

STREAM HOUSE COMMUNITY ASSOCIATION

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STREAM HOUSE COMMUNITY ASSOCIATION
COMPARATIVE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

STREAM HOUSE COMMUNITY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Owners
Stream House Community Association

We have audited the accompanying balance sheet of Stream House Community Association, a California mutual benefit corporation, as of December 31, 2007, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information is presented for comparative purposes only and has been extracted from the Stream House Community Association's financial statements presented by fund for 2006 on which we expressed an unqualified opinion in our report dated February 15, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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.

A study of the Association's replacement funding program indicates that the Association is underfunded. Accordingly, it may be necessary to increase assessments, pass special assessments, or delay future repair/replacement obligations until sufficient funds are available.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Stream House Community Association as of December 31, 2007, 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.

The supplementary information on future major repairs and replacements that accompanies the basic 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 express no opinion on it.

Schonwit & Co.
SCHONWIT & COMPANY

January 29, 2008

STREAM HOUSE COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents [Note 6]	\$ 48,746	\$ 21,141	\$ 69,887	\$ 57,070
Member assessments receivable, less allowance for doubtful collection of \$5,600 at 12/31/07 and \$2,300 12/31/06	23,098	-	23,098	14,059
Capitalized loan fees, less accumulated amortization of \$2,125 at 12/31/07 and \$1,625 at 12/31/06	-	1,375	1,375	1,875
Prepaid insurance	390	-	390	1,342
Prepaid taxes	480	-	480	480
Total Assets	<u>\$ 72,714</u>	<u>\$ 22,516</u>	<u>\$ 95,230</u>	<u>\$ 74,826</u>
LIABILITIES				
Accounts payable	\$ 28,083	\$ -	\$ 28,083	\$ 30,059
Bank loan [Note 8]	-	174,680	174,680	232,560
Accrued interest payable	-	631	631	853
Prepaid assessments	3,685	-	3,685	4,250
Income taxes payable	10	-	10	10
Total Liabilities	31,778	175,311	207,089	267,732
FUND BALANCES	<u>40,936</u>	<u>(152,795)</u>	<u>(111,859)</u>	<u>(192,906)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 72,714</u>	<u>\$ 22,516</u>	<u>\$ 95,230</u>	<u>\$ 74,826</u>

See independent auditors' report and accompanying notes to financial statements.

STREAM HOUSE COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 385,440	\$ 112,560	\$ 498,000	\$ 498,000
Interest	196	87	283	303
Other income	6,952	--	6,952	5,910
Total Revenues	<u>392,588</u>	<u>112,647</u>	<u>505,235</u>	<u>504,213</u>
EXPENSES				
Utilities:				
Electricity	59,602	--	59,602	62,196
Water	49,331	--	49,331	20,255
Gas	2,525	--	2,525	1,918
Refuse	22,092	--	22,092	53,436
Maintenance:				
Landscape maintenance and supplies	71,685	--	71,685	78,858
Stream and stream pumps	27,250	--	27,250	24,949
Patrol services	4,332	--	4,332	2,844
Lighting maintenance and supplies	7,984	--	7,984	6,424
Pool service, supplies and repairs	5,042	--	5,042	4,776
Janitorial service and supplies	1,737	--	1,737	1,704
Pest control	11,705	--	11,705	10,251
Plumbing repairs	4,075	--	4,075	4,955
Other common area maintenance	15,728	--	15,728	28,404
Replacement fund [Note 9]	--	46,914	46,914	60,037
Administrative:				
Insurance	41,930	--	41,930	34,322
Management fees	30,000	--	30,000	30,000
Professional fees	2,768	--	2,768	1,985
Income taxes [Note 3]	10	--	10	10
Postage and printing expense	1,707	--	1,707	1,135
Other administrative expenses	575	--	575	51
Amortization expense	--	500	500	500
Interest expense	--	13,396	13,396	17,379
Bad debt expense	3,300	--	3,300	500
Total Expenses	<u>363,378</u>	<u>60,810</u>	<u>424,188</u>	<u>446,889</u>
EXCESS OF REVENUES OVER EXPENSES	29,210	51,837	81,047	57,324
Beginning Fund Balances	25,042	(217,948)	(192,906)	(250,230)
Interfund Transfers	(13,316)	13,316	--	--
Ending Fund Balances	<u>\$ 40,936</u>	<u>\$ (152,795)</u>	<u>\$ (111,859)</u>	<u>\$ (192,906)</u>

See independent auditors' report and accompanying notes to financial statements.

