

**Rams Hill
Community Association**

Financial Statement

December 31, 2004

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Terry J. Tagwerker
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rams Hill Community Association
8181 Mission Gorge Road #F
San Diego, California 92120


Dear Members of the Board:

I have audited the accompanying balance sheets of Rams Hill Community Association as of December 31, 2004 and 2003, and the related statements of revenues and expenses and changes in fund balances, statements of expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rams Hill Community Association as of December 31, 2004 and 2003, and the results of its operations, changes in fund balances and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The supplementary information on future major repair and replacement study on page eight 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 applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.


Terry J. Tagwerker, C.P.A.

La Mesa, California
March 5, 2005

**Rams Hill
Community Association
Balance Sheet
December 31, 2004 and 2003**

| | 2004 | | | 2003 |
|---|-------------------|------------------|------------|------------|
| | Operating Fund | Reserves Fund | Total | Total |
| <u>ASSETS</u> | | | | |
| Current Assets: | | | | |
| Cash on Deposit | \$ 17,011 | \$ 79,556 | \$ 96,567 | \$ 89,840 |
| Certificates of Deposit | | 430,000 | 430,000 | 356,000 |
| Investments | | 50,545 | 50,545 | 100,734 |
| Total Cash | \$ 17,011 | \$ 560,101 | \$ 577,112 | \$ 546,574 |
| Accounts Receivable (Note 2) | 4,465 | | 4,465 | 20,662 |
| Prepaid Insurance | 7,941 | | 7,941 | 3,989 |
| Prepaid Income Taxes | | | -0- | 708 |
| Total Current Assets | \$ 29,417 | \$ 560,101 | \$ 589,518 | \$ 571,933 |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 8,639 | \$ 2,396 | \$ 11,035 | \$ 12,849 |
| Prepaid Assessments | 20,883 | | 20,883 | 25,070 |
| Income Taxes Payable (Note 3) | 3,242 | | 3,242 | 39 |
| Total Current Liabilities | \$ 32,764 | \$ 2,396 | \$ 35,160 | \$ 37,958 |
| <u>FUND BALANCE</u> (Note 5) | \$ (3,347) | \$ 557,705 | \$ 554,358 | \$ 533,975 |
| TOTAL LIABILITIES & FUND BALANCE | \$ 29,417 | \$ 560,101 | \$ 589,518 | \$ 571,933 |

The accompanying notes are integral parts of this financial statement.

Rams Hill
Community Association
Statement of Revenues and Expenses
and Changes in Fund Balances
For the Years Ending December 31, 2004 and 2003

| | 2004 | | | 2003 |
|--------------------------------------|-------------------|------------------|-------------|------------|
| | Operating Fund | Reserves Fund | Total | Total |
| REVENUES | | | | |
| Homeowners Assessments | \$ 459,768 | \$ 140,232 | \$ 600,000 | \$ 600,000 |
| Developer Maintenance Fees | | 51,300 | 51,300 | 1,671 |
| Other Member Charges | 4,073 | | 4,073 | 683 |
| Interest Income | | 27,799 | 27,799 | 17,439 |
| Other Income | 1,839 | | 1,839 | 2,541 |
| Total Revenues | \$ 465,680 | \$ 219,331 | \$ 685,011 | \$ 622,334 |
| EXPENSES | | | | |
| Operating: | | | | |
| Repair & Maintenance | \$ 289,595 | \$ | \$ 289,595 | \$ 294,555 |
| Utilities | 97,671 | | 97,671 | 96,773 |
| Administrative/ Community Related | 114,681 | | 114,681 | 199,984 |
| Reserves: | | 162,681 | 162,681 | 22,160 |
| Total Expenses | \$ 501,947 | \$ 162,681 | \$ 664,628 | \$ 613,472 |
| Excess of Revenues over Expenses | | \$ 56,650 | \$ 56,650 | \$ 8,862 |
| Excess of Expenses over Revenues | \$ (36,267) | | \$ (36,267) | |
| Fund Balances-Beginning of Year | \$ 7,054 | \$ 526,921 | \$ 533,975 | \$ 525,113 |
| Transfers/Allocations | 25,866 | (25,866) | | |
| Fund Balances-End of Year | \$ (3,347) | \$ 557,705 | \$ 554,358 | \$ 533,975 |

The accompanying notes are integral parts of this financial statement.

