

STREAM HOUSE COMMUNITY ASSOCIATION

A California Non-Profit Corporation

March 29, 2017

Dear Homeowner(s):

Pursuant to Civil Code §5305 enclosed you will find a copy of the Stream House Audit for the year ended December 31, 2016.

Please review this information and retain a copy with your other Association documents for future reference.

Sincerely,

Board of Directors
Stream House Community Association

Professionally Managed by:

Regent Association Services
2740 North Grand Avenue, Suite 200 | Santa Ana, CA 92705 | 714.634.0611 | regentcmc.com

Member:
American Institute
of Certified Public
Accountants

DJL
A Professional Accountancy Corporation
Daniel J. Leonard III
Certified Public Accountant

Member:
California Society
of Certified Public
Accountants

**STREAM HOUSE
COMMUNITY ASSOCIATION**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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To the Board of Directors
Stream House Community Association

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statement of Stream House Community Association which comprised the balance sheet as of December 31, 2016, and the related statements of revenue, expenses, and changes in fund balance, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America, this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of sufficient accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Stream House Community Association as of December 31, 2016, 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 of America.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements takes as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 6 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles general accepted in the United States of America require that the supplementary information on future major repairs and replacements on pages 11-13 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Daniel J. Leonard III, CPA

San Diego, CA
March 11, 2017

STREAM HOUSE COMMUNITY ASSOCIATION
 Balance Sheet
 December 31, 2016

	Operating Fund	Replacement Fund	Total
	-----		-----
ASSETS			
Cash in Checking and Savings	\$ 62,392	544,604	\$ 606,996
Assessments Receivable	8,793		8,793
Prepaid Insurance	103		103
Prepaid Taxes	480		480
Due to Other Funds	(17,121)	17,121	0
	-----		-----
Total Assets	\$ 54,647	561,725	\$ 616,372
	=====		=====
LIABILITIES			
Accounts Payable	\$ 5,233		5,233
Prepaid Assessments	6,498		6,498
Taxes Payable	10		10
	-----		-----
Total Liabilities	11,741	0	11,741
FUND BALANCES			
	42,906	561,725	604,631
	-----		-----
Total Liabilities and Fund Balances	\$ 54,647	561,725	\$ 616,372
	=====		=====

The Accompanying Notes and Independent Auditor's Report are an Integral Part of these Financial Statements
 Page 4

STREAM HOUSE COMMUNITY ASSOCIATION
Statement of Revenue and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total Funds
	-----		-----
REVENUES			
Member Assessments	\$ 376,790	200,600	\$ 577,390
Interest Income		180	180
Special Assesments		28,884	28,884
Other Income	5,334		5,334
	-----		-----
Total Income	\$ 382,124	229,664	\$ 611,788
EXPENSES			
Management	\$ 25,800		\$ 25,800
Audit & Tax Preparation	925		925
Insurance	37,832		37,832
Printing & Postage	4,727		4,727
Taxes	10		10
Legal & Collection	6,650		6,650
Security Service	3,193		3,193
Administrative Other	116		116
Landscape	58,932		58,932
Landscape Extras	4,867	14,688	19,555
Irrigation Repairs	3,270		3,270
Tree Trimming	4,870		4,870
Pest/Termite Control	8,758		8,758
Pool	2,508		2,508
Pool Extras	6,771		6,771
Water Features	27,624	11,546	39,170
Plumbing Repairs	3,426		3,426
Repairs & Maintenance	10,571	70,099	80,670
Electricity	53,356		53,356
Gas	3,912		3,912
Refuse	12,599		12,599
Water	47,105		47,105
	-----		-----
Total Expenses	327,822	96,333	424,155
	-----		-----
Excess Revenue/(Expenses)	54,302	133,331	187,633
	-----		-----
Beginning Fund Balance	\$ (11,396)	428,394	\$ 416,998
	-----		-----
Ending Fund Balance	\$ 42,906	561,725	\$ 604,631
	=====		=====

STREAM HOUSE COMMUNITY ASSOCIATION
Statement of Cash Flows
For the Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total
	-----	-----	-----
Cash Flows from Operating Activities:	\$ 54,302	133,331	\$ 187,633
Reconciliation of Excess(Deficit) of Support and Revenue over Expenses to Net Cash from Operating Activities:			
Change in Assessments Receivable	\$ (3,608)		\$ (3,608)
Change in Accounts Payable	(5,945)		(5,945)
Change in Prepaid Assessments	(3,675)		(3,675)
Change in Prepaid Insurance	(103)		(103)
Change in Accrued Expenses	(23,715)		(23,715)
	-----	-----	-----
Total Net Adjustments	(37,046)	0	(37,046)
	-----	-----	-----
Net Cash Flows from Operating Activities	\$ 17,256	133,331	\$ 150,587
	=====	=====	=====
Cash Flows from Financing Activities:			
Net Increase/(Decrease) in Cash	\$ 17,256	133,331	\$ 150,587
Cash Balance at Beginning of Year	45,136	411,273	456,409
	-----	-----	-----
Cash Balance at End of Year	\$ 62,392	544,604	\$ 606,996
	=====	=====	=====

The Accompanying Notes and Independent Auditor's Report are an Integral Part of these Financial Statements
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**STREAM HOUSE
COMMUNITY ASSOCIATION
Notes to Financial Statements
December 31, 2016**

Note 1. Organization:

Stream House Community Association was incorporated as a non-profit entity under the laws of the state of California. Its primary purpose is to act as a “management body” for the preservation, maintenance and architectural control of common area. The association consists of 166 residential units and is located in Orange, California. The association was incorporated in the state of California on February 2, 1982.

