

**NORTHWEST SPAY &
NEUTER CENTER**

Financial Statements and
Supplementary Information

December 31, 2016 and 2015 (Reviewed)

NORTHWEST SPAY & NEUTER CENTER

Financial Statements and Supplementary Information

December 31, 2016 and 2015 (Reviewed)

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1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

Board of Directors
Northwest Spay & Neuter Center
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Spay & Neuter Center (a nonprofit organization) ("NWSNC"), which comprise the statement of financial position as of December 31, 2016, and the related statements 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 from 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

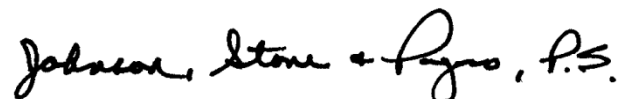
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Spay & Neuter Center as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally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

Prior Period Financial Statements

The 2015 financial statements were reviewed by us, and our report thereon, dated August 30, 2016, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 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 procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole. The 2015 information on page 15 was previously reviewed by us and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.



JOHNSON, STONE & PAGANO, P.S.

July 18, 2017

FINANCIAL STATEMENTS

NORTHWEST SPAY & NEUTER CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015 (Reviewed)

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 238,602	\$ 254,181
Accounts receivable	31,349	18,335
Prepaid expense	<u>16,969</u>	
Total Current Assets	286,920	<u>272,516</u>
PROPERTY AND EQUIPMENT		
Land	386,000	386,000
Building and building improvements	771,525	767,304
Medical and office equipment	221,562	221,562
Transportation equipment	<u>46,473</u>	<u>46,473</u>
	1,425,560	1,421,339
Accumulated depreciation	<u>370,037</u>	<u>289,453</u>
Total Property and Equipment	1,055,523	1,131,886
OTHER ASSETS		
Investments	<u>232,603</u>	<u>174,432</u>
Total Other Assets	<u>232,603</u>	<u>174,432</u>
TOTAL ASSETS	<u>\$ 1,575,046</u>	<u>\$ 1,578,834</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST SPAY & NEUTER CENTER

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2016 and 2015 (Reviewed)

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 23,664	\$ 16,180
Accrued wages and payroll taxes	14,812	22,940
Deferred revenue	7,688	5,500
Other accrued expenses	8,536	5,682
Current portion of long-term debt	<u>9,689</u>	<u>9,252</u>
Total Current Liabilities	64,389	59,554
LONG-TERM LIABILITIES , net of current portion	<u>300,876</u>	<u>310,274</u>
Total Liabilities	365,265	369,828
NET ASSETS		
Unrestricted	1,089,781	1,155,396
Temporarily restricted	<u>120,000</u>	<u>53,610</u>
Total Net Assets	<u>1,209,781</u>	<u>1,209,006</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,575,046</u>	<u>\$ 1,578,834</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST SPAY & NEUTER CENTER

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 203,308	\$ 128,000	\$ 331,308
Surgical services	630,626		630,626
Medication and pet supplies	177,698		177,698
Investment gain	14,103		14,103
Other income	277		277
Net assets released from restriction	<u>61,610</u>	<u>(61,610)</u>	
Total Revenue and Support	1,087,622	66,390	1,154,012
EXPENSES			
Program services	927,257		927,257
Management and general services	184,043		184,043
Fundraising	<u>41,937</u>		<u>41,937</u>
Total Expenses	<u>1,153,237</u>		<u>1,153,237</u>
INCREASE (DECREASE) IN NET ASSETS	(65,615)	66,390	775
Net Assets at Beginning of Year	<u>1,155,396</u>	<u>53,610</u>	<u>1,209,006</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,089,781</u>	<u>\$ 120,000</u>	<u>\$ 1,209,781</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST SPAY & NEUTER CENTER

