

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT ACCOUNTANT'S REVIEW 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, 2011, and the related statements of revenues, expenses, and changes in fund balances and of cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.


Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

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 accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 8 be presented to supplement the basic financial statements. Such information, although not a 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. The required supplementary information has been compiled from information that is the representation of management. I have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

La Mesa, California
March 31, 2012


Gregory V. Villard
Certified Public Accountant

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash, including interest bearing accounts	\$ 438,562	\$ 1,695,516	\$ 2,134,078
Assessments Receivable - Other	560	-	560
Assessments Receivable	484,272	-	484,272
Less allowance for doubtful accounts	(326,271)	-	(326,271)
Interest Receivable	-	4,061	4,061
Prepaid Insurance	3,638	-	3,638
Total Assets	<u>\$ 600,761</u>	<u>\$ 1,699,577</u>	<u>\$ 2,300,338</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 43,562	\$ -	\$ 43,562
Prepaid Assessments	86,490	-	86,490
Total Liabilities	<u>130,052</u>	<u>-</u>	<u>130,052</u>
 <u>FUND BALANCES</u>	<u>470,709</u>	<u>1,699,577</u>	<u>2,170,286</u>
 Total Liabilities and Fund Balances	<u>\$ 600,761</u>	<u>\$ 1,699,577</u>	<u>\$ 2,300,338</u>

See accompanying notes and independent accountant's review report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES & CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total
<u>REVENUES</u>			
Regular Assessments	\$ 2,379,940	\$ 320,000	\$ 2,699,940
Cost Center Assessments	38,682	20,448	59,130
Interest	1,623	15,636	17,259
Other Member Charges	135,507	-	135,507
Total Revenues	<u>2,555,752</u>	<u>356,084</u>	<u>2,911,836</u>
<u>EXPENSES</u>			
Maintenance			
Irrigation/Backflow Repair	25,384	-	25,384
Security	48,645	-	48,645
Rodent Control	15,525	-	15,525
Tree Trimming	178,703	-	178,703
Ranch Assessments	223,697	-	223,697
Landscaping Maintenance	723,718	-	723,718
Area Repairs & Supplies	103,722	-	103,722
Cost Center Expense	78,982	-	78,982
Total Maintenance	<u>1,398,376</u>	<u>-</u>	<u>1,398,376</u>
Utilities			
Electricity	11,298	-	11,298
Water & Sewer	398,529	-	398,529
Total Utilities	<u>409,827</u>	<u>-</u>	<u>409,827</u>
General and Administrative			
Collections	128,391	-	128,391
Legal/Audit/Tax Preparation	30,754	-	30,754
Management & Accounting	317,442	-	317,442
Insurance	36,763	-	36,763
Office & Administrative	126,367	-	126,367
Reserve Study	425	-	425
Bad Debt Expense	110,310	-	110,310
Total Administrative	<u>750,452</u>	<u>-</u>	<u>750,452</u>
Major Repair and Replacements	-	76,572	76,572
Total Expenses	<u>2,558,655</u>	<u>76,572</u>	<u>2,635,227</u>
Excess (Deficiency) of Revenues over Expenses	(2,903)	279,512	276,609
Beginning Fund Balances	473,612	1,420,065	1,893,677
Interfund Transfers (Net)	-	-	-
Ending Fund Balances	<u>\$ 470,709</u>	<u>\$ 1,699,577</u>	<u>\$ 2,170,286</u>

See accompanying notes and independent accountant's review report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Excess (Deficiency) of Revenues over Expenses	\$ (2,903)	\$ 279,512	\$ 276,609
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash (Used) Provided by Operating Activities:			
(Increase) Decrease in:			
Assessments Receivable	21,495	-	21,495
Accounts Receivable - Other	(445)	-	(445)
Interest Receivable	-	531	531
Prepaid Insurance	(280)	-	(280)
Increase (Decrease) in:			
Accounts Payable	(90,316)	-	(90,316)
Prepaid Assessments	(8,894)	-	(8,894)
Net Cash Provided (Used) by Operating Activities	<u>(81,343)</u>	<u>280,043</u>	<u>198,700</u>
Net Increase(Decrease) in Cash	(81,343)	280,043	198,700
Cash at Beginning of Year	519,905	1,415,473	1,935,378
Interfund Transfers (Net)	-	-	-
Cash at End of Year	<u><u>\$ 438,562</u></u>	<u><u>\$ 1,695,516</u></u>	<u><u>\$ 2,134,078</u></u>

See accompanying notes and independent accountant's review report.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 capitalized and depreciated over their estimated useful lives using straight-line method of depreciation.

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.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest bearing deposits of each fund.

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 and is therefore not subject to Federal or California income tax. The Association's income tax returns are subject to examination by the Internal Revenue Service generally for three years and the California Franchise Tax Board generally for four years after the returns were filed.

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 the succeeding years.

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 July 2011 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, 2011

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, 2011, there are \$484,272 in assessments and charges due from homeowners and \$86,490 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, 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 9. LITIGATION

The Association has filed a lawsuit against the City of Oceanside for removing city owned street lights located within the community of Rancho Del Oro. As of the date of this report, the outcome of this litigation is unknown and has not been reflected on these financial statements.

NOTE 10. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 31, 2012.

THE VILLAGES OF RANCHO DEL ORO ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2011
(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 January 1, 2011. 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, 2011</u>
Paving & Surfacing	1 to 17	\$ 437,728	\$ 125,769
Landscaping & Irrigation	1 to 25	1,618,400	800,501
Fences, Walls, & Gates	7 to 19	288,000	109,283
Structural & Pest Controls	4	15,000	9,517
Painting & Coverings	1 to 4	125,000	41,299
Specialties	4 to 19	337,550	152,962
Site Facilities, Equip, & Furnishings	15	600,000	165,198
Electric & Lighting	1 to 30	409,800	265,644
Contingency	-	<u>-</u>	<u>29,404</u>
Total		<u>\$3,831,478</u>	<u>\$1,699,577</u>

According to the updated study, the annual replacement funding requirement and accumulated replacement funding requirement are \$255,508 and \$2,239,134, respectively. The updated study determined the funding program to be 73.46% funded of the recommended accumulated replacement funding requirement, as of the date of the report.

See Independent Accountant's Review Report