

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Terrace Gardens, Inc.
(A California Nonprofit Public Benefit Corporation)
Milpitas, California

We have audited the accompanying statements of financial position of Terrace Gardens, Inc. (a California nonprofit public benefit corporation) as of December 31, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Terrace Gardens, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 11-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
March 28, 2010

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TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

ASSETS	2009	2008
CURRENT ASSETS:		
Cash	\$ 18,029	\$ 24,396
Tenant Accounts Receivable	2	52
Prepaid Expenses	28,699	13,567
Total Current Assets	46,730	38,015
PROPERTY AND EQUIPMENT, At Cost:		
Land	1,565,277	1,565,277
Buildings and Improvements	12,719,755	12,537,496
Furnishings and Equipment	271,870	277,859
	14,556,902	14,380,632
Accumulated Depreciation	(5,285,404)	(4,959,790)
Total Property and Equipment, Net	9,271,498	9,420,842
TENANT SECURITY DEPOSITS:		
Tenant Security Deposits	80,075	80,071
RESTRICTED CASH AND FUNDED RESERVES:		
Replacement Reserves	1,001,841	881,364
Restricted Cash for Carillon Maintenance Fund	788	787
Total Restricted Cash and Funded Reserves	1,002,629	882,151
TOTAL ASSETS	\$ 10,400,932	\$ 10,421,079
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 85,771	\$ 74,048
Wages Payable	6,958	15,728
Accrued Vacation	7,714	7,961
Rents Received in Advance	1,883	99
Total Current Liabilities	102,326	97,836
TENANT SECURITY DEPOSITS:		
Tenant Security Deposit Liability	80,575	80,071
Total Liabilities	182,901	177,907
NET ASSETS:		
Unrestricted Net Assets	10,217,243	10,242,385
Temporarily Restricted Net Assets	788	787
Total Net Assets	10,218,031	10,243,172
TOTAL LIABILITIES AND NET ASSETS	\$ 10,400,932	\$ 10,421,079

The Accompanying Notes are an Integral Part of these Financial Statements.

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2009 and 2008

	2009	2008
REVENUE:		
Rental Program:		
Gross Residential Rent Potential	\$ 1,064,257	\$ 1,031,130
Vacancy and Collection Loss	<u>(14,152)</u>	<u>(8,482)</u>
Net Residential Rental Income	1,050,105	1,022,648
Laundry and Vending Income	2,507	671
Other Tenant Charges	6,720	2,214
Tenant Guest Income	<u>7,980</u>	<u>9,205</u>
Rental Program Revenue	1,067,312	1,034,738
Grant Income - CDBG Grant	118,250	150,625
Food Services	405,684	388,503
Interest Income	<u>11,245</u>	<u>30,015</u>
Total Revenue	1,602,491	1,603,881
PROGRAM EXPENSES:		
Rental Program:		
Administrative	121,835	99,417
Personnel and Benefits	297,189	302,377
Repairs and Maintenance	218,816	223,900
Taxes and Insurance	42,989	46,806
Utilities	<u>163,075</u>	<u>200,875</u>
Rental Program Expenses	843,904	873,375
Tenant Services Program:		
Food Service Costs	422,051	404,479
Recreation Supplies	<u>7,162</u>	<u>4,878</u>
Tenant Services Program Expenses	429,213	409,357
Total Operating Expenses	1,273,117	1,282,732
Other Expenses:		
Depreciation	330,799	262,866
Loss on Disposal of Assets	<u>13,386</u>	<u>-</u>
Total Program Expenses	1,617,302	1,545,598
Supporting Services Expense:		
Management and General Expenses	<u>10,330</u>	<u>8,910</u>
Total Expenses	1,627,632	1,554,508
Change in Unrestricted Net Assets	<u>(25,141)</u>	<u>49,373</u>
CHANGE IN NET ASSETS	(25,141)	49,373
NET ASSETS, Beginning of Year	<u>10,243,172</u>	<u>10,193,799</u>
NET ASSETS, End of Year	<u>\$ 10,218,031</u>	<u>\$ 10,243,172</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (25,141)	\$ 49,373
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	330,799	262,866
Loss on Disposal of Assets	13,386	-
(Increase) Decrease in Assets:		
Tenant Accounts Receivable	50	298
Accounts Receivable - Other	-	3,049
Prepaid Expenses	(15,132)	369
Tenant Security Deposits - Net	500	500
Increase (Decrease) in Liabilities:		
Accounts Payable	11,723	5,718
Wages Payable	(8,770)	6,020
Accrued Vacation	(247)	(646)
Rents Received in Advance	1,785	(682)
Net Cash Provided by Operating Activities	308,953	326,865
CASH FLOWS FROM INVESTING ACTIVITIES:		
Funding of Replacement Reserves	(190,122)	(181,110)
Withdrawal from Replacement Reserves	69,645	120,306
Acquisition of Property and Equipment	(194,842)	(254,935)
Changes in Other Funds Held by Trustee	(1)	(1)
Net Cash Used by Investing Activities	(315,320)	(315,740)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,367)	11,125
CASH AND CASH EQUIVALENTS, Beginning of Year	24,396	13,271
CASH AND CASH EQUIVALENTS, End of Year	\$ 18,029	\$ 24,396

