

350 BLEECKER STREET APARTMENT CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2001

350 BLEECKER STREET APARTMENT CORPORATION

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Marin & Montanye LLP

CERTIFIED PUBLIC ACCOUNTANTS

RICHARD B. MONTANYE, CPA
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Independent Auditor's Report

To The Board of Directors and Shareholders of
350 Bleecker Street Apartment Corporation:

We have audited the accompanying balance sheets of 350 BLEECKER STREET APARTMENT CORPORATION as of December 31, 2001, and the related statements of operations and accumulated deficit (and supporting schedules) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 350 BLEECKER STREET APARTMENT CORPORATION as of December 31, 2001, 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.

As discussed in the notes to the financial statements, the Corporation has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of costs of major repairs and replacements that will be required in the future, that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.



March 19, 2002

BALANCE SHEET

As of December 31, 2001

ASSETSCURRENT ASSETSCash and Cash Equivalents:

Operating accounts	– J.P. Morgan Chase – Due from former managing agent – (Note 3)	\$ 5,073
	– J.P. Morgan Chase – Board of Directors	1,558
	– Citibank – Tudor Realty	74,282
Lock box deposit account	– First Union	<u>942</u>
		81,855

Shareholders arrears	13,381
Commercial arrears	47,560

Prepaid Expenses:

Insurance	12,000
Real estate tax	<u>136,764</u>

<u>TOTAL CURRENT ASSETS</u>	291,560
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RESERVE FUND

Fidelity investment - Schedule 1 - (Note 4)	120,611
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PROPERTY AND EQUIPMENT

Land	2,779,843
Building	10,542,862
Building Equipment	40,703
Building Improvements	<u>1,879,015</u>
	15,242,423
Less: Accumulated depreciation	<u>(9,065,416)</u>

<u>NET PROPERTY AND EQUIPMENT</u>	6,177,007
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OTHER ASSETS

Unamortized mortgage costs	<u>67,931</u>
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<u>TOTAL ASSETS</u>	<u>\$ 6,657,109</u>
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See Notes to Financial Statements.

BALANCE SHEETAs of December 31, 2001LIABILITIES AND STOCKHOLDERS' EQUITYCURRENT LIABILITIES

Accounts payable and accrued expenses - Schedule 2	\$ 517,072
Real estate tax abatements payable – (Note 9)	36,021
Prepaid occupancy income	2,127
SCRIE payable	259
Move in/out and alterations deposits	4,500
Accrued mortgage interest	21,874
Current portion of mortgage payable	<u>31,458</u>

TOTAL CURRENT LIABILITIES 613,311

LONG TERM LIABILITIES

Mortgage Payable – National Cooperative Bank – (Note 5)	3,356,628
Less: Current portion	<u>(31,458)</u>

TOTAL LONG TERM LIABILITIES 3,325,170

TOTAL LIABILITIES 3,938,481

STOCKHOLDERS' EQUITY

Capital Stock Common, authorized 17,222 shares, Issued and outstanding 17,222 shares at \$1 par value	17,222
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Paid-in Capital	10,541,150
Accumulated deficit - December 31, 2001	<u>(7,839,744)</u>

TOTAL STOCKHOLDERS' EQUITY 2,718,628

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 6,657,109

See Notes to Financial Statements.

SUPPORTING SCHEDULESAs of December 31, 2001

<u>RESERVE FUND</u>	<u>Schedule 1</u>
Balance - January 1,	\$ 119,875
Add: Interest income	4,747
Transfers to Reserve Fund from operating account	178,000
Less: Legal Payment – Abuse Relief Act litigation	(25,000)
Transfer from Reserve Fun to operating account	<u>(157,011)</u>
Balance - December 31,	<u>\$ 120,611</u>
 <u>Consisting of:</u>	
Fidelity Investments – (Note 4)	<u>\$ 120,611</u>
<u>ACCOUNTS PAYABLE AND ACCRUED EXPENSES</u>	<u>Schedule 2</u>
Legal	\$ 10,829
Legal - Abuse Relief Act litigation	51,204
- Judgement Abuse Relief Act litigation – (Note 10)	366,908
Miscellaneous administrative	1,057
Electricity	1,266
Gas	10,792
Water and sewer charges (Note 11)	52,183
Exterminating	124
Uniforms	277
Heating and plumbing repairs	81
Supplies and janitorial materials	4,838
Painting and decorating	300
Special repairs - carpeting	8,375
General repairs and maintenance	564
New York City real estate taxes	1,972
New York City corporate tax	944
Property and equipment	<u>5,358</u>
 <u>TOTAL ACCOUNTS PAYABLE AND ACCRUED EXPENSES</u>	 <u>\$ 517,072</u>

See Notes to Financial Statements.

