

BALBOA TERRACE HOMES ASSOCIATION

**FINANCIAL STATEMENTS
AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

YEARS ENDED DECEMBER 31, 2021 AND 2020

**LEVY, ERLANGER & COMPANY LLP
Certified Public Accountants
San Francisco, California**

BALBOA TERRACE HOMES ASSOCIATION

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LEVY, ERLANGER & COMPANY LLP
Certified Public Accountants

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board Of Directors
Balboa Terrace Homes Association
San Francisco, California

We have reviewed the accompanying financial statements of **Balboa Terrace Homes Association** (the Association) which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in fund balances and cash flows, for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of **Balboa Terrace Homes Association** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Future Major Repairs and Replacements

As further discussed in the notes to the financial statements, the Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting replacement reserve funding plan is a function of the completeness of the major component list and the accuracy of the estimated quantity, useful and remaining lives, and replacement costs of those components.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until sufficient funds are available.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed or compiled the required supplementary information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

January 27, 2022

BALBOA TERRACE HOMES ASSOCIATION

**BALANCE SHEETS
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>			<u>2020</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 15,095	\$ 81,614	\$ 96,709	\$ 93,810
Assessments receivable, less allowance for doubtful accounts of \$10,000 and \$8,000, respectively (Note 2)	3,913		3,913	114
Prepaid insurance	<u>3,008</u>		<u>3,008</u>	<u>1,951</u>
Total assets	<u>\$ 22,016</u>	<u>\$ 81,614</u>	<u>\$ 103,630</u>	<u>\$ 95,875</u>
LIABILITIES				
Accounts payable	\$ 582	\$ 52,300	\$ 52,882	\$ 11,270
Assessments paid in advance	421		421	2,206
Contract liabilities - replacement reserve assessments paid in advance (Notes 2 and 4)	-	29,314	29,314	70,458
Future major repairs and replacements (Note 3)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,003</u>	<u>81,614</u>	<u>82,617</u>	<u>83,934</u>
COMMITMENTS (NOTE 5)	-	-	-	-
FUND BALANCE (DEFICIT)	<u>21,013</u>	<u>-</u>	<u>21,013</u>	<u>11,941</u>
Total liabilities and fund balance	<u>\$ 22,016</u>	<u>\$ 81,614</u>	<u>\$ 103,630</u>	<u>\$ 95,875</u>

See independent accountant's review report and accompanying notes.

BALBOA TERRACE HOMES ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020
	Operations Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Assessments (Notes 2 and 4)	\$ 62,540	\$ 90,154	\$ 152,694	\$ 191,620
Bad debt recovery (expense)	(2,000)		(2,000)	(1,000)
Operations special assessments	5,945		5,945	5,618
Interest income (Note 2)	15	106	121	287
Late charges and other income	8,725		8,725	
Total revenues	75,225	90,260	165,485	196,525
EXPENSES				
<u>Administration</u>				
Insurance	11,189	-	11,189	12,611
Legal and accounting	11,185		11,185	16,192
Management	7,140		7,140	7,140
Office, printing and postage	8,218		8,218	6,336
Reserve study	900		900	500
Taxes and permits	5,740		5,740	8,848
	44,372	-	44,372	51,627
<u>Maintenance and operations</u>				
Landscape maintenance	17,871	-	17,871	12,820
Other maintenance and operations	1,574		1,574	119
	19,445	-	19,445	12,939
<u>Utilities</u>				
Gas and electricity	93	-	93	-
Internet access	1,758		1,758	
Water and sewer	485		485	574
	2,336	-	2,336	574

See independent accountant's review report and accompanying notes.

BALBOA TERRACE HOMES ASSOCIATION

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021			2020
	Operations Fund	Replacement Fund	Total Funds	Total Funds
EXPENSES (CONTINUED)				
<u>Major repairs and replacements</u>				
Asphalt	\$ -	\$ -	\$ -	\$ 29,020
Building		6,000	6,000	6,000
Drainage system				9,500
Driveways		5,050	5,050	68,212
Landscaping, trees and irrigation		18,684	18,684	23,040
Paving and concrete		52,300	52,300	
Plumbing and hot water system		5,270	5,270	
Sidewalks, paths and walkways		2,948	2,948	
Other major repairs and replacements		8	8	
	-	90,260	90,260	135,772
Total expenses	66,153	90,260	156,413	200,912
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	9,072	-	9,072	(4,387)
BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS	-	-	-	(2,744)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	11,941	-	11,941	19,072
FUND BALANCE (DEFICIT), END OF YEAR	\$ 21,013	\$ -	\$ 21,013	\$ 11,941

See independent accountant's review report and accompanying notes.

