
**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

**Financial Statements
and Supplemental Information
Years Ended June 30, 2011 and 2010
(Together with Independent Auditors' Report)**



**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Table of Contents

June 30, 2011 and 2010

	<u><i>Page</i></u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets - June 30, 2011 and 2010	2
Statements of Revenues and Expenses and Accumulated Deficit - For the Years Ended June 30, 2011 and 2010	3
Statements of Cash Flows - For the Years Ended June 30, 2011 and 2010	4
Notes to Financial Statements	5 – 11
Independent Auditors' Report on Supplemental Information	12
Supplemental Information	
Prepaid Expenses and Other Assets	13
Other Income	13
Utilities and Fuel Expenses	13
Labor Expenses	13
Payroll Overhead	14
Repairs and Maintenance Expenses	14
Management Expenses	14

Independent Auditors' Report

To the Stockholders
East River Housing Corporation
New York, N.Y.

We have audited the accompanying balance sheets of East River Housing Corporation (the "Cooperative") as of June 30, 2011 and 2010, and the related statements of revenues and expenses and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 audits provide 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 East River Housing Corporation as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Marks Paneth & Shron LLP

New York, New York
November 17, 2011

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Balance Sheets

June 30,

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 2,439,932	\$ 3,616,240
Receivables:		
Tenant-stockholders	228,625	274,542
Commercial tenants	120,634	157,872
Total receivables	<u>349,259</u>	<u>432,414</u>
Prepaid expenses and other assets	1,215,876	919,097
Security deposits held for the benefit of commercial tenants	167,603	169,415
Real and personal property, net of accumulated depreciation of \$28,975,819 in 2011 and \$28,469,878 in 2010	<u>15,636,699</u>	<u>15,848,060</u>
TOTAL ASSETS	<u><u>\$ 19,809,369</u></u>	<u><u>\$ 20,985,226</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Accounts payable and accrued expenses	\$ 2,323,257	\$ 1,556,586
Due to/due from Hillman Housing Corporation	(574)	867
Rents received in advance	94,340	65,217
Security deposits payable	167,603	169,415
Mortgage and loans payable	<u>14,900,324</u>	<u>15,270,939</u>
Total Liabilities	<u>17,484,950</u>	<u>17,063,024</u>
Commitment and Contingencies		
Stockholders' Equity		
Common stock - \$100 par value, authorized 50,000 shares, 45,659.375 shares issued and outstanding	4,565,938	4,565,938
Additional paid-in capital	6,557,129	6,461,548
Accumulated deficit	(8,498,648)	(7,105,284)
Less: Treasury stock, at cost - 21.875 shares in 2011	<u>(300,000)</u>	<u>-</u>
Total Stockholders' Equity	<u>2,324,419</u>	<u>3,922,202</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 19,809,369</u></u>	<u><u>\$ 20,985,226</u></u>

See Notes to Financial Statements.

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)

Statements of Revenues and Expenses
and Accumulated Deficit

For the Years Ended June 30,

	<u>2011</u>	<u>2010</u>
Revenues		
Carrying charges - apartments (including electricity and gas)	\$ 14,410,314	\$ 14,541,618
Apartment resale fees	3,989,507	2,877,772
Commercial rent - store and offices	1,436,501	1,446,147
Parking rent, net	712,383	674,235
Laundry room	126,000	126,000
Other income	438,059	386,532
Total Revenues	<u>21,112,764</u>	<u>20,052,304</u>
Expenses		
Real estate taxes	5,703,551	5,293,787
Utilities and fuel	6,449,689	5,141,657
Labor	2,384,588	2,289,810
Repairs and maintenance	2,361,035	2,268,957
Management	850,930	991,671
Outside security services	658,967	665,704
Mortgage and other interest	693,892	714,647
Payroll overhead	1,277,552	1,185,181
Insurance	827,618	769,346
Legal and audit	128,636	192,818
State and city corporation taxes	115,000	114,953
Senior care	39,178	39,222
Website	6,602	7,332
Mortgage refinancing costs	7,327	7,327
Conduit	12,063	11,787
Total Expenses	<u>21,516,628</u>	<u>19,694,199</u>
Revenues Over Expenses Before Depreciation	(403,864)	358,105
Depreciation	<u>989,500</u>	<u>1,156,752</u>
Revenues (Under)/Over Expenses	(1,393,364)	(798,647)
Accumulated Deficit - Beginning of Year	<u>(7,105,284)</u>	<u>(6,306,637)</u>
Accumulated Deficit - End of Year	<u><u>\$ (8,498,648)</u></u>	<u><u>\$ (7,105,284)</u></u>

