

**LEXINGTON LAKES
CONDOMINIUM ASSOCIATION, INC.**

Financial Statements

***For the year ended
December 31, 2015***

Hafer & Company

Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Lexington Lakes Condominium Association, Inc.

We have audited the accompanying financial statements of Lexington Lakes Condominium Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2015, and the related statement of revenues and expenses and changes in fund balances 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.

Auditor's Responsibility

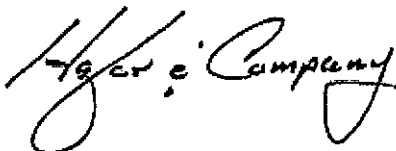
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 auditor's judgment, including the assessment of the risks of 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 Lexington Lakes Condominium Association, Inc. as of December 31, 2015, and 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.



Palm Beach, Florida
April 14, 2016

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
December 31, 2015

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assets				
Cash and cash equivalents	\$ 478,394	\$ 41,872	\$ 770,326	\$ 1,290,592
Assessments receivable, net (Note 4)	14,327	-	-	14,327
Prepaid expenses	88,721	-	-	88,721
Utility deposits	15,727	-	-	15,727
Due (to) from funds	<u>(87,845)</u>	<u>13,500</u>	<u>74,345</u>	<u>-</u>
Total assets	<u>\$ 509,324</u>	<u>\$ 55,372</u>	<u>\$ 844,671</u>	<u>\$ 1,409,367</u>
Liabilities and fund balances				
Accounts payable and accrued expenses	\$ 25,383	\$ -	\$ -	\$ 25,383
Insurance payable (Note 9)	63,540	-	-	63,540
Prepaid assessments	29,326	-	-	29,326
Refundable deposits	9,480	-	-	9,480
Deferred paver income	302	-	-	302
Deferred settlement proceeds (Note 11)	86,345	-	-	86,345
Other liabilities	<u>123</u>	<u>-</u>	<u>-</u>	<u>123</u>
Total liabilities	214,499	-	-	214,499
Fund balances	<u>294,825</u>	<u>55,372</u>	<u>844,671</u>	<u>1,194,868</u>
Total liabilities and fund balances	<u>\$ 509,324</u>	<u>\$ 55,372</u>	<u>\$ 844,671</u>	<u>\$ 1,409,367</u>

See notes to financial statements.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2015

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Revenues				
Maintenance assessments	\$ 752,789	\$ -	\$ 193,700	\$ 946,489
Settlement proceeds (Note 11)	2,750	-	-	2,750
Rental income	12,979	-	-	12,979
Interest income	1,749	48	538	2,335
Other income	15,324	-	-	15,324
Total revenues	<u>785,591</u>	<u>48</u>	<u>194,238</u>	<u>979,877</u>
Expenses				
Building maintenance and repairs	269,350	-	-	269,350
Utilities	314,689	-	-	314,689
Administration	225,029	-	-	225,029
Settlement expenses (Note 11)	2,750	-	-	2,750
Major repairs and replacements	-	5,480	114,134	119,614
Total expenses	<u>811,818</u>	<u>5,480</u>	<u>114,134</u>	<u>931,432</u>
Excess (deficiency) of revenues over expenses	<u>(26,227)</u>	<u>(5,432)</u>	<u>80,104</u>	<u>48,445</u>
Fund balances, beginning of year	321,052	47,304	708,992	1,077,348
Prior period adjustment (Note 11)	-	-	55,575	55,575
Fund balances, beginning of year (restated)	321,052	47,304	764,567	1,132,923
Capital contribution	-	13,500	-	13,500
Fund balances, end of year	<u>\$ 294,825</u>	<u>\$ 55,372</u>	<u>\$ 844,671</u>	<u>\$1,194,868</u>

See notes to financial statements.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

	Operating Fund	Working Capital Fund	Replacement Fund	Total Funds
Cash flows from operating activities				
Excess (deficiency) of revenues over expenses	\$ (26,227)	\$ (5,432)	\$ 80,104	\$ 48,445
<u>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash (used) provided by operating activities</u>				
Provision for bad debts	1,769	-	-	1,769
<u>Changes in assets and liabilities:</u>				
Assessments receivable	4,516	-	-	4,516
Prepaid expenses	28,204	-	-	28,204
Accounts payable and accrued expenses	(6,026)	-	55,575	49,549
Prepaid assessments	5,575	-	-	5,575
Refundable deposits	(1,155)	-	-	(1,155)
Deferred paver income	(223)	-	-	(223)
Deferred settlement proceeds	(58,325)	-	-	(58,325)
Total changes in account balances	(27,434)	-	55,575	28,141
Net cash (used) provided by operating activities	(51,892)	(5,432)	135,679	78,355
Cash flows from investing activities				
Sale of certificates of deposit	100,168	-	-	100,168
Cash flows from financing activities				
Capital contributions	-	13,500	-	13,500
Payments on insurance payable, net	(11,580)	-	-	(11,580)
Interfund borrowings	74,165	(13,500)	(60,665)	-
Net cash provided (used) by financing activities	62,585	-	(60,665)	1,920
Net increase (decrease) in cash and cash equivalents	110,861	(5,432)	75,014	180,443
Cash and cash equivalents, beginning of year	367,533	47,304	695,312	1,110,149
Cash and cash equivalents, end of year	<u>\$ 478,394</u>	<u>\$ 41,872</u>	<u>\$ 770,326</u>	<u>\$1,290,592</u>

Supplemental disclosures of cash flow information (Note 10)

See notes to financial statements.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: Organization

Lexington Lakes Condominium Association, Inc. was incorporated under the condominium statutes of the State of Florida on January 24, 2005. The Association is responsible for maintaining and preserving the common property of the Association. Lexington Lakes Condominium Association, Inc. consists of 264 residential units and is located in Stuart, Florida.

NOTE 2: Summary of significant accounting policies

Fund accounting

The Association prepares its financial statements on the accrual basis of accounting and presents them using fund accounting, using separate funds for operations, working capital, and future major repairs and replacements. Disbursements from the operating fund are generally for the day-to-day operations and non-recurring unanticipated expenditures of the Association and are made at the discretion of the Board of Directors. Disbursements from the working capital fund are made at the discretion of the Board of Directors. Disbursements from the replacement fund generally are made only for designated purposes.

Interest earned

Interest earned by each fund is allocated to the appropriate fund. Income taxes on the interest earned are paid from the operating fund.

Property and depreciation

The Association capitalizes all personal and real property which it purchases. Real property and common area acquired from the developer and related improvements to such property are not reflected on the Association financial statements because those properties are owned by the individual unit owners in common, and not by the Association. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation.

Estimates

The preparation of 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including certificates of deposits and money market funds. Cash equivalents include highly liquid securities with maturity of 90 days or less.

Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash and cash equivalents, assessments receivable, accounts payable, accrued expenses and other assets and liabilities, approximate their fair values due to their short-term maturities.

Compensated absences

Employees of the Association are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when paid to employees.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2015

NOTE 2: Summary of significant accounting policies (continued)

Utility pass-through

In accordance with FASB ASC 605-45, the Association recognizes utility pass-through assessments using principal agent considerations. The Association is primarily involved in the determination of a specific service, it has the discretion in selecting the suppliers of such services, and it bears the credit risk for the amounts billed for the service; accordingly the management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

Subsequent events

Subsequent events have been evaluated through April 14, 2016, the date the financial statements were available to be issued in accordance with FASB ASC 855.

NOTE 3: Concentration of credit risk

The Association maintains its cash in bank at various financial institutions whereby deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2015, the Association does not have any uninsured deposits.

NOTE 4: Owners assessments

Monthly assessments to unit owners are based upon a share of the budgeted operating expenses and future major repairs and replacements. The Association retains excess operating funds at the end of the year for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments paid in advance are included on the balance sheet as prepaid maintenance fees. The Association's policy is to retain legal counsel and place liens or foreclose on units of members whose assessments are delinquent. At December 31, 2015, assessments receivable totaled \$19,691, less an allowance for uncollectible accounts in the amount of \$5,364, for a net receivable of \$14,327.

NOTE 5: Income taxes

The Association may elect to be taxed as a regular corporation or as a homeowners' association under Internal Revenue Code Section 528. The Association elected to be taxed under Section 528 for 2015. Under that election, the Association is generally taxed only on non-membership income, such as interest earnings, at the appropriate rates. Additionally, from time to time, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as whole. As such, the Association has not recorded deferred income taxes at December 31, 2015.

