

**WASHINGTON HOUSE  
CONDOMINIUM ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended  
December 31, 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Council  
Washington House Condominium Association

We have audited the accompanying financial statements of Washington House Condominium Association, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington House Condominium Association as of December 31, 2015, the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

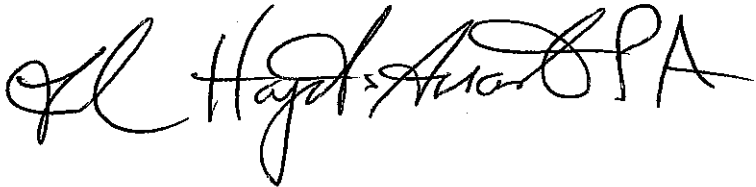
## INDEPENDENT AUDITORS' REPORT

### *Report on Supplementary Information*

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 13 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### *Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that information concerning future major repairs and replacements shown on page 10 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "J. L. Hagedorn, CPA". The signature is written in a cursive, flowing style.

Bel Air, Maryland  
May 16, 2016

WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2015

	OPERATING FUND	REPLACEMENT FUND	CONTINGENCY FUND	TOTAL
<b>ASSETS</b>				
Current assets				
Cash-including interest bearing accounts	\$ 175,145	\$ 258,538	\$ 362,530	\$ 796,213
Assessments receivable (less allowance for doubtful accounts of \$8,701 and \$22,500)	25,401	-	2,500	27,901
Total current assets	200,546	258,538	365,030	824,114
Fixed assets				
Equipment	27,546	-	-	27,546
Less accumulated depreciation	(27,546)	-	-	(27,546)
Net fixed assets	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 200,546</b>	<b>\$ 258,538</b>	<b>\$ 365,030</b>	<b>\$ 824,114</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
Current liabilities				
Accounts payable	\$ 30,622	\$ -	\$ 184,173	\$ 214,795
Assessments received in advance	66,341	-	1,109,900	1,176,241
Total current liabilities	96,963	-	1,294,073	1,391,036
Other liabilities				
Security deposits	9,000	-	-	9,000
Total other liabilities	9,000	-	-	9,000
<b>TOTAL LIABILITIES</b>	105,963	-	1,294,073	1,400,036
 Fund Balances (Deficit)	 94,583	 258,538	 (929,043)	 (575,922)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 200,546</b>	<b>\$ 258,538</b>	<b>\$ 365,030</b>	<b>\$ 824,114</b>

See independent auditors' report and accompanying notes to financial statements.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2015**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CONTINGENCY FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Assessments	\$ 396,000	\$ -	\$ -	\$ 396,000
Special assessments	-	-	1,650,000	1,650,000
Utility assessments	38,656	-	-	38,656
Other income	11,693	-	-	11,693
Interest income	5	423	-	428
<b>TOTAL REVENUES</b>	<u>446,354</u>	<u>423</u>	<u>1,650,000</u>	<u>2,096,777</u>
<b>EXPENSES</b>				
Operating	324,080	-	-	324,080
Legal and engineering fees	-	-	477,812	477,812
Building repairs	-	-	1,798,535	1,798,535
<b>TOTAL EXPENSES</b>	<u>324,080</u>	<u>-</u>	<u>2,276,347</u>	<u>2,600,427</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES</b>	122,274	423	(626,347)	(503,650)
<b>BEGINNING FUND BALANCES</b>	61,157	169,267	(302,696)	(72,272)
<b>Interfund transfers</b>	<u>(88,848)</u>	<u>88,848</u>	<u>-</u>	<u>-</u>
<b>ENDING FUND BALANCES</b>	<u>\$ 94,583</u>	<u>\$ 258,538</u>	<u>\$ (929,043)</u>	<u>\$ (575,922)</u>

See independent auditors' report and accompanying notes to financial statements.

WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015

	OPERATING FUND	REPLACEMENT FUND	CONTINGENCY FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over (under) expenses	\$ 122,274	\$ 423	\$ (626,347)	\$ (503,650)
Depreciation expense	1,657	-	-	1,657
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (utilized) by operating activities				
(Increase) decrease in:				
Assessments receivable	(1,442)	-	(2,500)	(3,942)
Increase (decrease) in:				
Accounts payable	1,086	-	86,676	87,762
Assessments received in advance	62,063	-	384,900	446,963
Security deposits	4,000	-	-	4,000
NET CASH PROVIDED (UTILIZED) BY OPERATING ACTIVITIES	189,638	423	(157,271)	32,790
CASH AT BEGINNING OF YEAR	74,355	169,267	519,801	763,423
Interfund transfers	(88,848)	88,848	-	-
CASH AT END OF YEAR	\$ 175,145	\$ 258,538	\$ 362,530	\$ 796,213
Supplemental Cash Flows Disclosure				
Cash paid during the year for:				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -	\$ -

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**NATURE OF ORGANIZATION**

Washington House Condominium Association is an unincorporated entity located in the State of Delaware. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Newark, Delaware and consists of 54 residential units and 4 commercial condominium units. The property manager for the year ended December 31, 2015 was Aspen Property Management, Inc.

**DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 16, 2016, as acknowledged in the management representation letter and the date the financial statements were available to be issued.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Contingency Fund - This fund is used to accumulate financial resources designated for costs associated with the structural deficiency litigation and building repairs.

Member Assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. In addition, the Association members are subject to yearly special assessments to provide for the structural deficiency expenses. Assessments receivable at the balance sheet date represent fees due from members. The Association's policy is to retain legal counsel and place liens on the properties of members whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

See independent auditors' report.



**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

Utility Assessments

The Association collects utility assessments to offset the portion of the monthly water and sewer bills. For the year ended December 31, 2015, the Association reflected as income \$38,656 from the members and disbursed \$38,656 to the City of Newark for their water and sewer usage.

Fixed Assets

Real property and common areas transferred from the developer are not recorded in the Association's financial statements because those properties are owned by the individual members in common and not by the Association. Although the building and grounds are owned by the individual members in common, the Association has acquired personal property. Expenditures for physical properties are stated at cost. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the respective assets. The cost of maintenance and repairs is charged to expense as incurred and personal property that exceeds \$2,500 is capitalized.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies 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.

Income Taxes

Homeowner associations may be taxed either as homeowner associations or as regular corporations. For the year ended December 31, 2015, the Association elected to be taxed as a homeowner association. Under that election, the Association is taxed on its nonexempt function income, such as interest income and investment earnings, less expenses allocated to non-exempt income at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. Income tax expense for the year ended December 31, 2015 was \$0.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2015, the Association incurred no penalties and interest related to income taxes. Tax returns are subject to examination by the Internal Revenue Service for three years after they are filed.

See independent auditors' report.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash Equivalents

For purposes of reporting cash flow, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

**CASH**

The Association's cash at December 31, 2015 consists of the following:

	<u>2015</u>
Designated by homeowners for future repairs and replacements:	
Union Bank – money market	\$ 258,538
Sub-Total	<u>258,538</u>
Designated by homeowners for structural deficiency litigation and building repairs:	
Union Bank – checking (allocation from undesignated account)	<u>362,530</u>
Sub-Total	<u>362,530</u>
Undesignated:	
Union Bank – checking	528,666
Union Bank - checking (allocated to contingency fund)	(362,530)
Union Bank - money market (security deposits)	<u>9,009</u>
Sub-Total	<u>175,145</u>
Total Cash	<u>\$ 796,213</u>

The Association maintains cash balances, which exceeded federally insured limits during the year. The Association does not believe that this results in any significant credit risk.

**ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Assessments receivables represent the amounts owed to the Association by various homeowners and as of December 31, 2015, the amount owed is \$59,102. This amount represents 2016 homeowner regular assessments of \$34,102 and 2016 special assessments for the contingency fund of \$25,000. The reserve for doubtful accounts is \$31,201, of which \$8,701 is for regular assessments and \$22,500 for the special assessments as of December 31, 2015 and is based on a specific uncollectability rate of all account balances over 90 days past due.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**FIXED ASSETS**

Fixed assets consists of the following:

Fitness equipment	\$ 22,130
Furniture	5,416
Total fixed assets	27,546
Accumulated depreciation	(27,546)
Net fixed assets	\$ 0

Depreciation expense for the year ended December 31, 2015 was \$1,657.

