

W. C. AND A. N. MILLER DEVELOPMENT COMPANY

AND CONSOLIDATED SUBSIDIARY

WASHINGTON, D. C.

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 1968

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WASHINGTON, D. C.

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December 13, 1968

W. C. and A. N. Miller Development Company
4701 Sangamore Road
Washington, D. C., 20016

Gentlemen:

We have examined the consolidated statement of financial condition of the

W. C. AND A. N. MILLER DEVELOPMENT COMPANY

AND CONSOLIDATED SUBSIDIARY

as of September 30, 1968 and the related consolidated statements of stockholders' equity and income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the company's financial statements for the year ended September 30, 1967.

In our opinion, the accompanying consolidated financial statements present fairly the financial condition of the W. C. and A. N. Miller Development Company and consolidated subsidiary as of September 30, 1968 and 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Respectfully submitted,

Bond, Beebe, Bond & Bond

CERTIFIED PUBLIC ACCOUNTANTS

W. C. AND A. N. MILLER DEVELOPMENT COMPANY

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITIONSEPTEMBER 30, 1968 AND 1967

	September 30,		Increase
	1968	1967	(Decrease)
<u>Current Assets</u>			
Cash on Deposit and On Hand (\$67,075 held in a fiduciary capacity at September 30, 1968)	\$ 92,096	\$ 118,761	\$ (26,665)
Notes Receivable including Accrued Interest	82,339	163,943	(81,604)
Accounts Receivable	170,591	231,728	(61,137)
Cost of Completed New Houses	617,683	502,029	41,325
Jobs-in-Progress	674,805	762,202	(13,068)
Federal Income Tax Refund-Based on Carryback Loss	81,482	5,988	75,494
Prepaid Expenses	157,593	144,449	13,144
<u>Total Current Assets</u>	<u>1,876,589</u>	<u>1,929,100</u>	<u>(52,511)</u>
<u>Current Liabilities</u>			
Notes Payable - Short Term	162,000	48,258	113,742
Construction Loans Payable	680,600	715,450	(34,850)
Deposits on Contracts of Sale	125,339	115,648	9,691
Accounts Payable	190,459	192,215	(1,756)
Escrow Liabilities, Owners' Balances and Rental Deposits	21,113	15,948	5,165
Provision for Federal and State Income Taxes	646	5,691	(5,045)
Other Accruals	197,423	204,094	(6,671)
<u>Total Current Liabilities</u>	<u>1,377,580</u>	<u>1,297,304</u>	<u>80,276</u>
<u>Net Working Capital</u>	<u>499,009</u>	<u>631,796</u>	<u>(132,787)</u>
<u>Non-Current Assets</u>			
Investments			
Land - Unimproved	2,359,852	2,327,562	32,290
Land Under Development	219,924	263,923	(43,999)
Rental Properties - Net	2,378,814	2,394,019	(15,205)
Joint Venture and Other	19,090	105,623	(86,533)
Business Realty Equipment and Leasehold Improvements - Net	159,961	184,624	(24,663)
Other Assets	135,692	134,636	1,056
<u>Total Non-Current Assets</u>	<u>5,273,333</u>	<u>5,410,387</u>	<u>(137,054)</u>
<u>Net Working Capital and Non-Current Assets</u>	<u>5,772,342</u>	<u>6,042,183</u>	<u>(269,841)</u>
<u>Non-Current Liabilities</u>			
Trust Notes Payable			
Land	1,081,174	1,177,832	(96,658)
Rental Properties	2,758,138	2,797,703	(39,565)
Business Realty	11,592	12,650	(1,058)
Deferred Income	11,250	11,250	-
<u>Total Non-Current Liabilities</u>	<u>3,862,154</u>	<u>3,999,435</u>	<u>(137,281)</u>
<u>Net Assets</u>	<u>\$1,910,188</u>	<u>\$2,042,748</u>	<u>\$ (132,560)</u>
<u>Stockholders' Equity - Exhibit "B"</u>	<u>\$1,910,188</u>	<u>\$2,042,748</u>	<u>\$ (132,560)</u>

W. C. AND A. N. MILLER DEVELOPMENT COMPANYCONSOLIDATED STOCKHOLDERS' EQUITYFOR THE YEAR ENDED SEPTEMBER 30, 1968Common Stock - Par Value - \$100.00

Authorized (10,000 Shares)	\$1,000,000
Less: Unissued (1,778 Shares)	<u>177,800</u>
Issued (8,222 Shares)	822,200
Less: Issued Stock Repurchased and Held in Treasury (220 Shares)	<u>22,000</u>

