

ORANGE COUNTY AAC
INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014 AND 2013

ORANGE COUNTY AAC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange County AAC
Anaheim, California 92801

We have audited the accompanying financial statements of Orange County AAC (a nonprofit organization) which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 audits 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 Orange County AAC as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 11 and 12 are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and 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 audits 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.

Brea, California
June 10, 2015

Bates Coughtry Finn LLP

ORANGE COUNTY AAC
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2014 and 2013

	2014	2013
<u>CURRENT ASSETS</u>		
Cash and cash equivalents (Note 2)	\$ 2,721,835	\$ 3,101,070
Accounts receivable, net of allowance for doubtful accounts of \$1,037 and \$1,037 for 2014 and 2013 respectively (Note 1)	1,386,376	1,715,485
Investments	98,780	-
Supplies & inventories	267,039	114,747
Prepaid expenses (Note 3)	42,860	47,328
 Total current assets	 4,516,890	 4,978,630
<u>FIXED ASSETS</u>		
Property and equipment, net of accumulated depreciation of \$4,622,430 and \$4,123,350 for 2014 and 2013 respectively (Note 4)	5,435,195	5,840,298
<u>OTHER ASSETS</u>		
Loan financing costs, less accumulated amortization of \$87,196 and \$68,839 for 2014 and 2013 respectively	96,374	114,731
Deposits	36,640	36,601
 Total other assets	 133,014	 151,332
 Total assets	 \$ 10,085,099	 \$ 10,970,260

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY AAC
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2014 and 2013

<u>LIABILITIES AND NET ASSETS</u>	2014	2013
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 561,351	\$ 408,510
Accrued expenses	99,499	73,387
Accrued salaries & vacation pay	210,536	284,407
Loan payable (Note 5)	140,332	133,707
Total current liabilities	1,011,718	900,011
<u>LONG-TERM LIABILITIES</u>		
Loan payable (Note 5)	2,600,579	2,740,911
Total liabilities	3,612,297	3,640,922
<u>NET ASSETS</u>		
Unrestricted	6,462,956	7,317,504
Temporarily Restricted	9,846	11,834
TOTAL NET ASSETS	6,472,802	7,329,338
TOTAL LIABILITIES AND NET ASSETS	\$ 10,085,099	\$ 10,970,260

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY AAC
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2014 and 2013

	2014	2013
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
SUPPORT AND REVENUE:		
Contributions	\$ 94,207	\$ 97,587
United Way allocations	20,660	37,480
Habilitation fee	1,470,530	1,513,159
Transportation income	1,433,275	1,499,553
Independent living fees	140,202	114,987
Service-DAP fees	933,412	762,905
Supported employment fees	755,646	708,747
Contract income	2,168,669	1,827,546
Family Connections income	1,937,049	2,168,307
Investment income	2,348	5,212
HAB client support	798,302	753,849
4:1 Regional Center	684,188	712,903
3:1 Regional Center	204,632	300,992
Assessment income	52,160	88,583
Bus donation	-	700,000
Unrealized loss on investments	(1,220)	-
Miscellaneous	56,359	52,965
Total support and revenue	10,750,419	11,344,775
Net assets released from restriction	12,957	12,928
Total unrestricted support, revenue and other	10,763,376	11,357,703
EXPENSES:		
Program and supporting services	11,617,924	10,848,368
Change in unrestricted net assets	(854,548)	509,335
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Contributions	10,969	16,553
Net assets released from restrictions	(12,957)	(12,928)
Changes in temporarily restricted net assets	(1,988)	3,625
CHANGE IN NET ASSETS	(856,536)	512,960
NET ASSETS, Beginning of Year	7,329,338	6,816,378
NET ASSETS, End of Year	\$ 6,472,802	\$ 7,329,338

See Independent Auditors' Report.
See Accompanying Notes to Financial Statements.

