

STREAM HOUSE COMMUNITY ASSOCIATION
COMPARATIVE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010, 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 2009 on which we expressed an unqualified opinion in our report dated March 10, 2010.

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, 2010, 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 16, 2011

STREAM HOUSE COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	<u>2010</u>			<u>2009</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents [Note 7]	\$ 34,477	\$ 106,761	\$ 141,238	\$ 52,565
Member assessments receivable, less allowance for doubtful collection of \$15,200 at 12/31/10 and 12/31/09	10,708	--	10,708	13,076
Investments [Note 8]	--	--	--	30,148
Capitalized loan fees, less accumulated amortization of \$3,500 at 12/31/10 and \$3,125 at 12/31/09	--	--	--	375
Prepaid insurance	207	--	207	206
Prepaid taxes	480	--	480	480
Due (to)/from fund	13,155	(13,155)	--	--
Total Assets	<u>\$ 59,027</u>	<u>\$ 93,606</u>	<u>\$ 152,633</u>	<u>\$ 96,850</u>
LIABILITIES				
Accounts payable	\$ 25,520	\$ --	\$ 25,520	\$ 28,189
Bank loan [Note 10]	--	--	--	43,608
Accrued interest payable	--	--	--	160
Prepaid assessments	3,817	--	3,817	4,410
Income taxes payable	10	--	10	10
Total Liabilities	29,347	--	29,347	76,377
FUND BALANCES	<u>29,680</u>	<u>93,606</u>	<u>123,286</u>	<u>20,473</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 59,027</u>	<u>\$ 93,606</u>	<u>\$ 152,633</u>	<u>\$ 96,850</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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010			2009
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 392,834	\$ 145,006	\$ 537,840	\$ 537,840
Interest	21	83	104	251
Other income	5,539	--	5,539	4,943
Total Revenues	<u>398,394</u>	<u>145,089</u>	<u>543,483</u>	<u>543,034</u>
EXPENSES				
Utilities:				
Electricity	66,777	--	66,777	61,942
Water	44,542	--	44,542	53,824
Gas	2,482	--	2,482	2,051
Refuse	12,604	--	12,604	24,600
Maintenance:				
Landscape maintenance and supplies	73,460	--	73,460	85,908
Stream and stream pumps	32,426	--	32,426	25,655
Patrol services	3,303	--	3,303	3,253
Lighting maintenance and supplies	6,556	--	6,556	9,594
Pool service, supplies and repairs	5,541	--	5,541	5,202
Janitorial service and supplies	2,813	--	2,813	2,481
Pest control	10,882	--	10,882	16,087
Plumbing repairs	--	--	--	3,753
Other common area maintenance	26,485	--	26,485	24,673
Replacement fund [Note 11]	--	68,113	68,113	38,870
Administrative:				
Insurance	33,567	--	33,567	39,343
Management fees	33,600	--	33,600	33,600
Professional fees	4,459	--	4,459	1,615
Income taxes [Note 4]	10	--	10	10
Postage and printing expense	1,376	--	1,376	2,155
Other administrative expenses	171	--	171	65
Amortization expense	--	375	375	500
Interest expense	--	803	803	5,124
Bad debt expense	10,325	--	10,325	14,677
Total Expenses	<u>371,379</u>	<u>69,291</u>	<u>440,670</u>	<u>454,982</u>
EXCESS OF REVENUES OVER EXPENSES	27,015	75,798	102,813	88,052
Beginning Fund Balances	<u>2,665</u>	<u>17,808</u>	<u>20,473</u>	<u>(67,579)</u>
Ending Fund Balances	<u>\$ 29,680</u>	<u>\$ 93,606</u>	<u>\$ 123,286</u>	<u>\$ 20,473</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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	<u>2010</u>			<u>2009</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Excess of revenues over expenses:	\$ 27,015	\$ 75,798	\$ 102,813	\$ 88,052
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:				
Amorization expense	--	375	375	500
Decrease in member assessments receivable	2,368	--	2,368	7,203
(Increase)/decrease in prepaid insurance	(1)	--	(1)	185
Increase/(decrease) in accounts payable	(2,669)	--	(2,669)	2,783
Decrease in accrued interest payable	--	(160)	(160)	(248)
Increase/(decrease) in prepaid assessments	(593)	--	(593)	999
Net cash provided by operating activities	<u>26,120</u>	<u>76,013</u>	<u>102,133</u>	<u>99,474</u>
Cash provided/(used) by investing activities:				
Acquisition of certificates of deposit	--	--	--	(30,148)
Maturity of certificates of deposit	--	30,148	30,148	--
Net cash flows from investing activities	<u>--</u>	<u>30,148</u>	<u>30,148</u>	<u>(30,148)</u>
Cash used by financing activities:				
Principal loan payments	--	(43,608)	(43,608)	(69,277)
Net increase in cash	26,120	62,553	88,673	49
Cash at beginning of year	<u>8,357</u>	<u>44,208</u>	<u>52,565</u>	<u>52,516</u>
Cash at end of year	<u>\$ 34,477</u>	<u>\$ 106,761</u>	<u>\$ 141,238</u>	<u>\$ 52,565</u>

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

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010 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, 2010, 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.