Common Stock Outstanding (8,002 Shares) \$ 800,200

Retained Earnings

Balance - September 30, 1967 1,242,548

Deduct:

Dividends Declared on Common Stock

Cash

\$ -

Other Property

36,740

Net Loss for the Year Ended September

30, 1968 - Exhibit "C"

95,820132,560

Balance - September 30, 1968

1,109,988Total Stockholders' Equity\$1,910,188

To Exhibit "A"

W. C. AND A. N. MILLER DEVELOPMENT COMPANY

COMPARATIVE CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED SEPTEMBER 30, 1968 AND 1967

	1968	1967	Increase (Decrease)
<u>Construction and Development</u>			
Land Development - Internal	\$ 20,584	\$ 43,519	\$ (22,935)
Land Development - External	124,125	168,562	(44,437)
New Homes	283,573	224,878	58,695
Contracting and Remodeling	124,178	75,491	48,687
	552,460	512,450	40,010
Departmental Expenses	377,872	326,414	51,458
	174,588	186,036	(11,448)
Increase (Decrease) in Fixed Construction Expense in Inventory	10,440	(7,855)	18,295
	185,028	178,181	6,847
<u>Sales Department</u>			
Brokerage Commissions	342,998	244,034	98,964
New Home Commissions	135,448	164,941	(29,493)
	478,446	408,975	69,471
Departmental Expenses	397,423	349,818	47,605
	81,023	59,157	21,866
<u>Property Management</u>			
Brokerage Commissions	27,845	31,987	(4,142)
Internal Commissions	37,676	33,498	4,178
	65,521	65,485	36
Departmental Expenses	32,578	32,124	454
	32,943	33,361	(418)
<u>Insurance</u>			
Brokerage Commissions	29,305	33,370	(4,065)
Internal Commissions	6,907	9,509	(2,602)
	36,212	42,879	(6,667)
Departmental Expenses	34,314	32,970	1,344
	1,898	9,909	(8,011)
<u>Other Income</u>			
Interest	6,945	14,386	(7,441)
Miscellaneous	(2,215)	5,064	(7,279)
Purchase Discounts	13,252	13,938	(686)
	17,982	33,388	(15,406)
<u>Public Relations Expense</u>			
Leaves, Net Expense	(4,124)	(2,620)	1,504
Bus	(11,667)	(10,898)	769
Contributions	(2,052)	(1,275)	777
	(17,843)	(14,793)	3,050
<u>Departmental Income - Carried Forward</u>	301,031	299,203	1,828

	1968	1967	Increase (Decrease)
<u>Departmental Income</u>			
Brought Forward	\$ 301,031	\$ 299,203	\$ 1,828
<u>Investment Property - Rental</u>			
Income	771,638	779,731	(8,093)
Less: Expenses (Excluding Depreciation and Interest)	343,736	316,781	26,955
	427,902	462,950	(35,048)
<u>Land Investment Income</u>			
Sales	150,889	317,581	(166,692)
Less: Cost of Sales	68,554	143,505	(74,951)
	82,335	174,076	(91,741)
Expenses			
Development Fee - Internal	20,584	43,519	(22,935)
Property Taxes	91,138	85,726	5,412
Maintenance and Other Expenses	11,227	15,329	(4,102)
Farm Expense - Net	23,369	-	23,369
	146,318	144,574	1,744
	(63,983)	29,502	(93,485)
<u>Total Operating Income</u>	664,950	791,655	(126,705)
Less:			
<u>General and Administrative Expenses</u>	350,850	346,744	4,106
<u>Net Operating Income Before Other Expense and Depreciation</u>	314,100	444,911	(130,811)
<u>Other Expense and Depreciation</u>			
Interest Expense	286,551	254,365	32,186
Depreciation - Investment Property	118,567	119,954	(1,387)
Venture Loss - Little Falls Shopping Center	85,519	44,301	41,218
	490,637	418,620	72,017
<u>Net Income (Loss) Before Income Taxes</u>	(176,537)	26,291	(202,828)
Federal and State Income Taxes (Refund)	(80,717)	5,169	(85,886)
<u>Net Income (Loss) for the Year</u>	\$ (95,820)	\$ 21,122	\$ (116,942)

To Exhibit "B"

W. C. AND A. N. MILLER DEVELOPMENT COMPANY

INVESTMENT PROPERTY - NET RENTAL INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 1968