See Notes to Financial Statements.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Statements of Cash Flows

For the Years Ended June 30,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Revenues (under)/over expenses	\$ (1,393,364)	\$ (798,647)
Adjustments to reconcile revenues over expenses to net cash provided by operating activities		
Depreciation	989,500	1,156,752
Changes in assets and liabilities		
Receivables	83,155	(144,754)
Prepaid expenses and other assets	(296,780)	(52,857)
Accounts payable and accrued expenses	766,671	(202,201)
Due to Hillman Housing Corporation	(1,441)	(35,250)
Rents received in advance	29,123	(5,674)
Total adjustments	<u>1,570,228</u>	<u>716,016</u>
Net Cash (Used in) Provided by Operating Activities	<u>176,865</u>	<u>(82,631)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for capital improvements	(778,138)	(715,332)
Net Cash (Used in) Investing Activities	<u>(778,138)</u>	<u>(715,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage and loan principal payments	(370,616)	(363,495)
Sale of treasury stock	635,581	1,080,282
Purchase of treasury stock	(840,000)	-
Net Cash (Used In) Provided By Financing Activities	<u>(575,035)</u>	<u>716,787</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,176,308)	(81,176)
CASH AND CASH EQUIVALENTS - beginning of year	<u>3,616,240</u>	<u>3,697,416</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,439,932</u>	<u>\$ 3,616,240</u>
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:		
Cash Paid During the Year for:		
Interest	<u>\$ 693,892</u>	<u>\$ 714,647</u>
Taxes paid	<u>\$ 120,650</u>	<u>\$ 119,350</u>

See Notes to Financial Statements.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: ACCOUNTING POLICIES

History of the Cooperative

East River Housing Corporation ("the Cooperative"), a cooperative housing corporation, was incorporated in the State of New York on November 28, 1950. The Cooperative is located in New York City, consisting of residential and commercial units.

Until February 6, 1997, the Cooperative operated as a government regulated residential real estate corporation. Effective February 7, 1997, the Cooperative was reconstituted as a private cooperative governed by and subject to New York Business Corporation Law.

On December 22, 1998, the Board of Directors ("the Board") of the Cooperative passed resolutions to transfer all of the issued and outstanding shares of the Cooperative's stock, which had been held in the name of the directors as nominees for the tenant stockholders of the Cooperative.

Management / Allocated Expenses

The Cooperative is one of two housing companies, the other being Hillman Housing Corporation (Hillman), which are situated in a common community, and whose operations are managed by a common management company. Certain expenses common to these housing companies such as payroll, fuel, management expenses, etc. are paid for by the Cooperative and then allocated, based generally on the number of dwelling units, to itself and the other company. During the years ended June 30, 2011 and 2010, common expenses of \$3,847,415 and \$3,129,941, respectively, were allocated between the Cooperative and Hillman Housing.

Concentration of Credit Risk

Financial instruments, which potentially subject the Cooperative to concentrations of credit risk, consist principally of periodic temporary investments of excess cash. The Cooperative places its temporary excess cash investments in high quality short-term instruments. As of June 30, 2011, all cash in non interest bearing accounts was fully insured by the FDIC.

Real and Personal Property

Real and personal property are recorded at cost and consist of:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 1,723,024	\$ 1,723,024
Buildings	18,283,505	18,283,505
Building improvements	21,880,123	21,817,094
Furniture and equipment	2,277,605	1,862,695
Parking lot improvements	<u>448,261</u>	<u>631,620</u>
	44,612,518	44,317,938
Less: accumulated depreciation	<u>28,975,819</u>	<u>28,469,878</u>
	<u>\$ 15,636,699</u>	<u>\$ 15,848,060</u>

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: ACCOUNTING POLICIES (continued)

Depreciation of real and personal property is computed by various methods over the following estimated useful lives: building and building improvements – 15 to 39 years and, furniture and equipment – 5 to 7 years. Depreciation expense for the years ended June 30, 2011 and 2010 were \$989,500 and \$1,156,752, respectively.