The Accompanying Notes are an Integral Part of these Financial Statements.

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION:

Organization - Terrace Gardens, Inc. (the "Organization") is a nonprofit public benefit corporation, incorporated in the State of California on September 12, 1986. The Organization was formed to provide low income persons in the City of Milpitas (the "City") with housing facilities and services. The Organization is governed by a nine member board of directors, one of whom must be the City Manager, or his appointee; one of whom must be a member of the City Council; five of whom must be residents of the City; and the remaining two members may be selected without regard to residence.

The Board of Directors' governing authority is limited by a Regulatory Agreement, dated November 17, 1987, between the Organization and the City. Significant provisions of this agreement are described in Note 2. The Organization and the City have entered into an amended and restated Regulatory Agreement on December 6, 2006.

Operations - The Organization's purpose is to develop and manage the operations of a residential complex which consists of 148 rental units, 3 guest rooms, and 2 staff units. The complex is located in the City and dedicated to the needs of elderly persons. The City contributed the land for the complex and the value is reported in the financial statements at its estimated fair market value at the date contributed as determined by the County Assessor.

NOTE 2 - REGULATORY AGREEMENT:

Pursuant to the amended and restated Agreement dated December 6, 2006 with the City, the Organization is:

Prohibited from:

- Using the land contributed by the City for any purpose other than constructing and operating the Terrace Gardens residential project.
- Encumbering the land or project by any security interest, selling, assigning, conveying or otherwise transferring its interest in the project or project site.
- Discriminating in any manner against any person on account of race, marital status, sex, religious creed, ancestry, national origin or physical handicaps in connection with constructing or operating the project.

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - REGULATORY AGREEMENT (Continued):

Required to:

- Maintain adequate insurance coverage, indemnify and hold harmless the City and its officials and employees against any actual or alleged liabilities resulting from any acts or omissions of the Organization or its employees.
- Submit operating budgets on or before the first day of each fiscal year to the City for approval.
- Establish a reserve account for replacement and other project contingencies which must be funded at the rate of \$4,000 per month (see Note 4 for details on reserves).
- Limit occupancy in the project to persons 62 or more of age (in the case of joint occupancy at least one occupant must meet the age requirement) or 55 or more of age and handicapped.
- Rent dwelling units by giving preference first to elderly residents and to elderly parents of residents of the City, and finally to residents of Santa Clara County.
- At least 25 units shall be rented to extremely low income senior citizen households with household incomes at or below 30% of median income in Santa Clara County; the remaining rental units shall be rented to very low income senior citizen households with household incomes at or below 50% of median income in Santa Clara County.
- Limited rent in an amount not to exceed 30% of occupant's income, unless otherwise agreed by both the City and the Organization.
- Establish and maintain a surplus cash account, disbursements from which can only be made with the City's prior written approval and which must be disbursed to the City 30 days after receiving the City's written request for all or a portion of the surplus funds.
- Provide the City with annual financial statements audited by an Independent Certified Public Accountant.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The Organization recognizes revenue on the accrual basis of accounting. Revenue from program fees is recognized as revenue in the period in which the service is provided. The value of the rent-free employee units is shown as rental income and as an expense of operations.

TERRACE GARDENS, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*), the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts Receivable - The Organization uses the specific write-off method to provide for doubtful accounts since past experience and management's estimation indicates an adequate allowance for such accounts is immaterial.

Property and Equipment - Property and equipment are stated at cost of acquisition, and recorded at cost or estimated fair value for donated items. Major improvements or replacement over \$10,000 are charged to the property accounts. The cost of repairs and maintenance which do not improve or extend the life of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 50 years. Depreciation is charged to the activity benefiting from the use of the property or equipment. Depreciation expense for the years ended December 31, 2009 and 2008 was \$330,799 and \$262,866, respectively.

