



## INVESTING IN YOUR COMMUNITY

### 2025 FINANCIAL AUDIT

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The Rancho Santa Margarita Landscape and Recreation Corporation (SAMLARC) is the Master Homeowners Association for 13,645 families in Rancho Santa Margarita. SAMLARC's sweeping range of services, programs, and amenities serves community members, their families and guests every year. From the warm sand of the Lago Santa Margarita Beach Club to laughter at the Christmas Tree Lighting, SAMLARC is committed to building valuable, enjoyable, and long-lasting memories with Members.

SAMLARC's Governing Documents (Bylaws, Articles of Incorporation and Covenants, Conditions & Restrictions) outline the many responsibilities involved in community management. To meet these duties, assessments are divided into several important categories: property operations, professional services, external requirements, reserves, and lifestyle programs.

SAMLARC's budgeting best practices protect against unforeseen expenses whenever possible. The annual budget is built to incorporate reserve contributions throughout the year, protecting the overall viability of SAMLARC's current and future assets, and preserving property values for all homeowners.

SAMLARC's budget is established through a comprehensive development process and appropriately adjusted each year. The budget incorporates static and anticipated expenses, savings requirements and best practices, Member services and programs, future community enrichment, and Civil Code requirements. A finely tuned budget not only maintains the functionality of SAMLARC amenities, but also ensures that SAMLARC's remains a high-value and attractive community over time.

In accordance with California Civil Code §5305, enclosed is a copy of the Annual Audit for the fiscal year ending December 31, 2025. This audit was prepared by an independent CPA firm, VanDerPol and Company, and has been accepted by the Board of Directors.



## IMPORTANT! UPDATE YOUR CONTACT INFORMATION

Civil Code §4041 requires SAMLARC Members to provide the following information to SAMLARC each year:

1. Preferred delivery method for receiving SAMLARC notices at one or both of the following: a mailing address and/or a valid email address.
2. The name, mailing address, and valid email address (if available) of the owner's legal representative, if any, including any person with power of attorney or other person who can be contacted in the event of the owner's extended absence from the separate interest.
3. Whether the separate interest is owner-occupied, is rented out, if the parcel is developed but vacant, or if the parcel is undeveloped land.
4. An alternate or secondary delivery method for receiving notices from the Association, including one or both of the following: a mailing address and/or a valid email address.

Please note:

- Members are not required to provide an email address to the Association.
- If the information above is not provided, the last mailing address provided in writing by the Member (or if none, the property address) shall be deemed the address to which notices are to be delivered.
- Members must inform the Association in writing or through the Resident Portal to change the preferred delivery method.

Please update your information through the Resident Portal (more information below). Your responses to the requested information will serve as your notice to the Association of your SAMLARC notice delivery preferences.

Per Civil Code §5220, Members may opt out of sharing their information (i.e. name, property address, mailing address, and email address provided above) from any Member requests for the SAMLARC Membership list.



### UPDATING IS AS EASY AS 1-2-3

1. Visit [www.samlarc.connectresident.com](http://www.samlarc.connectresident.com) or scan the QR code.
2. Visit the "My Account" section.
3. Update your information.

Need to register for an account? Be sure to have your property address and 6-digit SAMLARC account number from your SAMLARC billing statement.

*The Resident Portal is hosted through SAMLARC's management company, FirstService Residential, and is a separate resource from [SAMLARC.org](http://SAMLARC.org). For Portal questions, contact 1-800-428-5588.*

# VanDerPol and Company

*A Professional Accountancy Corporation*

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners  
Rancho Santa Margarita Landscape and Recreation Corporation

### **Opinion**

We have audited the accompanying financial statements of Rancho Santa Margarita Landscape and Recreation Corporation, which comprise the balance sheet as of December 31, 2025, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rancho Santa Margarita Landscape and Recreation Corporation as of December 31, 2025, 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.

