

The PINNACLE

April 6, 2007

Dear Pinnacle Museum Tower Member:

In accordance with California Civil Code 1365 enclosed please find the independent audit report prepared by Gregory V. Villard, C.P.A., for the Association's financial statements of fiscal year ending December 2006.

If you have any questions pertaining to this report, please contact Gregory V. Villard at (619) 599-5472 or Cynthia Gibson, The Prescott Companies at (619) 230-1891.

By Order of the Board of Directors
Pinnacle Museum Tower Association

Cynthia Gibson

PINNACLE MUSEUM TOWER ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

Independent Accountant's Report	1
Financial Statements	
Balance Sheet	2
Statement of Revenues and Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 7
Supplementary Information	8

PINNACLE MUSEUM TOWER ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2006

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash	\$ 14,645	\$ 125,013	\$ 139,658
Assessments Receivable	54,745	-	54,745
Prepaid Insurance	29,039	-	29,039
Prepaid Expenses	34,650	-	34,650
Total Assets	<u>\$ 133,079</u>	<u>\$ 125,013</u>	<u>\$ 258,092</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 102,770	\$ -	\$ 102,770
Prepaid Assessments	26,190	-	26,190
Income Tax Payable	385	-	385
Total Liabilities	<u>129,345</u>	<u>-</u>	<u>129,345</u>
 <u>FUND BALANCES</u>	<u>3,734</u>	<u>125,013</u>	<u>128,747</u>
 Total Liabilities and Fund Balances	<u>\$ 133,079</u>	<u>\$ 125,013</u>	<u>\$ 258,092</u>

See accompanying notes and accountant's report.

PINNACLE MUSEUM TOWER ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES & CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>REVENUES</u>	Operating Fund	Replacement Fund	Total
Regular Assessments	\$ 1,376,473	\$ 106,032	\$ 1,482,505
Children's Museum Assessments	15,893	-	15,893
Interest	337	1,309	1,646
Amenity Income	23,964	-	23,964
Other Member Charges	11,401	-	11,401
Total Revenues	\$ 1,428,068	\$ 107,341	\$ 1,535,409
<u>EXPENSES</u>			
Maintenance			
Pest Control	3,634	-	3,634
Janitorial Services	164,750	-	164,750
Pool Maintenance	5,256	-	5,256
Window Washing	24,900	-	24,900
Landscaping Maintenance	6,216	-	6,216
Building Maintenance Contract	71,855	-	71,855
Amenity Expenses	9,811	-	9,811
Area Repairs & Supplies	46,108	-	46,108
Concierge/Security Staff	347,820	-	347,820
Cable Television	6,926	-	6,926
Total Maintenance	687,276	-	687,276
Utilities			
Gas & Electric	307,202	-	307,202
Water & Sewer	72,168	-	72,168
Trash Removal	31,229	-	31,229
Total Maintenance	410,599	-	410,599
General and Administrative			
Legal, Audit, & Tax Preparation	13,749	-	13,749
Management & Accounting	177,571	-	177,571
Insurance	96,281	-	96,281
Office & Administrative	45,079	-	45,079
Income Taxes	385	-	385
License & Permits	2,169	-	2,169
Telephone	4,909	-	4,909
Reserve Study	975	-	975
Total Administrative	341,118	-	341,118
Major Repairs and Replacements	-	-	-
Total Expenses	1,438,993	-	1,438,993
Excess Revenues over Expenses	(10,925)	107,341	96,416
Beginning Fund Balances	14,659	17,672	32,331
Interfund Transfers (Net)	-	-	-
Ending Fund Balances	\$ 3,734	\$ 125,013	\$ 128,747

See accompanying notes and accountant's report.

PINNACLE MUSEUM TOWER ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Excess (Deficiency) of Revenues over Expenses	\$ (10,925)	\$ 107,341	\$ 96,416
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
(Increase) Decrease in:			
Assessments Receivable	39,350	-	39,350
Prepaid Insurance	(29,039)	-	(29,039)
Prepaid Expenses	(34,650)	-	(34,650)
Increase (Decrease) in:			
Accounts Payable	32,407	-	32,407
Prepaid Assessments	1,511	-	1,511
Income Tax Payable	385	-	385
Net Cash Provided (Used) by Operating Activities	(961)	107,341	106,380
Net Increase(Decrease) in Cash	(961)	107,341	106,380
Cash at Beginning of Year	15,606	17,672	33,278
Interfund Transfers (Net)	-	-	-
Cash at End of Year	<u>\$ 14,645</u>	<u>\$ 125,013</u>	<u>\$ 139,658</u>

See accompanying notes and accountant's report.