Note 2. Accounting Method:

The Association’s accounting records are maintained on the cash basis, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles.

Community associations essentially operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated reserve funds. Real property which was acquired from the developer and replacements and improvements to common property are not capitalized or depreciated because the common areas are owned, in effect, by the individual unit owners as tenants in common.

Per the provisions of FASB Statement No. 95, regarding “Statement of Cash Flows”, cash equivalents consist primarily of certificates of deposits and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are to be classified as short-term investments. The Association considers all investment accounts to be cash equivalents.

Note 3. Income Tax Status:

The Association qualifies under provisions of Internal Revenue Code Section 528 and California Revenue and Taxation Code Section 23701t to exclude exempt function income (assessment income in excess of the cost of providing services to members) from taxation. Therefore, the Association is only subject to income tax on any income received, which is not related to providing a service to the members, such as interest. Taxes for the year ended December 31, 2016, amounted to \$ 0 federal and \$ 0 state.

Note 4. Member Assessments:

The annual budget and owners assessments are determined by the Board of Directors and under certain conditions, are approved by the member. The Association retains excess funds, if any, for expenses in future years. Assessments for the year ended December 31, 2016 were \$ 290 per unit per month.

Note 5. Assessments Receivable:

The Association's policy is to retain legal counsel, if necessary and place liens on the properties of owners whose assessments are in arrears. There were \$ 8,793 of assessments receivable and \$ 6,498 of prepaid assessments at December 31, 2016. No allowance for uncollected accounts is recorded as the Association has the right to lien the realty of the delinquent homeowners. Delinquent accounts are written off as a bad debt expense at the time they are deemed uncollectible by the Board of Directors.

Note 6. Reserves For Replacements:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds should be held in interest bearing accounts and are not intended to be used for current operations. The Association's policy is to fund major repairs and replacements from reserve funds if available. If funds are not adequate, the Association has the right to increase the monthly assessments, pass special assessments or delay replacement until funds are available. A reserve funding program is required by California law to be prepared every three years and distributed annually to the owners annually as part of the annual budget.

A study to determine the adequacy of the current funding program for the replacement of Association common areas has been conducted within the last three years. Included in the study are major repair and replacement components that the Association is obligated to maintain that have useful lives of more than one year and remaining useful lives of less than thirty years. Excluded from the study are certain personal property assets and major structural components such as buildings, concrete, water and underground sewer systems and any other component not specifically listed in the reserve study. It is assumed that the excluded major structural items have indefinite lives and the appropriate funding method for their replacement will be decided by the members if and when those items need to be replaced.

As of December 31, 2016, the Association has \$ 544,604 on deposit in interest bearing savings accounts. The association is currently funding monthly allocations to reserves. Because the amount and timing of these future expenditures are unpredictable, no assurance is given that funds in the Association's account(s) are adequate.

Note 7. Reserve Allocations-Net:

The Association's reserve equity accounts have been adjusted to reflect amounts on deposit in savings accounts. Accounting entries have been made to adjust operating and reserve equity accounts to their beginning balances per the prior audit and to their ending balances to reflect amounts on deposit at the corporate year ended December 31, 2016.

Note 8. Property and Equipment:

The title to the Association's property and equipment was transferred to the association by the property developer. Since such property and equipment was donated by the developer there has not been any cost or depreciation recorded by the Association for their assets.

Note 9. Cash in Bank:

The Association has balances at December 31, 2016 in the following accounts:

Union Bank	\$ 79,513
Union Bank MMA	200,177
Wells Fargo Bank	327,306

	\$ 606,996
	=====

Note 10. 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 11. Subsequent Events:

Events subsequent to December 31, 2016 through the date of this report have been evaluated to determine if disclosure is necessary to keep the financial statements for the year ended December 31, 2016 from being misleading. All subsequent events considered necessary for disclosure are included in the related appropriate footnotes above.

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STREAM HOUSE COMMUNITY ASSOCIATION Internal Control December 31, 2016

To the Board of Directors and Members:

We have completed the examination of records of Stream House Community Association for the twelve months ended December 31, 2016. In planning and performing the audit we considered its internal control structure in order to determine auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We examined the internal control structure and its operation that may be considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted no reportable conditions.

STREAM HOUSE COMMUNITY ASSOCIATION

The Association's replacement fund study was conducted in 2015 and is intended to present significant information about the components of the Association's common property. The Association is required to update the reserve funding study every three years. A complete report of the reserve funding study is available upon request from the Association's management company.