Amortization

Amortization of mortgage refinancing costs (recorded in other assets) is computed using the straight-line method over the term of the mortgage.

Income Taxes

The Cooperative's income tax policies provide that those portions of maintenance charges that are applicable to capital improvements, as determined by the Board, and mortgage amortization will be accounted for as contributions to the additional paid-in capital of the Cooperative for income tax reporting purposes, whereas, such items are recognized as revenue for financial reporting. This accounting practice results in a permanent difference between financial and tax reporting revenue.

Effective July 1, 2009, the Cooperative adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainties in Income Taxes – an interpretation of FASB Statement No. 109," now incorporated in ASC 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions and recognizing any interest and penalties. The adoption of FIN 48 did not have a material effect on the Cooperative's financial position as of July 1, 2009 or the Cooperative's results of operations and cash flows for the year ended June 30, 2010. The Cooperative is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2007.

For the years ended June 30, 2011 and 2010, contributions to additional paid-in capital for income tax purposes were \$307,529 and \$298,812, respectively, consisting only of mortgage amortization for both years.

Cash and Cash Equivalents

The Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Cooperative maintains its cash balances at financial institutions located in New York, NY. Accounts at each institution may exceed federally insured limits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 could differ from those estimates.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 1: ACCOUNTING POLICIES (continued)

Subsequent Events

Management has evaluated events subsequent to the date of the balance sheet through November 14, 2011, the date the financial statements were available to be issued. The following events have occurred subsequent to the balance sheet date through November 14, 2011 that require disclosures in the financial statements.

Subsequent to the year ended June 30, 2011, the Cooperative refinanced its mortgage with New York Community Bank in the amount of \$25,000,000 for 15 years at an interest rate of 4% over the initial period of five years, 4.50% for the second period of five years with an adjustable or fixed rate per year for the final period of five years. Funds from the Mortgage were used to pay off previously outstanding two mortgages and loan of approximately \$9,700,000, \$2,100,000, & \$3,200,000, respectively. Of the remaining \$10,000,000, \$1,900,000 was split between closing costs and real estate taxes, with the remaining balance of \$8,100,000 being credited to the Cooperative. The mortgage requires monthly payments for the first period of \$83,333, totaling approximately \$1,000,000 per year beginning October 1, 2011, which includes only interest being paid down. There will be no amortization taken over the life of the mortgage, as the monthly payments will only be applied towards interest.

The Cooperative entered into an agreement subsequent to the year ended June 30, 2011 to upgrade the boiler room, which provides steam to East River Housing Corp and Hillman Housing Corp, at a cost of approximately \$4,900,000 plus engineering costs. The boiler room is to be converted from an oil-based system to a less expensive gas-supplied system. Contracts have been entered into with several vendors to complete work on the boiler room.

NOTE 2: TENANT - STOCKHOLDER LOANS

As part of the reconstitution in 1997, the Cooperative instituted a "Substitute SCRIE Program" to provide benefits to all tenant-stockholders who became eligible for SCRIE Program benefits within the first two years after the effective date of the reconstitution. These "Substitute SCRIE Program" benefits consist of deferral of payment of carrying charges payable by a participating tenant-stockholder. The deferral of payments are treated as a loan to the tenant-stockholder, which is repayable only upon the sale or transfer of the shares of stock and accompanying proprietary lease owned by the tenant-stockholder.

The loans, which do not bear interest, are payable only when the stock and proprietary lease of the participant are sold or transferred. A participating tenant-stockholder is required to enter into an agreement with the Cooperative to this effect and to execute a UCC-1 financing statement to secure the loan. Each participant in the "Substitute SCRIE Program" is charged an annual \$25 processing fee by the Cooperative. At June 30, 2011 and 2010, the outstanding loans to tenant-stockholders under the "Substitute SCRIE Program," and included in receivables from tenant-stockholders, were approximately \$167,000 and \$146,000, respectively.

