

**WASHINGTON HOUSE
CONDOMINIUM ASSOCIATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**Year Ended
December 31, 2014**

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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, 2014, 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, 2014, 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.

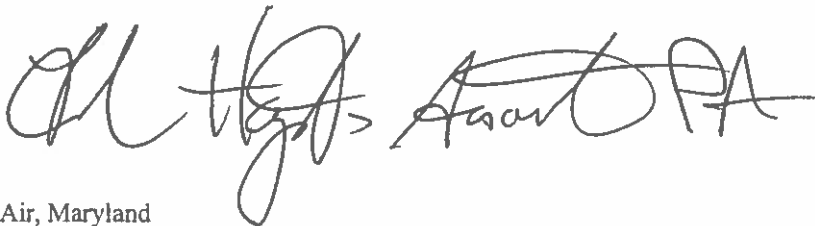
INDEPENDENT AUDITORS' REPORT

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 pages 9 and 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, 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.



Bel Air, Maryland
August 20, 2015

WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2014

	OPERATING FUND	REPLACEMENT FUND	CONTINGENCY FUND	TOTAL
ASSETS				
Current assets				
Cash-including interest bearing accounts	\$ 74,355	\$ 169,267	\$ 519,801	\$ 763,423
Assessments receivable (less allowance for doubtful accounts of \$17,827)	23,959	-	-	23,959
Total current assets	98,314	169,267	519,801	787,382
Fixed assets				
Equipment	28,729	-	-	28,729
Less accumulated depreciation	(27,072)	-	-	(27,072)
Net fixed assets	1,657	-	-	1,657
TOTAL ASSETS	\$ 99,971	\$ 169,267	\$ 519,801	\$ 789,039
 LIABILITIES AND FUND BALANCES				
Current liabilities				
Accounts payable	\$ 29,536	\$ -	\$ 97,497	\$ 127,033
Assessments received in advance	4,278	-	725,000	729,278
Total current liabilities	33,814	-	822,497	856,311
Other liabilities				
Security deposits	5,000	-	-	5,000
Total other liabilities	5,000	-	-	5,000
TOTAL LIABILITIES	38,814	-	822,497	861,311
 Fund Balances (Deficit)	 61,157	 169,267	 (302,696)	 (72,272)
TOTAL LIABILITIES AND FUND BALANCES	\$ 99,971	\$ 169,267	\$ 519,801	\$ 789,039

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, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CONTINGENCY FUND</u>	<u>TOTAL</u>
REVENUES				
Assessments	\$ 396,000	\$ -	\$ -	\$ 396,000
Utility assessments	41,032	-	-	41,032
Other income	7,716	-	-	7,716
Interest income	<u>2</u>	<u>197</u>	<u>-</u>	<u>199</u>
TOTAL REVENUES	<u>444,750</u>	<u>197</u>	<u>-</u>	<u>444,947</u>
EXPENSES				
Operating	<u>310,946</u>	<u>-</u>	<u>302,696</u>	<u>613,642</u>
TOTAL EXPENSES	<u>310,946</u>	<u>-</u>	<u>302,696</u>	<u>613,642</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	133,804	197	(302,696)	(168,695)
BEGINNING FUND BALANCES	141,461	89,492	-	230,953
Prior period adjustment	(119,350)	(15,180)	-	(134,530)
Interfund transfers	<u>(94,758)</u>	<u>94,758</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCES	<u>\$ 61,157</u>	<u>\$ 169,267</u>	<u>\$ (302,696)</u>	<u>\$ (72,272)</u>

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

WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	OPERATING FUND	REPLACEMENT FUND	CONTINGENCY FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over (under) expenses	\$ 133,804	\$ 197	\$ (302,696)	\$ (168,695)
Depreciation expense	1,388	-	-	1,388
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (utilized) by operating activities				
(Increase) decrease in				
Assessments receivable	6,779	-	-	6,779
Developer receivable	205,090	15,180	-	220,270
Prepaid insurance	1,007	-	-	1,007
Increase (decrease) in				
Accounts payable	(5,264)	(14,230)	97,497	78,003
Due to developer	(85,740)	-	-	(85,740)
Assessments received in advance	3,037	-	725,000	728,037
NET CASH PROVIDED (UTILIZED) BY OPERATING ACTIVITIES	260,101	1,147	519,801	781,049
CASH AT BEGINNING OF YEAR	28,362	88,542	-	116,904
Period period adjustment	(119,350)	(15,180)	-	(134,530)
Interfund transfers	(94,758)	94,758	-	-
CASH AT END OF YEAR	<u>\$ 74,355</u>	<u>\$ 169,267</u>	<u>\$ 519,801</u>	<u>\$ 763,423</u>
 Supplemental Cash Flows Disclosure				
Cash paid during the year for				
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

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, 2014 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 August 20, 2015, 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. 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.

