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**Rainbow Canyon Villages
Homeowners Association
Reviewed Financial Statements
Year Ended December 31, 2009**

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ACCOUNTANT'S REVIEW REPORT

Board of Directors and Members
Rainbow Canyon Villages Homeowners Association

We have reviewed the accompanying balance sheet of Rainbow Canyon Villages Homeowners Association as of December 31, 2009, and the related statement of revenue and expenses and changes in fund balances, and statement of cash flows for the year then ended, in accordance with Statements on 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 Association's 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, 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 prior year summarized comparative information has been derived from the December 31, 2008 financial statements, which were reviewed by us. Our report dated March 23, 2009 stated that we were unaware of any material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. We have not applied procedures to determine whether the funds set aside for future major repairs and replacements are adequate to meet all future costs for major repairs and replacements because that determination is outside the scope of our review.

The supplementary information about future major repairs and replacements on page 7 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, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

March 26, 2010


Sonnenberg & Company, CPAs

Rainbow Canyon Villages Homeowners Association
Balance Sheet
December 31, 2009
(With Comparative Totals for 2008)

	2009		2008	
	Operating Fund	Replacement Fund	Total Funds	Total Funds
ASSETS:				
Cash in Checking	\$ 2,520	\$	\$ 2,520	\$ 542
Cash in Savings		88,227	88,227	51,346
Assessments Receivable	20,276		20,276	14,103
Allowance for Uncollectible	(7,478)		(7,478)	(2,359)
Prepaid Insurance	2,312		2,312	900
Prepaid Taxes	31		31	31
TOTAL ASSETS	\$ 17,661	\$ 88,227	\$ 105,888	\$ 64,563
LIABILITIES:				
Accounts Payable	\$ 1,338	\$	\$ 1,338	\$ 1,322
Prepaid Assessments	13,751		13,751	11,948
TOTAL LIABILITIES	15,089	-	15,089	13,270
FUND BALANCES:				
	<u>2,572</u>	<u>88,227</u>	<u>90,799</u>	<u>51,293</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,661	\$ 88,227	\$ 105,888	\$ 64,563

See the Accompanying Notes to the Financial Statements and Accountant's Review Report

Rainbow Canyon Villages Homeowners Association
Statement of Revenues and Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total Funds	Total Funds
REVENUES:				
Regular Assessments	\$ 122,920	\$ 31,520	\$ 154,440	\$ 144,144
Other Income	5,217		5,217	3,323
Interest		331	331	450
TOTAL REVENUES	128,137	31,851	159,988	147,917
EXPENSES:				
Administrative-				
Review & Tax Preparation	1,200		1,200	1,100
Bad Debts	9,128		9,128	2,695
Insurance	7,830		7,830	4,325
Legal & Collection	1,029		1,029	3,029
Management	24,768		24,768	23,568
Other Administration	11,881		11,881	13,473
Replacement Study	425		425	575
Taxes - Income	10		10	10
Total Administrative	56,271	-	56,271	48,775
Maintenance-				
Landscape	42,000		42,000	49,402
Landscape Xtras	4,496		4,496	5,038
Repairs & Maintenance	1,504		1,504	3,270
Survey	-		-	10,200
Total Maintenance	48,000	-	48,000	67,910
Utilities-				
Electricity	1,049		1,049	938
Water & Sewer	15,162		15,162	23,484
Total Utilities	16,211	-	16,211	24,422
TOTAL EXPENSES	120,482	-	120,482	141,107
Excess Revenue / (Expense)	\$ 7,655	\$ 31,851	\$ 39,506	\$ 6,810
Beginning Fund Balances	(53)	51,346	51,293	44,483
Interfund Transfers	(5,030)	5,030	-	-
Ending Fund Balances	\$ 2,572	\$ 88,227	\$ 90,799	\$ 51,293

See the Accompanying Notes to the Financial Statements and Accountant's Review Report

Rainbow Canyon Villages Homeowners Association
Statement of Cash Flows
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