Rams Hill
Community Association
Statement of Expenses
For the Years Ending December 31, 2004 and 2003

| | Operating Expenses | |
|--|--------------------|------------|
| | 2004 | 2003 |
| Repair & Maintenance: | | |
| Landscape | \$ 175,590 | \$ 171,898 |
| Tree Trimming | 5,695 | 22,990 |
| Common Area | 12,619 | 7,790 |
| Janitorial | 1,235 | 2,565 |
| Pest Control | 600 | 820 |
| Payroll Expenses | 93,856 | 88,492 |
| Total Repair & Maintenance | \$ 289,595 | \$ 294,555 |
| Utilities: | | |
| Gas & Electric | \$ 8,754 | \$ 11,228 |
| Water & Sewer | 83,862 | 79,895 |
| Trash Removal | 3,012 | 2,777 |
| Telephone | 2,043 | 2,873 |
| Total Utilities | \$ 97,671 | \$ 96,773 |
| Administrative/ Community Related: | | |
| Insurance | \$ 24,220 | \$ 11,178 |
| Management | 65,400 | 65,400 |
| Professional Fees | 11,772 | 2,790 |
| General Office | 5,169 | 5,179 |
| Income tax & License | 8,120 | 4,429 |
| Bad Debt (Note 2) | -0- | 111,008 |
| Total Administrative/ Community Related | \$ 114,681 | \$ 199,984 |

The accompanying notes are integral parts of this financial statement.

**Rams Hill
Community Association
Statement of Expenses
(Continued)**

For the Years Ending December 31, 2004 and 2003

| Reserves Expenses | | |
|-------------------------|------------|-----------|
| | 2004 | 2003 |
| Electrical | \$ 462 | \$ 121 |
| Landscape | 79,269 | 16,682 |
| Entry Gate | 8,300 | 1,933 |
| Street | 73,695 | 1,928 |
| Painting | 955 | -0- |
| Plumbing | -0- | 1,325 |
| Miscellaneous | -0- | 171 |
| Total Reserves Expenses | \$ 162,681 | \$ 22,160 |

The accompanying notes are integral parts of this financial statement.

**Rams Hill
Community Association
Statement of Cash Flows
For the Years Ending December 31, 2004 and 2003**

| | <u>2004</u> | | | <u>2003</u> |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | <u>Operating Fund</u> | <u>Reserves Fund</u> | <u>Total</u> | <u>Total</u> |
| Cash Flows from | | | | |
| <u>Operating Activities:</u> | | | | |
| Member Assessments | \$ 501,152 | \$ 113,311 | \$ 614,463 | \$ 571,803 |
| Developer Maintenance Fees | | 51,300 | 51,300 | 1,671 |
| Interest Receipts | | 27,799 | 27,799 | 17,439 |
| Other Receipts | <u>3,459</u> | | <u>3,459</u> | <u>5,810</u> |
| Total Sources of Operating Cash | \$ 504,611 | \$ 192,410 | \$ 697,021 | \$ 596,723 |
| Cash paid for Operating Expenditures | (506,198) | | (506,198) | (476,043) |
| Cash paid for Reserves Expenditures | | (160,285) | (160,285) | (22,160) |
| Net cash provided by Operating Activities | \$ <u>(1,587)</u> | \$ <u>32,125</u> | \$ <u>30,538</u> | \$ <u>98,520</u> |
| Net Cash Flows from | | | | |
| <u>Financing Activities:</u> | | | | |
| Net Interfund Transfers | \$ (1,055) | \$ 1,055 | - | |
| Net increase (decrease) in cash and cash equivalents | \$ <u>(2,642)</u> | \$ <u>33,180</u> | \$ <u>30,538</u> | \$ <u>98,520</u> |
| Cash and cash equivalents at beginning of year | \$ <u>19,653</u> | \$ <u>526,921</u> | \$ <u>546,574</u> | \$ <u>448,054</u> |
| Cash and cash equivalents at end of year | \$ <u><u>17,011</u></u> | \$ <u><u>560,101</u></u> | \$ <u><u>577,112</u></u> | \$ <u><u>546,574</u></u> |

Supplemental disclosure: Taxes paid for the years ending December 31, 2004 and 2003 totalled \$4,209 and \$6,917, respectively.