### **Report on Summarized Comparative Information**

We have previously audited the Rancho Santa Margarita Landscape and Recreation Corporation's December 31, 2024 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 19, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rancho Santa Margarita Landscape and Recreation Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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 the 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rancho Santa Margarita Landscape and Recreation Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rancho Santa Margarita Landscape and Recreation Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rancho Santa Margarita Landscape and Recreation Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property on page 16 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, 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.

*Van Der Pol and Company*

VANDERPOL AND COMPANY  
A Professional Accountancy Corporation

Costa Mesa, California

March 12, 2026

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
BALANCE SHEET  
AS OF DECEMBER 31, 2025  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

	<u>2025</u>			<u>2024</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents [Note 10]	\$ 1,295,370	\$ 498,046	\$ 1,793,416	\$ 1,002,311
Member assessments receivable, less allowance for credit losses of \$232,000 at 12/31/25 and \$245,000 at 12/31/24	113,884	--	113,884	121,284
Investments [Note 11]	1,648,988	10,245,647	11,894,635	11,918,000
Accrued interest receivable	22,484	66,364	88,848	114,482
Other receivable	635	--	635	--
Security deposit - office lease [Note 15]	7,805	--	7,805	7,805
Prepaid insurance	99,677	--	99,677	93,893
Prepaid expenses	20,627	--	20,627	20,543
Prepaid taxes	11,861	--	11,861	--
Due (to)/from fund	28,654	(28,654)	--	--
Total Assets	<u>\$ 3,249,985</u>	<u>\$ 10,781,403</u>	<u>\$ 14,031,388</u>	<u>\$ 13,278,318</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 581,878	\$ 185,282	\$ 767,160	\$ 783,274
Prepaid assessments	451,035	--	451,035	369,350
Refundable deposits [Note 14]	2,000	--	2,000	4,400
Other liabilities	1,068	--	1,068	573
Contract liability [Note 7]	--	9,340,269	9,340,269	9,606,934
Total Liabilities	1,035,981	9,525,551	10,561,532	10,769,423
<b>FUND BALANCES</b>	<u>2,214,004</u>	<u>1,255,852</u>	<u>3,469,856</u>	<u>2,508,895</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,249,985</u>	<u>\$ 10,781,403</u>	<u>\$ 14,031,388</u>	<u>\$ 13,278,318</u>

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

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2025  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

	<b>2025</b>			<b>2024</b>
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>	<b>Total</b>
<b>REVENUES</b>				
Member assessments [Note 5]	\$ 12,566,520	\$ 1,880,497	\$ 14,447,017	\$ 12,665,296
Interest	83,726	463,982	547,708	557,111
Sports field use	122,093	--	122,093	116,553
Credit loss recovery	101,257	--	101,257	58,332
Other income	136,444	--	136,444	204,870
	<u>13,010,040</u>	<u>2,344,479</u>	<u>15,354,519</u>	<u>13,602,162</u>
<b>EXPENSES</b>				
Beach club and lagoon	617,135	--	617,135	587,463
Community parks (separately scheduled)	2,933,175	--	2,933,175	3,153,053
Community pools	345,646	--	345,646	372,670
Community programs	361,909	--	361,909	320,876
Lake/lakeshore	447,526	--	447,526	355,946
Landscape/trails (separately scheduled)	3,740,544	--	3,740,544	3,658,586
Replacement fund (separately scheduled)	--	1,880,497	1,880,497	880,199
Administrative:				
Insurance	397,061	--	397,061	374,494
Management fees	748,658	--	748,658	748,658
On-site staff	2,208,283	--	2,208,283	2,148,431
Legal fees	100,211	--	100,211	70,825
Other professional fees	30,216	--	30,216	24,564
Office lease [Note 15]	88,981	--	88,981	85,957
On-site office expenses	38,905	--	38,905	40,317
Income taxes [Note 9]	43,247	--	43,247	47,210
Printing and postage expense	214,915	--	214,915	221,626
Other administrative expenses	196,649	--	196,649	244,371
	<u>12,513,061</u>	<u>1,880,497</u>	<u>14,393,558</u>	<u>13,335,246</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	496,979	463,982	960,961	266,916
<b>Beginning Fund Balances</b>	<u>1,717,025</u>	<u>791,870</u>	<u>2,508,895</u>	<u>2,241,979</u>
<b>Ending Fund Balances</b>	<u><u>\$ 2,214,004</u></u>	<u><u>\$ 1,255,852</u></u>	<u><u>\$ 3,469,856</u></u>	<u><u>\$ 2,508,895</u></u>

