

TERRACE VILLAGE MAINTENANCE CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

Independent Accountant's Report	1
Financial Statements	
Balance Sheet	2
Statement of Income and Expenses	3
Statement of Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 8
Supplementary Information on Future Repairs and Replacements (not audited. not reviewed)	9

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INDEPENDENT ACCOUNTANT'S REPORT

Terrace Village Maintenance Corporation

Reviewed Financial Statements
December 31, 2008

Board of Directors and Members:

I have reviewed the accompanying balance sheet of Terrace Village Maintenance Corporation as of December 31, 2008, and the related statement of income and expenses, statement of changes in fund balances and statement of cash flows for the year then ended in accordance with the 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 management and the board of directors of Terrace Village Maintenance Corporation.

A review consists principally of inquiries of the Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principals generally accepted in the United States of America.

The supplementary information about future major repairs and replacements on page 9 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 compiled the supplementary information from information that is the representation of management and the board of directors of the Association, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.



Michael J. Ferrara, C.P.A.

June 24, 2009

Terrace Village Maintenance Corporation
Balance Sheet
December 31, 2008

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 34,064	\$ 49,276	\$ 83,340
Assessments Receivable	1,136		1,136
Prepaid Expenses	3,798		3,798
Prepaid State Income Taxes	12		12
Due From Operating Fund		31,134	*
Total Assets	<u>\$ 39,010</u>	<u>\$ 80,410</u>	<u>\$ 88,286</u>
<u>Liabilities</u>			
Accounts Payable	\$ 6,165	\$	\$ 6,165
Prepaid Assessments	1,502		1,502
Federal Income Taxes Payable	209		209
Due To Replacement Fund	31,134		*
Total Liabilities	39,010	0	7,876
 <u>Fund Balance</u>	 <u>0</u>	 <u>80,410</u>	 <u>80,410</u>
Total Liabilities & Fund Balance	<u>\$ 39,010</u>	<u>\$ 80,410</u>	<u>\$ 88,286</u>

* Note: Interfund Accounts Eliminated From Totals

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation
Statement of Income and Expenses
For the Year Ended December 31, 2008

	Operating Fund	Replacement Fund	Total
Income:			
Regular Assessments	\$ 67,098	\$ 9,450	\$ 76,548
Special Assessment		6,000	6,000
Interest	2	1,162	1,164
Other Income	902		902
	<u>68,002</u>	<u>16,612</u>	<u>84,614</u>
Total Income			
	<u>68,002</u>	<u>16,612</u>	<u>84,614</u>
Expenses:			
Administrative-			
Bad Debts	3,224		3,224
Insurance	5,843		5,843
Legal	400		400
Management Contract	7,200		7,200
Other Administrative	849		849
Reserve Study	920		920
Taxes	277		277
Tax Preparation	200		200
	<u>18,913</u>	<u>0</u>	<u>18,913</u>
Total Administrative			
	<u>18,913</u>	<u>0</u>	<u>18,913</u>
Maintenance-			
Elevator	2,372		2,372
Janitorial	4,740		4,740
Landscaping	2,785		2,785
Pest Control	515		515
Pool	1,858	10,819	12,677
Repairs & Maintenance	14,940	302	15,242
	<u>27,210</u>	<u>11,121</u>	<u>38,331</u>
Total Maintenance			
	<u>27,210</u>	<u>11,121</u>	<u>38,331</u>
Utilities-			
Gas & Electricity	8,813		8,813
Refuse Removal	4,357		4,357
Water & Sewer	14,493		14,493
	<u>27,663</u>	<u>0</u>	<u>27,663</u>
Total Utilities			
	<u>27,663</u>	<u>0</u>	<u>27,663</u>
Total Expenses			
	<u>73,786</u>	<u>11,121</u>	<u>84,907</u>
Excess Income / (Expenses)	<u>\$ (5,784)</u>	<u>\$ 5,491</u>	<u>\$ (293)</u>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation
Statement of Changes in Fund Balances
For the Year Ended December 31, 2008