Interest Income

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

See independent auditors' report.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Assessments

The Association collects utility assessments to offset the portion of the monthly water and sewer bills. For the year ended December 31, 2014, the Association reflected as income \$41,032 from the members and disbursed \$41,032 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 \$1,000 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.

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.

Income Taxes

Homeowner associations may be taxed either as homeowner associations or as regular corporations. For the year ended December 31, 2014, 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, 2014 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, 2014, 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, 2014**

CASH

The Association's cash at December 31, 2014 consists of the following:

	<u>2014</u>
Designated by homeowners for future repairs and replacements:	
Union Bank – money market	\$ 169,267
Sub-Total	<u>169,267</u>
Designated by homeowners for structural deficiency litigation and building repairs:	
Union Bank – checking (allocation from undesignated account)	519,801
Sub-Total	<u>519,801</u>
Undesignated:	
Union Bank – checking	589,153
Union Bank - checking (allocated to contingency fund)	(519,801)
Union Bank - money market (security deposits)	5,003
Sub-Total	<u>74,355</u>
Total Cash	<u>\$ 763,423</u>

ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Assessments receivables represent the amounts owed to the Association by various homeowners and as of December 31, 2014, the amount owed is \$41,786. The reserve for doubtful accounts is \$17,827 as of December 31, 2014 and is based on a 50% uncollectability rate of all account balances over 90 days past due.

FIXED ASSETS

Fixed assets consists of the following:

Fitness equipment	\$ 22,130
Furniture	5,416
Laptop	1,183
Total fixed assets	<u>28,729</u>
Accumulated depreciation	<u>(27,072)</u>
Net fixed assets	<u><u>\$ 1,657</u></u>

Depreciation expense for the year ended December 31, 2014 was \$1,388.

See independent auditors' report.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

ASSESSMENTS RECEIVED IN ADVANCE

At December 31, 2014, assessments received in advance were \$729,278. This amount represents 2015 homeowner regular assessments of \$4,278 and 2015 special assessments for the contingency fund of \$725,000 paid prior to December 31, 2014.

ACCOUNTS PAYABLE

At December 31, 2014, the Association reflected an accounts payable balance of \$127,033. The accounts payable consists of the following:

Designated:	
Building deficiency expenses	\$ 97,497
Sub-total	<u>97,797</u>
Undesignated:	
Utilities	16,170
Other costs	13,366
Sub-total	<u>29,536</u>
Total accounts payable	<u>\$ 127,033</u>

As of report date August 20, 2015, the accounts payable balance as of December 31, 2014 has been fully paid.

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 \$169,267 of cash equivalents at December 31, 2014, are held in separate accounts and are generally not available for operating purposes. Expenditures for major replacements for the year ended December 31, 2014 were \$0. Contributions to the replacement fund were \$94,758 for the year ended December 31, 2014.

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.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

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>
TOTALS		<u>\$ 1,953,790</u>

The study completed during December 2010 reflects an ending balance at December 31, 2014 of \$428,518. The Association's balance at December 31, 2014 is \$169,267. The Association's reserve fund balance at December 31, 2014 is \$259,251 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 \$519,801 of cash equivalents, less accounts payable of \$97,497, and special assessments received in advance of \$725,000, which aggregates to a fund deficit balance of \$302,696 at December 31, 2014. Expenditures for the year ended December 31, 2014 were \$302,696, which represents legal and engineering fees of \$86,660 and building repairs of \$216,036.