<u>Commercial Property</u>	<u>Assessed Value Real Estate Tax Purposes</u>	<u>Cost</u>	<u>Accumu- lated Depre- ciation</u>	<u>Repairs and Mainte- nance</u>	<u>Depre- ciation</u>
4300 Fordham Road	\$ 255,185	\$ 149,407	\$ 57,992	\$ 1,790	\$ 3,378
4820 Mass. Ave., N.W.	632,390	303,028	161,740	1,166	7,474
4860 Mass. Ave., N.W.)		29,871	22,168	200	1,038
4866 Mass. Ave., N.W.)	356,349	17,028	14,992	332	427
4872 Mass. Ave., N.W.)		146,515	63,093	6,532	4,023
4900 Mass. Ave., N.W.	620,578	638,773	162,188	6,690	20,687
Sentinel Apartments	563,740	973,228	382,842	20,888	35,268
Sumner Apartments	671,600	883,455	450,327	22,735	25,434
2415 - 20th St., N.W.	131,688	154,970	10,385	22,144	7,771
<u>Total Commercial Property</u>	<u>3,231,530</u>	<u>3,296,275</u>	<u>1,325,727</u>	<u>82,477</u>	<u>105,500</u>
<u>Residential Property</u>	<u>376,391</u>	<u>514,360</u>	<u>106,094</u>	<u>11,495</u>	<u>13,067</u>
<u>Total</u>	<u>\$3,607,921</u>	<u>3,810,635</u>	<u>\$1,431,821</u>		
Less:					
Accumulated Depreciation		<u>1,431,821</u>			
<u>Net</u>		<u>\$2,378,814</u>		<u>\$ 93,972</u>	<u>\$ 118,567</u>
<u>Rent Commissions on Own Property</u>		<u>1/</u>			
<u>Net Rental Income</u>					

1/ To Exhibit "A"

<u>Insurance</u>	<u>Taxes</u>	<u>Interest</u>	<u>Other Rental Expense</u>	<u>Total Expense</u>	<u>Rental Income</u>	<u>Profit or (Loss)</u>
\$ 622	\$ 7,464	\$ 1,256	\$ 29	\$ 14,539	\$ 56,206	\$ 41,667
570	18,497	18,698	780	47,185	144,497	97,312
150	2,705	1,113	14	5,220	12,000	6,780
65	2,348	2,227	21	5,420	21,585	16,165
415	5,552	3,093	4,731	24,346	35,008	10,662
1,162	20,076	26,656	-	75,271	108,047	32,776
1,432	21,073	31,771	30,482	140,914	140,564	(350)
3,664	24,303	50,729	34,802	161,667	177,425	15,758
896	4,644	7,360	11,189	54,004	27,579	(26,425)
8,976	106,662	142,903	82,048	528,566	722,911	194,345
1,439	11,330	21,036	399	58,766	48,727	(10,039)
<u>\$ 10,415</u>	<u>\$ 117,992</u>	<u>\$ 163,939</u>	<u>\$ 82,447</u>	<u>\$ 587,332</u>	<u>\$ 771,638</u>	<u>184,306</u>
						<u>38,910</u>
						<u>\$ 145,396</u>
						<u>2/</u>

2/ Investment property interest (\$163,939) and depreciation (\$118,567) are included with other corporate interest and depreciation in the consolidated income statement, Exhibit "C", and investment property net profit accordingly is stated at \$427,902.

COMMENTS

Accounts Receivable - \$170,591

	Total	Charged in September or Paid in October, 1968	July and August, 1968	Prior
Remodeling	\$ 17,902	\$ 16,261	\$ 1,298	\$ 343
Insurance Premiums	16,823	9,846	1,839	5,138
Miscellaneous	13,175	7,366	1,359	4,450
	47,900	\$ 33,473	\$ 4,496	\$ 9,931
Less:				
Estimated Uncollectible Accounts	11,044			
	36,856			
Officers and Employees	10,899			
Due from Purchasers on				
Sales Contracts	69,281			
Rents	53,555			
	\$ 170,591			

Cost of Completed New Houses - \$617,683

This account reflects the cost of eight houses completed during the year. Six of these houses costing \$472,655.45 were unsold at September 30, 1968. The remaining two were sold, but not settled, as of the date of this report.