	Operating Fund	Replacement Fund	Total
Fund Balance - Beginning of Year	\$ 0	\$ 80,703	\$ 80,703
Excess Income / (Expenses)	(5,784)	5,491	(293)
Fund Transfers	<u>5,784</u>	<u>(5,784)</u>	<u>0</u>
Fund Balance - End of Year	<u>\$ 0</u>	<u>\$ 80,410</u>	<u>\$ 80,410</u>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation
Statement of Cash Flows
For the Year Ended December 31, 2008

	Operating Fund	Replacement Fund	Total
Cash Flows - Operating Activities:			
Assessments	\$ 69,373	\$ 9,450	\$ 78,823
Interest Received	2	1,162	1,164
Other Income	902		902
Administrative Disbursements	(14,438)		(14,438)
Maintenance Disbursements	(38,604)		(38,604)
Utility Disbursements	(27,909)		(27,909)
Income Taxes Paid	(154)		(154)
* Net Inc/(Dec) in Cash			
From Operating Activities	<u>(10,828)</u>	<u>10,612</u>	<u>(216)</u>
Cash Flows - Investing Activities:			
Maturity of CD		20,683	20,683
Net Increase in Cash			
From Investing Activities	<u>0</u>	<u>20,683</u>	<u>20,683</u>
Total Net Inc/(Dec) in Cash	(10,828)	31,295	20,467
Total Cash - Beginning of Year	<u>44,892</u>	<u>17,981</u>	<u>62,873</u>
Total Cash - End of Year	<u><u>\$ 34,064</u></u>	<u><u>\$ 49,276</u></u>	<u><u>\$ 83,340</u></u>
Reconciliation of Excess Income/(Expenses) to Net Inc/(Dec) in Cash from Operating Activities:			
Excess Income / (Expenses)	\$ (5,784)	\$ 5,491	\$ (293)
Adjustments to Reconcile Excess Income/(Expenses) to Net Inc/(Dec) in Cash from Operating Activities-			
Change in Interfund Balances	(12,841)	12,841	0
Fund Transfers	5,784	(5,784)	0
Decrease in Assessments Receivable	327		327
Increase in Prepaid Expenses	(582)		(582)
Decrease in Prepaid Income Taxes	12		12
Inc/(Dec) in Accounts Payable	2,973	(1,936)	1,037
Decrease in Prepaid Assessments	(828)		(828)
Increase in Income Taxes Payable	111		111
* Net Inc/(Dec) in Cash			
From Operating Activities	<u><u>\$ (10,828)</u></u>	<u><u>\$ 10,612</u></u>	<u><u>\$ (216)</u></u>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation
(A Nonprofit Corporation)

Notes to Financial Statements
December 31, 2008

Note 1. Summary of Significant Accounting Policies

Terrace Village Maintenance Corporation is a statutory condominium type common interest realty association and was organized in California on March 3, 2003, as a nonprofit mutual benefit corporation. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association has 30 residential units located in San Diego, California.

The Association's financial statements are presented on the accrual basis of accounting. The accrual basis records assessments as income when due rather than when received and expenses when incurred rather than when paid.

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 for on-going repairs and maintenance. Disbursements from the replacement fund generally may be made only for designated purposes.

Real property and replacements & improvements to common area real property are not capitalized nor depreciated because the common areas are considered owned by the unit owners and not the Association.

Per the provisions of Financial Accounting Standards Board of the American Institute of Certified Public Accountants, regarding "Statement of Cash Flows", cash equivalents consist primarily of certificates of deposits (CDs) and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over ninety days are considered investments. The Association's method of accounting is to consider all cash, cash equivalents and money market funds together as cash funds.

Certificates of deposits and other investments with original maturities over ninety days are considered "held to maturity" investments. Held to maturity investments are carried at cost.

It is the policy of the Association to transfer excess operating income/(expenses) to the replacement fund. It is also the Board's policy is to allocate to the replacement fund interest earned on replacement fund cash and investment accounts. Taxes on all interest and other nonexempt income are paid from the operating fund.