Cash Flows From -	2009			2008
	Operating Fund	Replacement Fund	Total Funds	Total Funds
Operating Activities:				
Excess Revenue / (Expense)	\$ 7,655	\$ 31,851	\$ 39,506	\$ 6,810
(Increase) / Decrease in:				
Assessments Receivable	(6,173)		(6,173)	(6,995)
Allowance for Uncollectible	5,119		5,119	2,359
Prepaid Insurance	(1,412)		(1,412)	2,495
Prepaid Taxes			-	(31)
Increase / (Decrease) in:				
Accounts Payable	16		16	295
Prepaid Assessments	1,803		1,803	(362)
Income Taxes Payable			-	(16)
Net Operating Activities	7,008	31,851	38,859	4,555
Financing Activities:				
Net Interfund Transfers	(5,030)	5,030	-	-
Net Financing Activities	(5,030)	5,030	-	-
Net Increase / (Decrease) in Cash and Cash Equivalents	1,978	36,881	38,859	4,555
Cash and Cash Equivalents at:				
Beginning of Year	542	51,346	51,888	47,333
End of Year	\$ 2,520	\$ 88,227	\$ 90,747	\$ 51,888
Supplemental Disclosure:				
Income taxes paid	\$ 10	\$ -	\$ 10	\$ 57

See the Accompanying Notes to the Financial Statements and Accountant's Review Report

Rainbow Canyon Villages Homeowners Association
Notes to Financial Statements
Year Ended December 31, 2009

Note 1. Organization:

Rainbow Canyon Villages Homeowners Association was incorporated on November 21, 1984 as a California mutual benefit corporation. The Association is a planned unit development whose primary purpose is to act as a "management body" for the preservation, maintenance and architectural control of the common area within the project located in Temecula, California which includes 429 residential lots.

Note 2. Accounting Policies:

The Association's accounting records are maintained on the modified cash basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

Real property acquired from the developer and replacements and improvements to common property are not capitalized or depreciated because the common areas are owned, in effect, by the individual unit owners as tenants in common and generally can not be disposed of by the Association.

In accordance with generally accepted accounting principles regarding "Statement of Cash Flows," cash equivalents consist primarily of certificates of deposits and other securities with original maturities of 90 days or less. Securities with original maturities over 90 days are generally classified as short-term investments.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The amounts shown for the previous year are included to provide a basis for comparison and present summarized totals only. Accordingly, the amounts are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles. Some items may have been reclassified for purposes of overall comparability and consistency of presentation.

Note 3. Income Tax Status:

The Association files its tax returns as an exempt homeowners association under IRC Sec. 528, and State Rev. & Tax Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest.

Rainbow Canyon Villages Homeowners Association
Notes to Financial Statements
Year Ended December 31, 2009

Note 4. Members Assessments and Receivables:

The annual budget and members' assessments are determined by the Board of Directors or may be approved by the members. The Association retains any excess funds for expenses in future years. Regular assessments to members were \$30 per lot per month for the year ended December 31, 2009. The Association's policy is to place liens on the properties of owners whose assessments are in arrears, and pursue other legal remedies if necessary to collect delinquent assessments. An allowance for uncollectible accounts has been recorded.

Note 5. Future Major Repairs and Replacements:

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$88,227 at December 31, 2009, are held in separate interest bearing accounts and are generally not available for operating purposes. The Association's policy is to fund major repairs and replacements from replacement funds if available. Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacement of common property components. Actual expenditures 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 future needs. If funds are not adequate, the Association has the right to increase regular assessments, pass special assessments, or delay replacement until funds are available.

A replacement funding program is required by California law to be prepared and distributed to the members annually as part of the annual budget. As shown in the Supplemental Information, a study to determine the adequacy of the current funding program for repair and replacement of Association common areas has been conducted. Included in the study are major repair and replacement components that the Association is obligated to maintain, that have useful lives of more than one year and remaining useful lives of less than thirty years. Excluded from the study are certain major structural components such as buildings, concrete, and underground utility systems. It is assumed that the excluded major structural items have indefinite lives and the appropriate funding method for their replacement will be decided if and when those items need to be replaced.

The Association's budgeted replacement funding for the year ended December 31, 2009 was \$31,520. The Association transferred an additional \$5,030 of budgeted replacement funding to the replacement fund saving accounts, which is reflected as transfer from the operating fund to the replacement fund.

