

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

REPORT ON REVIEWED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

**VOGEL
& AYRES**

CERTIFIED PUBLIC ACCOUNTANTS

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SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2008

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Homeowners
Sorrento at Porter Ranch Community Association
Northridge, California

We have reviewed the accompanying balance sheet of **Sorrento at Porter Ranch Community Association** as of December 31, 2008, and the related statements of revenues and expenses, fund balances, and cash flows for the year then ended, in accordance with accounting and review standards generally accepted in the United States of America. All information included in these financial statements is the representation of the management of **Sorrento at Porter Ranch Community Association**.

A review consists principally of inquiries of Association management and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The supplementary information about future repairs and replacements on page 9 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 compiled the supplementary information from information that is the representation of management **Sorrento at Porter Ranch Community Association**, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

VOGEL & AYRES
CERTIFIED PUBLIC ACCOUNTANTS

April 7, 2009

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

BALANCE SHEET
DECEMBER 31, 2008

ASSETS	
Cash - Operating	\$ 28,868
Cash - Replacement	304,655
Total Cash	333,523
Certificates of Deposit - Replacement	198,185
Assessments Receivable, net of Allowance for Doubtful Accounts of \$79,000	19,729
<i>TOTAL ASSETS</i>	<u>\$ 551,437</u>
LIABILITIES AND FUND BALANCES	
Accounts Payable	\$ 79,227
Prepaid Assessments	25,194
Income Taxes Payable	2,288
<i>TOTAL LIABILITIES</i>	106,709
<i>COMMITMENTS AND CONTINGENCIES</i>	
<i>FUND BALANCES</i>	
Operating	(58,112)
Replacement	502,840
<i>TOTAL FUND BALANCES</i>	444,728
<i>TOTAL LIABILITIES AND FUND BALANCES</i>	<u>\$ 551,437</u>

See accountants' review report and the accompanying notes to the financial statements.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

REVENUES	
Regular Monthly Assessments	\$ 1,265,250
Other Income and Reimbursed Expenses	35,163
Interest Income	11,232
Architectural Fees	5,850
<i>TOTAL REVENUES</i>	1,317,495
EXPENSES	
Operating Expenses - Schedule	1,179,937
Provision for Uncollectible Assessments	73,978
Major Repair and Replacement Expenses	40,002
Taxes on Income	2,698
<i>TOTAL EXPENSES</i>	1,296,615
<i>EXCESS OF REVENUES OVER EXPENSES</i>	\$ 20,880

See accountants' review report and the accompanying notes to the financial statements.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	OPERATING FUNDS	REPLACE- MENT FUNDS	TOTAL
<i>FUND BALANCES - January 1, 2008</i>	\$ 19,844	\$ 404,004	\$ 423,848
Excess of Revenues over Expenses	20,880	-	20,880
Interest on Replacement Funds	(11,232)	11,232	-
Interfund Transfers, net	(87,604)	87,604	-
<i>FUND BALANCES - December 31, 2008</i>	<u>\$ (58,112)</u>	<u>\$ 502,840</u>	<u>\$ 444,728</u>

See accountants' review report and the accompanying notes to the financial statements.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

OPERATING ACTIVITIES	
Excess of Revenues over Expenses	\$ 20,880
Adjustments to Reconcile Excess of Revenues over Expenses to Cash Provided by Operating Activities -	
Decrease (Increase) in:	
Assessments Receivable	10,784
Prepaid Insurance	3,639
Increase (Decrease) in:	
Accounts Payable	43,806
Prepaid Assessments	(10,320)
Income Taxes Payable	1,829
<i>CASH PROVIDED BY OPERATING ACTIVITIES</i>	70,618
INVESTING ACTIVITIES	
Investment in Certificates of Deposit	(200,000)
Interest Income Reinvested in Certificates of Deposit	(6,920)
Redemption of Certificates of Deposit	259,792
<i>CASH PROVIDED BY INVESTING ACTIVITIES</i>	52,872
<i>NET CASH PROVIDED</i>	123,490
<i>CASH - Beginning of Year</i>	210,033
<i>CASH - End of Year</i>	<u>\$ 333,523</u>
SUPPLEMENTAL DISCLOSURES	
Taxes on Income Paid	<u>\$ 869</u>

See accountants' review report and the accompanying notes to the financial statements.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008**