BALBOA TERRACE HOMES ASSOCIATION

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>		<u>2020</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
			<u>Total Funds</u>
OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 9,072	\$ -	\$ 9,072
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Bad debt (recovery) expense	2,000	-	2,000
Decrease (increase) in assets:			
Assessments receivable	(5,799)		(5,799)
Prepaid insurance	(1,057)		(1,057)
Increase (decrease) in liabilities:			
Accounts payable	582	41,030	41,612
Assessments paid in advance	(1,785)		(1,785)
Contract liabilities - replacement reserve assessments paid in advance		(41,144)	(41,144)
Total adjustments	(6,059)	(114)	(6,173)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>3,013</u>	<u>(114)</u>	<u>2,899</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,013	(114)	(88,712)
BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS	-	-	(2,744)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,082</u>	<u>81,728</u>	<u>93,810</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,095</u>	<u>\$ 81,614</u>	<u>\$ 96,709</u>
<u>Supplemental Disclosures</u>			
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent accountant's review report and accompanying notes.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

1. THE ASSOCIATION

Balboa Terrace Homes Association (the Association) is a common interest development located in San Francisco, California which consists of 288 residential units and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in September 1924 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assessments. Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The estimate of allowance for doubtful accounts, if any, is based, generally on amounts past due greater than 90 to 120 days.

Basis of presentation. The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents. For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents are classified with cash in the balance sheet.

Concentrations of credit risk. Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Association maintains its financial instruments with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash, cash equivalents and investments in excess of federal deposit insurance (FDIC) coverage limits as of December 31, 2021 totaled approximately \$-0-.

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

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

Fund accounting. The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the 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 two funds established according to their nature and purpose. The operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income, less related nonmembership expenses, subject to federal and California income taxes includes interest earned on cash and cash equivalents, and investments.

The Association has received exemption from federal income tax under IRC Section 501(c)(4) and exemption from California income tax under RTC Section 23701(f).

The Association's tax filings are subject to audit by various taxing authorities: federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service and California income tax returns for the previous four years remain open to examination by the Franchise Tax Board. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Interest earned on operations and replacement funds is retained in said respective funds. With the implementation of FASB ASC 606 new accounting guidance, reported replacement reserve interest income may be less than earned.

Membership in the Association is mandatory by virtue of unit ownership.

Real and personal common property acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board Of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, and California state law (Civil Code Section 5300), require that the Board Of Directors provide for the repair and replacement of Association common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of day-to-day operating expenses.

The Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting reserve funding plan is a function of the completeness of the major component list, the accuracy of the estimated quantity, useful and remaining lives and current replacement costs of those components, and the reasonableness of significant funding assumptions, including but not limited to the projected major component cost increases (aka inflation) and interest earning rate(s) on replacement fund cash balances.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material.

Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until funds are available.

Additional information about future major repairs and replacements may be found in the annually-distributed pro forma operating budget and related assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 5300).

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) has issued new guidance that created Accounting Standards Codification (ASC) Topic 606. This new guidance supercedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRAs), Revenue Recognition, and now requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services (i.e. the accumulation of unspent replacement reserve cash and investments from assessment payments over time which are eventually to be used for common area major repairs and replacements).

The Association has 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 our accounting policies for assessment revenues and contract liabilities - replacement reserve assessments paid in advance.

<u>2021 Assessment Revenues Reconciliation</u>	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assessment revenues <u>per budget</u>	\$ 62,540	\$ 49,010	\$ 111,550
Effects of applying <u>new guidance</u>			
Adjust revenues to equal expenses	-	41,144	41,144
Total effects of new guidance	-	41,144	41,144
Assessment revenues <u>per financial statements</u>	<u>\$ 62,540</u>	<u>\$ 90,154</u>	<u>\$ 152,694</u>

<u>2020 Assessment Revenues Reconciliation</u>	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assessment revenues <u>per budget</u>	\$ 56,098	\$ 36,880	\$ 92,978
Effects of applying <u>new guidance</u>			
Reclassify <u>interfund transfers</u>	-	2,744	2,744
Adjust revenues to equal expenses	-	95,898	95,898
Total effects of new guidance	-	98,642	98,642
Assessment revenues <u>per financial statements</u>	<u>\$ 56,098</u>	<u>\$ 135,522</u>	<u>\$ 191,620</u>

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

5. COMMITMENTS

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

6. COVID-19

In December 2019 a novel strain of coronavirus surfaced and has spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization in January 2020. The effect of this virus on the financial position and/or results of operations of the Association is unknown at this time.

7. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 27, 2022, the date that the financial statements were available to be issued.

See independent accountant's review report.

BALBOA TERRACE HOMES ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2021 (UNAUDITED)

The following information on common area major components was compiled by Reserve Analysis Consulting, LLC of San Ramon, California as of **November 2021** and has served as the basis for the current estimates of replacement reserve funding:

Code #	Component Description	2021 End Req'd in Bank	Year New	Useful Life	Rmng. (2022)	Current Cost	Annual Allocation
1.00	ALLEY COMPONENTS						
1.01	Asphalt Sealing, Striping & Designations	\$3,609	2020	5	3	\$18,044	\$3,609
1.02	Asphalt Repairs - Minor ~ 5%	\$2,500	2020	5	3	\$12,500	\$2,500
1.03	Asphalt Repairs/Replacement/Overlay - Major	\$160,714	2011	28	17	\$450,000	\$16,071
1.04	Drainage Issue - Minor Repair Allowance - Ongoing	\$0	2021	3	2	\$5,000	\$1,667
1.05	Drainage Issue - Major - 116 S.R.	\$1,705	2020	40	38	\$68,212	\$1,705
1.06	Concrete Alley - Drainage / Major Plumbing	\$0	2021	40	39	\$50,000	\$1,250
	Category Sub-Total	\$168,528				\$603,756	\$26,802
2.00	CONCRETE						
2.01	Sidewalks - Repair/Replace Allowance - Major	\$13,333	2026	15	4	\$20,000	\$1,333
2.02	Sidewalks - Repair/Replace Allowance - Minor Ongoing	\$0	2021	3	2	\$5,000	\$1,667
	Category Sub-Total	\$13,333				\$25,000	\$3,000
3.00	IRRIGATION/LANDSCAPING/TREES						
3.01	All Irrigation / Landscaping - Replacement Allowance	\$10,000	2021	1	0	\$10,000	\$10,000
3.02	All Irrigation Replacement - Larger Periodic Cycle	\$0	2021	5	4	\$5,000	\$1,000
3.03	Tree Maintenance / Removal & Replanting	\$10,000	2021	1	0	\$10,000	\$10,000
3.04	Median - Major Irrigation. / Landscape / Tree - Allowance	\$47,500	2022	20	20	\$50,000	\$2,500
3.05	Median - Major Irrigation. / Landscape / Tree - Allowance	\$45,000	2023	20	1	\$50,000	\$2,500
3.06	Median - Major Irrigation. / Landscape / Tree - Allowance	\$42,500	2024	20	2	\$50,000	\$2,500
	Category Sub-Total	\$155,000				\$175,000	\$28,500
4.00	SITE COMPONENTS						
4.01	Entry Portal Column & Lights Repair/Refurb Allowance	\$500	2020	20	18	\$10,000	\$500
4.02	Entry Portal - Area Rehab Allowance	\$1,667	2020	12	10	\$20,000	\$1,667
4.03	Entry Portal - Paint & Concrete Repair Allowance	\$1,167	2020	6	4	\$7,000	\$1,167
4.04	Bus Stop - Paint & Minor Repair Allowance	\$500	2020	6	4	\$3,000	\$500
	Category Sub-Total	\$3,833				\$40,000	\$3,833
						Total Value of Components:	\$843,756
						Annual Straight-Line Allocation:	\$62,136
		2021 End					
	Total Dollars Necessary to be 100% Funded:	\$340,695					

The Association has conducted a study to estimate the useful and remaining lives and current replacement costs of common property major components. Funding requirements consider an estimated **after-tax interest rate** of **2%** on replacement fund cash balances and an annual **inflation rate** of **3%** on major component replacement costs. The replacement fund **cash** and investment balances at December 31, 2021 totaled **\$81,614**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$341,000**. The portion of **2022** regular **assessments** budgeted to be allocated to the replacement fund totals **\$59,010**.

See independent accountant's review report and accompanying notes.