Our report on our audit of the basic financial statements of Stream House Community Association for the year ended December 31, 2016, appears on page 3. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The non-accounting information shown on pages 12-13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The non-accounting information has not been subject to auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

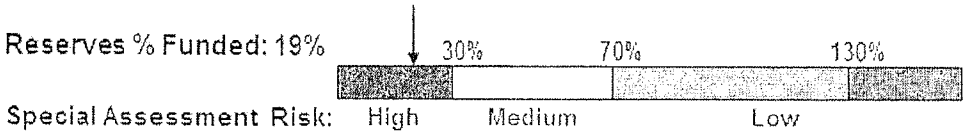
Executive Summary

Association: Streamhouse HOA #: 4702-4
 Location: Orange, CA # of Units: 166
 Report Period: January 1, 2016 through December 31, 2016

Findings/Recommendations as-of 1/1/2016:

Projected Starting Reserve Balance:	\$401,645
Current Fully Funded Reserve Balance:	\$2,091,016
Average Reserve Deficit (Surplus) Per Unit:.....	\$10,177
Recommended 2016 Monthly "Full Funding" Contributions:.....	\$31,000
Alternate minimum contribs* to keep Reserves above \$0:.....	\$27,300
Recommended 2016 Special Assessment for Reserves:	\$0

Most Recent Budgeted Reserve Contribution Rate:\$13,671



Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves..... 1.00%
 Annual Inflation Rate 3.00%

- This is an "Update With-Site-Visit" Reserve Study, based on a prior Report prepared by Association Reserves for your 2014 Fiscal Year. We performed our on-site inspection on October 9, 2015. This Report was prepared by a credentialed Reserve Specialist (RS).
- Because your Reserve Fund is below the 30% funded level at 19% Funded, this means the association's special assessment & deferred maintenance risk is currently high. The objective of your multi-year Funding Plan is to Fully Fund your Reserves, where associations enjoy a low risk of such Reserve cash flow problems.
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase your Reserve contributions to \$31,000.

*officially called "Baseline Funding"

Table 1: Executive Summary

4702-4

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Cost Estimate
104	Deck - Seal/Repair	4	0	\$53,200
105	Deck - Resurface	16	5	\$239,500
106	Concrete - Repair/Replace	1	0	\$10,600
201	Asphalt - Removal & Replacement	24	9	\$128,000
202	Asphalt - Seal/Repair	4	0	\$14,500
320	Globe Pole Lights - Replace	24	3	\$22,500
320	Street Pole Lights - Replace	24	3	\$23,000
322	Bollard Lights - Replace	24	3	\$24,000
325	Wall Lights I - Replace	25	3	\$42,100
325	Wall Lights II - Replace	25	23	\$42,100
403	Mailboxes - Replace	1	0	\$1,900
404	Patio Furniture - Replace	8	3	\$5,400
503	Iron Fence/Rail - Replace	24	7	\$17,000
504	Latticework Railing - Replace	15	3	\$57,000
702	Utility Doors - Replace	1	0	\$2,700
704	Trash Access Gates - Replace	15	3	\$14,000
909	Bathroom - Refurbish	20	3	\$5,800
951	Shower - Retile	20	4	\$1,050
1001	Backflow Devices - Replace	15	0	\$6,000
1001	Controller Enclosures - Replace	20	0	\$9,650
1003	Irrigation Controllers - Replace	1	0	\$3,800
1113	Iron Fence & Railing - Repaint	4	0	\$2,700
1115	Stucco - Repaint	12	0	\$465,000
1116	Annual Wood Surfaces - Repaint	1	0	\$24,000
1117	Pool Area Trellis - Repair/Replace	25	10	\$3,300
1117	Wood Deck Beams - Repair/Replace	1	0	\$10,500
1200	Pool Deck - Repair	25	12	\$20,000
1202	Pool - Resurface	12	3	\$11,000
1203	Spa - Resurface	12	3	\$5,800
1207	Pool Filter - Replace	10	0	\$1,700
1207	Spa Filter - Replace	10	9	\$1,550
1208	Spa Heater - Replace	10	7	\$3,100
1210	Pool/Spa Pumps - Replace	10	7	\$3,450
1212	Solar Panels - Replace	15	12	\$8,700
1213	Pool Area Mastic - Replace	4	2	\$1,200
1302	Flat Roof (2016) - Replace	15	0	\$88,000
1302	Flat Roof (2017) - Replace	15	1	\$88,000
1302	Flat Roof (2018) - Replace	15	2	\$88,000
1302	Flat Roof (2019) - Replace	15	3	\$88,000
1303	Comp Shingle Roof - Replace	20	5	\$306,500
1902	Bridge - Repair/Seal	25	17	\$11,500
1902	Fill Valve - Replace	1	0	\$5,800
1902	Stream Pumps - Rebuild	1	0	\$6,900
1902	Streams - Clean/Repair	1	0	\$9,600
1903	Stream Bed - Replacement	40	9	\$592,000
45	Total Funded Components			

Note 1: a Useful Life of "N/A" means a one-time expense, not expected to repeat.