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT

For The Year Ended December 31, 2001

INCOMEIncome from Shareholders

Maintenance charges - apartments	\$	960,988
Special assessment – (Note 7)	\$	80,599
Apartment resale fee		21,400
Sublet fees		3,596
Late charges		1,814
Roof use fee		5,750
Miscellaneous income		<u>1,454</u>
<u>TOTAL INCOME</u>		1,075,601

OTHER INCOME

Commercial income – (Note 3)		86,000
Commercial real estate tax escalation – (Note 3)		21,266
Laundry income		15,378
Interest income		4,747
Patronage dividend		<u>493</u>
<u>TOTAL INCOME</u>		<u>1,203,485</u>

COST OF OPERATIONS

Administrative expenses	Schedule 1	118,509
Operating expenses	Schedule 2	334,209
Maintenance expenses	Schedule 3	53,615
Taxes	Schedule 4	347,663
Financial expenses	Schedule 5	<u>241,689</u>

TOTAL COSTS OF OPERATIONS 1,095,985

INCOME FROM OPERATIONS BEFORE DEPRECIATION,
AMORTIZATION AND OTHER ITEM

		107,800
Depreciation and amortization expense	Schedule 6	(473,985)
Legal judgement – Abuse Relief Act litigation – (Note 10)		(366,908)
Legal expense – Abuse Relief Act litigation – (Note 10)		<u>(139,320)</u>

NET LOSS (872,413)

Beginning Accumulated Deficit - Restated - Note 10 (6,967,331)

Ending Accumulated Deficit \$(7,839,744)

See Notes to Financial Statements.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS

For The Year Ended December 31, 2001

<u>ADMINISTRATIVE EXPENSES</u>	<u>Schedule 1</u>
Management fee	\$ 40,292
Auditing	11,625
Legal	22,896
Legal – Tax reduction	250
Stationery, printing, miscellaneous administrative expenses	12,520
Communications	940
Consulting	3,972
Insurance	<u>26,009</u>
<u>TOTAL ADMINISTRATIVE EXPENSES</u>	<u>\$ 118,509</u>
<u>OPERATING EXPENSES</u>	<u>Schedule 2</u>
Water and sewer charges – (Note 11)	\$ 51,613
Electricity	18,191
Gas	56,398
Payroll	161,531
Payroll taxes	14,611
Payroll insurance	10,278
Employee benefits	20,351
Permits	541
Uniforms	645
Miscellaneous operating	<u>50</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 334,209</u>
<u>MAINTENANCE EXPENSES</u>	<u>Schedule 3</u>
Exterminating	\$ 3,669
Plumbing and heating repairs	1,656
Grounds expense	1,114
Painting and decorating	9,711
Elevator repair and maintenance	3,851
General repairs and maintenance	8,374
Supplies and janitorial materials	16,865
Special repairs - carpeting	<u>8,375</u>
<u>TOTAL MAINTENANCE EXPENSES</u>	<u>\$ 53,615</u>

See Notes to Financial Statements.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONSFor The Year Ended December 31, 2001

<u>TAXES</u>	<u>Schedule 4</u>
New York City real estate tax	\$ 340,236
New York State franchise taxes	4,810
New York City corporate tax	<u>2,617</u>
<u>TOTAL TAXES</u>	<u>\$ 347,663</u>
<u>FINANCIAL EXPENSES</u>	<u>Schedule 5</u>
Interest on mortgage – National Cooperative Bank	\$ 241,497
Other interest	<u>192</u>
<u>TOTAL FINANCIAL EXPENSES</u>	<u>\$ 241,689</u>
<u>DEPRECIATION AND AMORTIZATION</u>	<u>Schedule 6</u>
Building	\$ 383,377
Building equipment	5,141
Building improvements	68,366
Amortization of mortgage costs	<u>17,101</u>
<u>TOTAL DEPRECIATION AND AMORTIZATION</u>	<u>\$ 473,985</u>

See Notes to Financial Statements.

