

**MENDOCINO COAST HOSPITAL FOUNDATION**

**FINANCIAL STATEMENTS**

**YEAR ENDED**

**DECEMBER 31, 2016**



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## INFORMATION ABOUT THE ORGANIZATION

NAME OF ORGANIZATION	Mendocino Coast Hospital Foundation
ADDRESS	775 River Drive Fort Bragg, CA 95437
TELEPHONE	707 961-4671
WEBSITE	<a href="http://www.mchfoundation.org">www.mchfoundation.org</a> <a href="http://www.winesong.org">www.winesong.org</a>
E-MAIL	mchf@mcn.org
EXECUTIVE DIRECTOR	Michelle Roberts



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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Mendocino Coast Hospital Foundation  
Fort Bragg, CA

We have audited the accompanying financial statements of the Mendocino Coast Hospital Foundation (a California nonprofit corporation), which comprise the statements of financial position as of December 31, 2016, and the related statement of activities and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

## INDEPENDENT AUDITOR'S REPORT - CONTINUED

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mendocino Coast Hospital Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of selected expenses on page 17 is presented for purposes of additional analysis and is not a required part 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 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 taken as a whole.



Fort Bragg, California  
July 27, 2017

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**

**ASSETS**

*Current assets*

Cash and cash equivalents	\$ 870,009	
Accounts receivable	-	
Prepaid expenses (Note 2)	35,025	
Total current assets	905,034	\$ 905,034

*Noncurrent assets*

Fixed assets, net (Note 3)	707	
Investments (Note 4)	1,311,082	
Other noncurrent assets (Note 5)	62,129	
Total noncurrent assets	1,373,918	

TOTAL ASSETS		\$ 2,278,952
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**LIABILITIES AND NET ASSETS**

*Current liabilities*

Accounts payable	\$ 13,868	
Grants payable	-	
Accrued expenses	12,490	
Total current liabilities	26,358	\$ 26,358

TOTAL LIABILITIES		26,358
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*Net assets*

Unrestricted	1,760,357	
Temporarily restricted (Note 7)	492,237	
Permanently restricted (Note 8)	-	
TOTAL NET ASSETS	2,252,594	

TOTAL LIABILITIES AND NET ASSETS		\$ 2,278,952
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See accompanying notes and independent accountant's report.

**MENDOCINO COAST HOSPITAL FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND GAINS (LOSSES)</b>				
Gifts, grants, and contributions	\$ 163,390	\$ 280,949	\$ -	\$ 444,339
Investment income (loss):				
Interest and dividends	23,889	-	-	23,889
Realized gains or (losses), net	38,800	-	-	38,800
Unrealized gains (losses), net	63,552	-	-	63,552
Total investment income (loss)	126,241	-	-	126,241
Winesong Revenue (Note 11)	526,287	-	-	526,287
Other income	16,000	-	-	16,000
Net assets released from restrictions	201,540	(201,540)	-	-
Total revenues, gains and (losses)	1,033,458	79,409	-	1,112,867
<b>EXPENSES</b>				
Program services				
Donations to Hospital	159,206	-	-	159,206
Winesong Expenses (Note 11)	445,320	-	-	445,320
Total program services	604,526	-	-	604,526
Supporting services		-	-	
Fund raising costs	2,347	-	-	2,347
Payroll and related expenses	256,765	-	-	256,765
General and administrative costs	50,678	-	-	50,678
Depreciation expense	141	-	-	141
Total supporting services	309,931	-	-	309,931
Total expenses	914,457	-	-	914,457
<b>CHANGE IN NET ASSETS</b>	<b>\$ 119,001</b>	<b>\$ 79,409</b>	<b>\$ -</b>	<b>\$ 198,410</b>
NET ASSETS - beginning of the year	1,759,675	290,828	-	2,050,503
Adjustment of opening balance (Note 13)	(118,319)	122,000	-	3,681
NET ASSETS - end of the year	<u>\$ 1,760,357</u>	<u>\$ 492,237</u>	<u>\$ -</u>	<u>\$ 2,252,594</u>

See accompanying notes and independent accountant's report.

