

INDEPENDENT AUDITORS' REPORT

To the Owners  
Cypress Home Owners Association

We have audited the accompanying balance sheet of Cypress Home Owners Association, 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 Cypress Home Owners Association's financial statements presented by fund for 2008 on which we expressed an unqualified opinion in our report dated April 24, 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 or 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 Cypress Home Owners 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 28, 2010

CYPRESS HOME OWNERS 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>
<b>ASSETS</b>				
Cash and cash equivalents [Note 6]	\$ 98,599	\$ 257,420	\$ 356,019	\$ 242,508
Member assessments receivable, less allowance for doubtful collection of \$64,000 at 12/31/09 and \$27,300 at 12/31/08	39,831	--	39,831	53,948
Investments [Note 7]	--	--	--	60,000
Accrued interest receivable	--	--	--	268
Prepaid insurance	20,205	--	20,205	26,180
Prepaid taxes	2,852	--	2,852	3,034
Due (to)/from fund	(63,901)	63,901	--	--
Total Assets	<u>\$ 97,586</u>	<u>\$ 321,321</u>	<u>\$ 418,907</u>	<u>\$ 385,938</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 11,217	\$ --	\$ 11,217	\$ 29,772
Prepaid assessments	16,524	--	16,524	13,258
Income taxes payable	10	--	10	10
Total Liabilities	27,751	--	27,751	43,040
<b>FUND BALANCES</b>				
	<u>69,835</u>	<u>321,321</u>	<u>391,156</u>	<u>342,898</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>				
	<u>\$ 97,586</u>	<u>\$ 321,321</u>	<u>\$ 418,907</u>	<u>\$ 385,938</u>

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

CYPRESS HOME OWNERS ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
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>
<b>REVENUES</b>				
Member assessments	\$ 566,139	\$ 258,861	\$ 825,000	\$ 705,000
Special assessment - insurance	--	--	--	62,426
Interest	--	1,394	1,394	3,656
Other income	9,191	--	9,191	7,754
Total Revenues	<u>575,330</u>	<u>260,255</u>	<u>835,585</u>	<u>778,836</u>
<b>EXPENSES</b>				
Utilities:				
Electricity	32,257	--	32,257	31,249
Water	43,665	--	43,665	40,184
Gas	903	--	903	3,556
Refuse	53,189	--	53,189	49,235
Telephone	--	--	--	52
Maintenance:				
Landscape maintenance and supplies	92,886	--	92,886	92,126
Irrigation repairs	15,489	--	15,489	5,521
Tree maintenance	445	--	445	7,985
Pool service, supplies and repairs	30,212	8,457	38,669	45,415
Janitorial service and supplies	10,132	--	10,132	10,692
Pest control	1,110	--	1,110	1,313
Painting	360	32,470	32,830	27,670
Plumbing repairs	1,013	--	1,013	8,807
Other common area maintenance	12,529	--	12,529	15,456
Roof repairs	3,645	160,644	164,289	149,195
Wood repairs	--	18,825	18,825	--
Concrete repairs	--	--	--	11,944
Administrative:				
Insurance	173,319	--	173,319	164,792
Management fees	41,559	--	41,559	41,484
Professional fees	4,489	--	4,489	9,711
Income taxes [Note 3]	192	--	192	675
Postage and printing expense	3,522	--	3,522	5,701
Other administrative expenses	6,432	--	6,432	7,230
Bad debt expense	39,583	--	39,583	20,601
Total Expenses	<u>566,931</u>	<u>220,396</u>	<u>787,327</u>	<u>750,594</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	8,399	39,859	48,258	28,242
<b>Beginning Fund Balances</b>	<u>61,436</u>	<u>281,462</u>	<u>342,898</u>	<u>314,656</u>
<b>Ending Fund Balances</b>	<u>\$ 69,835</u>	<u>\$ 321,321</u>	<u>\$ 391,156</u>	<u>\$ 342,898</u>

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

CYPRESS HOME OWNERS 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>
<b>Excess of revenues over expenses:</b>	\$ 8,399	\$ 39,859	\$ 48,258	\$ 28,242
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Decrease in member assessments receivable	14,117	--	14,117	3,930
Decrease in accrued interest receivable	--	268	268	1,254
(Increase)/decrease in prepaid insurance	5,975	--	5,975	(22,500)
(Increase)/decrease in prepaid taxes	182	--	182	(2,185)
Increase/(decrease) in accounts payable	(18,555)	--	(18,555)	6,953
Increase/(decrease) in prepaid assessments	3,266	--	3,266	(443)
Decrease in income taxes payable	--	--	--	(1,535)
Change in due to/(from) fund	(310)	310	--	--
Net cash provided by operating activities	<u>13,074</u>	<u>40,437</u>	<u>53,511</u>	<u>13,716</u>
Cash used by investing activities:				
Acquisition of certificates of deposit	--	--	--	(60,000)
Maturity of certificates of deposit	--	60,000	60,000	94,000
Net cash flows from investing activities	<u>--</u>	<u>60,000</u>	<u>60,000</u>	<u>34,000</u>
Net increase in cash	13,074	100,437	113,511	47,716
Cash at beginning of year	<u>85,525</u>	<u>156,983</u>	<u>242,508</u>	<u>194,792</u>
Cash at end of year	<u>\$ 98,599</u>	<u>\$ 257,420</u>	<u>\$ 356,019</u>	<u>\$ 242,508</u>

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

CYPRESS HOME OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

NOTE 1. ORGANIZATION

Cypress Home Owners Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in February 1965. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 250 residential units and is located in Cypress, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained the 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 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 July 26, 2010, which is the date the financial statements were available to be issued.

CYPRESS HOME OWNERS 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 regular corporation using certain provisions available to membership organizations. 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 \$118 and \$74, 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 \$64,000. 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 \$275 per unit. For 2010, the monthly assessment is budgeted to remain at \$275 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 2009, indicates that the Association is underfunded. Accordingly the study recommends a an annual contribution to the replacement fund of approximately \$1,022,425. 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 \$258,861 from assessments to the replacement fund. The 2010 budget provides for replacement funding of \$270,000. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

CYPRESS HOME OWNERS 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>
City National Bank - checking	\$ 98,599	\$ 55,563
US Bank - checking	--	29,962
	<hr/>	<hr/>
Total Cash - Operating Fund	<u>\$ 98,599</u>	<u>\$ 85,525</u>
<u>Replacement Fund:</u>		
Merrill Lynch - money funds	<u>\$ 257,420</u>	<u>\$ 156,983</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>
American Express Centurion Bank - 3.65%, 11/12/09	\$ --	\$ 30,000
Wilmington Trust Co. - 3.00%, 5/12/09	--	30,000
	<hr/>	<hr/>
Total Investments - Replacement Fund	<u>\$ --</u>	<u>\$ 60,000</u>

NOTE 8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no payments for income taxes for the year ended December 31, 2009. No interest was paid and there were no non-cash investing or financing transactions during the year.