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2015 (Reviewed)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 155,270	\$ 192,212	\$ 347,482
Surgical services	735,189		735,189
Medication and pet supplies	189,556		189,556
Investment loss	(5,580)		(5,580)
Other loss	(561)		(561)
In-kind contributions	500		500
Net assets released from restriction	<u>138,602</u>	<u>(138,602)</u>	<u> </u>
Total Revenue and Support	1,212,976	53,610	1,266,586
EXPENSES			
Program services	1,039,663		1,039,663
Management and general services	168,679		168,679
Fundraising	<u>41,512</u>	<u> </u>	<u>41,512</u>
Total Expenses	<u>1,249,854</u>	<u> </u>	<u>1,249,854</u>
INCREASE (DECREASE) IN NET ASSETS	(36,878)	53,610	16,732
Net Assets at Beginning of Year	<u>1,192,274</u>	<u> </u>	<u>1,192,274</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,155,396</u>	<u>\$ 53,610</u>	<u>\$ 1,209,006</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST SPAY & NEUTER CENTER

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015 (Reviewed)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 775	\$ 16,732
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	80,584	81,441
Realized and unrealized (gain) loss on investments	(9,768)	9,549
Loss on disposition of property and equipment		1,113
Bad debt expense	420	2,445
Donated stock	(48,403)	
Net change in operating assets and liabilities		
Decrease (increase) in accounts receivable	(13,434)	12,572
Decrease (increase) in prepaid expense	(16,969)	1,939
Increase (decrease) in accounts payable	7,484	(24,692)
Decrease in accrued wages and payroll taxes	(8,128)	(10,630)
Increase in deferred revenue	2,188	5,500
Increase (decrease) in other accrued expenses	<u>2,854</u>	<u>(8,006)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,397)</u>	87,963
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(185,319)
Proceeds from maturity and sale of investments		187,423
Purchase of property and equipment	<u>(4,221)</u>	<u>(11,487)</u>
Net Cash Used by Investing Activities	<u>(4,221)</u>	(9,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(8,961)</u>	<u>(8,596)</u>
Net Cash Used by Financing Activities	<u>(8,961)</u>	<u>(8,596)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,579)	69,984
Cash and Cash Equivalents at Beginning of Year	<u>254,181</u>	<u>184,197</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 238,602</u>	<u>\$ 254,181</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 15,060</u>	<u>\$ 15,372</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Northwest Spay & Neuter Center ("NWSNC"), a Washington non-profit organization, is organized to provide affordable, high quality spay and neuter services for cats and dogs in an effort to stop the killing of animals due to overpopulation; NWSNC is based in Pierce County, but has served clients in 24 out of 39 counties in Washington State and partners with 53 animal welfare organizations, and has provided spay/neuter services for over 62,000 animals since its inception in 2001.

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. NWSNC reports 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.

Under these provisions, net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor imposed restrictions; accordingly, the net assets of NWSNC and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets include all NWSNC net assets on which there are no donor imposed restrictions for use, or on which donor imposed restrictions were temporary and have expired.

Temporarily Restricted Net Assets

Temporarily restricted net assets include all NWSNC net assets received by donations on which the donor imposed some restriction. Such restrictions are time or purpose dependent and will expire when NWSNC makes use of the net assets sometime in the future for the restricted purpose.

Permanently Restricted Net Assets

Permanently restricted net assets include net assets received by donations on which the donor imposed a permanent restriction on the use of the gift. This category of net assets is composed of endowment gifts given over the years by donors who required that the gift be invested and only the income from such investments be used to support scholarships or other specific purposes. By law and agreement with the donor, NWSNC may never invade the principal of these gifts. There were no permanently restricted net assets at December 31, 2016 or 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with maturities of three months or less at the date of acquisition other than those held in NWSNC's investment portfolio.

Accounts Receivable

Accounts receivable are recorded using the accrual basis of accounting and are presented at their remaining uncollected balances based on management's assessment of the collectability. Management has evaluated the accounts and believes they are all collectible; therefore, no allowance for uncollectible accounts has been provided.

Investment Policy

NWSNC has adopted investment policies whose primary objective is to preserve and protect assets by earning a total return within reasonable risk tolerance levels. Spending is driven by controls over both cash flow and donor restriction limits. The policies also identify the oversight and reporting expectations as well as the overall investment strategy to maximize earnings.

