

Rams Hill Patio Homes Two Association

Financial Statement

December 31, 2004

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Terry J. Tagwerker
Certified Public Accountant

Member:

American Institute
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Institute

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rams Hill Patio Homes Two 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 Patio Homes Two 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 Patio Homes Two 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
February 17, 2005

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Rams Hill Patio Homes Two Association
Balance Sheet
December 31, 2004 and 2003

	2004			2003
	Operating Fund	Reserves Fund	Total	Total
<u>ASSETS</u>				
Current Assets:				
Cash on Deposit(overdraft)	\$ (4,830)	\$ 46,321	\$ 41,491	\$ 45,797
Certificates of Deposit		405,000	405,000	445,000
Total Cash	\$ (4,830)	\$ 451,321	\$ 446,491	\$ 490,797
Accounts Receivable (Note 2)	-0-		-0-	3,561
Prepaid Insurance	4,666		4,666	4,584
Prepaid Income Taxes (Note 3)	592		592	1,463
Total Current Assets	\$ 428	\$ 451,321	\$ 451,749	\$ 500,405
 <u>LIABILITIES</u>				
Current Liabilities:				
Accounts Payable	\$ 7,748	\$ 10,872	\$ 18,620	\$ 9,697
Prepaid Assessments	4,892		4,892	4,220
Total Current Liabilities	\$ 12,640	\$ 10,872	\$ 23,512	\$ 13,917
<u>FUND BALANCE</u> (Note 5)	\$ (12,212)	\$ 440,449	\$ 428,237	\$ 486,488
TOTAL LIABILITIES & FUND BALANCE	\$ 428	\$ 451,321	\$ 451,749	\$ 500,405

The accompanying notes are integral parts of this financial statement.

Rams Hill Patio Homes Two 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
<u>REVENUES</u>				
Homeowners Assessments	\$ 158,808	\$ 16,656	\$ 175,464	\$ 175,464
Interest Income		10,912	10,912	12,342
Other Income	2,374		2,374	5,762
	\$ 161,182	\$ 27,568	\$ 188,750	\$ 193,568
<u>EXPENSES</u>				
Operating:				
Repair & Maintenance	\$ 77,155	\$	\$ 77,155	\$ 67,228
Utilities	60,561		60,561	41,753
Administrative/ Community Related	36,573		36,573	61,185
		72,712	72,712	61,867
Total Expenses	\$ 174,289	\$ 72,712	\$ 247,001	\$ 232,033
Excess of Expenses over Revenues	\$ (13,107)	\$ (45,144)	\$ (58,251)	\$ (38,465)
Fund Balances-Beginning of Year	\$ 1,047	\$ 485,441	\$ 486,488	\$ 524,953
Transfers/Allocations	(152)	152		
Fund Balances-End of Year	\$ (12,212)	\$ 440,449	\$ 428,237	\$ 486,488

The accompanying notes are integral parts of this financial statement.

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

	<u>Operating Expenses</u>	
	<u>2004</u>	<u>2003</u>
Repair & Maintenance:		
Landscape	\$ 46,542	\$ 38,398
Tree Trimming	7,865	6,640
Common Area	4,131	2,740
Pest Control	540	675
Pool Maintenance	4,565	4,438
Recreation Area	<u>13,512</u>	<u>14,337</u>
Total Repair & Maintenance	<u>\$ 77,155</u>	<u>\$ 67,228</u>
Utilities:		
Electricity	\$ 18,825	\$ 15,253
Propane Gas	17,252	7,859
Water & Sewer	12,311	12,953
Trash Removal	11,896	5,342
Telephone	<u>277</u>	<u>346</u>
Total Utilities	<u>\$ 60,561</u>	<u>\$ 41,753</u>
Administrative/ Community Related:		
Insurance	\$ 5,533	\$ 5,459
Management	21,768	21,768
Professional Fees	3,270	2,712
General Office	1,566	1,228
Income tax & License	4,086	4,607
Miscellaneous	350	1,304
Bad Debt (Note 2)	<u>-0-</u>	<u>24,107</u>
Total Administrative/ Community Related	<u>\$ 36,573</u>	<u>\$ 61,185</u>

The accompanying notes are integral parts of this financial statement.

Rams Hill Patio Homes Two Association
Statement of Expenses
(Continued)
For the Years Ending December 31, 2004 and 2003

Reserves Expenses		
	2004	2003
Plumbing	\$ 3,200	\$ -0-
Gate Repair	5,640	-0-
Tennis Court	14,200	14,200
Spas & Pools	7,430	4,186
Pumps	1,862	-0-
Roofs	13,200	13,200
Landscape & Irrigation	27,180	-0-
Decking	-0-	6,500
Tree Maintenance	-0-	1,910
Recreation Area	-0-	17,476
Iron Work	-0-	1,000
Flooring	-0-	2,100
Solar Panel	-0-	1,295
Total Reserves Expenses	\$ 72,712	\$ 61,867

The accompanying notes are integral parts of this financial statement.