**ASSESSMENTS RECEIVED IN ADVANCE**

At December 31, 2015, assessments received in advance were \$1,176,241. This amount represents 2016 homeowner regular assessments of \$66,341 and future special assessments for the contingency fund of \$1,109,900 paid prior to December 31, 2015. Several of the members choose to pay the 2016 to 2020 special assessments in full during the year ended December 31, 2015.

**ACCOUNTS PAYABLE**

At December 31, 2015, the Association reflected an accounts payable balance of \$214,795. The accounts payable consists of the following:

Designated:	
Building deficiency expenses	\$ 184,173
Sub-total	184,173
Undesignated:	
Utilities	15,074
Repairs and maintenance	7,591
Trash removal	4,485
Other costs	3,472
Sub-total	30,622
Total accounts payable	\$ 214,795

As of report date May 16, 2016, the accounts payable balance as of December 31, 2015 has been fully paid.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which include \$258,538 of cash equivalents at December 31, 2015, are held in separate accounts and are generally not available for operating purposes. Expenditures for major replacements for the year ended December 31, 2015 were \$0. Contributions to the replacement fund were \$88,848 for the year ended December 31, 2015.

The Association's Council engaged an independent engineering firm to conduct a study which was finalized in December 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives.

The following information is based on the study's cash flow method and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Replacement Cost Present Dollars</u>
Site improvements	1 to 20	\$ 93,600
Building exteriors	1 to 30	1,336,750
Building interiors	1 to 30	117,690
Mechanical and electrical	1 to 30	<u>405,750</u>
<b>TOTALS</b>		<b><u>\$ 1,953,790</u></b>

The study completed during December 2010 reflects an ending balance at December 31, 2015 of \$512,923. The Association's balance at December 31, 2015 is \$258,538. The Association's reserve fund balance at December 31, 2015 is \$254,385 below the recommended levels.

**CONTINGENCY FUND**

This fund is used to accumulate financial resources designated for costs associated with the structural deficiency litigation and remediation repairs. Accumulated funds, which include \$362,530 of cash equivalents, net assessment receivable of \$2,500, less accounts payable of \$184,173 and special assessments received in advance of \$1,109,900, which aggregates to a fund deficit balance of \$929,043 at December 31, 2015. Expenditures for the year ended December 31, 2015 were \$2,276,347, which represents legal and engineering fees of \$477,812 and building repairs of \$1,798,535.

See independent auditors' report.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**SPECIAL ASSESSMENTS**

The Association, represented by its Council, ratified in 2014 a special assessment of \$6,573,600 that was approved by the members of the Association. The special assessment will be assessed to all members during the years of 2015 through 2020. The 2015 special assessment was \$1,650,000, the 2016 special assessment will be \$990,000, the 2017 special assessment will be \$963,600, the 2018 special assessment will be \$990,000, the 2019 special assessment will be \$990,000 and the 2020 special assessment will be \$990,000. These special assessments will be used for the structural deficiency litigation and building repairs. For the year ending December 31, 2015, the special assessment reflected in the financial statements as income was \$1,650,000.

**LITIGATION**

The Association, in conjunction with their legal council, has filed action on its behalf against the developer to recover damages arising from or related to defects and deficiencies in the design, development and construction of the condominium buildings. The defendants have not asserted a counterclaim against the Association, therefore the litigation remains one in which only the Association is seeking recovery. The outcome of the litigation cannot be determined at this time.

The building deficiency expenses for the year ended December 31, 2015 were \$2,276,347, which represents legal and engineering fees of \$477,812 and building repairs of \$1,798,535. The cumulative building deficiency expenses as of December 31, 2015 were \$2,579,043, which represents legal and engineering fees of \$564,472 and building repairs of \$2,014,571. As of report date, the Association has disbursed an additional \$819,439 to pursue legal action against the developer and repair structural deficiencies, of which \$72,840 was for professional legal and engineering fees and \$746,599 for building repairs. In addition, the Association estimates it will cost approximately \$6.6 million to cure the structural deficiencies and pursue legal action against the developer. The Association will be funding the cost of the structural deficiency litigation and building repairs from special assessments issued during the years 2016 through 2020 of \$4,923,600.