Contributed Services

Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by NWSNC.

Many individuals volunteer their time and perform a variety of tasks that assist the NWSNC delivery of service. No amounts have been reflected in the financial statements for these donated services.

Property and Equipment

NWSNC capitalizes all expenditures for property and equipment in excess of \$1,000 and all expenditures for repairs and maintenance, renewals and betterments that prolong the useful lives of assets are capitalized.

Donated property and equipment are recorded at their fair value at the date of donation. There were no such contributions received during 2016 and 2015.

Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

	<u>Estimated Useful Lives</u>
Medical equipment	5 years
Office equipment	5 to 10 years
Building and improvements	10 to 27 years
Transportation equipment	5 years

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Depreciation expense was \$80,584 and \$81,441 for the years ended December 31, 2016 and 2015, respectively.

Advertising

NWSNC expenses advertising and marketing costs as they are incurred. Advertising costs totaled \$5,543 and \$6,782 for the years ended December 31, 2016 and 2015, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Deferred Revenue

Deferred revenue consists of advance payments for fundraising events and contributions related to the next year and will be reported in income during the subsequent year.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs, management and general fundraising based on the benefits derived.

Concentration of Credit Risk

NWSNC may, at times, have balances that exceed federally insured deposit limits. Management has not experienced any losses and believes there is minimal risk associated with these cash balances.

NWSNC had investments totaling \$232,603 and \$174,432 for the years ended December 31, 2016 and 2015, respectively in funds with a broker-dealer. The funds are insured by the Securities Investor Protection Corporation up to \$500,000 for brokerage accounts with a limit of \$250,000 for claims of uninvested cash balances and additional brokerage insurance through the broker-dealer's underwriters as stated in the broker-dealer account agreement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires NWSNC to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

NWSNC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

Management of NWSNC has evaluated subsequent events for potential recognition and disclosure through July 18, 2017, the date the statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

NWSNC applies authoritative guidance related to fair value measurements, which establishes a fair value hierarchy for reporting that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable units other than quoted prices for identical assets; and Level 3 inputs consist of significant unobservable inputs and have the lowest priority. There were no Level 2 or 3 inputs applied to NWSNC's financial instruments.

Fair value of investments measured on a recurring basis is as follows:

	<u>Fair Value</u>	<u>Active Markets for Identical Assets (Level 1)</u>
December 31, 2016		
Mutual bond funds	\$ 181,900	\$ 181,900
Equities	<u>50,703</u>	<u>50,703</u>
	\$ <u>232,603</u>	\$ <u>232,603</u>
December 31, 2015		
Mutual bond funds	\$ <u>174,432</u>	\$ <u>174,432</u>

NOTE 3 - INVESTMENT INCOME (LOSS)

Investment income (loss) reported in the statement of activities consists of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 4,335	\$ 3,969
Net realized loss		(2,181)
Net unrealized gain (loss)	<u>9,768</u>	<u>(7,368)</u>
Total	\$ <u>14,103</u>	\$ <u>(5,580)</u>

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 4 - LINE OF CREDIT

During 2012, NWSNC entered into a \$50,000 line of credit that matured on June 1, 2017 and is in the renewal process. The line has a variable interest rate, which is based on the lender's bank base rate (prime rate) with a floor of 5.0%. The prime rate at December 31, 2016 was 5.75%. The line is secured by substantially all of the attached or affixed real and personal property located at the facility in Tacoma, Washington. There was no amount outstanding at December 31, 2016 or 2015.

NOTE 5 - LONG-TERM DEBT

Long-term debt at December 31 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Note payable to Columbia Bank. The note requires monthly payments of \$1,983, including interest of 4.625% per annum, and matures March 15, 2021, when a balloon payment is due. Secured by real property.	\$ 310,565	\$ 319,526
Less current portion	<u>9,689</u>	<u>9,252</u>
Total Long-term Debt, Net of Current Portion	\$ <u>300,876</u>	\$ <u>310,274</u>

Annual maturities of long-term debt are as follows:

December 31, 2017	\$ 9,689
2018	10,147
2019	10,627
2020	11,129
2021	11,654
Thereafter	<u>257,319</u>
Total	\$ <u>310,565</u>

The note contains certain covenants. Interest expense was \$15,060 and \$15,372 for the years ended December 31, 2016 and 2015, respectively.

