330,213	25	13	158,502
Shake Roofs - Clubhouse & Garages	134,980	25	15	53,992
Gutters & Downspouts - Replace	94,175	25	21	15,068
Chimney Caps & Spark Arrestors	8,400	30	24	1,680
Skylights - Assoc. Responsible @ Peaks	24,000	30	18	9,600
Inspection & Repair Allowance - Flat Roofs	14,000	2	1	7,000
Inspection & Repair Allowance - Shake Roofs	12,000	2	0	12,000
RESIDENTIAL BUILDING EXTERIORS - REPAIR/REPLACE ALLOWANCES				
Doors - Entry Door & Hardware Allowance	5,000	1	0	5,000
Doors - Sliding Glass Door & Hardware Allowance	5,000	1	0	5,000
Windows - Inspect/Repair/Replace Allowance	5,000	1	0	5,000
Wood Siding/Shingle/Trim Ongoing Repairs	5,000	1	0	5,000
Shingles, Residential & Clubhouse - Major Repair/Replace	70,000	10	9	7,000
T-111 Siding - Major Repair	65,000	10	9	6,500
Termite Warranty Allocation	9,700	1	0	9,700
Termite Fumigation & Repairs (2006)	65,000	10	7	19,500
PAINT				
Paint - All Wood/Metal Components	130,000	5	4	26,000
Paint - Wood Shingle	50,000	5	4	10,000

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MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
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MISCELLANEOUS & CONTINGENCIES				
Storage Shed (Modular) - Replace	1,200	20	18	120
Iron Stair Railing @ site Concrete Stairs	5,300	30	6	4,240
Arborist Tree Report	5,000	5	0	5,000
Reserve Study - Annual	800	3	3	0
Reserve Study - Annual	800	3	1	533
Reserve Study - Third Year Site Inspection	1,600	3	2	533
Underground Utility Inspections & Repairs	5,000	1	0	5,000
CC&R Revisions	5,000	5	5	0
Unallocated Items (5%)	12,300	1	0	12,300
Component	3,641,936			1,666,260

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 **before-tax interest rate** of **3%** 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, 2008 totaled **\$885,655**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$1,666,000**. The portion of **2009** regular **assessments** budgeted to be allocated to the replacement fund totals **\$213,919**.

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