**COMMITMENTS**

As of December 31, 2015, the Association has committed to a structural deficiency litigation pursuit against the developer and a building repair project which began during 2014. For the year ending December 31, 2015, the Association has incurred \$2,276,347 of these related expenses, for a cumulative total of \$2,579,043. The total estimated costs of the structural deficiency litigation and building repairs is approximately \$6.6 million. The Association will be funding the litigation and building project from special assessments during the years 2016 through 2020 of \$4,923,600.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**SECURITY DEPOSIT LIABILITY**

At December 31, 2015, security deposit liability reflected in the current financial statements was \$9,000. Homeowners which rent out their condominium units, or take in boarders or roomers are assessed a security deposit of \$1,000. At December 31, 2015, nine homeowners are renting condominium units. Security deposits held are maintained a separate money market account. At December 31, 2015, rental security deposit cash was \$9,009.

**SUBSEQUENT EVENTS**

Subsequent events were evaluated through May 16, 2016, which is the date the financial statements were available to be issued. As of May 16, 2016, the Association, represented by its Council, assessed a special assessment to all the members of \$990,000 during January 2016. These funds will be used for the structural deficiency litigation and building repairs which is estimated to cost approximately \$6.6 million. As of report date, the Association has disbursed an additional \$819,439 to pursue legal action against the developer and repair structural deficiencies, which \$72,840 was for professional legal and engineering fees and \$746,599 for building repairs.

In addition, as of report date May 16, 2016, the Association secured financing up to \$3,000,000 from Mutual of Omaha Bank. The Association secured the loan in order to maintain the scheduled special assessments to members as the building repairs is estimated to be completed during 2017, in which full payment is expected at that time. The loan will cover the building repair expenses due during 2017. The remaining three years of special assessments is expected to pay off the debt. The loan acquired is a 132 month multiple draw term loan. Loan advances will take place during the first 12 months of the term loan. Payments will be monthly interest only during the draw period. After the draw period, payments will be monthly principal and interest, fully amortized for the remaining term of the loan. The rate will be fixed based on the 10 year United States Treasury Constant Maturity if effect of the fifth business day prior to closing plus a spread of 2.25%. The rate will have a floor of 4.5% during the entire loan period. As of report date, the Association has taken draws of \$235,424 to pay building repair expenses.

As of report date May 16, 2016, the accounts payable balance as of December 31, 2015 has been fully paid.

**SUPPLEMENTARY INFORMATION**

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION**  
**SCHEDULE OF OPERATING, REPLACEMENT AND CONTINGENCY FUND REVENUES AND EXPENSES-**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2015**

	(compiled) Budget	Actual	(compiled) Variance
Revenues:			
Assessments	\$ 396,000	\$ 396,000	\$ -
Utility assessments	34,200	38,656	4,456
Other income	2,400	11,693	9,293
Interest income	-	5	5
	<u>432,600</u>	<u>446,354</u>	<u>13,754</u>
Total revenues			
Expenses:			
Accounting fees	5,000	3,065	1,935
Bad debt expense	-	3,450	(3,450)
Depreciation	5,876	1,657	4,219
Gas and electricity	58,400	54,641	3,759
Ground and lawn maintenance	10,204	2,170	8,034
Insurance	27,150	26,016	1,134
Janitorial and cleaning	21,000	19,680	1,320
Legal fees	5,000	3,691	1,309
Management fees	19,488	19,488	-
Office expense	1,200	1,227	(27)
Repairs and maintenance	125,018	113,091	11,927
Snow removal	8,000	6,875	1,125
Telephone	2,800	2,697	103
Trash removal	30,000	27,676	2,324
Water and sewer	34,200	38,656	(4,456)
	<u>353,336</u>	<u>324,080</u>	<u>29,256</u>
Total expenses			
Excess (deficiency) of operating fund revenues over (under) operating fund expenses	79,264	122,274	43,010
Interfund transfers:			
Replacement fund	79,264	88,848	(9,584)
Contingency fund	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of operating fund revenues over (under) operating fund expenses after interfund transfers	<u>\$ -</u>	<u>\$ 33,426</u>	<u>\$ 33,426</u>
Additional Disclosures:			
Replacement fund activity			
Interest income	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 423</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contingency fund activity			
Special assessments	<u>\$ -</u>	<u>\$ 1,650,000</u>	<u>\$ 1,650,000</u>
Structural deficiency expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>