

Civil Code §4041 requires owners, on an annual basis, to provide notice to their association of four pieces of information. Please see enclosed Annual Homeowner Disclosure on the last page of this Audit Packet.

RANCHO SANTA MARGARITA LANDSCAPE AND RECREATION CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022

WITH

INDEPENDENT AUDITOR'S REPORT AND SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rancho Santa Margarita Landscape and Recreation Corporation

Opinion

We have audited the financial statements of Rancho Santa Margarita Landscape and Recreation Corporation, a California non-profit corporation, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Rancho Santa Margarita Landscape and Recreation Corporation as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 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 basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 for one year after the date 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 GAAS 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 are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, 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.

Report on Summarized Comparative Information

We have previously audited Rancho Santa Margarita Landscape and Recreation Corporation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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. 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.

Invisible Accounting Solutions

Irvine, California
March 28, 2023

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
BALANCE SHEET
DECEMBER 31, 2022
(With Comparative Totals for 2021)**

ASSETS

	2022			2021
	Operating Fund	Replacement Fund	Total	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 534,895	\$ 356,701	\$ 891,596	\$ 1,135,242
Investments, net	1,272,000	6,569,000	7,841,000	7,277,000
Assessments receivable, net of allowance for uncollectible assessments of \$220,000	126,137	-	126,137	72,134
Interest receivable	7,695	52,040	59,735	2,377
Prepaid expenses	22,036	-	22,036	28,715
Due (to) from other funds	<u>67,852</u>	<u>(67,852)</u>	<u>-</u>	<u>-</u>
	<u>2,030,615</u>	<u>6,909,889</u>	<u>8,940,504</u>	<u>8,515,468</u>
LONG TERM INVESTMENTS				
Investments, net	-	1,635,000	1,635,000	1,540,000
	<u>\$ 2,030,615</u>	<u>\$ 8,544,889</u>	<u>\$ 10,575,504</u>	<u>\$ 10,055,468</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 640,075	\$ 7,134	\$ 647,209	\$ 649,587
Prepaid assessments	<u>306,230</u>	<u>-</u>	<u>306,230</u>	<u>303,037</u>
	946,305	7,134	953,439	952,624
FUND BALANCE	<u>1,084,310</u>	<u>8,537,755</u>	<u>9,622,065</u>	<u>9,102,844</u>
	<u>\$ 2,030,615</u>	<u>\$ 8,544,889</u>	<u>\$ 10,575,504</u>	<u>\$ 10,055,468</u>

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for 2021)**

	2022			2021
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Assessments	\$ 10,975,776	\$ 1,140,984	\$ 12,116,760	\$ 11,625,540
Interest	16,865	80,813	97,678	19,500
Other	374,380	-	374,380	253,320
	<u>11,367,021</u>	<u>1,221,797</u>	<u>12,588,818</u>	<u>11,898,360</u>
EXPENSES				
Beach club and lagoon	512,135	-	512,135	522,204
Community events	266,920	-	266,920	198,085
Community parks				
Custodial services	290,370	-	290,370	243,495
Landscaping	957,485	-	957,485	920,824
Patrol services	304,765	-	304,765	304,338
Other community parks	1,118,823	-	1,118,823	940,052
Community pools	271,359	-	271,359	233,034
Lake and lakeshore	349,383	-	349,383	328,696
Streetscape, trails and open space				
Landscaping	2,304,551	-	2,304,551	2,223,465
Other streetscape, trails and open space	1,262,290	-	1,262,290	1,412,004
General and administrative:				
Insurance	313,065	-	313,065	258,283
Management services	683,856	-	683,856	650,028
On-site operations	1,865,974	-	1,865,974	1,911,804
On-site office	129,241	-	129,241	138,984
Printing and mailing	210,917	-	210,917	207,537
Professional fees	67,089	-	67,089	104,712
Other administrative	183,340	-	183,340	142,853
Income taxes	6,796	-	6,796	1,550
Uncollectible assessments	-	-	-	1,276
Major repairs and replacements	-	971,238	971,238	1,018,303
	<u>11,098,359</u>	<u>971,238</u>	<u>12,069,597</u>	<u>11,761,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	268,662	250,559	519,221	136,833
BEGINNING FUND BALANCE	<u>815,648</u>	<u>8,287,196</u>	<u>9,102,844</u>	<u>8,966,011</u>
ENDING FUND BALANCE	<u>\$ 1,084,310</u>	<u>\$ 8,537,755</u>	<u>\$ 9,622,065</u>	<u>\$ 9,102,844</u>

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for 2021)**

	2022			2021
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 268,662	\$ 250,559	\$ 519,221	\$ 136,833
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Discount amortization on treasury obligations	(2,791)	(11,678)	(14,469)	
(Increase) decrease in:				
Assessment receivable	(54,003)	-	(54,003)	18,157
Interest Receivable	(7,622)	(49,736)	(57,358)	17,075
Prepaid expenses	6,679	-	6,679	(8,247)
Increase (decrease) in:				
Accounts payable and accrued expenses	30,465	(32,843)	(2,378)	(21,017)
Prepaid assessments	3,193	-	3,193	34,471
	<u>244,583</u>	<u>156,302</u>	<u>400,885</u>	<u>177,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	(3,837,209)	(10,871,322)	(14,708,531)	(14,267,000)
Redemptions of investments	3,313,000	10,751,000	14,064,000	13,389,000
	<u>(524,209)</u>	<u>(120,322)</u>	<u>(644,531)</u>	<u>(878,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(39,197)	39,197	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(318,823)	75,177	(243,646)	(700,728)
BEGINNING CASH AND CASH EQUIVALENTS	<u>853,718</u>	<u>281,524</u>	<u>1,135,242</u>	<u>1,835,970</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 534,895</u>	<u>\$ 356,701</u>	<u>\$ 891,596</u>	<u>\$ 1,135,242</u>

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

Organization

Rancho Santa Margarita Landscape and Recreation Corporation (the “Association”) was incorporated on November 25, 1985, in the state of California. The Association is responsible for the operation and maintenance of the common property within the development. At December 31, 2022, the development consisted of 13,645 residential units. The development is located in Rancho Santa Margarita, California.