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 198,410
Adjustments to reconcile the change in net assets to net cash provided by or (used by) operating activities:	
Adjustment to opening net assets balance	3,681
Depreciation and amortization	141
Accounts and pledges receivable	-
Deferred income	-
Grants payable	(14,221)
Prepaid expenses	(2,560)
Accounts payable	396
Accrued liabilities	(4,489)
Net cash provided (used) by operating activities	<u>\$ 181,358</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of fixed assets, net of disposals	-
(Increase) or decrease in other assets	(4,693)
(Increase) or decrease in investments	(68,196)
Net cash provided (used) by investing activities	<u>\$ (72,889)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from borrowing	-
Net cash provided (used) by investing activities	<u>\$ -</u>
Net increase (decrease) in cash	\$ 108,469
Cash and cash equivalents at beginning of year	<u>761,540</u>
Cash and cash equivalents at end of year	<u><u>\$ 870,009</u></u>

*Supplemental disclosure of cash flow information:*

Cash paid for:

Interest	\$ -
Taxes	\$ 197

Noncash transactions:

Office Rent	\$ 16,000
In-kind donations	\$ 60,337

See accompanying notes and independent accountant's report.



**MENDOCINO COAST HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**ORGANIZATION AND NATURE OF ACTIVITIES**

The Mendocino Coast Hospital Foundation (the Foundation) is a nonprofit public benefit corporation formed in August 1984 for the charitable purpose of providing the Mendocino Coast District Hospital (the District) financial aid for patient services and funds allowing it to acquire, replace and upgrade its facilities and equipment. Winesong, an annual wine tasting and auction event, is the primary fundraising event produced by the Foundation.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting and Presentation*

The financial statements of the Mendocino Coast Hospital Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Net assets are classified based on the existence of donor-imposed restrictions. Accordingly, the accounts of the Foundation are reported in the following net asset categories:

*Unrestricted Net Assets*

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

*Temporarily Restricted Net Assets*

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income on endowment investments that have not been appropriated for expenditure.

*Permanently Restricted Net Assets*

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Foundation to expend the income earned thereon.

*Cash and Cash Equivalents*

The Foundation considers cash on hand and highly liquid investments with original or remaining maturity of three months or less at the time of purchase to be cash and cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude restricted cash and cash equivalents.

*Investments*

The Foundation invests the operating funds surplus in higher-yield instruments such as mutual funds and marketable securities. They are stated at fair value based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities.

These investments are exposed to numerous risks, including interest rate fluctuation, market volatility and credit risks. Due to the level of risk associated with certain investments, changes in value of the investments could occur, which would materially affect the Foundation's financial statements and future financial position.

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Concentration of Credit Risk*

Financial instruments that potentially subject Mendocino Coast Hospital Foundation to concentrations of credit risk consist of cash deposits and investments. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per banking institution.

The organization maintains investments at Edward Jones Investment Company. Investments are subject to a formal investment policy, which provides for diversification and oversight. Balances in investment accounts are insured up to \$500,000, including a limit of \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). Edward Jones purchases additional protection from Underwriters at Lloyd's. At December 31, 2016, the Foundation had uninsured cash balances of approximately \$393,180.

*Inventory*

Inventory consists of items available to be sold at Winesong, the Foundation's annual auction event, and is stated at the lower of cost or net realizable value market, with cost being determined by first-in, first-out method.

*Fixed Assets*

Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, which range from five to fifteen years. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the improvements. Normal repairs and maintenance are expensed as incurred whereas significant improvements that materially increase values or extend useful lives are capitalized and depreciated over the remaining estimated useful lives of the related assets. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

The Foundation has adopted a capitalization policy requiring all assets acquired, whether purchased or received by donation, with a cost or value of more than \$1,000 to be capitalized.

*Donated investments*

Investments, consisting of gifts of securities or other property to the Foundation are recorded at their fair market value on the date of the gift.

*Donated Services*

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. General volunteers do not meet these recognition criteria, but have donated significant amounts of time in supporting Mendocino Coast Hospital Foundation's activities.

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Donated Property and Equipment*

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 the donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

*Contributions*

Contributions are recorded as revenues at fair value at the date of receipt or unconditional promise to give, and as asset or decreases of liabilities or expenses, depending on the form of the benefit received.