STATEMENT OF CASH FLOWSEXHIBIT C

For The Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net Loss	\$ (872,413)
Adjustments to reconcile net loss to net cash Provided by operating activities:	
Depreciation and amortization expense	473,985
Increase in receivables	(40,155)
Decrease in prepaid expenses	2,429
Increase in accounts payable and accrued expenses	493,470
Cash provided by Reserve Fund – legal payment	25,000
Interest earned	<u>(4,747)</u>
Total adjustments	<u>949,982</u>
<u>CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>77,569</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(74,581)
Increase in Reserve Fund - transfer from operations	(178,000)
Decrease in Reserve Fund - transfer to operations	<u>157,011</u>
<u>CASH USED BY INVESTING ACTIVITIES</u>	<u>(95,570)</u>

CASH FLOW FROM FINANCING ACTIVITY

Amortization of mortgage principal	<u>(26,759)</u>
<u>CASH PROVIDED BY FINANCING ACTIVITY</u>	<u>(26,759)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(44,760)</u>
Cash and cash equivalents at beginning of year	<u>126,615</u>
Cash and cash equivalents at end of year	<u>\$ 81,855</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATIONEXHIBIT D

Cash paid during the year:

Corporate taxes	\$ 7,311
Interest	\$ 241,863

Non-Cash Investing and Financing Activities

Additions to property and equipment accrued at December 31, 2001 totaled \$5,358. Total property and equipment acquired during the year ended December 31, 2001 amounted to \$75,683

See Notes to Financial Statements.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2001

NOTE 1 - ORGANIZATION

350 Bleecker Street Apartment Corporation is a cooperative housing corporation incorporated in the state of New York in September 1980. The closing of title on the property was July 1985. The Corporation owns the land and seven story building located in the borough of Manhattan, New York which originally consisted of 137 residential apartments (some of which have been subsequently combined), two commercial stores, a laundry room and a garage. The primary purpose of the Corporation is to manage the operations of 350 Bleecker Street Apartment Corporation, and maintain common elements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purpose of the statement of cash flows, the Corporation considers all highly liquid debt instruments (not used to meet Reserve Fund requirements) purchased with a maturity of three months or less to be cash equivalents.

Depreciation

Property and equipment are recorded at cost and are being depreciated over their estimated useful lives using the straight-line method.

Amortization

Amortization of mortgage cost is computed using the straight-line method over the term of the loan.

Shareholder Maintenance

Tenant-shareholders are subject to monthly maintenance charges to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Tenant-shareholder receivables at the balance sheet date represent maintenance fees due from tenant-shareholders. The Corporation's policy is to retain legal counsel and place liens on the shares of stock of tenant-shareholders whose maintenance charges are substantially delinquent. Any excess maintenance charges at year end are retained by the Corporation for use in future years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect 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. Actual results may differ from those estimates.

Marketable Securities

The Corporation's policy is to classify equity securities as available for sale securities and record them at current market prices with any unrealized gains and losses reported as a component of equity. Realized gains and losses are reported as income.

NOTE 3 - RELATED PARTY TRANSACTIONS

Cash

One of the Corporation's cash accounts is in the custody of the former managing agent Kenneth B. Newman Realty Corp. As of December 31,2001, the former managing agent has a balance of \$5,073 in their custody.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2001

NOTE 3 - RELATED PARTY TRANSACTIONS – (continued)

Management Contract

The Corporation had a management agreement with Kenneth B. Newman Realty Corp. whose principal is the general partner of Bleecker Charles Company, the Cooperative's Sponsor. Effective February 2001, Kenneth Newman Realty Corp. was replaced by an independent third party managing agent Tudor Realty. For the year ended December 31, 2001, the former managing agent was compensated \$4,083 representing the month of January 2001 for rendering management services to the Cooperative.

Sponsor Owned Apartments

At December 31, 2001, the Sponsor owned 4,042 of the outstanding shares, approximately 23.46% of the Corporation. Maintenance charges attributed to the Sponsor totaled approximately \$225,543 for the year ended December 31, 2001. As of December 31, 2001, the Sponsor is current with maintenance on these apartments.

Master Commercial Lease

The Corporation has a master commercial lease agreement with the Sponsor, Bleecker Charles Company, entered into in July 31, 1985, with the then President of 350 Bleecker Street Apartment Corporation, who is the general partner of Bleecker Charles Company. Under the terms of the master commercial lease, monthly payments of \$7,167 monthly or \$86,000 annually, are to be paid by the Sponsor to the Cooperative. The term of the lease agreement is for 75 years, commencing July 31, 1985 and terminating on July 31, 2060. In addition to the annual charge to the Sponsor, additional rent is due the Cooperative in direct proportion to increases or decreases in the annual real estate taxes attributable to 350 Bleecker Street Apartment Corporation in excess of such taxes for 1984/1985 (the "base period"), but no such increase shall exceed 12% of any increase of such taxes for the whole premises over the base period. Additional rent payable, shall be paid by the Sponsor within 30 days following submission of copies of paid bills. For the year ended December 31, 2001, the amount due to the Corporation for this provision is \$21,266. As of the balance sheet date, this amount had not been billed to or paid by the Sponsor.

