

**STREAM HOUSE COMMUNITY ASSOCIATION
COMPARATIVE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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, 2009, 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 2008 on which we expressed an unqualified opinion in our report dated February 28, 2009.

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 current 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, 2009, 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

March 10, 2010

STREAM HOUSE COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	<u>2009</u>			<u>2008</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents [Note 6]	\$ 8,357	\$ 44,208	\$ 52,565	\$ 52,516
Member assessments receivable, less allowance for doubtful collection of \$15,200 at 12/31/09 and \$6,100 at 12/31/08	13,076	--	13,076	20,279
Investments [Note 7]	--	30,148	30,148	--
Capitalized loan fees, less accumulated amortization of \$3,125 at 12/31/09 and \$2,625 at 12/31/08	--	375	375	875
Prepaid insurance	206	--	206	391
Prepaid taxes	480	--	480	480
Due (to)/from fund	13,155	(13,155)	--	--
Total Assets	<u>\$ 35,274</u>	<u>\$ 61,576</u>	<u>\$ 96,850</u>	<u>\$ 74,541</u>
LIABILITIES				
Accounts payable	\$ 28,189	\$ --	\$ 28,189	\$ 25,406
Bank loan [Note 9]	--	43,608	43,608	112,885
Accrued interest payable	--	160	160	408
Prepaid assessments	4,410	--	4,410	3,411
Income taxes payable	10	--	10	10
Total Liabilities	32,609	43,768	76,377	142,120
FUND BALANCES	<u>2,665</u>	<u>17,808</u>	<u>20,473</u>	<u>(67,579)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,274</u>	<u>\$ 61,576</u>	<u>\$ 96,850</u>	<u>\$ 74,541</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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 378,827	\$ 159,013	\$ 537,840	\$ 517,920
Interest	57	194	251	179
Other income	4,943	--	4,943	5,139
Total Revenues	<u>383,827</u>	<u>159,207</u>	<u>543,034</u>	<u>523,238</u>
EXPENSES				
Utilities:				
Electricity	61,942	--	61,942	61,276
Water	53,824	--	53,824	49,325
Gas	2,051	--	2,051	2,529
Refuse	24,600	--	24,600	23,474
Maintenance:				
Landscape maintenance and supplies	85,908	--	85,908	87,463
Stream and stream pumps	25,655	--	25,655	28,017
Patrol services	3,253	--	3,253	3,428
Lighting maintenance and supplies	9,594	--	9,594	6,711
Pool service, supplies and repairs	5,202	--	5,202	5,839
Janitorial service and supplies	2,481	--	2,481	2,513
Pest control	16,087	--	16,087	13,178
Plumbing repairs	3,753	--	3,753	239
Other common area maintenance	24,673	--	24,673	22,159
Replacement fund [Note 10]	--	38,870	38,870	77,579
Administrative:				
Insurance	39,343	--	39,343	39,870
Management fees	33,600	--	33,600	30,000
Professional fees	1,615	--	1,615	8,122
Income taxes [Note 3]	10	--	10	10
Postage and printing expense	2,155	--	2,155	1,608
Other administrative expenses	65	--	65	100
Amortization expense	--	500	500	500
Interest expense	--	5,124	5,124	9,479
Bad debt expense	14,677	--	14,677	5,539
Total Expenses	<u>410,488</u>	<u>44,494</u>	<u>454,982</u>	<u>478,958</u>
EXCESS OF REVENUES				
OVER/(UNDER) EXPENSES	(26,661)	114,713	88,052	44,280
Beginning Fund Balances	<u>29,326</u>	<u>(96,905)</u>	<u>(67,579)</u>	<u>(111,859)</u>
Ending Fund Balances	<u>\$ 2,665</u>	<u>\$ 17,808</u>	<u>\$ 20,473</u>	<u>\$ (67,579)</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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	<u>2009</u>			<u>2008</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Excess of revenues over/(under) expenses:	\$ (26,661)	\$ 114,713	\$ 88,052	\$ 44,280
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:				
Amortization expense	--	500	500	500
Decrease in member assessments receivable	7,203	--	7,203	2,819
(Increase)/decrease in prepaid insurance	185	--	185	(1)
Increase/(decrease) in accounts payable	2,783	--	2,783	(2,677)
Decrease in accrued interest payable	--	(248)	(248)	(223)
Increase/(decrease) in prepaid assessments	999	--	999	(274)
Change in due to/(from) fund	<u>(13,155)</u>	<u>13,155</u>	<u>--</u>	<u>--</u>
Net cash provided/(used) by operating activities	<u>(28,646)</u>	<u>128,120</u>	<u>99,474</u>	<u>44,424</u>
Cash used by investing activities:				
Acquisition of certificates of deposit	<u>--</u>	<u>(30,148)</u>	<u>(30,148)</u>	<u>--</u>
Cash used by financing activities:				
Principal loan payments	<u>--</u>	<u>(69,277)</u>	<u>(69,277)</u>	<u>(61,795)</u>
Net increase/(decrease) in cash	(28,646)	28,695	49	(17,371)
Cash at beginning of year	<u>37,003</u>	<u>15,513</u>	<u>52,516</u>	<u>69,887</u>
Cash at end of year	<u>\$ 8,357</u>	<u>\$ 44,208</u>	<u>\$ 52,565</u>	<u>\$ 52,516</u>

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

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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, 2009 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, 2009, 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 and investment 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.