SPECIAL ASSESSMENT COMMITMENT

The Association, represented by its Council, ratified a special assessment of \$3,603,600 during 2014 that was approved by the members of the Association. The special assessment was assessed to all the members during January 2015. The Association also issued and assessed a special assessment of \$2,970,000 during July 2015. These special assessments will be used for the structural deficiency litigation and building repairs.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

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, 2014 were \$302,696, which represents legal and engineering fees of \$86,660 and building repairs of \$216,036. As of report date, the Association has disbursed an additional \$827,406 to pursue legal action against the developer and repair structural deficiencies, which \$48,569 was for professional legal and engineering fees and \$778,837 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 January 2015 and July 2015 of \$3,603,600 and \$2,970,000, respectively.

COMMITMENTS

As of December 31, 2014, 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, 2014, the Association has incurred \$302,696 of these related expenses. 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 issued during January 2015 and July 2015 of \$3,603,600 and \$2,970,000, respectively, which total \$6,573,600.

SECURITY DEPOSIT LIABILITY

At December 31, 2014, security deposit liability reflected in the current financial statements was \$5,000. Homeowners which rent out their condominium units, or take in boarders or roomers are assessed a security deposit of \$1,000. At December 31, 2014, five homeowners are renting out the condominium units. Security deposits held are segregated from operating cash. At December 31, 2014, rental security deposit cash was \$5,003.

RECLASSIFICATION

Certain accounts relating to the prior year have been restated to conform to current year presentation.

See independent auditors' report.

**WASHINGTON HOUSE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

PRIOR PERIOD ADJUSTMENT

At December 31, 2013, the financial statements reflected a receivable from the developer in the operating fund and in the replacement fund of \$205,090 and \$15,180, respectively. These receivables have been in dispute prior to the developer transition to the members during 2012. In addition, the financial statements reflected a payable in the operating fund of \$85,740 due to the developer at December 31, 2013. During the year ended December 31, 2014, the Association, represented by its Council, approved that the receivables and liability be rescinded. This decision reversed the receivable and payable amounts and is reflected as a prior period adjustment in the 2014 financial statements. The adjustment reduced the operating fund balance by \$119,350, which was the receivable balance of \$205,090, less \$85,740 of the liability. In addition, the adjustment also reduced the replacement fund balance by \$15,180.

SUBSEQUENT EVENTS

Subsequent events were evaluated through August 20, 2015, which is the date the financial statements were available to be issued. As of August 20, 2015, the Association, represented by its Council, issued a special assessment of \$3,603,600 during January 2015 and issued a second special assessment during July 2015 of \$2,970,000. 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 \$827,406 to pursue legal action against the developer and repair structural deficiencies, which \$48,569 was for professional legal and engineering fees and \$778,837 for building repairs.

In addition, as of report date August 20, 2015, the accounts payable balance as of December 31, 2014 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, 2014

	(compiled) Budget	Actual	(compiled) Variance
Revenues:			
Assessments	\$ 396,000	\$ 396,000	\$ -
Utility assessments	-	41,032	41,032
Other income	4,800	7,716	2,916
Interest income	-	2	2
Total revenues	400,800	444,750	43,950
Expenses:			
Accounting fees	5,000	4,400	600
Bad debt expense	30,000	17,827	12,173
Depreciation	5,876	1,388	4,488
Gas and electricity	56,000	53,421	2,579
Ground and lawn maintenance	7,100	7,154	(54)
Insurance	26,300	23,248	3,052
Janitorial and cleaning	21,000	17,466	3,534
Legal fees	5,000	2,295	2,705
Management fees	20,000	19,488	512
Office expense	1,250	2,868	(1,618)
Repairs and maintenance	101,000	79,349	21,651
Snow removal	3,000	9,635	(6,635)
Telephone	2,800	2,514	286
Trash removal	29,000	28,861	139
Water and sewer	-	41,032	(41,032)
Total expenses	313,326	310,946	2,380
Excess (deficiency) of operating fund revenues over (under) operating fund expenses	87,474	133,804	46,330
Interfund transfers:			
Replacement fund	87,474	94,758	(7,284)
Contingency fund	-	-	-
Excess (deficiency) of operating fund revenues over (under) operating fund expenses after interfund transfers	\$ -	\$ 39,046	\$ 39,046
Additional Disclosures:			
Replacement fund activity			
Interest income	\$ -	\$ 197	\$ 197
Capital expenditures	\$ -	\$ -	\$ -
Contingency fund activity			
Structural deficiency expenses	\$ -	\$ 302,696	\$ (302,696)