NOTE 4 - MARKETABLE SECURITIES

The Corporation has investments in marketable equity securities which are being reported at fair value.

As of December 31, 2001, the investments are:

	<u>Cost</u>	<u>Unrealized Gain/(loss)</u>	<u>Fair Value</u>
Fidelity Investments	\$ 120,611	-0-	\$ 120,611

Mutual fund shares held in Fidelity Investment are not bank deposits or FDIC insured and are not guaranteed by the brokerage house. These funds are subject to investment risks due to market fluctuations including possible loss of the principal amount invested.

These funds are insured by the Securities Investor Protection Corporation (SIPC) which protects the Corporation's securities up to a maximum of \$500,000 (\$100,000 cash, \$400,000 securities).

NOTE 5 - MORTGAGE PAYABLE

On December 31, 1995, the Corporation refinanced its mortgage with National Cooperative Bank at a rate of 7.82% for a ten-year term in the amount of \$3,500,000. Monthly payments of \$24,403 are due on the 1st of every month based on a 35-year amortization schedule. The monthly payments are applied first to interest and the balance in reduction of principal, until and including, the maturity date. As part of the refinancing agreement, the Corporation incurred \$171,007 of mortgage refinancing costs. These costs have been deferred and are being amortized over the ten-year life of the mortgage.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2001

NOTE 5 - MORTGAGE PAYABLE – (continued)

A prepayment provision requires the Mortgagor, except during 90 days prior to maturity, to pay 2% of the outstanding mortgage balance if it desires to prepay the mortgage. Prepayment of the mortgage requires notice at least 30 days before the intended prepayment date, but not to exceed 90 days.

Principal maturities of the mortgage payable during the next four years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2002	\$ 31,458
2003	34,008
2004	36,765
2005 – Maturity	3,254,397

Total interest expense for the year ended December 31, 2001 was \$241,497.

NOTE 6 - INVESTMENT IN NATIONAL COOPERATIVE BANK

In 1995, the Corporation purchased 350 shares of National Cooperative Bank's Class B1 Capital Stock, par value, \$100 per share for \$35,000. The investment in the capital stock was a requirement of the mortgage agreement between National Cooperative Bank and 350 Bleecker Street Apartment Corporation and is equal to 1% of the mortgage principal of \$3,500,000. As of the balance sheet date, the Class B1 Stock has been sold and refunded to the Corporation.

The Corporation also holds Class B2 Stock of its mortgage holder, the National Cooperative Bank. Class B2 Stock is acquired through patronage refunds. The stock is currently non-transferable and non-redeemable. The Bank Act does not allow a dividend to be paid on this stock.

Class C Stock is acquired through patronage refunds. The stock is currently non-transferrable and non-redeemable. National Cooperative Bank will now pay a cash dividend on its Class C Stock equal to as much as 2 percent of National Cooperative Bank's net income. The dividend will be distributed among all holders of Class C Stock regardless of patronage.

Under National Cooperative Bank's Capitalization and Patronage Refund Policy, the cash portion of each cooperative's patronage refund may be between 35 percent and 55 percent based on the amount of National Cooperative Bank Class B and Class C Stock owned by the Cooperative relative to the loan amount or loan commitment made to the Cooperative by National Cooperative Bank. In addition, the stock portion of the patronage refund will consist of Class B Stock until the Cooperative accumulates 16 percent of its aggregate loan amount in Class B Stock. Any further stock distributions will consist of Class C Stock. All Class B Stock may be used by the Cooperative to offset any future purchase requirements.

For the year ended December 31, 2001, the Corporation realized \$740 in B2 stock and received \$493 in cash refunds.

NOTE 7 - SPECIAL ASSESSMENT

A special assessment was instituted by the Board of Directors of the Corporation to generate funds to be used to pay legal fees associated with the legal litigation - Abuse Relief Act (Note 10). The total amount of the assessment was \$80,599 and was billed monthly beginning in January 2001 at 39¢ per share.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2001

NOTE 8 - CONTRIBUTIONS TO CAPITAL

The Corporation treats special assessments used for the acquisition of capital improvements and maintenance charges used for amortization of mortgage principal as contributions to capital for tax purposes only.