ORANGE COUNTY AAC
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2014 and 2013
 Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (856,536)	\$ 512,960
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Depreciation & amortization expense	518,617	465,206
Donated vehicles included in contributions	-	(700,000)
Unrealized loss on investments	1,220	-
Loss on sale of fixed assets	26,087	-
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	329,109	(771,905)
(Increase)/decrease in prepaid expense	4,468	(18,742)
(Increase)/decrease in supplies/inventory	(152,292)	15,581
Increase in deposits	(39)	(34)
Increase in accounts payable	152,841	181,648
Increase in accrued expenses	26,112	43,414
(Decrease)/increase in accrued salaries/vacation	(73,871)	115,702
Net cash used for operating activities	(24,284)	(156,170)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of property	4,000	-
Purchase of investment	(100,000)	-
Capital expenditures	(125,244)	(214,279)
Net cash used by investing activities	(221,244)	(214,279)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on loan payable	(133,707)	(127,408)
Net cash used for financing activities	(133,707)	(127,408)
Net Decrease in Cash and Cash Equivalents	(379,235)	(497,857)
Cash and Cash Equivalents at Beginning of Year	3,101,070	3,598,927
Cash and Cash Equivalents at End of Year	\$ 2,721,835	\$ 3,101,070

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY AAC
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

- A. The Association was incorporated in 1955 as a non-profit organization providing services to the developmentally disabled. The Association is exempt from taxation under the provisions of the Internal Revenue Code Section 501(c)(3), and Section 23701(d) of the California Revenue and Taxation Code.
- B. The Association implements Statement of Financial Accounting Standards FASB ASC 958-205. In accordance with FASB ASC 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows.
- C. The Association implements FASB ASC 958-225. In accordance with FASB ASC 958-225, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor stipulation that limit the use of the donation. When a donor time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- D. All transactions are recorded using the accrual basis method of accounting.
- E. The Association implements FASB ASC 958-320. In accordance with FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized or realized gains or losses included in the Statement of Activities.
- F. Fixed assets are shown at cost, less accumulated depreciation. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to forty years.
- G. Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
- H. The Association expenses advertising costs as they are incurred. Total advertising expense, including promotion, was zero for the year ended December 31, 2014 and \$100 for the year ended December 31, 2013.

See Independent Auditors' Report.

ORANGE COUNTY AAC
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- I. The Statement of Cash Flows is prepared using the indirect method. For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments purchased with a maturity date of twelve months or less, and that have a fixed interest rate of return, to be cash equivalents.
- J. Inventories consist primarily of raw materials used in the packaging of coffee cleaner packets and coffee maker supplies. Inventories are stated at the lower of cost or market determined by the first-in, first-out method.
- K. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- L. The Association has adopted FASB ASC 740, Income Taxes which changes the framework for accounting for uncertainty in income taxes. Management has considered its tax positions and believes that the positions taken by the Association are more likely than not to be sustained upon examination. As of and for the year ended December 31, 2014, management has determined that the Association did not have any unrelated business activities subject to tax. Orange County AAC's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.
- M. Management has evaluated subsequent events through June 10, 2015, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or a disclosure in the accompanying financial statements.
- N. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association. The Association's administrative expenses are 6.0% and 6.7% of total expenses at December 31, 2014 and 2013, respectively.

NOTE 2 – CASH AND CASH EQUIVALENTS

	2014	2013
Cash consists of the following:		
Petty cash	\$ 1,000	\$ 1,000
Cash in CNB-checking	1,902,022	2,183,562
Cash in various banks-CD	818,813	916,508
	\$ 2,721,835	\$ 3,101,070

See Independent Auditors' Report.

ORANGE COUNTY AAC
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 3 – PREPAID EXPENSES

As of December 31, 2014 and 2013, the following expenses were prepaid:

	2014	2013
Rent	\$ 26,164	\$ 26,164
Insurance	16,696	21,164
	\$ 42,860	\$ 47,328

NOTE 4 – PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Book Value
Land	\$ 807,280	\$ -	\$ 807,280
Buildings	5,565,157	2,275,660	3,289,497
Workshop and equipment	893,280	733,289	159,991
Office furniture and fixtures	591,656	498,971	92,685
Vehicles	2,200,252	1,114,510	1,085,742
	\$ 10,057,625	\$ 4,622,430	\$ 5,435,195

NOTE 5 – INVESTMENTS

In 2014, the Association purchased 9,380.863 shares of the City National Rochdale Corporate Bond Fund for \$100,000. The fair market value of the investment at December 31, 2014 is \$98,780.