Jobs in Progress - \$674,805

<u>Construction Status</u>	September 30, 1968		September 30, 1967	
	Number	Cost	Number	Cost
Houses				
Latter Stages of Construction	14	\$ 612,916	16	\$ 638,898
Early Stages of Construction	2	9,644	5	70,827
Miscellaneous Jobs in Progress		52,245		52,477
	16	\$ 674,805	21	\$ 762,202

COMMENTS

Prepaid Expenses - \$157,593

Insurance	\$ 26,793
Taxes	105,763
Building Materials and Supplies	18,197
Other	<u>6,840</u>
	<u>\$ 157,593</u>

Notes Payable - Short Term - \$162,000

Riggs National Bank	\$ 150,000
Subsidiary Company	
W. C. and A. N. Miller Development	
Company of Virginia	6,000
Estate of Agnes Miller Trorey	<u>6,000</u>
	<u>\$ 162,000</u>

Provision for Federal and State Income Taxes - \$791

This provision is attributable to a wholly owned subsidiary, W. C. and A. N. Miller Insurance Agency, Inc.

The Internal Revenue Service has reviewed the federal income tax returns of the Company through the fiscal year ended September 30, 1959. No examination has been started, as of this date, for any subsequent year.

Other Accruals - \$197,423

Interest	\$ 18,674
Payroll Taxes Withheld	38,024
Payroll Taxes and Workmen's Compensation	
Insurance Accrued	26,677
Guarantee Reserves	13,003
Land Settlements - Great Falls Farm Corporation	60,164
Salaries and Wages Payable	3,547
Deferred Commissions	25,000
Other	<u>12,334</u>
	<u>\$ 197,423</u>

COMMENTS

Investments - Land Unimproved - \$2,359,852

The Company's District of Columbia unimproved land is assessed at \$1,851,200 for tax purposes and its Maryland unimproved land is assessed at \$1,195,600 for tax purposes.

No unimproved land was acquired during the year under review.

Investments - Land Under Development - \$219,924

This account includes the cost of subdivided land together with certain ground improvements. Costs, sufficient to cover the contemplated ground improvements, have been estimated. A pro rata portion of the land and improvements is charged against income as each lot is sold.

The Company entered into a land contract agreement with the Great Falls Farm Corporation on May 29, 1959 for the development of approximately 792 acres of unimproved ground. Payments are required to the Great Falls Farm Corporation as settlements are made on the completed houses. The W. C. and A. N. Miller Development Company is to have six houses under construction or completed at all times.

Joint Venture and Other - \$19,090

Joint Venture - Sumner Development & Investment Company (Little Falls Mall)	\$ 17,913
Subsidiary Companies (Not Consolidated for This Report)	
W. C. and A. N. Miller Development Corporation of Virginia (Wholly Owned)	300
Westley Construction Company, Inc. (Wholly Owned)	500
Stock Option and Miscellaneous Securities	<u>377</u>
	<u>\$ 19,090</u>

W. C. and A. N. Miller Development Company has an 85% interest in Sumner Development & Investment Company, a joint venture begun February 15, 1966. The joint venture is developing 12.3733 acres of land, owned by W. C. and A. N. Miller Development Company, as a shopping center-office building to be called "Little Falls Mall". Title to the

COMMENTS

Joint Venture and Other - continued

12.3733 acres remains in W. C. and. A. N. Miller Development Company. The joint venture may purchase the 12.3733 acres at the agreed upon present value of \$725,615.95 as set forth in the joint venture agreement.

The balance of the Company's investment in the joint venture is as follows:

Investment

Land Cost - 12.3733 acres	\$ 51,759	
Other Costs	<u>95,974</u>	\$147,733
Less:		
Losses incurred to date		
February 15, 1966 to September 30, 1966	44,301	
October 1, 1966 to September 30, 1967	<u>85,519</u>	<u>129,820</u>
Remaining Cost - September 30, 1968		<u>\$ 17,913</u>

The joint venture losses are attributable to charging construction loan interest and real estate taxes to expense during the period of construction.

Business Realty, Equipment and Leasehold Improvements, Net - \$159,961

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Business Realty	\$ 83,366	\$ 29,199	\$ 54,167
Equipment			
Office Furniture and Fixtures	66,405	51,679	14,726
Office Equipment	54,805	43,995	10,810
Automobiles	6,720	6,048	672
Trucks	50,983	45,885	5,098
Tractors and Trailers	89,967	52,224	37,743
Tools and Equipment	78,267	45,625	32,642
Leasehold Improvements, net	<u>4,103</u>	<u>-</u>	<u>4,103</u>
	<u>\$ 434,616</u>	<u>\$ 274,655</u>	<u>\$ 159,961</u>

COMMENTS

Other Assets - \$135,692

Deferred Charges	\$ 92,783
Development Costs - Spring Valley	14,256
Development Costs - Great Falls	14,322
Loan Charges on Investment Property	1,250
Bad Debt Expense	5,625
Sales Commission Expense	1,000
Advance to Subsidiary - Westley Construction Co.	6,456
Miscellaneous	
	<u>\$ 135,692</u>

