

**UPPER SOUTHAMPTON
MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
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YEARS ENDED JUNE, 2022 AND 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Upper Southampton Municipal Authority
Southampton, Pennsylvania

We have audited the accompanying Statements of Net Assets of Upper Southampton Municipal Authority, a non-profit organization, at June 30, 2022 and 2021, and the related Statements of Revenue, Expenses and Change in Net Assets, and Cash Flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 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 the Upper Southampton Municipal Authority as of June 30, 2022 and 2021 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

D'Angelo & Company P.C.

Certified Public Accountants

Southampton, Pennsylvania
September 1, 2022

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

As management of the UPPER SOUTHAMPTON MUNICIPAL AUTHORITY (“Authority”) we offer readers of the financial statements this unaudited narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

The assets of the authority exceeded its liabilities at the close of the most recent fiscal year by \$15,279,550. The prior year excess amounted to \$15,544,455.

The authority's total net assets decreased by \$264,905. In 2021, it increased by \$254,735.

The authority invested an additional \$355,902 in fixed assets during the current fiscal year.

Proprietary Fund- The enclosed financial statements are presented in the format of an enterprise fund. This format in concept resembles that of a business-type activity. The financial statements are prepared using generally accepted accounting principles. This format is consistent with the reporting requirements of GASB 34.

Notes to the Financial Statements - The notes provide additional information that is essential for a full understanding of the data and figures provided in the financial statements.

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The largest portion of the authority's net assets reflects its investment in capital assets. This condensed statement of net assets is illustrative of the authority's net investment in capital assets.

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|----------------------------|---------------------|----------------------|----------------------|
| Current assets | \$ 6,175,187 | \$ 8,308,231 | \$ 3,249,253 |
| Capital assets | <u>22,493,673</u> | <u>20,943,529</u> | <u>21,628,041</u> |
| Total assets | <u>\$28,668,860</u> | <u>\$ 29,251,760</u> | <u>\$ 24,877,294</u> |
| | | | |
| Current liabilities | \$ 2,154,761 | \$ 1,561,009 | \$ 1,612,860 |
| Noncurrent liabilities | <u>11,234,546</u> | <u>12,146,296</u> | <u>7,974,714</u> |
| Total liabilities | <u>\$13,389,307</u> | <u>\$13,707,305</u> | <u>\$ 9,587,574</u> |
| | | | |
| Net assets, unrestricted | \$ 8,068,520 | \$ 2,929,740 | \$ 2,484,119 |
| Invested in capital assets | <u>7,211,033</u> | <u>12,614,715</u> | <u>12,805,601</u> |
| Total net assets | <u>\$15,279,553</u> | <u>\$15,544,455</u> | <u>\$15,289,720</u> |

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

CONDENSED STATEMENT OF REVENUE, EXPESNES AND CHANGES IN FUND NET ASSETS

For the year ending June 30, 2022, the Authority showed a loss due to an increase in expected maintenance expenses and less than expected operating revenue.

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|--------------------------------------|---------------------|---------------------|---------------------|
| Total Operating Revenue | \$ 6,802,927 | \$ 6,897,906 | \$ 6,535,979 |
| <u>Operating expenses:</u> | | | |
| Production expenses | 3,816,073 | 3,657,506 | 3,659,381 |
| Maintenance expenses | 756,885 | 415,026 | 240,530 |
| Administrative expenses | 962,239 | 1,070,409 | 977,756 |
| Depreciation | <u>1,516,898</u> | <u>1,529,451</u> | <u>1,483,318</u> |
| | <u>7,052,095</u> | <u>6,672,392</u> | <u>6,360,985</u> |
| Operating income (loss) | (249,168) | 225,514 | 174,994 |
| Non-operating revenue | <u>(27,737)</u> | <u>5,221</u> | <u>42,953</u> |
| Income (loss) before contributions | (276,905) | 230,735 | 217,947 |
| Contributions in aid of construction | <u>12,000</u> | <u>24,000</u> | <u>440,000</u> |
| Changes in net assets | <u>(264,905)</u> | <u>254,735</u> | <u>657,947</u> |
| Total net assets – July 1 | <u>15,544,455</u> | <u>15,289,720</u> | <u>14,631,773</u> |
| Total net assets – June 30 | <u>\$15,279,553</u> | <u>\$15,544,455</u> | <u>\$15,289,720</u> |