OPERATING EXPENSES

Landscape Maintenance	\$ 329,888
Security Services	311,375
Water and Sewer	209,157
Management Fees	76,200
Electricity	33,592
Repairs and Maintenance	28,254
Natural Gas	25,042
Pool Maintenance and Supplies	23,427
Collection Costs	18,093
Security Equipment	16,357
Janitorial Services and Supplies	14,970
Insurance	12,710
Office Supplies and Expenses	11,387
Pest Control	11,260
Plumbing	7,771
Consulting	7,029
Postage	6,426
Architect Fees	6,299
Street Cleaning	6,200
Telephone/Intercom	5,342
Website	4,425
Hospitality	3,765
Miscellaneous Supplies and Expenses	3,182
Settlement Expenses	3,000
Rubbish Removal	1,925
Accounting	1,450
Reserve Study	990
Licenses, Fees and Permits	342
Legal Fees	79
<i>TOTAL OPERATING EXPENSES</i>	<u>\$ 1,179,937</u>

See accountants' review report and the accompanying notes to the financial statements.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Sorrento at Porter Ranch Community Association (the Association) is a California mutual benefit corporation located in Northridge, California. The Association was established by authority of the Declaration of Covenants, Conditions, and Restrictions (CC&Rs) to provide management and maintenance of common areas. The Association is comprised of the owners of the 613 residential units within the complex (700 units at build out).

The Association's bank accounts and primary accounting records are maintained by an outside management company appointed by the Board of Directors.

CASH AND CERTIFICATES OF DEPOSIT

Highly liquid investments that mature in three months or less from the original purchase date, money market mutual funds, and bank deposit accounts are classified as cash. Investments that mature in more than three months from the original purchase date are classified as Certificates of Deposit.

CAPITALIZATION POLICY AND DEPRECIATION

Real property and common areas acquired by the original homeowners from the developer have not been capitalized nor have replacements and improvements as these assets are owned in common by the individual members of the Association.

INCOME TAXES

The Association is an exempt organization under Section 528 of the Internal Revenue Code. The Association has elected to be taxed as a homeowners' association. Under the homeowners' association election, an association is taxed on nonexempt function income, such as interest, at a flat tax rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

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 for the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF RISK

The Association maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk related to cash.

See accountants' review report.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 2 - REPLACEMENT FUNDS

The Association is setting aside funds for the future replacement of selected common areas. The replacement reserve is maintained in a separate savings account. These funds are not used in the course of normal operations.

An independent study was prepared in November 2008, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs are estimated from actual contractor prices or by using standard construction industry estimating techniques. Funding requirements consider an inflation rate of 3.00% and interest earned of 1.68% on amounts funded for future repairs and replacements. The table included in the Supplementary Information on Future Major Repairs and Replacements on page 9 is based on this study.

The Board of Directors is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Funding for replacement expenses of \$87,600 has been included in the 2009 budget.

Funds are being accumulated in the replacement fund based on estimated future costs of major repairs and replacements of common property components. Actual expenditures and investment income may vary, and the variations may be material. Therefore amounts accumulated in the replacement fund 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 member approval, to increase the regular monthly assessment, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 3 - MEMBER ASSESSMENTS

During 2008, the regular monthly assessment was \$175.00 per unit. For 2009, the regular monthly assessment is budgeted to increase to \$180.00 per unit.

The annual budget and assessments are determined by the Board of Directors. The Association retains excess operating assessments at the end of the year, if any, for use in future years.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Association contracts for the services of an outside property management company. The Association also contracts with various other service providers for maintenance of its facilities and equipment. These contracts are generally less than one year in duration.

See accountants' review report.

SORRENTO AT PORTER RANCH COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008

An independent study was prepared in November 2008, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs are derived from actual contractor prices or by using standard industry estimating techniques. Funding requirements consider an inflation rate of 3.00% and interest earned of 1.68% on reserve funds.

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

Components	Estimated Years Life Remaining	Current Cost Estimate	Annual Funding Amount	Fully Funded Balance
Asphalt	0-16	\$ 1,040,725		
Decorative Concrete	23-26	153,200		
HVAC Unit	11-14	6,650		
Security System	7	25,000		
Security Cameras	2-3	18,900		
Lighting	12-21	21,450		
Picnic/Play Area	0-26	77,500		
Ironwork	2-6	114,600		
Showers - Retile	12-16	15,738		
Pedestrian Gates	12-16	9,100		
Vehicle Gates	1-26	109,450		
Intercoms (Pools)	11	5,000		
Water Heaters/Tanks	7-11	5,476		
Guard House - Remodel	7-11	9,876		
Restrooms - Remodel	12-16	19,550		
Irrigation/Landscape	0-16	162,950		
Painting	1-6	326,450		
Pool/Spa	0-10	77,763		
Tile Roofs - Repair	17-21	31,850		
Monument Signs	12-16	17,525		
Totals		\$ 2,248,753	\$ 232,800	\$ 946,203

The current replacement cost is the average between the worst case (high) estimate and the best case (low) estimate contained in the study. The study recommends that \$19,400 of the regular monthly assessment be set aside for future major repairs and replacements. At December 31, 2008, replacement funds were 53.1% of the fully funded balance recommended by the study.

See accountants' review report.