Trust Notes Payable - Land - \$1,081,174

First Trusts

Pleasant Hill - Catherine M. Kelley	\$ 476,174
Pleasant Hill - Catherine M. Kelley	140,000
Pleasant Hill - Hugh Ross	150,000
Schwab Farm - J. North Fletcher	250,000
	<u>1,016,174</u>

Second Trusts

Pleasant Hill - Paul V. Finnegan	<u>65,000</u>
	<u>\$1,081,174</u>

Trust Notes Payable - Rental Property - \$2,758,138

Commercial Property

4300 Fordham Road, N. W.	\$ 25,149
4820 Massachusetts Avenue, N. W.	304,000
4860 Massachusetts Avenue, N. W.	20,150
4866 Massachusetts Avenue, N. W.	40,300
4872 Massachusetts Avenue, N. W.	55,972
Sentinel Apartments	513,912
49th & Massachusetts Avenue, N. W.	470,877
Sumner Apartments	772,599
2415 - 20th Street, N. W.	<u>121,970</u>

Total Commercial Property

Residential Property

2,324,929
<u>433,209</u>
<u>\$2,758,138</u>

COMMENTS

Operations

The following summary shows the gross profit on company built houses sold for the years ended September 30, 1968 and 1967.

<u>Houses Sold</u>	Number of <u>Units</u>	<u>1968</u>	Cost	Number of <u>Units</u>	<u>1967</u>	Cost
		<u>Sales Price</u>	<u>Including Sales Cost</u>		<u>Sales Price</u>	<u>Including Sales Cost</u>
<u>Maryland</u>						
Great Falls Estates	15	\$1,746,841	\$1,430,407	14	\$1,702,858	\$1,457,473
Spring Hill	1	105,129	86,553	7	730,837	546,292
Sumner	3	223,857	166,900	5	407,823	332,843
<u>District of Columbia</u>						
Spring Valley	<u>3</u>	<u>289,919</u>	<u>191,853</u>	<u>3</u>	<u>245,517</u>	<u>172,909</u>
<u>Total</u>	<u>22</u>	<u>2,365,746</u>	<u>\$1,875,713</u>	<u>29</u>	<u>3,087,035</u>	<u>\$2,509,517</u>
Less:						
Cost of Sales		<u>1,875,713</u>			<u>2,509,517</u>	
<u>Gross Profit</u>		<u>\$ 490,033</u>			<u>\$ 577,518</u>	

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M E M O R A N D U M

TO: Mr. Lewis W. Machir
 FROM: Bond, Beebe, Bond & Bond
 DATE: December 18, 1968
 RE: Comparative Consolidated Statement
 of Financial Position

Several items were restated, with regard to last year's balance sheet, in the audit report we delivered to you yesterday. The following items were changed, as indicated, in order to make the comparison more meaningful.

	Per Last Years Report	Per Current Years Report	Increase (Decrease)
<u>Accounts Receivable</u>	\$ 237,716	\$ 231,728	\$ (5,988)
(The Federal Income Tax Refund was Removed and Separately Stated)			
<u>Federal Income Tax Refund</u>	-	5,988	5,988
(See above Explanation)			
<u>Land - Unimproved</u>	2,379,321	2,327,562	(51,759)
(Cost of the land for the joint venture was still in unimproved land for last years report. It is restated as "Joint Venture and Other")			
<u>Rental Properties - Net</u>	2,414,832	2,394,019	(20,813)
(The sales office at 9300 Great Falls Road has been reclassified as "Business Realty, Equipment and Leasehold Improvements - Net")			
<u>Joint Venture and Other</u>	53,864	105,623	51,759
(See comment on "Land - Unimproved")			
<u>Business Realty, Equipment and Leasehold Improvements - Net</u>	163,811	184,624	20,813
(See comment on "Rental Properties - Net")			
<u>Trust Notes Payable - Rental Property</u>	2,666,489	2,797,703	131,214
(The settlement payable of \$143,864 has been included and the mortgage of \$12,650 on the sales office removed (and separately stated) from this classification. \$143,864 minus \$12,650 equals \$131,214.)			
<u>Trust Notes Payable - Business Realty</u>	-	12,650	12,650
(See comment on "Trust Notes Payable - Rental Property")			
<u>Settlement Payable - Rental Property</u>	143,864	-	(143,864)
(See comment on "Trust Notes Payable - Rental Property")			

Please do not hesitate to let us know if you have any questions.