(f) Subsequent Events - Subsequent events have been evaluated through March 16, 2011, which is the date the financial statements were available to be issued.

NOTE 3. COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 4. 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, 2010, 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, 2010, there was no federal or California income tax expense.

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.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an Association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

NOTE 5. 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, 2010 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, 2010, 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, 2010, the Association's monthly assessment was \$270 per unit. For 2011, the monthly assessment is budgeted to remain at \$270 per unit.

NOTE 6. 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.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 6. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

An independent study of the Association's replacement funding program, which was conducted in November 2010, indicates that the Association is underfunded. Accordingly, the study recommends a contribution to the replacement fund of approximately \$266,400 (\$133.73 per unit per month) for 2011. 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, 2010, the Association funded \$145,006 from assessments to the replacement fund. The 2011 budget includes a provision for replacement funding of \$136,764 (\$68.66 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.

NOTE 7. 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, 2010 and 2009, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2010</u>	<u>2009</u>
Wells Fargo Bank - checking	\$ 27,085	\$ --
Sunwest Bank - checking	<u>7,392</u>	<u>8,357</u>
Total Cash - Operating Fund	<u>\$ 34,477</u>	<u>\$ 8,357</u>
 <u>Replacement Fund:</u>		
Sunwest Bank - checking with interest	<u>\$ 106,761</u>	<u>\$ 44,208</u>

STREAM HOUSE COMMUNITY ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 8. 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 cost, which approximates the fair value.

At December 31, 2010 and 2009, the Association's investment is as follows:

<u>Replacement Fund:</u>	<u>2010</u>	<u>2009</u>
Imperial Capital Bank - 0.25%, 2/9/10	<u>\$ --</u>	<u>\$ 30,148</u>

NOTE 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended December 31, 2010. Cash paid for interest on the bank loan totaled \$963 during the year. There were no non-cash investing or financing transactions during the year.

NOTE 10. 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. Additionally, loan fees of \$3,000 had been capitalized and are being amortized over the 7-year period. During the year, the Association paid off the balance of the bank loan.

STREAM HOUSE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 11. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Rain gutter and roof maintenance	\$ 26,944	\$ 6,331
Stream repairs	13,048	9,236
Dry rot/termite repairs	8,257	6,122
Painting	7,825	3,102
Concrete work	5,198	986
Deck repairs	4,523	--
Doors	1,340	--
Waterproofing wall	978	--
Window repairs/replacements	--	4,670
Access system	--	3,376
Garage/storage area	--	2,437
Stucco repairs	--	1,683
Landscape	--	927
	<hr/>	<hr/>
Total	<u>\$ 68,113</u>	<u>\$ 38,870</u>

STREAM HOUSE COMMUNITY ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2010
 (UNAUDITED)

An independent reserve study was conducted in November 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 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 3.5%. 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 1.0% (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	2011 Recommended Funding Requirement	Study's Recommended Fund Balance
Painting	0-2 years	\$ 489,050	\$ 73,415	\$ 422,717
Lighting	0-5 years	133,850	7,841	111,080
Roofs	0-5 years	494,800	40,896	449,022
Pool/spa	0-8 years	23,825	3,014	14,891
Asphalt	0-4 years	134,950	11,168	114,767
Tree maintenance	0 years	14,500	19,033	14,500
Irrigation controllers	0-4 years	16,750	5,692	15,483
Patio furnitures	0 years	4,300	1,129	4,300
Termite	0 years	3,650	4,791	3,650
Streams	0 years	23,500	24,940	23,500
Mailboxes	0 years	15,700	1,374	15,700
Decks	0-6 years	364,600	59,069	226,150
Railings	7-8 years	62,100	5,137	34,027
Doors	7 years	75,400	6,598	40,213
Gates	2 years	11,750	1,542	9,400
Bathroom	8 years	3,800	249	2,280
Bridge	22 years	9,700	509	1,165
	Total	<u>\$ 1,882,225</u>	<u>\$ 266,400</u>	<u>\$ 1,502,845</u>
				<u>\$ 93,606</u>

Replacement Fund balance at 12/31/10: