COCO WOOD LAKES ASSOCIATION, INC.

Financial Statements

For the year ended
December 31, 2019

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CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Coco Wood Lakes Association, Inc.

We have audited the accompanying financial statements of Coco Wood Lakes Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2019, 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 Coco Wood Lakes Association, Inc. as of December 31, 2019, 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.

Change in Accounting Principle
As discussed in Note 2 to the financial statements, the Association changed its method of accounting related to revenue recognition in 2019 as required by the provisions of FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

Hafer LLC

Palm Beach, Florida
April 19, 2020

COCO WOOD LAKES ASSOCIATION, INC.
BALANCE SHEET
December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Assets			
Cash and cash equivalents	$ 130,766	$ 41,695	$ 172,461
Assessments receivable, net (Note 3)	12,646	-	12,646
Other receivables (Note 4)	44,425	-	44,425
Prepaid expenses	30,951	-	30,951
Total assets	$ 218,788	$ 41,695	$ 260,483
Liabilities and fund balances			
Accounts payable and accrued expenses	$ 19,957	$ -	$ 19,957
Insurance payable (Note 7)	22,241	-	22,241
Prepaid assessments	60,352	-	60,352
Contract liabilities	-	41,328	41,328
Total liabilities	102,550	41,328	143,878
Fund balances	116,238	367	116,605
Total liabilities and fund balances	$ 218,788	$ 41,695	$ 260,483

The accompanying notes are an integral part of these financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Revenues			
Maintenance assessments	$ 584,080	$ 88,663	$ 672,743
Interest income	529	340	869
Other income	61,728	-	61,728
Total revenues	646,337	89,003	735,340
Expenses			
Building operations and maintenance	272,778	-	272,778
Utilities	51,161	-	51,161
Administration	211,706	-	211,706
Common area improvements	36,296	-	36,296
Major repairs and replacements	-	88,663	88,663
Total expenses	571,941	88,663	660,604
Excess of revenues over expenses	74,396	340	74,736
Fund balances, beginning	41,842	27	41,869
Fund balances, ending	$ 116,238	$ 367	$ 116,605

The accompanying notes are an integral part of these financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Cash flows from operating activities			
Excess of revenues over expenses	$ 74,396	$ 340	$ 74,736
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Provision for bad debt	(3,352)	-	(3,352)
Changes in assets and liabilities:			
Assessments receivable	1,292	-	1,292
Settlement receivable	(44,425)	-	(44,425)
Prepaid expenses	(23,567)	-	(23,567)
Accounts payable and accrued expenses	2,813	-	2,813
Prepaid assessments	3,213	-	3,213
Contract liabilities	-	(64,663)	(64,663)
Net cash provided (used) by operating activities	10,370	(64,323)	(53,953)
Cash flows from financing activities			
Proceeds from insurance payable	22,241	-	22,241
Interfund borrowings	(1,248)	1,248	-
Net cash provided by financing activities	20,993	1,248	22,241
Net increase (decrease) in cash and cash equivalents	31,363	(63,075)	(31,712)
Cash and cash equivalents, beginning	99,403	104,770	204,173
Cash and cash equivalents, ending	$ 130,766	$ 41,695	$ 172,461

Supplemental disclosures of cash flow information (Note 9)

The accompanying notes are an integral part of these financial statements.

NOTE 1: Organization

Coco Wood Lakes Association, Inc. ("the Association") was incorporated under the laws of the State of Florida as a not-for-profit corporation on December 12, 1977. The Association is responsible for maintaining and preserving the common property of the Association in accordance with the terms of Chapter 720, Florida Statutes ("FS §720") and the provisions of its governing documents. The Association consists of 393 units on 5 acres in Delray Beach, Florida.

NOTE 2: Summary of significant accounting policies

<u>Fund accounting</u>
The Association prepares its financial statements on the accrual basis of accounting and presents them using fund accounting, using separate funds for operations 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 replacement fund generally are made only for designated purposes.

<u>Change in accounting principle</u>
The Association changed its method of accounting related to revenue recognition as required by FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new guidance created Topic 606 in the Accounting Standards Codification (ASC).

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes in accounting policies for revenue recognition and contract liabilities (see below). As of January 1, 2019, previously existing contracts with customers were not complete; as such, the cumulative effect of the change was $105,991.

<u>Estimates</u>
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.

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

<u>Cash and cash equivalents</u>
Cash and cash equivalents include all monies in banks including money market funds. Cash equivalents include highly liquid securities, including certificates of deposit, with original maturities of 90 days or less.

<u>Owners' assessments and allowance for uncollectible accounts</u>
Quarterly assessments to 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 owners. Assessments paid in advance are included on the balance sheet as prepaid assessments.

NOTE 2: Summary of significant accounting policies (continued)

Owners' assessments and allowance for uncollectible accounts (continued)
The Association's policy is to retain legal counsel and place liens or foreclose on homes of members whose assessments are delinquent. The Association's estimate of the allowance for uncollectible accounts is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of reported amounts.

Property and equipment
Common property of the Association is accounted for in accordance with ASC 972-360 and prevalent industry practices. Common areas owned by the Association are reserved for the use of the owners and/or are required to be maintained as common areas under the Declaration and/or governmental restrictions; therefore, the sale of such common areas for revenue is remote. Accordingly, such common areas are not recorded in the financial records of the Association. The Association capitalizes, at cost, certain personal and real property which it purchases. Capitalized property and equipment are depreciated over the estimated useful lives of the assets using the straight-line and accelerated methods of depreciation.

Revenue recognition
Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the considerations we expect to be entitled to in exchange for those goods or services. The Association derives its revenue from operating assessments, reserve assessments, and other ancillary sources. The Association has applied FASB ASC 606-10-10-4 since all contracts with its customers have similar characteristics and the Association expects that the effects on the financial statements of applying this guidance would not differ materially from applying the guidance to the individual contracts.

The Association has identified the following performance obligations:

- *Operating assessments* – the performance obligation is the maintenance and management of the common area property and is met on a periodic basis throughout the year. Operating assessments revenue is recognized on a periodic basis, as billed, and it is probable it will be collected.
- *Reserve assessments* – the performance obligation is the expenditure of the assessed funds for the intended purpose. Reserve assessments revenue is recognized when the related expenditures are made.
- *Other ancillary revenues* – the performance obligation is delivery of the underlying services. Revenue is recognized as the services are rendered.

In evaluating whether collectability of an amount of consideration is probable, the Association must consider the customer's (owner's) ability and intention to pay that amount of consideration when it is due. In instances where the Association's collection of fees is not probable (delinquent owners, foreclosures, etc.), it cannot recognize revenue. The Association records increases in contract liabilities when collection is not probable; it records decreases to contract liabilities when collection becomes probable or the contract liability ceases to exist.

Contract liabilities (deferred assessments)
The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of the performance obligations.

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.

NOTE 2: Summary of significant accounting policies (continued)

Income taxes (Form 1120-H)
The Association makes a yearly election to be taxed either under Internal Revenue Code ("IRC") §528 as a homeowners' association or under IRC §277 as a regular corporation. For 2019, the Association elected to be taxed under §528. Under this election, the Association is generally taxed only on non-exempt function income, such as interest earnings, at applicable rates. 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 the balance sheet date. 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. The Association's tax filings are generally subject to examination by taxing authorities for three years after the returns are filed.

Recently issued accounting pronouncements, not yet adopted
In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For non-public entities, such as the Association, the new standard is effective for annual periods beginning after December 15, 2020. While the Association expects the adoption of this standard to result in an increase to its reported assets and liabilities, the Association has not yet determined the full impact that the adoption of this standard will have on its financial statements and related disclosures.

NOTE 3: Assessments receivable, net

The Association's assessments receivable was as follows at December 31, 2019:

Assessments receivable	$	22,793
Less: allowance for doubtful accounts		(10,147)
	$	12,646

NOTE 4: Other receivables

The Association's other receivables were as follows at December 31, 2019:

Settlement receivable	$	44,425

NOTE 5: Concentration of credit risk

The Association maintains its cash and cash equivalents at various financial institutions whereby deposits are insured up to $250,000 by the Federal Deposit Insurance Corporation. At December 31, 2019, the Association did not have any uninsured deposits.

NOTE 6: Commitments and contingencies

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

NOTE 6: Commitments and contingencies (continued)

<u>Litigation</u>
The Association, from time-to-time, may become party to various legal actions normally associated with homeowners 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.

<u>Other commitments and contingencies</u>
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 7: Insurance payable

During 2019, the Association financed its insurance premiums. The total amount financed was $21,627 and is payable in quarterly installments of $7,414 including interest at 5.65% through October 2020. The financing is secured by any unearned premiums or other sums which may become collectible under the terms of the agreement. At December 31, 2019, the outstanding balance, including accrued interest, was $22,241.

NOTE 8: Future major repairs and replacements

The Association has not established statutory reserves under FS §720. The Association is voluntarily accumulating funds for future major repairs and replacements (non-statutory reserves). Accumulated funds are held in separate interest-bearing accounts and are used at the discretion of the Board of Directors, generally not for operating purposes.

Reserve funds are accumulated based on estimated current costs of the components of common property. Actual expenditures may vary from the estimated amounts and the variations 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.

The Board of Directors has not contracted with a reserve specialist to conduct an independent study to estimate the useful lives, the remaining useful lives, and replacement costs of the common property components.

For the year ended December 31, 2019, the Association voluntarily funded reserves in the amount of $24,000. For the year ending December 31, 2020, the Association is voluntarily funding reserves in the amount of $29,000.

NOTE 8: Future major repairs and replacements (continued)

Components of the replacement fund are as follows:

	Contract Liabilities and Fund Balance, January 1, 2019	Additions	Interest Income	Expenses	Transfers	Contract Liabilities and Fund Balance, December 31, 2019
Clubhouse	$ 18,753	$ -	$ -	$ 1,950	$ -	$ 16,803
Grounds	2,928	-	-	-	-	2,928
Pool and spa	(1,194)	-	-	-	-	(1,194)
Deferred maint.	85,504	24,000	-	86,713	-	22,791
Interest	27	-	340	-	-	367
	$ 106,018	$ 24,000	$ 340	$ 88,663	$ -	$ 41,695

A reconciliation of the table above to the balance sheet replacement fund reporting is as follows:

Contract liabilities	$ 41,328
Fund balance	367
	$ 41,695

THE BUDGET OF THE ASSOCIATION DOES NOT PROVIDE FOR RESERVE ACCOUNTS FOR CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE THAT MAY RESULT IN SPECIAL ASSESSMENTS. OWNERS MAY ELECT TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO THE PROVISIONS OF FLORIDA STATUTES 720.303(6), UPON OBTAINING THE APPROVAL OF A MAJORITY OF THE TOTAL VOTING INTEREST OF THE ASSOCIATION BY VOTE OF THE MEMBERS AT A MEETING OR BY WRITTEN CONSENT.

THE BUDGET OF THE ASSOCIATION PROVIDES FOR THE LIMITED VOLUNTARY DEFERRED EXPENDITURE ACCOUNTS, INCLUDING CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE, SUBJECT TO LIMITS ON FUNDING CONTAINED IN OUR GOVERNING DOCUMENTS. BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, THESE FUNDS ARE NOT SUBJECT TO THE RESTRICTIONS ON USE OF SUCH FUNDS SET FORTH IN THAT STATUTE, NOR ARE RESERVES CALCULATED IN ACCORDANCE WITH THAT STATUTE.

NOTE 9: Supplemental disclosures of cash flow information

Non-cash financing activities during 2019 were as follows:

Cost of insurance coverage acquired via financing agreements	$ 29,453
Cash paid related to financing agreements (down payments)	(7,826)
Liabilities assumed	$ 21,627

NOTE 10: Topic 606 implementation

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the accounting policies for revenue recognition and contract liabilities (as previously described). The adoption of the new revenue recognition guidance resulted in the following change to fund balance at January 1, 2019:

Fund balances, as previously reported, at January 1, 2019	$	147,860
Adjustment		(105,991)
Fund balances, as adjusted, at January 1, 2019	$	41,869

The effect of the adoption is an increase in 2019 maintenance assessments by $64,663 and a recording of a contract liability at December 31, 2019 of $41,328. The Association has no customer contract modifications that have an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires disclosure of the effect of applying the new guidance on each item included in the 2019 financial statements. The following are line items from the balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balance reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
Liabilities:			
Contract liabilities	$ -	$ 41,328	$ 41,328
Total liabilities	$ 102,550	$ 41,328	$ 143,878
Fund balances:			
Ending fund balances	$ 157,933	$ (41,328)	$ 116,605