ANALYSIS OF THE SIGNIFICANT BUDGET VARIATIONS

| | <u>Budget</u> <u>2022</u> | <u>Actual</u> <u>2022</u> | <u>Variance</u> <u>2022</u> |
|----------------------------|------------------------------|------------------------------|--------------------------------|
| Total Operating Revenue | 7,121,345 | 6,897,906 | (318,418) |
| <u>Operating expenses:</u> | | | |
| Production expenses | 4,106,058 | 3,816,073 | (289,985) |
| Maintenance expenses | 295,000 | 756,885 | 461,885 |
| Administrative expenses | 1,241,351 | 962,239 | (279,112) |
| Depreciation | <u>1,500,000</u> | <u>1,516,898</u> | <u>16,898</u> |
| | <u>7,142,409</u> | <u>7,052,095</u> | <u>(90,314)</u> |
| Operating income (loss) | (21,064) | (249,168) | (228,104) |
| Non-operating revenue | <u>22,460</u> | <u>(27,737)</u> | <u>(50,197)</u> |
| Net income (loss) | <u>1,396</u> | <u>(276,905)</u> | <u>(278,301)</u> |

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and equivalents | \$ 4,579,589 | \$ 6,627,563 |
| Accounts receivable | 754,994 | 885,809 |
| Unbilled revenue receivable | 669,139 | 649,566 |
| Tapping fees receivable, current portion | 35,000 | 34,563 |
| Prepaid expense | 136,465 | 110,730 |
| TOTAL CURRENT ASSETS | <u>6,175,187</u> | <u>8,308,231</u> |
| Non current assets | | |
| Construction escrow desopits | 24,296 | 24,296 |
| Tapping fees receivable | 71,121 | 89,300 |
| Construction in progress | 2,935,224 | 317,218 |
| Capital Assets | | |
| Land | 229,877 | 229,876 |
| Building | 2,249,521 | 2,249,520 |
| Machinery and Equipment | 985,031 | 934,433 |
| Office equipment | 129,686 | 123,496 |
| Water mains and sewer system | 44,918,358 | 44,507,933 |
| | <u>48,512,473</u> | <u>48,045,258</u> |
| Less accumulated depreciation | (29,049,441) | (27,532,543) |
| | <u>19,463,032</u> | <u>20,512,715</u> |
| TOTAL ASSETS | <u>\$ 28,668,860</u> | <u>\$ 29,251,760</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Line of credit, bank | \$ 200,000 | \$ - |
| Current poriton of note payable, DVRFA | 863,000 | 793,000 |
| Accounts payable and accrued expenses | 1,091,764 | 768,009 |
| TOTAL CURRENT LIABILITIES | <u>2,154,764</u> | <u>1,561,009</u> |
| Non-current liabilities | | |
| Rental escrow desposit | 17,000 | 17,000 |
| Construction escrow deposits | 28,546 | 24,296 |
| Note payable - DVRFA, net of current portion | 11,189,000 | 12,105,000 |
| TOTAL NON-CURRENT LIABILITIES | <u>11,234,546</u> | <u>12,146,296</u> |
| TOTAL LIABILITIES | <u>13,389,310</u> | <u>13,707,305</u> |
| NET ASSETS | | |
| Invested in capital assets | 7,211,030 | 12,614,715 |
| Unrestricted | 8,068,520 | 2,929,740 |
| TOTAL NET ASSETS | <u>15,279,550</u> | <u>15,544,455</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 28,668,860</u> | <u>\$ 29,251,760</u> |

See accountants' report and accompanying notes.

UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| OPERATING REVENUE | | |
| Revenue | \$ 6,752,227 | \$ 6,766,997 |
| Connection and tapping fees | 62,700 | 154,909 |
| Total operating revenue | <u>6,814,927</u> | <u>6,921,906</u> |
| OPERATING EXPENSES | | |
| Production and connection expenses | 3,816,073 | 3,657,506 |
| Maintenance and repair expenses | 756,885 | 415,026 |
| Administrative expenses | 962,239 | 1,070,409 |
| Depreciation | 1,516,898 | 1,529,451 |
| Total operating expenses | <u>7,052,095</u> | <u>6,672,392</u> |
| OPERATING INCOME (LOSS) | <u>(237,168)</u> | <u>249,514</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Interest income | 69,508 | 15,379 |
| Fee, penalty and other income | 118,337 | 59,070 |
| Rental income | 141,221 | 152,291 |
| Gain on sale of assets | - | 75,274 |
| Litigation settlement | - | (50,000) |
| Interest expense | (246,958) | (250,209) |
| Unrealized gain (loss) on investments | (109,845) | 3,416 |
| Total non operating revenue | <u>(27,737)</u> | <u>5,221</u> |
| INCREASE (DECREASE) IN NET ASSETS | (264,905) | 254,735 |
| NET ASSETS, BEGINNING | <u>15,544,455</u> | <u>15,289,720</u> |
| NET ASSETS, ENDING | <u>\$ 15,279,550</u> | <u>\$ 15,544,455</u> |

See accountants' report and accompanying notes.

