

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

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ACCOUNTANT'S REPORT

Board of Directors and Members
The Villages of Rancho Del Oro Association, Inc.

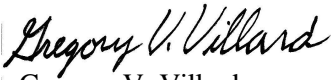
I have reviewed the accompanying balance sheet of The Villages of Rancho Del Oro Association, Inc. as of December 31, 2008, and the related statements of revenues, expenses, changes in fund balances and of cash flows for the year then ended, in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management and Board of Directors.

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

Based on my review, I am 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 on future major repairs and replacements on page 8 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have compiled the supplementary information from information that is the representation of management of The Villages of Rancho Del Oro Association, Inc., without audit or review. Accordingly, I do not express an opinion of any other form of assurance on the supplementary information.

La Mesa, California
February 23, 2009


Gregory V. Villard
Certified Public Accountant

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash	\$ 86,691	\$ 861,993	\$ 948,684
Assessments Receivable - Other	24,245	-	24,245
Assessments Receivable	244,281	-	244,281
Less allowance for doubtful accounts	(112,010)	-	(112,010)
Interest Receivable	-	7,298	7,298
Prepaid Insurance	3,221	-	3,221
Total Assets	<u>\$ 246,428</u>	<u>\$ 869,291</u>	<u>\$ 1,115,719</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 106,432	\$ -	\$ 106,432
Prepaid Assessments	61,751	-	61,751
Total Liabilities	<u>168,183</u>	<u>-</u>	<u>168,183</u>
 <u>FUND BALANCES</u>	<u>78,245</u>	<u>869,291</u>	<u>947,536</u>
 Total Liabilities and Fund Balances	<u>\$ 246,428</u>	<u>\$ 869,291</u>	<u>\$ 1,115,719</u>

See accompanying notes and accountant's report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES & CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total
<u>REVENUES</u>			
Regular Assessments	\$ 2,235,875	\$ 305,325	\$ 2,541,200
Cost Center Assessments	59,130	-	59,130
Interest	563	25,795	26,358
Other Member Charges	152,942	-	152,942
Total Revenues	<u>\$ 2,448,510</u>	<u>\$ 331,120</u>	<u>\$ 2,779,630</u>
<u>EXPENSES</u>			
Maintenance			
Irrigation/Backflow Repair	24,144	-	24,144
Security	52,715	-	52,715
Rodent Control	15,300	-	15,300
Tree Trimming	117,162	-	117,162
Ranch Assessments	201,144	-	201,144
Landscaping Maintenance	737,907	-	737,907
Area Repairs & Supplies	93,453	-	93,453
Cost Center Expense	32,288	-	32,288
Total Maintenance	<u>1,274,113</u>	<u>-</u>	<u>1,274,113</u>
Utilities			
Electricity	10,486	-	10,486
Water & Sewer	331,089	-	331,089
Total Utilities	<u>341,575</u>	<u>-</u>	<u>341,575</u>
General and Administrative			
Collections	102,807	-	102,807
Legal/Audit/Tax Preparation	7,425	-	7,425
Management & Accounting	290,668	-	290,668
Insurance	32,232	-	32,232
Office & Administrative	117,206	-	117,206
Newsletter	6,103	-	6,103
Reserve Study	1,900	-	1,900
Bad Debt Expense	105,949	-	105,949
Total Administrative	<u>664,290</u>	<u>-</u>	<u>664,290</u>
Major Repair and Replacements	<u>-</u>	<u>85,272</u>	<u>85,272</u>
Total Expenses	<u>2,279,978</u>	<u>85,272</u>	<u>2,365,250</u>
Excess Revenues over Expenses	168,532	245,848	414,380
Beginning Fund Balances	(90,287)	623,443	533,156
Interfund Transfers (Net)	-	-	-
Ending Fund Balances	<u>\$ 78,245</u>	<u>\$ 869,291</u>	<u>\$ 947,536</u>