STREAM HOUSE COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
Excess of revenues over expenses:	\$ 29,210	\$ 51,837	\$ 81,047	\$ 57,324
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:				
Amortization	--	500	500	500
(Increase)/decrease in member assessments receivable	(9,039)	--	(9,039)	2,673
(Increase)/decrease in prepaid insurance	952	--	952	(94)
Decrease in accounts payable	(1,976)	--	(1,976)	(27,237)
Decrease in accrued interest payable	--	(222)	(222)	(128)
Increase/(decrease) in prepaid assessments	(565)	--	(565)	2,330
Net cash provided by operating activities	18,582	52,115	70,697	35,368
Cash provided/(used) by financing activities:				
Principal loan payments	--	(57,880)	(57,880)	(57,518)
Interfund transfers	(13,316)	13,316	--	--
Net increase/(decrease) in cash	5,266	7,551	12,817	(22,150)
Cash at beginning of year	43,480	13,590	57,070	79,220
Cash at end of year	<u>\$ 48,746</u>	<u>\$ 21,141</u>	<u>\$ 69,887</u>	<u>\$ 57,070</u>

See independent auditors' report and accompanying notes to financial statements.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1. ORGANIZATION

Stream House Community Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in February 1982. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 166 residential units and is located in Orange, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained on a modified accrual basis of accounting. For these financial statements, adjustments have been made at December 31, 2007 to convert the Association's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation - In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either operating or replacement funds in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended December 31, 2007, there were no significant personal property additions.

(c) Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into two categories, the operating fund and the replacement fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

(d) Investment Income - The Board's policy is to allocate interest earned on replacement fund cash accounts to the replacement fund, and to pay the related income taxes out of the operating fund.

(e) 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 period. Actual results could differ from those estimates.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a homeowners association [under Internal Revenue Code Section 528]. For the year ended December 31, 2007, the Association elected to file as a homeowners association, where generally the association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For California purposes, the Association also qualifies for tax exempt status as a homeowners association and pays a tax of 8.84% on income not related to membership dues and assessments. For the year ended December 31, 2007, the federal and California income tax expense was \$0 and \$10, respectively.

NOTE 4. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at December 31, 2007 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner. At December 31, 2007, the Association has recorded an allowance for uncollectible assessments of \$5,600. This allowance represents an estimated amount which was calculated using historical collection information.

For the year ended December 31, 2007, the Association's monthly assessment was \$250 per unit. For 2008, the monthly assessment has been raised to \$250 per unit.

NOTE 5. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

An independent study of the Association's replacement funding program, which was conducted in November 2005, indicated that the Association is underfunded. Accordingly the study recommended an annual contribution to the replacement fund of approximately \$202,560 (\$101.69 per unit per month). The study's recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the replacement funds. For the year ended December 31, 2007, the Association funded \$112,560 from assessments to the replacement fund. The 2008 budget provides for replacement funding of \$124,800 (\$62.65 per unit per month). The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds 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 the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and securities with maturities over 90 days are considered "investments."

At December 31, 2007 and 2006, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2007</u>	<u>2006</u>
Sunwest Bank - checking	<u>\$ 48,746</u>	<u>\$ 43,480</u>
 <u>Replacement Fund:</u>		
Sunwest Bank - savings	<u>\$ 21,141</u>	<u>\$ 13,590</u>

NOTE 7. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended December 31, 2007. Cash paid for interest on the bank loan totaled \$13,618 during the year. There were no non-cash investing or financing transactions during the year.

NOTE 8. BANK LOAN

In September 2003, the Association entered into a loan agreement with Sunwest Bank and obtained a loan in the amount of \$400,000. The loan, which matures September 10, 2010, requires monthly principal and interest payments of \$5,958.11. The loan balance at December 31, 2007 was \$174,680 and the effective interest rate was 6.5%. The loan is collateralized against the Association's right to levy and collect assessments.

STREAM HOUSE COMMUNITY ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 9. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Plumbing	\$ 18,081	\$ 7,044
Handrails	10,155	--
Concrete work	9,227	--
Water feature repairs	3,492	2,133
Gate repairs	1,960	
Roof repairs	1,360	2,790
Water damage repairs	1,295	--
Mailboxes	831	--
Pool repairs	512	--
Tree trimming	--	26,005
Raingutter maintenance	--	9,971
Patio furniture	--	6,318
Stucco repairs	--	3,611
Termite treatment	--	2,165
	<u> </u>	<u> </u>
Total	<u>\$ 46,914</u>	<u>\$ 60,037</u>

STREAM HOUSE COMMUNITY ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2007
 (UNAUDITED)

An independent reserve study was conducted in November 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 3.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been allocated for future repairs and replacements, earning a yield on investments of 3.0% (net of taxes).

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

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	Recommended Annual Funding Requirement	Study's Recommended Fund Balance
Painting	0-8 years	\$ 404,401	\$ 54,973	\$ 98,292
Lighting	1-5 years	113,775	6,901	93,284
Roofs	6-11 years	421,760	29,325	231,042
Pool/spa	0-1 years	20,025	2,467	18,327
Asphalt	3 years	79,511	6,911	61,362
Fences and railings	5-13 years	52,440	3,751	14,855
Irrigation controllers	0 years	12,800	1,051	12,800
Bridges	3 years	4,000	1,142	1,000
Termite	0 years	3,000	3,427	3,000
Decks	3-11 years	305,440	42,981	37,627
Mailboxes	8 years	12,955	987	6,046
Patio furniture	0 years	3,200	731	3,200
Doors and gates	8-13 years	72,150	5,866	10,270
Streams	0-9 years	53,100	42,048	46,610
	Total	<u>\$ 1,558,557</u>	<u>\$ 202,560</u>	<u>\$ 637,715</u>

Replacement fund balance at 12/31/07:

* \$ (152,795)

* Negative balance due to presence of bank loan.