The accompanying notes are integral parts of this financial statement.

**Rams Hill
Community Association
Statement of Cash Flows
(Continued)
For the Years Ending December 31, 2004 and 2003**

| | 2004 | | | 2003 | |
|--|-------------------|------------------|-----------|-------|---------|
| | Operating Fund | Reserves Fund | Total | Total | |
| Reconciliation of operating surplus (deficit) to net cash provided by operating activities: | | | | | |
| Operating surplus (deficit) | \$ (36,267) | \$ 56,650 | \$ 20,383 | \$ | 8,862 |
| Adjustments to reconcile operating surplus (deficit) to net cash provided by operating activities: | | | | | |
| (Increase) decrease in: | | | | | |
| Accounts Receivable | 16,197 | | 16,197 | | 70,638 |
| Prepaid Expenses | (3,244) | | (3,244) | | (1,071) |
| Net Interfund transfers | 26,921 | (26,921) | | | |
| Increase (decrease) in: | | | | | |
| Accounts Payable | (4,210) | 2,396 | (1,814) | | 7,121 |
| Prepaid Assessments | (4,187) | | (4,187) | | 14,759 |
| Accrued Expenses | 3,203 | | 3,203 | | (1,789) |
| Total adjustments | \$ 34,680 | \$ (24,525) | \$ 10,155 | \$ | 89,658 |
| Net cash provided by operating activities | \$ (1,587) | \$ 32,125 | \$ 30,538 | \$ | 98,520 |

The accompanying notes are integral parts of this financial statement.

Rams Hill
Community Association
Supplementary Information on Future Major
Repair and Replacement
(Unaudited)
December 31, 2004

The Board of Directors engaged independent contractors to conduct a study of the Association's component of common property, to estimate the remaining lives and replacement costs. The estimates were obtained by licensed contractors who inspected the property. The following table is based on the study dated January 2005 and presents significant information about the components of common property.

| <u>Component</u> | <u>Estimated Remaining Life (Years)</u> | <u>Estimated Replacement Costs</u> | <u>Annual Funding Requirement</u> | <u>Accumulated Reserves Requirement</u> |
|------------------|---|--|---|---|
| Contingency | 0 | \$ 2,000 | \$ 153 | \$ 469 |
| Painting | 2-8 | 5,000 | 837 | 5,000 |
| Waterfall | 7 | 14,000 | 1,594 | 5,773 |
| Entry Gates | 0-2 | 24,150 | 2,203 | 16,434 |
| Street | 0-3 | 1,127,150 | 137,052 | 963,153 |
| Landscape | 0-9 | 207,400 | 15,924 | 66,917 |
| Plumbing | 0-25 | 9,000 | 479 | 2,656 |
| Electrical | 0-17 | 9,850 | 850 | 6,395 |
| Kiosk | 10 | 24,120 | 2,200 | 18,162 |
| Total | | <u>\$ 1,422,670</u> | <u>\$ 161,292</u> | <u>\$ 1,084,959</u> |

According to the study, the accumulated reserve balance should be \$1,084,959 at December 31, 2004. The actual Reserves Fund balance at December 31, 2004 is \$557,705, which is 51% funded.

The accompanying notes are integral parts of this financial statement.

**Rams Hill
Community Association**
Notes to the Financial Statements

December 31, 2004

Note 1 - Organization

Rams Hill Community Association (The Association) was incorporated in September 1983 as a non-profit mutual benefit corporation to provide for the maintenance, preservation, and architectural control of the commonly owned areas of the residential housing complex. The Association comprises 400 member units.

Note 1a- Significant Accounting Policies

The Association's books of account are prepared using the cash basis of accounting; revenue is recorded when received and expenses are recorded when paid. This financial statement follows the accrual basis of accounting pursuant to generally accepted accounting principles, which recognizes revenue when it is earned and expenses when they are incurred.