The following are the line items from the statement of revenues and expenses and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balance reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
Revenue:			
Maintenance assessments	$ 608,080	$ 64,663	$ 672,743
Excess of revenues over expenses	$ 10,073	$ 64,663	$ 74,736
Cash flows:			
Excess of revenues over expenses	$ 10,073	$ 64,663	$ 74,736
Decrease in contract liabilities	$ -	$ (64,663)	$ (64,663)

NOTE 11: Subsequent events

Management has evaluated subsequent events through April 19, 2020, the date the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Coco Wood Lakes Association, Inc.

Report on the Financial Statements
We have audited the financial statements of Coco Wood Lakes Association, Inc. ("the Association") as of and for the year ended December 31, 2019, and our report thereon dated April 19, 2020, 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 financial statements as a whole. The schedule of operating expenses compared to budget on Pages 13 and 14, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited," 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. 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements
Management has omitted the Schedule of Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Hafer LLC

Palm Beach, Florida
April 19, 2020

COCO WOOD LAKES ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2019

	Actual	Budget (Unaudited)	Variance Favorable (Unfavorable)
Building operations and maintenance			
Building maintenance and repairs	$ 8,351	$ 4,000	$ (4,351)
Cable TV	209,573	207,000	(2,573)
Cleaning supplies	911	900	(11)
Common area supplies	629	1,000	371
Equipment	217	-	(217)
Fire safety maintenance	-	125	125
Fitness machine maintenance	915	1,000	85
General	2,379	2,000	(379)
Hardware supplies	-	250	250
HVAC	1,282	1,600	318
HVAC supplies	541	1,000	459
Lakes, canals and preserves	6,000	6,000	-
Landscape extras	2,805	3,500	695
Landscaping	20,637	21,000	363
Lighting	790	1,000	210
Lock and key supplies	-	500	500
Pest control	929	900	(29)
Pest control - termite	485	530	45
Plumbing	248	200	(48)
Pool	3,331	1,300	(2,031)
Pool and spa maintenance	4,845	7,000	2,155
Pool and spa supplies	-	500	500
Security alarm monitoring	257	260	3
Signage	57	200	143
Sprinklers	1,096	1,500	404
Tree trimming	6,500	7,000	500
	272,778	270,265	(2,513)
Utilities			
Electric - clubhouse	18,111	16,000	(2,111)
Electric - street lights	22,497	22,000	(497)
Telephone	4,855	5,000	145
Trash removal	911	900	(11)
Water and sewer	4,787	5,000	213
	$ 51,161	$ 48,900	$ (2,261)

See auditor's report on supplementary information.

COCO WOOD LAKES ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET (CONTINUED)
For the year ended December 31, 2019

	Actual	Budget (Unaudited)	Variance Favorable (Unfavorable)
Administration			
Administrative and general	$ 5,579	$ 1,200	$ (4,379)
Annual corporate report	123	61	(62)
Audit fee	4,500	4,500	-
Bad debt expense	-	5,000	5,000
Bank fees	145	-	(145)
Computer equipment and rental	321	625	304
Fire extinguisher inspection	76	100	24
Gate and key cards	419	400	(19)
Insurance	28,861	28,500	(361)
Interest - insurance	-	500	500
Legal - collections	7,652	15,000	7,348
Legal - document expense	494	10,000	9,506
Legal - litigation	31,903	25,000	(6,903)
Licenses, taxes and permits	2,381	2,500	119
Management fee	119,610	119,609	(1)
Newsletters	2,701	3,500	799
Office and equipment rental	3,792	3,900	108
Office supplies	667	1,000	333
Other professional fees	200	1,000	800
Postage	2,132	1,000	(1,132)
Salary expenses	-	3,000	3,000
Subscriptions and memberships	150	150	-
	211,706	226,545	14,839
Common area improvements	36,296	40,000	3,704
Total budgeted expenses	$ 571,941	$ 585,710	$ 13,769

See auditor's report on supplementary information.