PINNACLE MUSEUM TOWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1. ORGANIZATION

Pinnacle Museum Tower Association is a condominium type common interest realty association that was incorporated on April 18, 2003, under the general nonprofit laws of the State of California. The Association was organized to provide for the management and maintenance of the commonly owned areas of the housing development, which includes 183 residential and 8 commercial units located in San Diego, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association's accounting records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The accompanying financial statements and the Association's corporate income tax returns have also been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure 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 the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Property and Equipment

Real property owned by individual unit owners in common and related improvements made by the Association to such property are not capitalized in the financial statements.

Personal property and equipment acquired by the Association are recorded at cost. These assets, if significant in amount, are depreciated over their estimated useful lives using straight-line method of depreciation.

PINNACLE MUSEUM TOWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Statement of Cash Flows

According to SFAS No. 95 regarding the Statement of Cash Flows, certificates of deposits and securities with original maturities of three months or less are classified as cash equivalents. Certificates of deposit and securities with original maturities over three months are considered short-term investments. The Association's policy is to treat all cash, cash equivalents, and short-term investments together as cash funds.

NOTE 3. INCOME TAXES

The Association may elect to be taxed as a regular corporation or a homeowners association. The Association elected to be taxed as a homeowners association for the period ended December 31, 2006. Under that election, the Association is generally taxed only on nonmembership income, such as interest earnings. Excess membership income is exempt from taxation. Federal and California income tax expenses for the year were \$284 and \$101, respectively. As of December 31, 2006, the Association owes \$284 in Federal and \$101 in California income taxes.

NOTE 4. HOMEOWNER ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of members are determined by the Board of Directors. Any excess assessments at the year end are retained by the Association for use in future years.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's policy is to accumulate funds for future major repairs and replacements. Accumulated funds are held in separate interest-bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in June 2006 to estimate the remaining useful lives and the replacement costs of the common property components. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

PINNACLE MUSEUM TOWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, 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 needs for major repairs and replacements. If additional funds are needed, however, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

NOTE 6. ASSESSMENTS RECEIVABLE

The Association's policy is to place liens on the properties of owners whose assessments are in arrears and retain legal counsel if necessary to collect delinquent assessments. As of December 31, 2006, there are \$54,745 in assessments and charges due from homeowners and \$26,180 of assessments have been paid in advance.

NOTE 7. 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 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.

PINNACLE MUSEUM TOWER ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2006
(unaudited)

The Association engaged an independent consultant to estimate the remaining useful lives and the future replacement costs of the components of common property as of December 31, 2006. The estimates were based on an inspection of the property and information provided by the Board of Directors, property manager, and/or contractors currently working for the Association. Future replacement costs were based on the estimated future costs to repair or replace the common property components at the time of the study.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2006</u>
Asphalt & Concrete Surfaces	5 to 14	\$ 257,903	\$ 11,973
Common Interior	2 to 24	290,092	13,468
Elevators	14 to 29	360,000	16,713
Fencing & Gates	7 to 29	16,600	771
Landscaping	9	5,000	232
Lighting	9 to 24	147,070	6,828
Mechanical Equipment	9 to 24	414,550	19,246
Miscellaneous	4 to 19	184,103	8,547
Painting	7 to 14	672,155	31,205
Pool & Spa	4 to 29	184,250	8,554
Roofing	24	98,000	4,550
Security & Fire Systems	3 to 14	<u>63,050</u>	<u>2,926</u>
Total		<u>\$2,692,773</u>	<u>\$125,013</u>

According to the study, the annual replacement funding requirement and accumulated replacement funding requirement are \$149,400 and \$210,649, respectively. The study determined the funding program to be 50% funded as of December 31, 2006.