

**DJL**

Member:  
American Institute  
of Certified Public  
Accountants

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, 2018**

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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, 2018, 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.

## **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, 2018, 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 taken 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 generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on pages 11-14 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 31, 2019

**STREAM HOUSE COMMUNITY ASSOCIATION**  
**Balance Sheet**  
**December 31, 2018**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>ASSETS</b>	-----	-----	-----
Cash in Checking and Savings	\$ 67,947	697,659	\$ 765,606
Assessments Receivable	22,489		22,489
Prepaid Insurance	103		103
Prepaid Taxes	480		480
Due to Reserves	(40,713)	40,713	0
Total Assets	\$ 50,306	738,372	\$ 788,678
	=====	=====	=====
<b>LIABILITIES</b>			
Accounts Payable	\$ 4,247		\$ 4,247
Prepaid Assessments	10,401		10,401
Taxes Payable	10		10
Total Liabilities	14,658	0	14,658
	-----	-----	-----
<b>FUND BALANCES</b>	35,648	738,372	774,020
Total Liabilities and Fund Balances	\$ 50,306	738,372	\$ 788,678
	=====	=====	=====

The Accompanying Notes and Independent Auditor's Report are an Integral Part of these Financial Statements  
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**STREAM HOUSE COMMUNITY ASSOCIATION**  
**Statement of Revenue and Expenses and Changes in Fund Balances**  
For the Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total Funds
<b>REVENUES</b>			
Member Assessments	\$ 423,417	171,112	\$ 594,529
Special Assessments	28,884		28,884
Interest Income		308	308
Other Income	33,905		33,905
<b>Total Income</b>	<b>\$ 486,206</b>	<b>171,420</b>	<b>\$ 657,626</b>
<b>EXPENSES</b>			
Management	\$ 25,800		\$ 25,800
Audit & Tax Preparation	925		925
Insurance	31,701		31,701
Printing & Postage	4,194		4,194
Taxes	10		10
Janitorial Contract & Supplies	2,699		2,699
Reserve Study	1,240		1,240
Legal & Collection	10,190		10,190
Security	3,748		3,748
Administration Other	(195)		(195)
Landscape	57,000		57,000
Landscape Extras	4,920		4,920
Irrigation Repairs	7,440		7,440
Tree Trimming & Removal	21,875		21,875
Pool & Spa Maintenance	3,480		3,480
Pool Repairs & Extras	3,569		3,569
Electrical Repairs	9,570		9,570
Water Features & Extras	49,652		49,652
Roof Repairs	14,690	15,405	30,095
Plumbing Repairs	5,730		5,730
Repairs & Maintenance	5,526	103,536	109,062
Common Area Maintenance	41,667		41,667
Pest/Termite Control	14,385		14,385
Electricity	54,428		54,428
Water	76,325		76,325
Gas	1,701		1,701
Refuse	12,217		12,217
<b>Total Expenses</b>	<b>464,487</b>	<b>118,941</b>	<b>583,428</b>
<b>Excess Revenue/(Expenses)</b>	<b>21,719</b>	<b>52,479</b>	<b>74,198</b>
<b>Beginning Fund Balance</b>	<b>\$ 13,929</b>	<b>685,893</b>	<b>\$ 699,822</b>
<b>Ending Fund Balance</b>	<b>\$ 35,648</b>	<b>738,372</b>	<b>\$ 774,020</b>

**STREAM HOUSE COMMUNITY ASSOCIATION**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>	\$ 21,719	52,479	\$ 74,198
Reconciliation of Excess(Deficit) of Support and Revenue over Expenses to Net Cash from Operating Activities:			
Change in Assessments Receivable	\$ (2,711)	\$ (2,711)	
Change in Accounts Payable	(25,918)	(25,918)	
Change in Prepaid Assessments	1,768	1,768	
Change in Prepaid Insurance	(103)	(103)	
Change in Due to Other Funds	23,592	(23,592)	0
<b>Total Net Adjustments</b>	<b>(3,372)</b>	<b>(23,592)</b>	<b>(26,964)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>\$ 18,347</b>	<b>28,887</b>	<b>\$ 47,234</b>
<b>Cash Flows from Financing Activities:</b>			
Net Increase/(Decrease) in Cash	\$ 18,347	28,887	\$ 47,234
Cash Balance at Beginning of Year	49,600	668,772	718,372
<b>Cash Balance at End of Year</b>	<b>\$ 67,947</b>	<b>697,659</b>	<b>\$ 765,606</b>

The Accompanying Notes and Independent Auditor's Report are an Integral Part of these Financial Statements  
Page 6

**STREAM HOUSE  
COMMUNITY ASSOCIATION  
Notes to Financial Statements  
December 31, 2018**

**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, 2018, amounted to \$ 0 federal and \$ 10 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, 2018 were \$ 298 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 \$ 22,489 of assessments receivable and \$ 10,400 of prepaid assessments at December 31, 2018. 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, 2018, the Association has \$ 697,659 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, 2018.