Rams Hill Patio Homes Two Association
Statement of Cash Flows
For the Years Ending December 31, 2004 and 2003

	2004			2003
	Operating Fund	Reserves Fund	Total	Total
Cash Flows from				
<u>Operating Activities:</u>				
Member Assessments	\$ 165,784	\$ 13,913	\$ 179,697	\$ 161,840
Interest Receipts		10,912	10,912	12,342
Other Receipts	2,374		2,374	5,762
Total Sources of Operating Cash	\$ 168,158	\$ 24,825	\$ 192,983	\$ 179,944
Cash paid for Operating Expenditures	(175,449)		(175,449)	(140,050)
Cash paid for Reserves Expenditures		(61,840)	(61,840)	(61,867)
Net cash provided by Operating Activities	\$ (7,291)	\$ (37,015)	\$ (44,306)	\$ (21,973)
Net Cash Flows from				
<u>Financing Activities:</u>				
Net Interfund Transfers	\$ (2,895)	\$ 2,895	-	
Net increase (decrease) in cash and cash equivalents	\$ (10,186)	\$ (34,120)	\$ (44,306)	\$ (21,973)
Cash and cash equivalents at beginning of year	\$ 5,356	\$ 485,441	\$ 490,797	\$ 512,770
Cash and cash equivalents at end of year	\$ (4,830)	\$ 451,321	\$ 446,491	\$ 490,797

Supplemental disclosure: Taxes paid for the years ending December 31, 2004 and 2003 totalled \$2,730 and \$2,028, respectively.

The accompanying notes are integral parts of this financial statement.

Rams Hill Patio Homes Two 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)	\$ (13,107)	\$ (45,144)	\$ (58,251)	\$ (38,465)
Adjustments to reconcile operating surplus (deficit) to net cash provided by operating activities:				
(Increase) decrease in:				
Accounts Receivable	3,561		3,561	9,963
Prepaid Expenses	789		789	1,735
Net Interfund transfers	2,743	(2,743)		
Increase (decrease) in:				
Accounts Payable	(1,949)	10,872	8,923	4,274
Prepaid Assessments	672		672	520
Total adjustments	\$ 5,816	\$ 8,129	\$ 13,945	\$ 16,492
Net cash provided by operating activities	\$ (7,291)	\$ (37,015)	\$ (44,306)	\$ (21,973)

The accompanying notes are integral parts of this financial statement.

Rams Hill Patio Homes Two 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 components 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 2005 study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Annual Funding Requirement</u>	<u>Accumulated Reserves Requirement</u>
Clubhouse	2-12	4,275	33	3,208
Common Area	0-11	3,500	1,353	3,287
Fences	5-6	16,520	-	14,292
Irrigation	3-17	52,200	-	39,557
Paint	0-8	109,223	8,662	62,856
Plant Replaement	0-5	10,000	929	8,264
Pool Area	0-15	66,800	3,324	34,546
Pool Furniture	0-14	41,900	779	33,105
Roof	0-27	674,700	9,569	379,231
Tennis Courts	5-13	18,500	581	8,421
Water Features	1-5	6,700	339	4,695
Total		\$ <u>1,004,318</u>	\$ <u>25,569</u>	\$ <u>591,462</u>

According to the study, at January 2005 the Reserves Fund requirement is \$591,462. The actual Reserve Fund balance at December 31, 2004 is \$440,449.

California Civil Code requires such homeowner associations to perform a reserves study and to furnish a copy of the study to all homeowners. Although 100% funding is not required, disclosure must be made.

Rams Hill Patio Homes Two Association
Notes to the Financial Statements

December 31, 2004

Note 1 - Organization

Rams Hill Patio Homes Two Association (The Association) was incorporated in June 1985 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 84 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 totaling \$405,000 with original maturities exceeding three months. Certificate of Deposit maturity dates range from March 2005 to December 2007.

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 Patio Homes Two Association
Notes to the Financial Statements

December 31, 2004

Note 3 - Income Taxes

Rams Hill Patio Homes Two 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 prepayment is \$2,644 and \$453 respectively, and the state income tax expense and prepayment is \$947 and \$139, 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 Patio Homes Two 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. 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.

Rams Hill Patio Homes Two Association

Notes to the Financial Statements

December 31, 2004

Note – 6 Cash Accounts

The Association's policy is to deposit cash assets with financial institutions protected with depository insurance. The Association deposits a portion of the reserves fund cash in Merrill Lynch accounts comprising certificates of deposits and an interest-bearing treasury money 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 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.