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

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2025  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2024)

	<u>2025</u>			<u>2024</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
<b>Cash flows from operating activities</b>				
Excess of revenues over expenses	\$ 496,979	\$ 463,982	\$ 960,961	\$ 266,916
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:				
Decrease in member assessments receivable	7,400	--	7,400	5,273
(Increase)/decrease in accrued interest receivable	(725)	26,359	25,634	19,716
Increase in other receivable	(635)	--	(635)	--
Increase in prepaid insurance	(5,784)	--	(5,784)	(5,513)
Increase in prepaid expenses	(84)	--	(84)	(4,349)
Increase in prepaid taxes	(11,861)	--	(11,861)	--
Increase/(decrease) in accounts payable	(200,880)	184,766	(16,114)	2,335
Increase in prepaid assessments	81,685	--	81,685	56,430
Increase/(decrease) in refundable deposits	(2,400)	--	(2,400)	2,400
Increase/(decrease) in other liabilities	495	--	495	(492)
Decrease in income taxes payable	(4,892)	--	(4,892)	(8,912)
Increase/(decrease) in contract liability	--	(266,665)	(266,665)	536,809
Change in due to/(from) fund	52,028	(52,028)	--	--
<b>Net cash provided by operating activities</b>	<u>411,326</u>	<u>356,414</u>	<u>767,740</u>	<u>870,613</u>
<b>Cash flows from investing activities</b>				
Acquisition of certificates of deposit	(785,000)	(3,055,000)	(3,840,000)	(9,286,000)
Maturity of certificates of deposit	1,394,000	4,634,000	6,028,000	8,307,000
Acquisition of U.S. treasury notes/bonds	(665,122)	(1,495,518)	(2,160,640)	--
Maturity of U.S. treasury notes	--	--	--	148,000
Net amortized premium/(discount) on U.S. treasury notes/bonds	1,134	(5,129)	(3,995)	(830)
<b>Net cash provided/(used) by investing activities</b>	<u>(54,988)</u>	<u>78,353</u>	<u>23,365</u>	<u>(831,830)</u>
<b>Net increase in cash</b>	356,338	434,767	791,105	38,783
<b>Cash at beginning of year</b>	<u>939,032</u>	<u>63,279</u>	<u>1,002,311</u>	<u>963,528</u>
<b>Cash at end of year</b>	<u>\$ 1,295,370</u>	<u>\$ 498,046</u>	<u>\$ 1,793,416</u>	<u>\$ 1,002,311</u>

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

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025

NOTE 1. ORGANIZATION

Rancho Santa Margarita Landscape and Recreation Corporation [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in October 1985. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association located in Rancho Santa Margarita, California. The Association consists of 13,645 residential units and also includes a lake, beach club and lagoon, pool areas, various parks, sports facilities, and trails.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Association are maintained on the cash basis of accounting. For these financial statements, adjustments have been made at December 31, 2025 to convert the Association's records to the accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

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 the Operating Fund or the Replacement Fund 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, 2025, there were no significant personal property additions.

Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, financial resources 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.

Investment Income - The Board's policy is to allocate interest earned on Operating Fund and Replacement Fund cash and investment accounts to the respective fund, and to pay the related income taxes out of the Operating Fund.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 3. COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2024, from which the summarized information was derived.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025

NOTE 4. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a revenue recognition standard that affects businesses that enter into contracts with customers to transfer goods and services, including public, private and non-public entities. The purpose of the standard is to eliminate variations in the way businesses across industries handle accounting for similar transactions.