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (264,905) | \$ 254,735 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 1,516,898 | 1,529,451 |
| (Increase) decrease in assets | | |
| Accounts and unbilled receivables | 200,187 | 606,536 |
| Tapping fees receivable | 18,179 | (28,502) |
| Prepaid expenses | (25,735) | (19,112) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expense | 323,752 | (236,851) |
| Accounts payable restricted | 4,250 | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,772,626</u> | <u>2,106,257</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | <u>(467,213)</u> | <u>(730,565)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(467,213)</u> | <u>(730,565)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Construction in progress and related deposits | (2,707,387) | (125,577) |
| Proceeds from line of credit, bank | 200,000 | - |
| Principal payments of notes payable | (846,000) | (608,000) |
| Proceeds from notes payable, DVRFA | - | 5,000,000 |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(3,353,387)</u> | <u>4,266,423</u> |
| NET INCREASE IN CASH AND RESTRICTED CASH | (2,047,974) | 5,642,115 |
| CASH AND RESTRICTED CASH, BEGINNING | <u>6,627,563</u> | <u>985,448</u> |
| CASH AND RESTRICTED CASH, ENDING | <u>\$ 4,579,589</u> | <u>\$ 6,627,563</u> |
| Supplementary disclosure: | | |
| Interest paid | <u>\$ 246,958</u> | <u>\$ 250,209</u> |

See accountants' report and accompanying notes.

UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Upper Southampton Municipal Authority (“USMA” and “Authority”) is an enterprise fund of the Township of Upper Southampton. The fund complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements. Financial Accounting Standards Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the fund the option of electing to apply FASB pronouncements. The Board of Directors of USMA has elected to implement the financial reporting requirements of GASB Statement No. 34.

To conform with the recommendations of the industry audit guide, Audit of State and Local Government Units issued by the American Institutes of Certified Public Accountants in 1974, the financial statements have been prepared on the accrual basis of accounting and confirm with generally accepted accounting principles.

Construction in progress

Construction in progress represents various projects for water mains and sewer systems in different stages of completion. Once projects are complete, those costs are capitalized to capital assets.

Depreciation

Depreciation of property and equipment is provided by using the Straight Line Method over the estimated useful life of the asset.

| | |
|-----------------------------|-------------|
| Building | 50 years |
| Machinery and equipment | 5 years |
| Office equipment | 5-10 years |
| Mains, pumphouses and wells | 10-50 years |
| Sanitary sewer system | 10-50 years |

Commitments

The Authority entered into an agreement with Lower Southampton Township dated December 14, 1988 in which the Authority agrees to pay its pro-rata share of the expense relating to the sewage treatment agreement between Lower Southampton Township and the City of Philadelphia. A portion of these pro-rata expenses included debt service costs incurred by Lower Southampton Township related to a \$5.7 million bond issue for a capital contribution option exercised in the agreement with Philadelphia to reserve capacity in Philadelphia's Northeast Water Pollution Control Plant. The pro-rata allocation is based on metered flows. This capital contribution has been paid in full.

UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 PROPERTY AND EQUIPMENT

Capital asset activity consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|----------------------|----------------------|
| Land | \$ 229,876 | \$ 229,876 |
| Building | 2,249,521 | 2,249,521 |
| Machinery and equipment | 985,030 | 934,433 |
| Office and equipment | 129,686 | 123,496 |
| Mains, pumphouses and wells | 25,877,108 | 25,846,344 |
| Sanitary sewer system | <u>18,661,588</u> | <u>18,929,939</u> |
| | 48,045,258 | 48,401,160 |
| Less: Accumulated depreciation | <u>29,049,441</u> | <u>27,532,543</u> |
| | <u>\$ 19,351,719</u> | <u>\$ 20,512,715</u> |

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 amounted to \$1,516,898 and \$1,529,451 respectively.

NOTE 3 CONCENTRATION OF CREDIT RISK

The Authority occasionally maintains cash balances that is in excess of the \$250,000 Federal Deposit Insurance Corporation (FDIC) insured amount. It is the opinion of management that the solvency of the referenced financial institution is not of particular concern at this time.

NOTE 4 PENSION PLAN COSTS

The Authority participates in the Pennsylvania Municipal Retirement System ("System"), a contributory, multi-employer pension plan administered by the Pennsylvania Municipal Retirement Board covering all eligible employees. The total pension expense for the years ending June 30, 2022 and 2021 totaled \$92,912 and \$84,030 respectively.

UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 TAPPING FEES RECEIVABLE

Taping fees receivable represent the unpaid portion of contracts from new customers who connect to the water or sewer systems of the Authority. New customers generally pay varying fees for connections based on location with the payment deferred over 5 years.

The receivable as of June 30, 2022 amounted to:

| | |
|------------------------|------------------|
| Tapping fee receivable | \$106,121 |
| Less current portion | <u>35,000</u> |
| Non-current portion | <u>\$ 71,121</u> |

NOTE 6 LINE OF CREDIT, BANK

The line of credit, bank, represents a short-term demand loan from the Authority’s primary financial institution, with interest at the Bank’s Prime rate plus .25%, collateralized by certain assets of the Authority.

NOTE 7 NOTE PAYABLE – LONG TERM

At various times between 2006 to 2021 the authority borrowed a total of \$17,700,000 from the Delaware Valley Regional Financial Authority (“DVRFA”) in four separate notes at interest rates varying from 1.26% to 2.49%, with 20-year payment terms. The purpose of the notes were to fund capital improvement projects including expansion and renovation of the water system. Interest is paid monthly with an annual principal payment made annually on the anniversary date of each note.

The note is guaranteed by the pledge of water revenues from the operation of the Municipal Water System. The revenues combined with other unrestricted funds are sufficient to provide for the following:

- The cost to operate and maintain the water system,
- 115% of the payments required under the loan agreement, and
- 115% of other debt service obligations.

| | |
|---|---------------------|
| Notes Payable, DVRFA as of June 30, 2022, with final payment due January 2041 | \$12,052,000 |
| Less current portion | <u>863,000</u> |
| Notes Payable, non-current portion | <u>\$11,189,000</u> |

UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 8 SUBSEQUENT EVENTS

Management has evaluated subsequent events through to September 1st, 2022, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2022, that require recognition in the financial statements.

SUPPLEMENTAL INFORMATION

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
SCHEDULES OF DIRECT COSTS AND OVERHEAD EXPENSES
YEARS ENDED JUNE 30, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Production and Collection Expenses | | |
| Payroll | \$ 424,300 | \$ 325,002 |
| Payroll taxes | 32,059 | 27,668 |
| Employee Benefits | 162,742 | 127,938 |
| Laboratory | 15,995 | 28,100 |
| Payments to Philadelphia | 1,984,246 | 1,982,191 |
| Power | 245,822 | 196,974 |
| Treatment chemicals | 40,499 | 35,999 |
| Truck expenses | 24,124 | 23,358 |
| Water purchased | 886,286 | 910,276 |
| | <u>\$ 3,816,073</u> | <u>\$ 3,657,506</u> |

Maintenance and Repair Expenses

| | | |
|-------------------------------|-------------------|-------------------|
| Clean water fund | \$ 30,487 | \$ 21,071 |
| Electrical maintenance | 15,549 | 2,750 |
| Equipment maintenance | 34,806 | 28,086 |
| Fuel oil | - | 3,883 |
| Maintenance, other | 210,276 | 65,303 |
| Meter maintenance | 57,984 | 116,702 |
| Pump maintenance | 358,727 | 73,543 |
| Station security | 8,146 | 7,218 |
| Supplies and line maintenance | 34,224 | 89,356 |
| Uniforms | 3,183 | 4,654 |
| Wells and storage maintenance | 3,503 | 2,460 |
| | <u>\$ 756,885</u> | <u>\$ 415,026</u> |

See accountants' report and accompanying notes.

**UPPER SOUTHAMPTON MUNICIPAL AUTHORITY
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|-------------------------|-------------------|---------------------|
| Administrative Expenses | | |
| Payroll | \$ 333,188 | \$ 306,740 |
| Payroll Taxes | 25,862 | 24,320 |
| Accounting | 20,500 | 19,000 |
| Board fees | 7,200 | 7,200 |
| Dues & subscription | 4,960 | 5,139 |
| Electricity | 10,408 | 8,242 |
| Employee benefits | 113,479 | 132,514 |
| Engineering fees | 39,545 | 81,965 |
| Insurance | 105,721 | 115,150 |
| Legal | 46,665 | 139,919 |
| Maintenance | 9,045 | 11,259 |
| Merchant fees | 27,668 | 24,676 |
| Miscellaneous | 8,205 | 9,486 |
| Office supplies | 78,499 | 58,624 |
| Pension plan | 92,912 | 84,030 |
| Postage | 12,030 | 11,807 |
| Public notices | 3,271 | 3,165 |
| Seminars & conferences | 3,348 | 10,613 |
| Telephone | 19,733 | 16,560 |
| | <u>\$ 962,239</u> | <u>\$ 1,070,409</u> |

See accountants' report and accompanying notes.