See accompanying notes and accountant's report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Excess (Deficiency) of Revenues over Expenses	\$ 168,532	\$ 245,848	\$ 414,380
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
(Increase) Decrease in:			
Assessments Receivable	(102,396)	-	(102,396)
Accounts Receivable - Other	(17,029)	-	(17,029)
Interest Receivable	-	(1,795)	(1,795)
Prepaid Insurance	(709)	-	(709)
Allowance for Doubtful Accounts	75,859	-	75,859
Increase (Decrease) in:			
Accounts Payable	(61,110)	-	(61,110)
Prepaid Assessments	(15,780)	-	(15,780)
Net Cash Provided (Used) by Operating Activities	<u>47,367</u>	<u>244,053</u>	<u>291,420</u>
Net Increase(Decrease) in Cash	47,367	244,053	291,420
Cash at Beginning of Year	39,324	617,940	657,264
Interfund Transfers (Net)	-	-	-
Cash at End of Year	<u>\$ 86,691</u>	<u>\$ 861,993</u>	<u>\$ 948,684</u>

See accompanying notes and accountant's report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1. ORGANIZATION

The Villages of Rancho Del Oro Association, Inc., a common interest planned residential community association, was incorporated on October 31, 1986, under the general nonprofit laws of the State of California. The Association was organized to provide for the management and maintenance of the commonly owned areas of the housing development which includes 2,647 residential units located in Oceanside, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association's accounting records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The accompanying financial statements and the Association's corporate income tax returns have also been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Property and Equipment

Real property owned by individual unit owners in common and related improvements made by the Association to such property are not capitalized in the financial statements.

Personal property and equipment acquired by the Association are recorded at cost. These assets, if significant in amount, are depreciated over their estimated useful lives using straight-line method of depreciation.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

Statement of Cash Flows

According to SFAS No. 95 regarding the Statement of Cash Flows, certificates of deposits and securities with original maturities of three months or less are classified as cash equivalents. Certificates of deposit and securities with original maturities over three months are considered short-term investments. The Association's policy is to treat all cash, cash equivalents, and short-term investments together as cash funds.

NOTE 3. INCOME TAXES

The Association is exempt from taxation under Internal Revenue Code Section 501 (c) (4) and related California Revenue and Taxation Code Sections.

NOTE 4. HOMEOWNER ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of members are determined by the Board of Directors. Any excess assessments at the year end are retained by the Association for use in future years. Monthly assessments to homeowners were \$80 for the year.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's policy is to accumulate funds for future major repairs and replacements. Accumulated funds are held in separate interest-bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in November 2008 to estimate the remaining useful lives and the replacement costs of the common property components. The table included in the compiled Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts 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, however, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 6. ASSESSMENTS RECEIVABLE

The Association's policy is to place liens on the properties of owners whose assessments are in arrears and retain legal counsel if necessary to collect delinquent assessments. As of December 31, 2008, there are \$244,281 (with an allowance for doubtful accounts of \$112,010) in assessments and charges due from homeowners and \$61,751 of assessments have been paid in advance.

NOTE 7. RANCH ASSESSMENTS

Ranch assessments are collected to provide for the maintenance, repair and replacement of the improvements located within or adjacent to certain major streets serving Rancho Del Oro. The improvements consist of median and streetscape landscaping, special improvements of facilities, signs and street furniture which are different (upgraded from those utilized in other areas of the City). Every property owner within the master planned community of Rancho Del Oro, including residential, commercial, industrial, retail, and undeveloped land, contributes proportionately to the ranch assessment, based on the size and type of their property.

NOTE 8. 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 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.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE
 MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2008
 (compiled)

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the components of common property as of October 2008. The estimates were based on an inspection of the property and information provided by the Board of Directors and property manager and/or contractors currently working for the Association. Replacement costs were based on the estimated costs to repair or replace the common property components at the time of the study. The following table is based on this study and presents significant information about the components of common property:

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2008</u>
Street Light Fixture	5	\$ 145,600	\$ 26,404
Fences, Walls, & Gates	4 to 18	734,344	133,169
Landscaping	0 to 20	2,650,670	480,685
Miscellaneous	0 to 14	658,802	119,470
Asphalt, Concrete, & Paved Surfaces	0 to 23	<u>604,168</u>	<u>109,563</u>
Total		<u>\$4,793,584</u>	<u>\$869,291</u>

According to the updated study, the annual replacement funding requirement and accumulated replacement funding requirement are \$328,008 and \$1,971,314, respectively. The updated study determined the funding program to be 45% funded of the recommended accumulated replacement funding requirement, as of the date of the report.

See Accountant's Report