For the year ended December 31, 2001, Paid-in Capital for tax purposes is:

Mortgage amortization	\$ 26,759
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NOTE 9 - REAL ESTATE TAX ABATEMENTS

New York State School Tax Relief Program

The New York State School Tax Relief Program is a credit that is applied for by each individual taxpayer or shareholder and it represents a reduction of taxable value when calculating the real estate tax. The STAR credit received by the Corporation resulted in a tax savings of \$8,107 for the shareholders for the period ended December 31, 2001. This amount is being credited to the eligible shareholders.

Condo/Coop Tax Abatements

As a result of revisions to Section 467(a) of the New York Real Property Tax Law, certain shareholders of the Cooperative units are eligible for partial abatements of their real estate taxes commencing with the 1996/1997 tax year. The abatement has been extended for an additional three years through the 2003/2004 tax year.

As of December 31, 2001, the Corporation received credits of \$20,641 on its tax bills representing the abatements for the last two quarters of the 2000/2001 tax year. This amount is being credited to the eligible shareholders.

NOTE 10 - LITIGATION

350 Bleecker Street Apartment Corporation vs. Bleecker Charles Company

The Corporation, commenced proceedings under the Condominium and Cooperative Conversion Protection and Abuse Relief Act against Bleecker Charles Company, Sponsor, regarding the garage lease. This act is intended to deal with potential self-dealing and as viewed by the Corporation, the lease terms are sufficiently favorable to the Sponsor that in 2000 the Corporation sought to invoke the Act's terms and terminate the lease. The Sponsor commenced a lawsuit against the Corporation seeking the courts relief in restraining the Cooperative from taking any action to terminate the Master lease or the Garage portion. The Sponsor also sought recovery of attorney fees associated with this action. The Judge residing over the case ruled in favor of the Sponsor and has subsequently awarded \$366,908 to the Sponsor for recovery of legal fees expended by the Sponsor during the course of the litigation process. The Board of Directors of the Cooperative is seeking to borrow up to \$500,000 from a bank at an approximate interest rate of 6% in order to pay this liability. The Corporation has filed an appeal with the court.

NOTE 11 - WATER AND SEWER CHARGES

The Corporation is disputing the water and sewer charges with the New York City Department of Environmental Protection. As of the balance sheet date, the City has admitted that certain meters were defective and have since replaced them. As of the balance sheet date, the City has not rebilled the Corporation for the adjusted readings. The liability in the amount of \$52,183 is based on the original billings from the City and the actual charges are subject to adjustment.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2001

NOTE 12 - MECHANIC'S LIEN

AM&G Waterproofing, LLC filed a mechanic's lien for the sum of \$22,453 against the Corporation. The Board of Directors voted to bond the mechanic's lien filed by AM&G Waterproofing, LLC. As of the balance sheet date, the mechanic's lien has been bonded.

NOTE 13 - CORPORATION TAX

During 1996, in a case involving a conventional cooperative, the United States Tax Court ruled that Subchapter T of the Internal Revenue Code, not Section 277, applies to housing cooperatives that qualify under Section 216 of the Internal Revenue Code. Subchapter T requires allocations of patronage and non-patronage source income. For federal tax purposes, the Corporation's taxes are computed pursuant to Subchapter T of the Internal Revenue Code.

Subchapter T requires allocations of patronage and non-patronage source income. Accordingly, income from non-patronage sources such as commercial rentals, professional apartments rentals, etc. in excess of expenses properly attributable thereto, may be subject to federal tax. Any income tax liability that may result from the above is not reflected in these financial statements.

For the year ended December 31, 2001, the Corporation sustained a loss and is not liable for federal tax. The Corporation also has net operating loss carryforwards from prior years for tax purposes totaling \$7,725,600. The tax loss carryforwards, if not used against taxable income expire beginning in 2007 and continuing through 2020. The Corporation is also subject to New York State and City tax based on the higher of net income or capital. Current tax expense is \$7,427.

NOTE 14 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation may have the right to borrow, utilize available cash, increase maintenance charges, pass special assessments or delay repairs and replacements until the funds are available. The effect on future assessments has not been determined at this time.

The Corporation has a Reserve Fund in the amount of \$120,611 which may be used for major repairs and replacements, when needed.