NOTE 6 – LOAN PAYABLE

In May 2005 the Association borrowed \$400,000 from the California Health Facilities Financing Authority. This loan is payable in monthly installments of \$2,762, including interest at 3%, due May 2020.

In March 2010 the Association refinanced the mortgage revenue bonds originally issued on November 1, 1999 by the California Health Facilities Financing Authority. The terms of the new loan include \$3,024,486 borrowed with a fixed rate of interest at 5.25% amortized over 20 years, due in 10 years. The monthly payment is \$20,511. The loan has various terms and conditions, including minimum effective tangible net worth, debt service coverage ratio, and minimum cash liquidity.

The Association is required to comply with various covenants with City National Bank. Subsequent to year end the bank modified the covenants effective December 31, 2014. Based on the modified covenants, the Association is in compliance with the covenant requirements.

See Independent Auditors' Report.

ORANGE COUNTY AAC
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 6 – LOAN PAYABLE (cont'd)

Principal maturities of long-term debt are as follows:

Years ending December 31,		
	2015	\$ 140,332
	2016	146,926
	2017	154,600
	2018	162,301
	2019	170,400
	Thereafter	<u>1,966,352</u>
Total		2,740,911
Less current maturities		<u>140,332</u>
Total long-term maturities		<u>\$ 2,600,579</u>

NOTE 7 – LEASE COMMITMENTS

The Association has two leases for facilities in Anaheim for the Life Unlimited program. The first is a ten year lease that began April 1, 2005 with the following terms: \$7,262 per month or \$87,144 per year for years one through five, \$8,424 per month or \$101,088 per year for years six through ten. The lease has been renewed for a period of five years beginning April 1, 2015 at \$8,892 per month or \$106,704 per year. The total remaining lease obligation of this lease is \$558,792. The second is a five year lease that began September 1, 2011 with the following terms: \$1,444 per month or \$17,328 per year. The total remaining lease obligation of this lease is \$28,880.

The Association also has a twenty-four month lease for a storage and distribution facility in Anaheim that began January 1, 2015 with the following terms: \$1,256 per month or \$15,072 per year for the first twelve months, \$1,291 per month or \$15,492 per year for months thirteen through twenty-four. The total remaining lease obligation of this lease is \$30,564.

NOTE 8 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

	<u>2014</u>	<u>2013</u>
Cash paid during the year for		
Interest	<u>\$ 145,093</u>	<u>\$ 151,877</u>

B. Supplemental schedule of noncash investing and financing activities:

None

NOTE 9 – DONATION OF BUSES

In May 2013 the Association received a donation from the Department of Transportation of ten buses. The value of the buses, \$700,000, has been reported as a contribution for the year ended December 31, 2013. The buses were subsequently leased to Western Transit Systems for one dollar per year to be used for the transportation of OCAAC clients.

See Independent Auditors' Report.

ORANGE COUNTY AAC
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Association has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification for financial instruments measured at fair value on a recurring basis. The standard defines the fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

We measured certain financial instruments at fair value on a recurring basis. Financial assets measured at fair value on a recurring basis are as follows as of December 31,

	2014	2013
Investments – Level 1	\$ 98,780	\$ -
Investments – Level 2	-	-
Investments – Level 3	-	-
Total	\$ 98,780	\$ -

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The Association has accounts at City National Bank. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Association does maintain balances above \$250,000. These amounts are not insured by the Federal Deposit Insurance Corporation.

Financial instruments, which potentially expose the Association to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Association's accounts receivable are made up of fees from the Regional Center of Orange County, which make up 64% of the receivables and the Orange County Transportation Authority, which make up 11% of the receivables at December 31, 2014. The remainder of the accounts receivable are made up of contract sales to mostly Orange County businesses.