The financial statements of the Association have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to Common Interest Realty Associations. Certain reclassifications were made to the 2021 financial statements to conform to the classifications issued in 2022 .

Date of Management’s Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 28, 2023, the date the financial statements were available to be issued.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

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 reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of liquid investments with maturities of three months or less when purchased. The Association’s cash equivalent balances as of December 31, 2022 was approximately \$330,000.

Concentration of Credit Risk

Cash balances are maintained at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. Periodically, due to the Association’s assessment billing cycle, operating cash accounts may exceed the FDIC limits.

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investments and Interest Earnings

Investments consist of time certificates of deposit with annual interest rates ranging from 0.2% to 4.8%. Investments are recorded at amortized cost, which approximates fair market value. The Association intends to hold all investments until maturity. Interest earnings are allocated to and recorded in the operating and replacement funds, in accordance with balances in each fund.

Assessments and Deferred Revenues

Association members are subject to assessments to provide funds for the Association's operating and replacement fund requirements. Assessments receivable at the balance sheet date represent fees due from members. The Association's governing documents and legislated laws provide for various collection remedies for delinquent assessments including late and interest charges, filing of liens, foreclosing, and obtaining judgment on other assets of the member.

Assessments billed and collected in advance are deferred and recognized as revenue in the year in which the related services are rendered.

Allowance for Uncollectible Assessments

Allowance for uncollectible assessments is based upon historical experience and management's evaluation of outstanding assessments receivable at year-end.

Property and Equipment

Real and personal common property acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual owners in common and not by the Association. The Association capitalizes personal property to which it has title at cost. Replacements and improvements to the real property are not capitalized, as their disposition is also restricted.

Income Taxes

The Association has obtained exemption from taxation under Internal Revenue Code §501(c)(4). Accordingly, no provision for Federal taxes has been made in the accompanying financial statements. The Association's state income tax liability for the year ended December 31, 2022 was approximately \$7,000.

Replacement Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are kept in separate accounts and are generally not available for normal operations. Disbursements are to be made only if specifically approved by the Board of Directors. A study (the "Study") of the Association's replacement fund was conducted in October 2022 for the purpose of estimating the remaining useful lives and the replacement costs of the components of common property. The table included in the accompanying unaudited supplemental information on future major repairs and replacements is based upon the Study.

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021**

NOTE 1: SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended December 31, 2022, the Association paid no income taxes.

NOTE 2: COMMITMENTS AND CONTINGENCIES

Replacement Fund

The Association funds for major repairs and replacements over the remaining useful lives of the components based on the Study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of approximately \$1,415,000 has been included in the 2023 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for major repairs and replacements of common area property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be sufficient to meet all future repairs and replacements. If additional funds are necessary, the Association has the right to increase regular assessments, approve special assessments, or delay major repairs and replacements until funds are available.

Litigation

At times, the Association is involved in litigation arising out of the normal course of business. Management, after consultation with outside counsel, believes there is no likelihood that the Association will incur any material loss as a result of these lawsuits. Therefore, no provision for loss resulting from these lawsuits has been made in the accompanying financial statements.

Commitments

FirstService Residential California, LLC (FirstService) provides full service management and staffing services to the Association. FirstService performs these services under multiple one-year agreements, ending December 31, 2023. These contracts automatically renew for successive one-year periods until terminated. The Association also has various contract services including landscape maintenance, pool service, recreation services, lifeguards and monitors, and security.

Contingencies

The Association's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The extent of the impact of COVID-19 on the operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on members, employees and vendors all of which are uncertain and cannot be predicted. The extent to which COVID-19 may influence the financial condition or results of operations is uncertain.

**RANCHO SANTA MARGARITA LANDSCAPE
AND RECREATION CORPORATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2022
(Unaudited)**

In October 2022, an independent study was conducted to estimate the remaining useful lives and future replacement costs of the components of the common area property. An independent company that specializes in the development of these funding programs performed the study. The funding program considers an annual inflation rate of 3% on the replacement cost and interest earnings of 2%, before taxes, on amounts funded for future repairs and replacements. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The Association has not adjusted for changes in the estimated replacement costs, if any, since the date of the study.

The following information is based on the study and presents significant information about the components of common property at December 31, 2022. The reserve study should be referred to for a more complete description of the Association's assets and estimates used.

Component	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost	Fund Balance
Beach Club	0 to 27	\$ 1,632,771	\$ 703,352
Community Parks	0 to 24	6,918,438	3,572,901
Lake	1 to 17	283,226	194,129
Lakeshore	0 to 19	423,093	168,558
Landscaping and Slopes	0 to 12	739,219	193,494
Pools Area	0 to 22	1,451,568	798,994
Swim Lagoon	0 to 7	499,879	252,650
Street Accessories	11 to 14	81,961	176,186
Town Center / Trail Accessories	0 to 20	444,336	194,732
Walls and Fences	0 to 18	3,871,895	2,152,319
Other	0 to 7	<u>42,157</u>	<u>130,440</u>
		<u>\$ 16,388,543</u>	<u>\$ 8,537,755</u>