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

Terrace Village Maintenance Corporation
(A Nonprofit Corporation)

Notes to Financial Statements
December 31, 2008

Note 2. Cash

The Association's cash balances at December 31, 2008 are as follows:

<u>Depository</u>	<u>Acct. Type</u>	<u>Balance</u>
A. Operating Fund Cash-		
California Bank & Trust	Checking	\$ 34,064
B. Replacement Fund Cash-		
Washington Mutual	Checking	\$ 100
Washington Mutual	Money Market	49,176
Total Replacement Fund Cash		\$ 49,276

Note 3. Income Tax Status

The Association is taxed as a homeowners association under Internal Revenue Service Code Section 528. Under this section, the Association is generally taxed only on nonexempt income, such as interest earnings. Tax expenses for the year ended December 31, 2008 are \$209 Federal and \$68 State. At the year-end, \$209 Federal taxes are due and \$12 California taxes are prepaid.

Note 4. Assessments

The annual budget and owners' assessments are determined by the Board of Directors and under certain conditions, may be approved by the owners. The Association retains excess funds, if any, for expenses in future years. Regular assessments to owners ranged from \$205.03 per unit per month to \$228.38 per unit per month, depending on the size of the unit, for the year ended December 31, 2008. From these amounts, \$787.50 per month was designated to the replacement fund.

In addition, the Association passed a special assessment of \$200 per unit for a total of \$6,000 to defray the cost of pool re-surfacing. The full amount of the special assessment was recorded during the year ended December 31, 2008.

The Association also passed a special assessment of \$166.66 per unit for a total of \$5,000 during the year ended December 31, 2008 to defray the cost of vehicle gate replacement. The special assessment will be payable and recorded during the year ending December 31, 2009.

Terrace Village Maintenance Corporation
(A Nonprofit Corporation)

Notes to Financial Statements
December 31, 2008

Note 5. Assessments Receivable

The Association's policy is to place liens on the properties of owners whose assessments are in arrears, and retain legal counsel, if necessary, to collect delinquent assessments. As of December 31, 2008, there are \$1,136 of assessments and charges receivable, and \$1,502 of assessments paid in advance.

Note 6. Replacement Fund

The Association has established a policy of assessing members monthly and accumulating funds for major repairs and replacements based on current estimated replacement costs. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Board of Directors retained a company, which specializes in conducting reserve studies, to determine the adequacy of the Association's funding program as of October 31, 2008. The estimates were obtained from specialists who inspected the property for the study. The table included in the supplementary information on page 9 regarding major repairs and replacements is based on the study.

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

Note 7. Commitments

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' notice.

S U P P L E M E N T A L

(Not Audited, Not Reviewed)

Terrace Village Maintenance Corporation

Supplementary Information on Future
Repairs and Replacements

December 31, 2008

(Not Audited, Not Reviewed)

The Board of Directors retained a company, which specializes in conducting reserve studies, to determine the adequacy of the Association's funding program as of October 31, 2008. The estimates were obtained from specialists who inspected the property for the study.

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

<u>Components</u>	<u>Estimated Remaining Lives/Years</u>	<u>Estimated Current Replacement Costs</u>	<u>Current Annual Reserve Requirement</u>	<u>Actual Replacement Fund Balance at 12/31/08</u>
Miscellaneous	0	\$ 3,800	\$ 3,800	\$ -
Fences/Rails/Gates	0 - 20	51,630	3,919	-
Paint	5 - 7	35,250	3,075	-
Roof	0 - 11	44,580	2,896	-
Swimming Pool	4 - 13	14,675	1,190	-
Entry Gate Systems	4 - 16	14,100	1,070	-
Plumbing	5 - 11	5,950	527	-
Electrical	5 - 13	7,110	430	-
Elevator	5 - 13	59,000	1,875	-
Landscape	7	1,000	83	-
Recreation/Common Area	2 - 7	30,350	2,658	-
Not Allocated	-	-	-	80,410
		<u>\$ 267,445</u>	<u>\$ 21,523</u>	<u>\$ 80,410</u>

The reserve study was prepared with the "straight line in years" method of funding assumption.

According to the study, the ideal replacement fund balance as of October 31, 2008 is \$121,147 and the actual replacement fund balance as of December 31, 2008 is \$80,410. Therefore, a deficit of \$40,737 has been calculated. The Association's budgeted allocation to the replacement fund for 2009 is \$9,450. In addition, the Association budgeted a \$5,000 special assessment for vehicle gate replacement.

See Independent Accountant's Report