*Grants Payable*

Grants payable amounts represent funds requested by the District and approved by the Board, but not yet disbursed.

*Grants and Program Services*

The Foundation's programs consist of grants made from available income and principal in accordance with designations by the donors and as approved by the Board of Directors and are recorded after the grant documentation has been finalized.

*Income taxes*

Mendocino Coast Hospital Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and related California code sections. The organization has evaluated uncertain tax positions and related disclosures in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10-50-15. Management does not believe that any material uncertain tax positions exist. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and gains, and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

*Expense Allocations*

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain administrative costs have been allocated among the programs and supporting services benefited.

**MENDOCINO COAST HOSPITAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Advertising*

Costs incurrent for advertising are charged to expense as incurred. For the year ended December 31, 2016 total advertising costs are \$20,388.

**NOTE 2. PREPAID EXPENSES**

Prepaid expenses consist of the following at December 31, 2016:

Production contract for 2017 Winesong deposit	\$31,500
Storage rent	2,460
Insurance	577
Membership	488
	\$35,025

**NOTE 3. FIXED ASSETS**

Mendocino Coast Hospital Foundation's fixed assets at December 31, 2016 consist of the following:

Office equipment	\$26,489
Furniture and Fixtures	8,778
	35,267
Less: Accumulated depreciation	(34,560)
	\$707

**NOTE 4. FAIR VALUE MEASUREMENTS AND INVESTMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure 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). The three levels of the fair value hierarchy are described below:

*Level 1*

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

*Level 2*

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**MENDOCINO COAST HOSPITAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4. FAIR VALUE MEASUREMENTS AND INVESTMENTS - CONTINUED**

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3*

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value at the reporting date. The valuation levels are not necessarily an indication of the risk of liquidity associated with the underlying investments.

The following schedule reports the types of investments that the Foundation owns as well as investment's cost and fair market value at December 31, 2016:

Description	Cost Basis	Fair Market Value		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$32,274	\$32,274		
Common stock	43,364	\$44,656		
Mutual fund investments	987,464	1,234,152		
	<u>\$1,063,102</u>	<u>\$1,311,082</u>		

**NOTE 5. OTHER ASSET - MENDOCINO COAST MEDICAL PLAZA, LLC**

In 2003 the Foundation purchased interest in a Limited Liability Company which has developed a medical office building in Fort Bragg, CA. The Foundation is a 10.53% owner of this entity. The investment cost as of December 31, 2016 is \$62,129.

Level 3 measurements determine the fair value for investment in Mendocino Coast Medical Plaza, LLC. To minimize the use of unobservable inputs that are significant to the fair value measurement, the Foundation carries the investment in Mendocino Coast Medical Plaza, LLC at cost.

**NOTE 6. LINE OF CREDIT**

Mendocino Coast Hospital Foundation maintained a non-revolving line of credit with Edward Jones Investment Company. This line of credit is based on and collateralized by the Foundation's investment accounts. At December 31, 2016 \$639,288 of credit was approved at 3.5% interest rate. There were no borrowings during 2016 on this credit facility.

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 7. TEMPORARILY RESTRICTED NET ASSETS**

The Foundation has only two classes of net assets, unrestricted and temporarily restricted.

As of December 31, 2016 the temporarily restricted net assets consist of amounts accumulated, net of expenditures, for the following:

Name of Fund	Balance
Obstetrics	\$6,806
Central Monitoring and Telemetry System	217,817
Ambulance Fund	107,690
Gloria Fredrickson Nurses Fund	3,917
Cox Cancer Care Fund	45,684
Chaplaincy Program	15,737
Patient Refurb Project	94,586
	\$492,237

In 2016 the Board approved with the consent from donors to reallocate \$37,845 from Family Waiting Room Fund to the Patient Room Improvement Fund.

The Foundation reserved cash and investments in the amount of \$492,237 as of December 31, 2016. These assets are limited as to use for purposes specifically designated by donors of the Foundation to support the programs and services of the District.