The Association uses fund accounting that requires funds such as operating, and reserves designated for future major repairs and replacement, be classified separately for accounting and reporting purposes. Disbursements from the Operating Fund are generally for daily maintenance operations while Reserve Fund disbursements are made only for designated major repair and replacement.

According to generally accepted accounting principles regarding the statement of cash flows, certificates of deposit and securities with original maturities of three months or less are considered 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 record all cash, cash equivalents and short-term investments as cash funds. At December 31, 2004 the Association holds certificates of deposit and investments totaling \$430,000 and \$50,545, respectively, with original maturities exceeding three months.

Interest income earned on Reserves cash accounts is allocated to the Reserves Fund. All income tax expenses are paid by, and allocated to the Operating Fund.

Note 2 - Accounts Receivable

Each member unit owner of the Association is billed monthly homeowner assessments that provides for the Association's operations and the Reserves Fund major repairs and replacement. Monthly homeowner assessments and other member charges billed to the unit owners, but not collected, are recorded as accounts receivable. No allowance for uncollected accounts is recorded as the Association has the right to lien the realty of the delinquent homeowners. Delinquent accounts are written off as a bad debt expense at the time they are deemed uncollectible by the Board of Directors.

**Rams Hill
Community Association**
Notes to the Financial Statements

December 31, 2004

Note 2 - Accounts Receivable (continued)

During the year ending December 31, 2003, the previous developer of Rams Hill Community Association filed bankruptcy and accordingly, the total developer assessments written-off as bad debt totaled \$111,008. The developer pays maintenance fees and monthly unit assessments on unsold units. During the year ending December 31, 2004, \$51,300 of the developer assessments previously written-off was collected.

Note 3 - Income Taxes

Rams Hill Community Association elected to file its federal income tax return as a Homeowner Association pursuant to Internal Revenue Code section 528. Associations filing under section 528 are exempt from federal income taxes. However, income not directly related to The Association's non-profit function, such as interest income, is taxable to the extent such income exceeds allowable and statutory deductions. The Association has tax-exempt status for state tax purposes under California Code section 23701t. For the year ending December 31, 2004, the federal income tax expense and liability is \$6,718 and \$2,510 respectively, and the state income tax expense and liability is \$1,307 and \$732, respectively.

Note 4 - Common Real and Personal Property

The real property and related capital improvements of the Association housing complex are not recorded on these financial statements as such property is owned by the member unit owners. Rams Hill Community Association recognizes purchases of common personal property as assets in conformity with reporting guidelines of Common Interest Realty Associations established by the American Institute of Certified Public Accountants. The Association records such purchases when they are determined to be significant.

Note 5 - Reserves Fund

The Association allocates a portion of the monthly homeowner assessments to the Reserves Fund, which provides for the major repair and replacement of the commonly owned property. The Reserves Fund is segregated into separate accounts and is not used for the general daily maintenance and administration operations of the Association. The Association's Board of Directors conducted a study of the Associations' components of common property, the purpose of which was to estimate the components' remaining useful lives and replacement costs. The Association's policy is to fund for major repairs and replacements over the remaining useful lives of the components based upon the study's estimates of current replacements costs and considering amounts previously accumulated in the Reserves Fund. Accumulated reserves are based upon estimates of future needs for major repairs and replacements.

**Rams Hill
Community Association**
Notes to the Financial Statements

December 31, 2004

Note - 5 Reserves Fund (continued)

Actual reserve expenses may vary from estimated future expenses; therefore, amounts accumulated in the Reserves Fund may not be adequate to meet all future expenses. If additional funds are needed, the Association has the authority to increase regular assessments, levy special assessments, or delay major repairs until funds are available.

Note - 6 Cash Accounts

The Association's policy is to deposit cash assets with financial institutions protected with depository insurance. The Association deposits the reserves fund cash in a Piper Jaffray brokerage account comprising certificates of deposits, investment securities, and an interest-bearing money market fund insured by the Securities Investor Protection Corporation (SIPC). All other cash deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for each financial institution. It is the Association's policy to hold certificates of deposit and investment securities to maturity.

Note - 7 Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management and the Association 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.