NOTE 3: MORTGAGE AND LOAN PAYABLE

The Cooperative's mortgage was restructured on August 1, 2003. The new mortgage, payable to Amalgamated Bank of New York (ABNY) matures on August 1, 2013. The

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 3: MORTGAGE AND LOAN PAYABLE (continued)

mortgage requires constant monthly payments of \$56,699 to be applied, first to interest at the fixed rate of 4.4% per annum, and the balance to reduction of the outstanding principal balance. The mortgage is collateralized by the land and buildings owned by the Cooperative.

ABNY converted a revolving line of credit previously extended to the Cooperative's into an unsecured term loan at a fixed rate of 4.4% with a new ten year term maturing on August 1, 2013, using a thirty-year amortization schedule. This loan requires monthly payments of \$12,519.

On October 17, 2005, the Cooperative borrowed \$3,500,000 from Amalgamated Bank of New York as an unsecured loan with interest at 5.25% per annum. This loan will be payable in 92 monthly installments of principal and interest in the amount of \$19,327 per month, with one final balloon payment.

After the balance sheet date, the Cooperative's mortgage was refinanced with New York Community Bank. See Subsequent Events under Note 1 for details of the refinanced mortgage.

NOTE 4: TREASURY STOCK

During the year ended June 30, 2011, the Cooperative sold 37.5 shares of treasury stock to tenant-stockholders allocated to one apartment. As of June 30, 2011, the Cooperative held 21.875 shares of treasury stock.

During the year ended June 30, 2010, the Cooperative sold 68.75 shares of treasury stock to tenant-stockholders allocated to two apartments. As of June 30, 2010, the Cooperative held no shares of treasury stock.

NOTE 5: CARRYING CHARGES – APARTMENTS/COMMERCIAL RENT, STORES AND OFFICES

Carrying charges are based on an annual budget determined by the Board of Directors. Tenant-stockholders are billed monthly based on the number of rooms in their respective apartments. Effective September 1, 2009, the Cooperative instituted a carrying charge increase of 10.25%.

In addition, the Cooperative leases space to commercial tenants. As of June 30, 2011, the Cooperative's total leasable commercial space of approximately 42,000 square feet was

99% occupied by 21 tenants, including two tenants that occupied approximately 52% of the gross leasable area.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 5: CARRYING CHARGES – APARTMENTS/COMMERCIAL RENT, STORES AND OFFICES (continued)

Future minimum rentals under noncancellable commercial operating leases as of June 30, excluding future escalations on electricity and other charges, are as follows:

2012	1,145,963
2013	1,083,145
2014	998,625
2015	1,017,595
Thereafter	<u>3,366,637</u>
	<u>\$ 7,611,965</u>

NOTE 6: APARTMENT RESALE FEES

The Cooperative assesses resale fees. Effective October 1, 2008, the rate is 20% on the first sales and 5% to all second and subsequent sales. For the year ended June 30, 2011, there were 37 first sales of apartments and 18 second sales of apartments resulting in apartment resale fees of \$3,989,507.

In comparison, for the year ended June 30, 2010, there were 23 first sales of apartments and 21 second sales of apartments resulting in apartment resale fee revenue of \$2,877,772.

NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Cooperative's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. In addition, the Cooperative 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 Cooperative has the right to utilize reserve funds, borrow, increase maintenance assessments, pass special assessments or delay major repairs and replacements until funds are available. The effects on future assessments have not been determined at this time.

NOTE 8: COMMITMENT AND CONTINGENCIES

Substantially all of the Cooperative's employees were covered by a collective bargaining agreement, which expires in April 2014. In addition, the Cooperative's union employees are covered by a multi-employer pension plan. The information as to the Cooperative's portion of accumulated plan benefits and plan assets is not determinable. Under the Employee Retirement Income Security Act of 1974, as amended, an employer, upon withdrawal from a multi-employer plan is required to continue to pay its proportionate share of the plan's unfunded vested benefits. The Cooperative has no intention of withdrawing from the multi-employer pension plan.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 8: COMMITMENT AND CONTINGENCIES (continued)

The Cooperative's nonunion employees were covered by a 401(k) retirement plan through December 31, 2003. Beginning January 1, 2004, the nonunion employees are covered by a multi-employer retirement plan.