**NOTE 8. PERMANENTLY RESTRICTED NET ASSETS**

At December 31, 2016 Mendocino Coast Hospital Foundation has no Permanently Restricted Net Assets.

**NOTE 9. RELATED PARTY**

The Foundation has a close association with the Mendocino Coast District Hospital which operates the local hospital. The District provides office space to the Foundation at no cost under an informal agreement. The fair market value of this donation is properly recorded in the statement of activities under other income and the related expense. The amount recorded for the year ended December 31, 2016 was \$16,000.

In addition, the Directors and fixed assets of the Foundation are covered under insurance policies carried by the District. It would be impracticable to estimate the cost savings of this donation and would be immaterial to the financial statements taken as a whole, therefore it is not recorded in the financial statements.

**NOTE 10. RETIREMENT BENEFITS**

Mendocino Coast Hospital Foundation has established a retirement savings plan under Section 403(b) of the U.S. Internal Revenue Code (the 403(b) Plan). The 403(b) Plan covers employees of the organization who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis.

**MENDOCINO COAST HOSPITAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 11. FUNDRAISING ACTIVITIES**

The Foundation produces a weekend fundraising event once a year called Winesong, which includes wine tasting and an auction. For the year ended December 31, 2016 Winesong generated fundraising revenues as follows:

Ticket Sales	\$111,632
Auction Revenue	325,665
In-kind Donations	60,337
Product Sales	2,135
Barrel Tasting	23,018
Board Auction Lot	2,500
	<hr/>
	\$526,287

Additionally, \$37,500 was contributed by donors and sponsors of the event and donations of \$217,715 to Fund-A- Need lots as included in total of Gift, Grants and Contributions on the Statement of Activities.

The direct cost of Winesong totaled \$445,320. In addition, the Foundation attributes payroll and employee benefits expenses of \$137,175 to coordinating the Winesong event. Details of expenses are presented in supplemental Schedule I.

**NOTE 12. CONTINGENCIES AND GUARANTEES**

At the end of December 31, 2016 Mendocino Coast Hospital Foundation has guaranteed payments on various contracts in the amount of \$105,450 with various suppliers and consultants for 2017 Winesong event.

**NOTE 13. ADJUSTMENT OF OPENING BALANCE**

Net assets have been adjusted to record an investment account balance of \$3,681 at January 1, 2016 held at Royal Alliance Brokerage Company. Also, a correction of beginning net assets has been made to reclassify \$122,000 between unrestricted and temporarily restricted net assets categories. The total represented funds for a Bedside Medication Verification System that has been fully released from restrictions during 2016.

**NOTE 14. MANAGEMENT REVIEW OF SUBSEQUENT EVENTS**

Management has evaluated events that have occurred subsequent to the financial statement date though July 27, 2017, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the statements.

Supplemental Information



**MENDOCINO COAST HOSPITAL FOUNDATION  
SUPPLEMENTAL INFORMATION  
SCHEDULE I  
DETAIL OF SELECTED EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**PROGRAM SERVICES**

Winesong expenses	
Contract labor	\$ 146,191
In-kind expenses	60,337
Bank fees	19,823
Rent - equipment	14,096
Rent - Botanical Gardens	20,000
Postage and shipping	4,234
Publicity and sponsor cultivation	24,757
Auction lots cost	63,384
Events expenses	43,974
Priming and publications	27,193
Supplies	14,818
Travel	6,323
Permits	847
Miscellaneous	(657)
TOTAL WINESONG EXPENSES	<u>\$ 445,320</u>

**PAYROLL AND RELATED EXPENSES**

Salaries and wages - Winesong	\$ 127,344
Salaries and wages - Admin	91,300
Payroll tax expense	18,705
Payroll benefits	19,416
TOTAL PAYROLL EXPENSES	<u>\$ 256,765</u>

**GENERAL AND ADMINISTRATIVE EXPENSES**

Bookkeeping and accounting	\$ 19,765
Legal fees	1,318
Dues and subscriptions	1,249
Office supplies and expenses	9,801
Office rent (Note 8)	16,000
Bank fees	397
Travel	755
Taxes and fees	197
Miscellaneous	1,196
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 50,678</u>

See accompanying notes and independent accountant's report.