**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, 2018 in the following accounts:

Union Bank	\$ 67,947
Union Bank MMA	500,517
Wells Fargo Bank	197,142
	-----
	\$ 765,606
	=====

**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, 2018 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, 2018 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, 2018**

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, 2018. 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 2018 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, 2018, 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 12-14 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

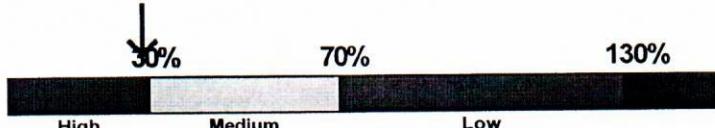
Association: Stream House Community Association  
Location: Orange, CA  
Report Period: January 1, 2019 through December 31, 2019

Assoc. #: 4702-6  
# of Units: 166

### *Findings/Recommendations as-of: January 1, 2019*

Project Starting Reserve Balance .....	\$739,307
Current Full Funding Reserve Balance .....	\$2,528,564
Average Reserve Deficit (Surplus) Per Unit .....	\$10,779
Percent Funded .....	.29.2 %
Recommended 2019 "Monthly Full Funding Contributions"	\$16,300
Alternate minimum contributions to keep Reserve above \$0 .....	\$14,000
Recommended 2019 Special Assessments for Reserves .....	\$830,000
Most Recent Reserve Contribution Rate .....	\$13,612

Reserves % Funded: 29.2%



Special Assessment Risk:

High                    Medium                    Low

### *Economic Assumptions:*

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

This is an Update "No-Site-Visit" Reserve Study, and is based on a prior Report prepared by Association Reserves. No site inspection was performed as part of this Reserve Study.

This Reserve Study was prepared by a credentialed Reserve Specialist, Sabrina C. Willison RS #334.

The Reserve Fund is below the 30% funded level at 29.2 % funded, which is a weak position for the fund to be in. This means that the association's special assessment & deferred maintenance risk is currently high. The objective of this multi-year Funding Plan is to Fully Fund Reserves and ultimately achieve a position of strength in the fund, where associations enjoy a low risk of Reserve cash flow problems. Due to this weak position a two-time Special Assessment of \$830,000 is needed.

Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase your Reserve contributions to \$16,300.

\*The Alternative Contribution rate, also called Baseline Funding will keep the Reserve Funds above \$0. This figure for your association is \$14,000.

To receive a copy of the full Reserve Study, contact the Association.

## Executive Summary

4702-6

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
<b>Paved Surfaces</b>			
106 Concrete - Repair/Replace	1	0	\$11,350
201 Asphalt - Removal & Replacement	24	6	\$130,000
202 Asphalt - Seal/Repair	4	0	\$16,000
<b>Roofing</b>			
1302 Flat Roof (2016) - Replace	15	0	\$92,000
1302 Flat Roof (2017) - Replace	15	0	\$92,000
1302 Flat Roof (2018) - Replace	15	0	\$92,000
1302 Flat Roof (2019) - Replace	15	0	\$92,000
1303 Comp Shingle Roof - Replace	20	2	\$335,000
<b>Decking</b>			
104 Deck - Seal/Repair	4	0	\$58,000
105 Deck - Resurface	16	2	\$265,000
<b>Lighting</b>			
320 Globe Pole Lights - Replace	24	0	\$25,500
320 Street Pole Lights - Replace	24	0	\$26,000
322 Bollard Lights - Replace	24	0	\$27,000
325 Wall Lights I - Replace	25	0	\$45,500
325 Wall Lights II - Replace	25	20	\$45,500
<b>Painting Projects</b>			
1113 Iron Fence & Railing - Repaint	4	0	\$3,000
1115 Stucco - Repaint	12	0	\$510,000
1116 Annual Wood Surfaces - Repaint	1	0	\$29,000
<b>Fencing</b>			
503 Iron Fence/Rail - Replace	24	4	\$18,500
504 Latticework Railing - Replace	15	0	\$61,500
<b>Pool Area</b>			
404 Patio Furniture - Replace	8	0	\$5,850
909 Bathroom - Refurbish	20	0	\$6,400
951 Shower - Retile	20	1	\$1,095
1117 Pool Area Trellis - Repair/Replace	25	7	\$3,600
1200 Pool Deck - Repair	25	9	\$23,000
1202 Pool - Resurface	12	0	\$11,000
1203 Spa - Resurface	12	0	\$6,300
1207 Pool Filter - Replace	10	0	\$1,850
1207 Spa Filter - Replace	10	6	\$1,700
1208 Spa Heater - Replace	10	4	\$3,400
1210 Pool/Spa Pumps - Replace	10	4	\$3,750
1212 Solar Panels - Replace	15	9	\$9,100
1213 Pool Area Mastic - Replace	4	0	\$1,200
<b>Landscape &amp; Irrigation</b>			
1001 Backflow Devices - Replace	15	0	\$6,600
1001 Controller Enclosures - Replace	20	0	\$10,050
1003 Irrigation Controllers- Replace	1	0	\$4,100
<b>Streams</b>			
1902 Fill Valve - Replace	1	0	\$6,250

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
1902 Stream Pumps - Rebuild	1	0	\$7,500
1902 Streams - Clean/Repair	1	0	\$10,450
1903 Stream Bed - Replacement	40	6	\$650,000
<b>General Areas</b>			
403 Mailboxes - Replace	1	0	\$2,050
702 Utility Doors - Replace	1	0	\$3,000
704 Trash Access Gates - Replace	15	0	\$14,000
1117 Wood Deck Beams - Repair/Replace	1	0	\$11,200
1902 Bridge - Repair/Seal	25	14	\$11,500
<b>45 Total Funded Components</b>			

Note 1: Yellow highlighted line items are expected to require attention in this initial year.