NOTE 5. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected.

Under the revenue recognition standard of ASC 606 [Note 4], the Association (an entity) has a performance obligation to the unit/unit owners (customers). The Association's approved annual Operating Fund budget establishes the maintenance, management, and administrative services that the Association is obligated to perform. These services can be bundled together as a single commercial objective and a single performance obligation. The budget establishes an implied contract price, and because these services are provided within an annual cycle, the respective Operating Fund assessments are considered revenue for the current period.

The performance obligations related to Replacement Fund assessments are satisfied when these financial resources are expended for their designated purpose.

For the year ended December 31, 2025, the Association's monthly assessment was \$87 per unit. For 2026, the monthly assessment has been raised to \$91 per unit.

Assessments receivable at December 31, 2025 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. The member assessments receivable balance at the beginning of the year and end of the year was \$366,284 and \$345,884, respectively.

NOTE 6. CREDIT LOSSES IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued guidance in ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments also known as the Current Expected Credit Losses (CECL) model. This guidance requires the Association to estimate and recognize an allowance for expected credit losses on financial assets measured at amortized cost such as member assessments receivable.

The CECL model replaces the previous "incurred loss" model, which required credit losses to be recognized only when incurred. Under the CECL model, credit losses must be recognized earlier, based on historical experience, current conditions and reasonable and supportable forecasts of future economic conditions. The CECL model requires the immediate recognition of management's estimates of "current credit losses" on financial instruments, including accounts receivable. The Association has adopted the new guidance on January 1, 2025.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2025

NOTE 6. CREDIT LOSSES IMPLEMENTATION – (CONTINUED)

At December 31, 2025, the Association has recorded an allowance for credit losses of \$232,000. The allowance was estimated using various methodologies on delinquent accounts based on factors such as the length of time receivables have been outstanding, estimated loss rates, and historical trends in credit quality indicators. This approach is consistent with the methods the Association previously used to establish allowance for credit losses. The cumulative effect of adopting this standard did not result in any changes to the beginning of the year's allowance for credit losses or the Operating Fund balance.

Assessments and other fees that cannot be collected with certainty are now charged against the respective revenue rather than credit loss expense. For the year ended December 31, 2025, assessment income and late charges and related revenue was reduced by \$65,028 and \$23,316, respectively. Credit loss expense will still be used to account for uncollectible receivable balances that were recorded in prior periods.

NOTE 7. CONTRACT LIABILITY

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. The activity in contract liability for the year ended December 31, 2025 was as follows:

Contract liability at December 31, 2024	\$ 9,606,934
Assessments allocated to Replacement Fund	1,613,832
Revenue released to match Replacement Fund expenses	<u>(1,880,497)</u>
 Contract liability at December 31, 2025	 <u><u>\$ 9,340,269</u></u>

NOTE 8. 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 was conducted in 2025 and recommends a contribution to the Replacement Fund of approximately \$1,830,000 (\$11.18 per unit per month) for 2026. The study's recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the Replacement Fund. For the year ended December 31, 2025, the Association funded \$1,613,832 from assessments to the Replacement Fund. The 2026 budget includes a provision for replacement funding of \$2,114,196 (\$12.91 per unit per month). The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025

NOTE 8. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

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 may vary from the estimated amounts and the variations may be material. Therefore, amounts collected for replacement obligations 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 9. INCOME TAXES

The Association has been granted tax exempt status under the Internal Revenue Code Section 501(c)(4) and therefore is subject to income tax only on income unrelated to its exempt purpose. For California purposes, the Association qualifies for tax exempt status as a homeowners association under California Revenue and Taxation Code Section 23701t and pays a tax of 8.84% on income not related to membership dues and assessments. For the year ended December 31, 2025, the federal and California income tax expense was \$0 and \$43,247, 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.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed; however, there are currently no audits in progress.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025

