

**TERRACE VILLAGE MAINTENANCE CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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## INDEPENDENT ACCOUNTANT'S REPORT

### **Terrace Village Maintenance Corporation**

**Reviewed Financial Statements  
December 31, 2011**

#### Board of Directors and Members:

I have reviewed the accompanying balance sheet of Terrace Village Maintenance Corporation as of December 31, 2011, and the related statement of revenues and expenses, statement of changes in fund balances and statement of cash flows for the year then ended. A review includes primarily applying procedures to management's financial data and making inquiries of the Association's management and board of directors. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management and the board of directors are responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

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 principles generally accepted in the United States of America.

The Association has not estimated the remaining lives and current replacement costs of the common property and, therefore, has not presented the estimates of costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.



February 2, 2012

Michael J. Ferrara, C.P.A.

**Terrace Village Maintenance Corporation  
Balance Sheet  
December 31, 2011**

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 25,596	\$ 88,599	\$ 114,195
Assessments Receivable	2,463		2,463
Prepaid Insurance	2,758		2,758
Prepaid Income Taxes	404		404
Due From Operating Fund		25,662	*
<b>Total Assets</b>	<b>\$ 31,221</b>	<b>\$ 114,261</b>	<b>\$ 119,820</b>
<u>Liabilities</u>			
Accounts Payable	\$ 3,559	\$	\$ 3,559
Prepaid Assessments	2,000		2,000
Due To Replacement Fund	25,662		*
<b>Total Liabilities</b>	<b>31,221</b>	<b>0</b>	<b>5,559</b>
<u>Fund Balance</u>	<u>0</u>	<u>114,261</u>	<u>114,261</u>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 31,221</b>	<b>\$ 114,261</b>	<b>\$ 119,820</b>

\* Note: Interfund Accounts Eliminated From Totals

See Accompanying Notes and Independent Accountant's Report

**Terrace Village Maintenance Corporation  
Statement of Revenues and Expenses  
For the Year Ended December 31, 2011**

	Operating Fund	Replacement Fund	Total
<b>Revenues:</b>			
Regular Assessments	\$ 76,412	\$ 12,000	\$ 88,412
Other	2,923		2,923
<b>Total Revenues</b>	<b>79,335</b>	<b>12,000</b>	<b>91,335</b>
<b>Expenses:</b>			
Administrative-			
Bad Debts	1,335		1,335
Insurance	6,100		6,100
Legal	3,875		3,875
Management Contract	7,200		7,200
Other Administrative	1,321		1,321
Review & Tax Preparation	1,030		1,030
<b>Total Administrative</b>	<b>20,861</b>	<b>0</b>	<b>20,861</b>
Maintenance-			
Elevator	2,028		2,028
Janitorial	4,740		4,740
Landscaping	1,680		1,680
Pest Control	525		525
Plumbing	8,312		8,312
Pool	1,440		1,440
Repairs & Maintenance	14,955		14,955
<b>Total Maintenance</b>	<b>33,680</b>	<b>0</b>	<b>33,680</b>
Utilities-			
Gas & Electricity	9,273		9,273
Refuse Removal	3,079		3,079
Water & Sewer	13,670		13,670
<b>Total Utilities</b>	<b>26,022</b>	<b>0</b>	<b>26,022</b>
<b>Total Expenses</b>	<b>80,563</b>	<b>0</b>	<b>80,563</b>
<b>Excess Revenues / (Expenses)</b>	<b>\$ (1,228)</b>	<b>\$ 12,000</b>	<b>\$ 10,772</b>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation  
Statement of Changes in Fund Balances  
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund Balance - Beginning of Year	\$ 0	\$ 103,489	\$ 103,489
Excess Revenues / (Expenses)	(1,228)	12,000	10,772
Fund Transfers	<u>1,228</u>	<u>(1,228)</u>	<u>0</u>
Fund Balance - End of Year	<u>\$ 0</u>	<u>\$ 114,261</u>	<u>\$ 114,261</u>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation  
Statement of Cash Flows  
For the Year Ended December 31, 2011

	Operating Fund	Replacement Fund	Total
<b>Cash Flows - Operating Activities:</b>			
Assessments	\$ 86,254	\$	\$ 86,254
Other Income Received	2,923		2,923
Administrative Disbursements	(19,453)		(19,453)
Maintenance Disbursements	(34,780)		(34,780)
Utility Disbursements	(26,049)		(26,049)
<b>* Net Increase in Cash From Operating Activities</b>	<b>8,895</b>	<b>-</b>	<b>8,895</b>
<b>Total Cash - Beginning of Year</b>	<b>16,701</b>	<b>88,599</b>	<b>105,300</b>
<b>Total Cash - End of Year</b>	<b>\$ 25,596</b>	<b>\$ 88,599</b>	<b>\$ 114,195</b>
<b>Reconciliation of Excess Revenues/(Expenses) to Net Increase in Cash from Operating Activities:</b>			
Excess Revenues / (Expenses)	\$ (1,228)	\$ 12,000	\$ 10,772
Adjustments to Reconcile Excess Revenues/(Expenses) to Net Increase in Cash from Operating Activities-			
Change in Interfund Balances	10,772	(10,772)	0
Fund Transfers	1,228	(1,228)	0
Increase in Assessments Receivable	(1,105)		(1,105)
Decrease in Accounts Payable	(1,054)		(1,054)
Increase in Prepaid Assessments	282		282
<b>* Net Increase in Cash From Operating Activities</b>	<b>\$ 8,895</b>	<b>\$ -</b>	<b>\$ 8,895</b>

See Accompanying Notes and Independent Accountant's Report

Terrace Village Maintenance Corporation  
(A Nonprofit Corporation)

Notes to Financial Statements  
December 31, 2011

**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 revenues 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.

It is the policy of the Association to transfer excess operating revenues/(expenses) to the replacement fund. It is also the Board's policy 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.

Subsequent events have been evaluated through the date the financial statements were issued on February 2, 2012.

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, 2011

**Note 2. Cash**

The Association's cash balances at December 31, 2011 are as follows:

<u>Depository</u>	<u>Acct. Type</u>	<u>Balance</u>
A. Operating Fund Cash-		
California Bank & Trust	Checking	\$ 25,596
		=====
B. Replacement Fund Cash-		
US Bank	Checking	\$ 88,599
		=====

**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. There are no tax expenses for the year ended December 31, 2011. At the year-end, \$217 Federal taxes and \$187 California taxes are prepaid. The Association's federal income tax returns are generally subject to examination by the Internal Revenue Service for three years after they were filed; and for California tax returns by the Franchise Tax Board generally for four years after they were filed.

**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 \$236.80 per unit per month to \$263.73 per unit per month, depending on the size of the unit, for the year ended December 31, 2011. From these amounts, a total of \$12,000 was designated to the replacement fund for the year ended December 31, 2011.

**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, 2011, there are \$2,463 of assessments and charges receivable, and \$2,000 of assessments paid in advance.



Terrace Village Maintenance Corporation  
(A Nonprofit Corporation)

Notes to Financial Statements  
December 31, 2011

**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 Association has not conducted a current study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Amounts accumulated in the replacement fund 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.