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounting for Impairment of Long-Lived Assets - The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of December 31, 2009 and 2008, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Tenant Security Deposits - Tenant security deposits are not available for operating purposes. The Organization is required to maintain funds equal to the related liability and holds the funds in separate, interest bearing accounts in the name of the Organization.

Functional Expenses - Directly identifiable expenses are charged to program and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Property Taxes - The Organization has filed and received an exemption from certain property taxes in accordance with Section 214 of the California Code.

Income Taxes - Terrace Gardens, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended December 31, 2009 and 2008 were \$1,884 and \$1,113, respectively.

Accounting for Uncertainty in Income Taxes - Effective January 1, 2009, the Organization adopted ASC 740-10 (formerly Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48)). ASC 740-10 provides guidance on recognition and measurement of uncertainties in income taxes recognized in financial statements by prescribing a more likely than not recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. Based on management's analysis of the Organization's tax positions, the accounting for any uncertainty in its tax positions is not expected to have a material impact on the financial statements.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to December 31, 2009 for potential recognition or disclosure in the financial statements. The Organization has no subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended December 31, 2009. Subsequent events have been evaluated through the date the financial statements became available to be issued, March 28, 2010.

TERRACE GARDENS, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Recent Accounting Pronouncements -

FASB Accounting Standards Codification - On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles* (Codification). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for us in financial statements, except for SEC rules and interpretive releases, which are also authoritative for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. The Organization has included the references to the Codification, as appropriate, in these financial statements.

ASC 820-10 (formerly SFAS No. 157) - In September 2006, FASB issued ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10 applies under other accounting pronouncements that require or permit fair value measurements. FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, ASC 820-10 does not require any new fair value measurements. However, for some entities, application of ASC 820-10 will change current practice. In February 2008, FASB issued ASC 820-10-65-1 (formerly Staff Position No. 157-2) that defers the effective date of ASC 820-10 for non financial assets and non financial liabilities, except for items that are recognized or disclosed at fair value in financial statements on a recurring basis for fiscal years beginning after November 15, 2008. The adoption of ASC 820-10 for financial assets and liabilities did not have a significant impact on the Organization's results of operations, cash flows or financial position. The Organization is assessing the impact of adopting ASC 820-10 on non financial assets and liabilities, but does not expect it to have a material impact on its results of operations, cash flows or financial position.

NOTE 4 - RESTRICTED CASH AND FUNDED RESERVES:

Replacement Reserves - In accordance with the Regulatory Agreement, a replacement reserve account has been established and is to be funded monthly. The annual funding required is \$48,000. Funding was increased from the requirement amount based on the 2006 Reserve Study prepared by Christison Company. The annual reserve deposits of 2009 and 2008 were approved by the Board of Directors for \$178,886 and \$153,841, respectively. Interest earned on the replacement reserve is considered to have the same restrictions as the replacement reserve. As of December 31, 2009 and 2008, the activities of replacement reserve are as follows:

	2009	2008
Balance at January 1,	\$ 881,364	\$ 820,560
Monthly Deposits	178,886	153,841
Interest Received	11,236	27,269
Withdrawals	(69,645)	(120,306)
Balance at December 31,	<u>\$ 1,001,841</u>	<u>\$ 881,364</u>

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - RESTRICTED CASH AND FUNDED RESERVES (Continued):

Restricted Cash - The restricted cash consists of funds from the Carillon Memorial Maintenance Fund, held for the repair or improvement of the Carillon. These funds are restricted in use and may not be used for operations. As of December 31, 2009 and 2008, the funds were \$788 and \$787, respectively.

NOTE 5 - GRANT INCOME:

In 2009, the City of Milpitas granted the Organization \$118,250 for replacement of an antiquated emergency system at the Terrace Gardens. The full amount of \$118,250 was expended in 2009.

In 2008, the City of Milpitas granted the Organization \$150,625 for the purchase of materials used in the renovation of the kitchen cabinets in the rental units at the Terrace Gardens residential complex. The full amount of \$150,625 was expended in 2008.