NOTE 10. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At December 31, 2025, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2025</u>	<u>2024</u>
US Bank - checking	\$ 703,858	\$ 375,154
Morgan Stanley - open-end non-sweep treasury funds	414,319	397,916
Morgan Stanley - money funds	175,693	164,083
Petty cash	1,500	1,879
	<u>1,295,370</u>	<u>939,032</u>
Total Cash - Operating Fund	<u>\$ 1,295,370</u>	<u>\$ 939,032</u>
 <u>Replacement Fund:</u>		
Morgan Stanley - money funds	\$ 255,564	\$ 63,279
Morgan Stanley - open-end non-sweep treasury funds	242,482	--
	<u>498,046</u>	<u>63,279</u>
Total Cash - Replacement Fund	<u>\$ 498,046</u>	<u>\$ 63,279</u>

NOTE 11. INVESTMENTS

The Association's investments consist of certificates of deposit, United States treasury notes and United States treasury bonds 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 adjusted cost, which approximates the fair value. As of December 31, 2025, the Association's investments in certificates of deposit totaled \$9,730,000. These investments have remaining maturity dates ranging from one month to over two years and interest rates ranging from 3.75% to 5.15%. The investments in United States treasury notes totaled \$2,164,635, which includes unamortized discount of \$18,365.

NOTE 12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes amounted to \$60,000 for the year ended December 31, 2025. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 13. CONCENTRATION OF RISK

At December 31, 2025, the Association maintained funds at one financial institution whereby the cumulative balances on account exceeded the FDIC insurance limits of \$250,000. However, the Association obtained separate bond insurance for one of the accounts for amounts in excess of FDIC coverage, thereby eliminating the risk of uninsured funds held in that account.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2025

NOTE 14. REFUNDABLE DEPOSITS

The Association collects deposits from homeowners for facility room rentals. These deposits are refundable upon return of the facility in a satisfactory condition.

NOTE 15. OFFICE LEASE

In February 2022, the Association entered into a five-year lease agreement [effective July 1, 2022] for the management office space. The Association is also required to pay a security deposit of \$7,805.59. For the year ended December 31, 2025, the lease expense was \$88,981. Future minimum lease payments are as follows:

For the year ending 12/31/26	\$ 92,091
For the year ending 12/31/27	<u>46,834</u>
Total	<u>\$ 138,925</u>

NOTE 16. COMMITMENTS

The Association entered into a full-service management agreement and staffing services with FirstService Residential California, LLC [FirstService] which automatically renewed on January 1, 2025 for a one-year term. The agreement automatically renews for additional one-year terms unless terminated in writing following a one hundred twenty (120) day written notice. FirstService provides administrative, financial, and accounting services for the Association.

NOTE 17. LEGAL

In 2025, a lawsuit was filed against the Association regarding alleged personal injuries sustained on the Association's common area. This matter has been tendered to the Association's insurance carrier for defense. As this matter is pending, the outcome cannot be determined at this time.

In 2024, a lawsuit was filed against the Association regarding alleged personal injuries that occurred on landscaped areas maintained by the Association's vendors. This matter has been tendered to the Association's insurance carrier for defense. As this matter is pending, the outcome cannot be determined at this time.

From time to time, the Association is involved in legal proceedings arising in the ordinary course of enforcing the Association's rules and regulations. The extent of any future liability is currently unknown. Accordingly, the accompanying financial statements do not include a provision for any such liability.

NOTE 18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 12, 2026, which is the date the financial statements were available to be issued.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION  
 COMPARATIVE SCHEDULE OF EXPENSES  
 FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