Charges to operations applicable to such plan amounted to \$45,711 and \$33,955 for the fiscal years ended June 30, 2011 and 2010, respectively. The Cooperative does not administer or control these plans.

NOTE 9: INCOME TAXES

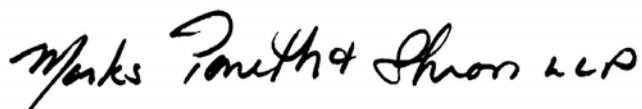
The Cooperative has approximately \$10,168,000 of operating loss carryforwards available for federal income tax purposes, which were incurred after June 30, 1997 tax year and expire in twenty years. Because the future utilization of these tax carryforward losses is uncertain, no related deferred tax asset account has been reflected in the accompanying financial statements. The Cooperative's tax returns are subject to review by the respective taxing authorities.

SUPPLEMENTAL INFORMATION

Independent Auditors' Report on Supplemental Information

To the Stockholders
East River Housing Corporation
New York, N.Y.

We have audited the financial statements of East River Housing Corporation as of and for the years ended June 30, 2011 and 2010, and our report thereon dated November 14, 2011, which expressed and unqualified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The information, on pages 13 and 14, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Cooperative's management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole



New York, New York
November 17, 2011

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
As of and For the Years Ended June 30,

	<u>2011</u>	<u>2010</u>
Prepaid Expenses and Other Assets		
Unexpired Insurance	\$ 560,989	\$ 526,284
Mortgage refinancing costs	260,176	23,873
J-51 consulting	55,366	64,986
Fuel inventory	267,358	226,378
Painting	34,756	46,845
Security contract	27,231	26,381
Corporate taxes	10,000	4,350
	<u>\$ 1,215,876</u>	<u>\$ 919,097</u>
Other Income		
Interest income	\$ 1,941	\$ 22,715
Late fees	58,270	59,975
Fitness room income - net	167,588	164,828
Miscellaneous	210,260	139,014
	<u>\$ 438,059</u>	<u>\$ 386,532</u>
Utilities and Fuel Expenses		
Electricity	\$ 1,996,949	\$ 1,918,061
Water and sewer	901,200	845,799
Fuel	3,458,699	2,283,209
Gas	92,841	94,588
	<u>\$ 6,449,689</u>	<u>\$ 5,141,657</u>
Labor Expenses		
Porters	\$ 1,159,816	\$ 1,111,050
Handymen	523,782	494,256
Boiler room	605,544	591,521
Supervisors	95,446	92,983
	<u>\$ 2,384,588</u>	<u>\$ 2,289,810</u>

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
For the Years Ended June 30,

	<u>2011</u>	<u>2010</u>
Payroll Overhead		
Union pension and welfare funds	\$ 785,527	\$ 719,464
Payroll taxes	334,190	323,582
Group life and major medical insurance	97,037	92,710
Retirement expenses	45,711	33,955
Payroll services	15,087	15,470
	<u>\$ 1,277,552</u>	<u>\$ 1,185,181</u>
Repairs and Maintenance Expenses		
Apartment repairs	181,335	217,429
Janitorial supplies	295,542	270,572
Elevator	326,455	293,714
Gardening	111,192	129,830
Plumbing	345,218	312,677
Heating and air conditioning	116,511	116,091
Painting and plastering	154,517	133,951
Electrical	199,121	296,221
Exterminating	379,218	175,052
Vehicle	29,602	33,556
Security equipment	195,689	205,346
Compactors	8,458	16,340
Uniforms	16,128	15,462
Miscellaneous	2,049	52,716
	<u>\$ 2,361,035</u>	<u>\$ 2,268,957</u>
Management Expenses		
Salaries	\$ 564,790	\$ 527,035
Telephone / Communication	42,146	44,673
Stationery, printing and office supplies	63,579	50,535
Professional fees	159,556	192,464
Miscellaneous	20,859	176,964
	<u>\$ 850,930</u>	<u>\$ 991,671</u>