The Association has adopted FASB ASC 740 which clarifies the accounting for uncertainty in income taxes by defining the attributes a tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with generally accepted accounting principles. In accordance with the disclosure requirements, the Association's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense. At December 31, 2015, the Association did not have any uncertain tax positions. The Association's federal income tax returns for 2013 – 2015 remain subject to possible examination by the Internal Revenue Service.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2015

NOTE 6: Litigation

The Association is a party to various legal actions normally associated with condominium associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 7: Insurance contingencies

In the event of a loss due to a hurricane the Association would be responsible for a deductible of approximately 3% of the total insured value of the property under the provisions of the hurricane loss insurance contract.

NOTE 8: Other commitments and contingencies

The Association has contracted with various vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE 9: Insurance payable

During 2015, the Association financed its insurance premiums with Premium Assignment Corporation. The total amount financed was \$62,470 and is payable in monthly installments of approximately \$6,354 including interest through October 2016. The loan is secured by any unearned premiums or other sums which may become collectible under the terms of the agreement. At December 31, 2015, the outstanding balance was \$63,540.

NOTE 10: Supplemental disclosures of cash flow information

Non-cash financing activities during 2015 were as follows:

Cost of insurance coverage acquired via financing agreements	\$ 83,221
Cash paid related to financing agreements (down payments)	<u>(20,751)</u>
Liabilities assumed (Note 10)	<u>\$ 62,470</u>

NOTE 11: Deferred settlement proceeds

During 2012, the Association settled an on-going lawsuit with Centex Homes related to alleged construction defects. The Association received \$195,000 in exchange for a release of all past, present, and future claims against Centex. As of December 31, 2014, the Association has expended \$50,330 towards its designated purpose. At December 31, 2014 the remaining balance of \$144,670 has been recorded as deferred settlement proceeds until expended for its designated purpose.

During 2015, the Association recorded a prior period adjustment in the amount of \$55,575, for expenses originally recorded in the reserve fund in 2013 which were later determined to be settlement related. Additionally, in 2015, the Association expended \$2,750 for its designated purpose. Therefore, at December 31, 2015, the remaining balance of \$86,345 is recorded as deferred settlement proceeds until expended for its designated purpose.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2015

NOTE 12: Future major repairs and replacements

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and are generally not available for operating purposes. During 2014 the Board of Directors contracted with an independent contractor to conduct an independent study to estimate the remaining useful lives and replacement costs of the common property components. The schedule included in the supplementary information on future repairs and replacements is based upon this study. During 2014, the Association voted to begin funding the reserves on the pooling method in 2015. The Association is funding \$214,000 for 2016.

Actual expenditures may vary from the estimated amounts and the variation may be material. Therefore, 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 may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Components of the replacement fund are as follows:

	Balance 01/01/15	Additions	Interest Income	Expenses	Transfers	Balance 12/31/15
Roof	\$ 524,641	\$ -	\$ -	\$ -	\$ -	\$ 524,641
Painting	14,700	-	-	-	-	14,700
Pressure washing	23	-	-	23	-	-
Paving	55,803	-	-	25,133	-	30,670
Pool and equipment	20,515	-	-	-	-	20,515
Comm. area interior	24,780	-	-	15,571	-	9,209
Site improvements	49,084	-	-	11,375	-	37,709
Defects / upgrades	19,446	55,575 ¹	-	12,246	-	62,775
Pooled reserves	-	193,700	538	49,786 ²	-	144,452
	<u>\$ 708,992</u>	<u>\$ 249,275</u>	<u>\$ 538</u>	<u>\$ 114,134</u>	<u>\$ -</u>	<u>\$ 844,671</u>

¹ See Note 11

² Details of pooled expenses: pressure washing \$49,786.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors
Lexington Lakes Condominium Association, Inc.

Report on the Financial Statements

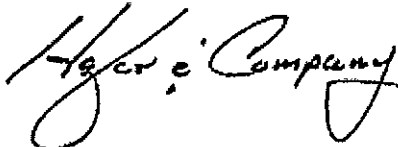
We have audited the financial statements of Lexington Lakes Condominium Association, Inc. ("the Association") as of and for the year ended December 31, 2015, and our report thereon dated April 14, 2016, which expressed an unmodified opinion on those financial statements, appears on Page 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of operating expenses compared to budget on Pages 10 and 11, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary Schedule of Future Major Repairs and Replacements on Page 12 be 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 responses 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.



Palm Beach, Florida
April 14, 2016

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2015

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Building operations and maintenance			
Backflow inspections	\$ 300	\$ 400	\$ 100
Building maintenance and supply	13,354	4,000	(9,354)
Camera repairs	-	2,000	2,000
Christmas lights and decorations	3,639	3,800	161
Construction defect expenses	2,504	35,000	32,496
Contingency	940	-	(940)
Extinguishers and hydrants	938	750	(188)
Fido baggies	408	708	300
Fountain	1,311	200	(1,111)
Gate damage repairs	816	500	(316)
Gate maintenance and repairs	1,358	3,000	1,642
Golf cart maintenance	528	400	(128)
Irrigation contract	9,730	9,600	(130)
Irrigation supplies and repairs	4,854	4,000	(854)
Janitorial service	13,909	15,000	1,091
Janitorial supplies	1,823	1,000	(823)
Lake maintenance and littoral zone	1,480	2,800	1,320
Landscape maintenance	61,200	61,200	-
Landscape replacement	18,095	15,000	(3,095)
Lighting and electrical	3,407	2,500	(907)
Maintenance supplies	1,010	500	(510)
Mulch	769	5,000	4,231
Pest control	16,028	13,824	(2,204)
Pest control - clubhouse	514	500	(14)
Pool maintenance and repairs	5,010	5,000	(10)
Preserve and perimeter maintenance	7,965	9,700	1,735
Pressure washing	2,500	5,500	3,000
Recreation area maintenance and repairs	177	100	(77)
Rental expense	221	500	279
Road and sign maintenance	588	500	(88)
Security guards	87,332	87,428	96
Tree trimming	6,642	3,000	(3,642)
	<u>269,350</u>	<u>293,410</u>	<u>24,060</u>
Utilities			
Cable TV	130,691	130,250	(441)
Electric	22,674	24,500	1,826
Telephone	7,227	4,612	(2,615)
Trash collection	33,444	33,000	(444)
Water and sewer	120,653	121,000	347
	<u>\$ 314,689</u>	<u>\$ 313,362</u>	<u>\$ (1,327)</u>

See auditors' report on supplementary information.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET (CONT'D)
For the year ended December 31, 2015

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Accounting services	\$ 12,350	\$ 13,125	\$ 775
Audit and tax preparation	6,350	4,000	(2,350)
Background check expense	7,194	-	(7,194)
Bad debt	7,336	1,000	(6,336)
Computer repairs	30	300	270
Copier service	403	300	(103)
Corporate annual fee	61	62	1
Domain name	109	100	(9)
Fees to division	1,056	1,164	108
Insurance	112,798	111,616	(1,182)
Legal and professional	213	5,000	4,787
Management - other	9,587	5,000	(4,587)
Management fees	64,465	56,500	(7,965)
Newsletter	-	996	996
Office supplies	1,439	2,000	561
Other expenses	691	1,000	309
Postage	905	500	(405)
Recreational activities	42	100	58
VMS passes	-	865	865
	<u>225,029</u>	<u>203,628</u>	<u>(21,401)</u>
 Total budgeted expenses	 809,068	 <u>\$ 810,400</u>	 <u>\$ 1,332</u>
 Settlement expenses	 <u>2,750</u>		
 Total expenses	 <u>\$ 811,818</u>		

See auditors' report on supplementary information.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2015

The following schedule is based upon a study conducted by an independent consultant in 2014 to estimate the remaining useful lives and replacement costs of the components of common property. The schedule provides information about components of common property.

<u>Component</u>	<u>Estimated Useful Life (years)</u>	<u>Estimated Remaining Life (years)</u>	<u>Estimated Replacement Cost</u>	<u>Fund Balances 12/31/15</u>	<u>Approved Budgeted Funding 12/31/16</u>
Roof	25	15	\$ 2,588,614	\$ 524,641	\$ -
Painting	5-7	6	1,853,424	14,700	-
Pressure washing	3-5	-	189,348	-	-
Paving	15-25	10	484,129	30,670	-
Pool and equipment	8-30	2-17	69,627	20,515	-
Common area interiors	5-20	2-12	121,448	9,209	-
Site improvements	1-25	4-27	726,638	37,709	-
Exterior building	1-25	6-25	433,455	-	-
Defects / upgrades	-	-	-	62,775	-
Pooled reserves	-	-	-	144,452	214,000
			<u>\$ 6,466,683</u>	<u>\$ 844,671</u>	<u>\$ 214,000</u>

See auditors' report on supplementary information.