<b><u>COMMUNITY PARKS</u></b>	<b><u>2025</u></b>	<b><u>2024</u></b>
Landscape maintenance and supplies	\$ 1,066,499	\$ 1,127,855
Janitorial service	467,504	480,895
Water	326,203	272,634
Other park area expenses	322,868	423,770
Patrol service	308,336	295,682
Sports field	192,952	301,615
Electricity	122,138	121,529
Lighting maintenance and repairs	85,659	84,397
Irrigation	41,016	44,676
Total	<b><u>\$ 2,933,175</u></b>	<b><u>\$ 3,153,053</u></b>
<b><u>LANDSCAPE/TRAILS</u></b>		
Landscape service and supplies	\$ 1,965,867	\$ 1,939,987
Water	858,915	817,962
Tree maintenance	415,953	406,828
Irrigation	140,826	164,382
Common area maintenance	131,002	99,793
Landscape consultant	117,647	117,610
Holiday décor/lighting	85,243	102,098
Electricity	25,091	9,926
Total	<b><u>\$ 3,740,544</u></b>	<b><u>\$ 3,658,586</u></b>
<b><u>REPLACEMENT FUND:</u></b>		
Landscape/irrigation	\$ 500,081	\$ --
Fences/walls	499,718	216,027
Parks	333,158	202,744
Trails/tot lot area	170,089	--
Pool/spa	153,177	222,094
Lagoon	84,235	16,932
Office furnishings	50,098	--
Lighting/electrical repairs	39,111	7,595
Beach Club	37,980	20,070
Painting and wood repairs	12,850	13,330
Sports courts	--	97,138
Roof repairs	--	51,139
Asphalt/concrete work	--	30,759
Signs	--	2,371
Total	<b><u>\$ 1,880,497</u></b>	<b><u>\$ 880,199</u></b>

See independent auditor's report and accompanying notes to financial statements.

**RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**ON FUTURE MAJOR REPAIRS & REPLACEMENTS**  
**AS OF DECEMBER 31, 2025**  
**(UNAUDITED)**

An independent reserve study was conducted in 2025 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 4.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been collected for future repairs and replacements, earning a yield on funds of 3.0% (net of taxes).

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

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2026 Recommended Funding Requirement</u>	<u>Study's Recommended Fund Balance</u>
Altisima Park	0-21 years	\$ 1,803,761	\$ 130,026	\$ 798,891
Ama Daisy Trail	8-17 years	17,223	519	7,320
Arroyo Vista Park	0-27 years	1,403,378	114,050	810,641
Beach Club	0-31 years	1,629,866	106,289	849,476
Bluff Top Trail	0-11 years	171,472	9,515	145,660
Business Office	1-7 years	69,612	8,094	20,428
Canada Vista Park	0-24 years	782,614	42,709	203,780
Central Park	0-28 years	880,059	41,706	443,308
Cielo Vista Park	0-15 years	308,072	20,695	209,848
Estrella Vista Park	5-14 years	319,737	17,388	151,743
Florecita Trail	8-20 years	14,074	422	4,401
Lagoon	0-17 years	704,655	60,422	537,118
Lake	0-14 years	275,747	23,258	251,838
Lake Shore	0-24 years	353,674	18,279	185,265
Landscape	0-10 years	971,897	358,179	585,261
Los Abanicos	0-19 years	141,084	7,461	34,703
Los Paseos	0-15 years	77,895	4,625	50,945
Mesa Linda Park	0-27 years	332,778	22,893	227,238
Miscellaneous	0-25 years	2,907,020	427,067	1,306,261
Monte Vista Park	0-31 years	1,152,020	92,187	720,580
Security/fire systems	4-6 years	375,398	62,030	76,215
Solana Park	0-24 years	1,567,578	111,332	811,523
Streetscape	10-11 years	93,048	3,480	48,963
Tijeras Creek Park	0-24 years	1,364,734	66,297	591,061
Trabuco Mesa Park	0-26 years	984,307	58,169	556,889
Urban Trail East	1-20 years	102,585	5,231	76,963
Urban Trail West	5-20 years	9,890	405	3,558
Vereda Laguna Trail	20 years	16,386	487	4,682
Vista Verde Park	0-24 years	270,344	16,785	140,840
Total		<u>\$ 19,100,908</u>	<u>\$ 1,830,000</u>	<u>\$ 9,855,399</u>

The accumulated contract liability and Replacement Fund balance at 12/31/25:

\$ 10,596,121