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

ORANGE COUNTY AAC
SCHEDULE OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2014

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
<u>EXPENSES</u>			
Purchases	\$ 665,840	\$ -	\$ 665,840
Staff salaries	2,722,533	461,840	3,184,373
Temporary help-agency	1,199,390	581	1,199,971
Temporary help-production	604,527	-	604,527
Sales commissions	99,175	11,387	110,562
Client wages	653,202	-	653,202
Payroll taxes	251,696	57,091	308,787
Workers' compensation	161,693	4,713	166,406
Insurance	470,895	31,626	502,521
Contract materials	107,411	-	107,411
Freight/postage	7,858	2,837	10,695
Small tools and supplies	21,649	-	21,649
Vehicle expense	63,958	-	63,958
Bldg & equip. maintenance	155,171	17,054	172,225
Occupancy	334,894	-	334,894
Utilities	122,158	2,068	124,226
Telephone	17,510	11,754	29,264
Staff mileage	60,630	4,660	65,290
Copy machine expense	17,465	3,450	20,915
Staff development/training	5,719	5,986	11,705
Office & printing	16,996	7,655	24,651
Staff recruitment	8,201	368	8,569
Equipment rental	4,806	-	4,806
Professional & legal	-	15,681	15,681
Conferences & meetings	3,397	3,101	6,498
Dues & subscriptions	4,522	1,750	6,272
Tax, licenses and permits	-	4,284	4,284
Transportation	1,290,685	-	1,290,685
Client reinforcements/incentives	35,683	-	35,683
ARC support	-	10,800	10,800
CARF expense	1,265	-	1,265
Interest expense	140,294	4,799	145,093
Fund raising expense	-	22,362	22,362
Home care provider	1,038,875	-	1,038,875
Miscellaneous	119,018	6,344	125,362
Total expenses before provision for depreciation & amortization	10,407,116	692,191	11,099,307
Provision for depreciation & amortization	518,617	-	518,617
 Total expenses	 <u>\$ 10,925,733</u>	 <u>\$ 692,191</u>	 <u>\$ 11,617,924</u>

See Independent Auditors' Report.

ORANGE COUNTY AAC
SCHEDULE OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2013

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
<u>EXPENSES</u>			
Advertising/Promotion	\$ 100	\$ -	\$ 100
Purchases	434,316	-	434,316
Staff salaries	2,643,425	562,329	3,205,754
Temporary help-agency	1,167,310	50	1,167,360
Temporary help-production	575,656	-	575,656
Sales commissions	100,681	1,691	102,372
Client wages	559,822	-	559,822
Payroll taxes	232,410	35,595	268,005
Workers' compensation	91,683	1,441	93,124
Insurance	502,286	21,612	523,898
Contract materials	66,796	-	66,796
Freight/postage	935	1,151	2,086
Small tools and supplies	13,677	963	14,640
Vehicle expense	55,111	540	55,651
Bldg & equip. maintenance	146,189	16,941	163,130
Occupancy	269,208	-	269,208
Utilities	98,554	1,622	100,176
Telephone	14,230	11,013	25,243
Staff mileage	59,995	2,207	62,202
Copy machine expense	14,724	6,026	20,750
Staff development/training	5,772	1,569	7,341
Office & printing	30,976	12,311	43,287
Staff recruitment	5,362	321	5,683
Professional & legal	-	12,545	12,545
Conferences & meetings	2,447	4,416	6,863
Board expense	-	211	211
Dues & subscriptions	5,742	6,313	12,055
Tax, licenses and permits	4,052	439	4,491
Transportation	1,135,399	-	1,135,399
Client reinforcements/incentives	31,255	-	31,255
ARC support	-	10,800	10,800
Interest expense	147,587	4,290	151,877
Fund raising expense	-	13,097	13,097
Home care provider	1,153,675	-	1,153,675
Miscellaneous	<u>84,095</u>	<u>199</u>	<u>84,294</u>
Total expenses before provision for depreciation & amortization	9,653,470	729,692	10,383,162
Provision for depreciation & amortization	<u>465,206</u>	<u>-</u>	<u>465,206</u>
 Total expenses	 <u>\$ 10,118,676</u>	 <u>\$ 729,692</u>	 <u>\$ 10,848,368</u>

See Independent Auditors' Report.