(f) Subsequent Events (FAS 165) - Subsequent events have been evaluated through April 5, 2010 which is the date the financial statements were available to be issued.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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, 2009, 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, 2009, the federal and California income tax expense was \$0 and \$10, respectively.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

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, 2009 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, 2009, the Association has recorded an allowance for uncollectible assessments of \$15,200. This allowance represents an estimated amount which was calculated using historical collection information.

For the year ended December 31, 2009, the Association's monthly assessment was \$270 per unit. For 2010, the monthly assessment is budgeted to remain at \$270 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.

A reserve study of the Association's replacement funding program, which was updated in February 2010, indicates that the Association is underfunded. Accordingly, the study recommends a contribution to the replacement fund of approximately \$300,000 (\$150.60 per unit per month) for 2010. 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, 2009, the Association funded \$159,013 from assessments to the replacement fund. The 2010 budget provides a provision for replacement funding of \$129,216, which is inclusive of a loan repayment provision. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

STREAM HOUSE COMMUNITY ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

NOTE 5. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

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.

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, 2009 and 2008, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2009</u>	<u>2008</u>
Sunwest Bank - checking	<u>\$ 8,357</u>	<u>\$ 37,003</u>
<u>Replacement Fund:</u>		
Sunwest Bank - savings	<u>\$ 44,208</u>	<u>\$ 15,513</u>

NOTE 7. INVESTMENTS

The Association's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. The investments are considered to be held to maturity and are carried at amortized cost, which approximates the fair value.

At December 31, 2009 and 2008, the Association's investments are as follows:

<u>Replacement Fund:</u>	<u>2009</u>	<u>2008</u>
Imperial Capital Bank - 0.25%, 2/9/10	<u>\$ 30,148</u>	<u>\$ --</u>

NOTE 8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended December 31, 2009. Cash paid for interest on the bank loan totaled \$5,372 during the year. There were no non-cash investing or financing transactions during the year.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9. 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, 2009 was \$43,608 and the effective interest rate was 6.5%. The loan is collateralized against the Association's right to levy and collect assessments. Additionally, loan fees of \$3,000 have been capitalized and are being amortized over the 7-year period. Future principal payments are as follows:

Fiscal year ending 12/31/10:	\$ 43,608
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NOTE 10. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Stream repairs	\$ 9,236	\$ 11,985
Rain gutter and roof maintenance	6,331	8,017
Dry rot/termite repairs	6,122	--
Window repairs/replacements	4,670	--
Access system	3,376	--
Painting	3,102	1,000
Garage/storage area	2,437	--
Stucco repairs	1,683	--
Concrete work	985	8,045
Landscape	927	1,390
Pool repairs	--	13,208
Wrought iron fence	--	9,191
Decks	--	8,134
Mold remediation/water damage repairs	--	6,856
Roof repairs	--	3,475
Irrigation repairs	--	2,995
Interior repairs	--	1,965
Plumbing	--	1,319
Total	\$ 38,870	\$ 77,579

STREAM HOUSE COMMUNITY ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2009
 (UNAUDITED)

A reserve study was updated in February 2010 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. The estimates were based on current replacement costs adjusted for an annual inflation rate of 3.50%. 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 1.25% (net of taxes).

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

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>Study's Recommended Fund Balance</u>
Painting	0-3 years	\$ 456,003	\$ 380,733
Roofs	0-6 years	598,800	567,386
Pool/spa	0-9 years	27,333	17,455
Asphalt	0 years	92,000	92,000
Fences and railings	0-9 years	74,088	48,229
Irrigation controllers	0-8 years	20,130	18,534
Bridges	23 years	10,350	1,765
Termite	0 years	5,000	5,000
Decks	0-7 years	353,006	220,928
Mailboxes	3 years	15,163	12,994
Patio furniture	3 years	4,140	1,774
Doors and gates	3-8 years	84,094	51,706
Streams	0-9 years	62,200	50,784
	Total	<u>\$ 1,802,307</u>	<u>\$ 1,469,288</u>
Replacement Fund balance at 12/31/09:			<u>\$ 17,808</u>
Recommended funding requirement for 2010:			<u>\$ 300,000</u>