NOTE 6 - SURPLUS CASH (DEFICIENCY):

Under Section 23 of the Regulatory Agreement dated November 17, 1987 with the City of Milpitas, the Organization is required to remit surplus cash to the City upon receipt of 30 days written notice. Surplus cash is defined by that agreement as cash remaining after payment of all liabilities less amounts required for reserves. Surplus cash at December 31, 2009, is computed as follows:

<u>Account Description</u>	<u>Value</u>
Cash	\$ 18,029
Total Cash	18,029
Accounts Payable	(85,771)
Wages Payable	(6,958)
Accrued Vacation	(7,714)
Rents Received in Advance	<u>(1,883)</u>
Total Current Obligations	<u>(102,326)</u>
Surplus Cash (Deficiency)	\$ <u>(84,297)</u>
Deposit Due to Surplus Cash Account	\$ <u>-</u>

SECTION II
SUPPLEMENTARY INFORMATION

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

OPERATING PROGRAM EXPENSES

Years Ended December 31, 2009 and 2008

	2009		2008	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
ADMINISTRATIVE:				
Advertising	\$ 1,884	0.1 %	\$ 1,113	0.1 %
Bookkeeping	14,208	0.9	14,208	0.9
Computer Charges	1,955	0.1	-	-
Consultant Expense	16,469	1.0	-	-
Management Fees	53,004	3.3	53,004	3.3
Mileage and Travel	725	-	535	-
Miscellaneous	8,714	0.5	3,998	0.2
Office Administration	12,952	0.8	16,415	1.0
Security	1,914	0.1	2,123	0.1
Telephone	10,010	0.6	8,021	0.5
Total Administrative Expense	121,835	7.6	99,417	6.2
PERSONNEL AND BENEFITS:				
Administrative Salaries	92,992	5.8	98,882	6.2
Health Insurance	30,410	1.9	28,678	1.8
Janitor Salary	38,632	2.4	42,483	2.6
Maintenance Salaries	84,490	5.3	77,032	4.8
Manager's Rent Free Unit	14,880	0.9	14,880	0.9
Payroll Taxes	19,749	1.2	20,104	1.3
Workers' Compensation Insurance	13,594	0.8	17,351	1.1
401K Matching/EE Benefits	2,442	0.2	2,967	0.2
Total Personnel and Benefits Expense	297,189	18.5	302,377	18.9
REPAIRS AND MAINTENANCE:				
Decorating and Painting	446	-	3,076	0.2
Elevator Maintenance	14,216	0.9	11,715	0.7
Exterminating	5,682	0.4	6,110	0.4
Fire Alarm Expense	7,203	0.4	4,397	0.3
Grounds Contract and Supplies	20,831	1.3	25,172	1.6
Heating/Cooling Repairs	15,981	1.0	14,240	0.9
Janitor	13,533	0.8	5,805	0.4
Plumbing Maintenance	5,495	0.3	10,196	0.6
Miscellaneous Repairs and Maintenance				
Contracts	6,209	0.4	6,695	0.4
Repairs Contract	36,368	2.3	45,801	2.9
Replacements	61,039	3.8	57,994	3.6
Rubbish Removal	30,044	1.9	28,617	1.8
Window and Glass Repairs	1,386	0.1	2,173	0.1
Rehab. Expenses	383	-	1,909	0.1
Total Repairs and Maintenance Expense	218,816	13.7	223,900	14.0

TERRACE GARDENS, INC.
(A California Nonprofit Public Benefit Corporation)

OPERATING PROGRAM EXPENSES
(Continued)

Years Ended December 31, 2009 and 2008

	2009		2008	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
TAXES AND INSURANCE:				
Fidelity Bond Insurance	\$ 213	- %	\$ 239	- %
Property Insurance	35,309	2.2	40,151	2.5
Property Taxes	6,131	0.4	6,320	0.4
Other Taxes	1,336	0.1	96	-
Total Taxes and Insurance Expense	42,989	2.7	46,806	2.9
UTILITIES:				
Electricity	79,191	4.9	107,799	6.7
Gas	21,419	1.3	29,409	1.8
Sewer	20,191	1.3	19,586	1.2
Water	42,274	2.6	44,081	2.7
Total Utilities Expense	163,075	10.2	200,875	12.5
FOOD SERVICE CONTRACT:				
Food Service Costs	422,051	26.3	404,479	25.2
Total Food Service Contract Expense	422,051	26.3	404,479	25.2
RECREATION:				
Recreation Supplies	7,162	0.4	4,878	0.3
Total Recreation Expense	7,162	0.4	4,878	0.3
Total Operating Expenses	\$ 1,273,117	79.4 %	\$ 1,282,732	80.0 %