NORTHWEST SPAY & NEUTER CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015 (Reviewed)

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for specific program and facility purchase/renovation uses. In accordance with accounting principles generally accepted in the United States of America, unconditional promises to give over a specified period are recorded as temporarily restricted in the period that the notice from the donor is received by NWSNC. When a restriction is met, or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

The temporarily restricted net assets are restricted for special projects of \$120,000 and \$53,610 at December 31, 2016 and 2015, respectively.

NOTE 7 - MAJOR CUSTOMERS

NWSNC earned revenues of approximately \$231,954 from one customer for the year ended December 31, 2015. At December 31, 2015, the receivable from the major customer totaled \$9,273.

SUPPLEMENTARY INFORMATION

NORTHWEST SPAY & NEUTER CENTER

SCHEDULES OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2016

	Program Services	General and Administrative	Fundraising Activities	Total
COMPENSATION AND RELATED EXPENSES				
Wages	\$ 491,548	\$ 101,906	\$ 5,994	\$ 599,448
Payroll taxes	43,882	6,123	1,021	51,026
Benefits	41,166	1,300	867	43,333
Total Compensation and Related Expenses	576,596	109,329	7,882	693,807
Advertising	3,381	998	1,164	5,543
Bad debt		420		420
Bank service fees		9,318	3,106	12,424
Business taxes		14,508		14,508
Computer internet and service	3,608	3,074		6,682
Cost of supplies sold	120,300	5,013		125,313
Dues and subscriptions	423	4,476	1,149	6,048
Education and training	70	740	190	1,000
Food and beverage		740	3,883	4,623
Insurance		3,038		3,038
Interest		15,060		15,060
Landscaping maintenance		2,563		2,563
Miscellaneous expense		1,069		1,069
Postage and shipping	290	454		744
Printing	478	1,263	172	1,913
Professional services	23,459	2,881	14,817	41,157
Repairs and maintenance	7,222	106	3,292	10,620
Small equipment	2,162	22		2,184
Subsidy for surgical procedures	72,567			72,567
Supplies	4,936		6,282	11,218
Surgical and animal supplies	9,573	399		9,972
Travel and parking	2,974	525		3,499
Utilities	21,870	1,396		23,266
Venue expense	3,210	205		3,415
Total Expenses before Depreciation	853,119	177,597	41,937	1,072,653
Depreciation	74,138	6,446		80,584
TOTAL OPERATING EXPENSES	\$ 927,257	\$ 184,043	\$ 41,937	\$ 1,153,237

NORTHWEST SPAY & NEUTER CENTER

SCHEDULES OF FUNCTIONAL EXPENSES (Continued)

For the Year Ending December 31, 2015 (Reviewed)

	Program Services	General and Administrative	Fundraising Activities	Total
COMPENSATION AND RELATED EXPENSES				
Wages	\$ 547,061	\$ 88,811	\$ 7,729	\$ 643,601
Payroll taxes	48,690	7,742	850	57,282
Benefits	25,374	7,250	3,625	36,249
Total Compensation and Related Expenses	621,125	103,803	12,204	737,132
Advertising	764	3,039	2,979	6,782
Bad debt		2,445	3,065	5,510
Bank service fees	2,490	1,873	4,362	8,725
Business taxes		14,903		14,903
Computer internet and service	8,380	1,318		9,698
Cost of supplies sold	232,034	6,670		238,704
Dues and subscriptions	5,655	112	805	6,572
Food and beverage	2,168	2,394	8,962	13,524
Insurance	3,429	2,286		5,715
Interest		15,372		15,372
Landscaping maintenance	2,715	55		2,770
Miscellaneous expense		11	26	37
Postage and shipping	242	687		929
Printing	4,925	2,424	2,347	9,696
Professional services	31,378	3,922	3,922	39,222
Repairs and maintenance	3,912	40	1,829	5,781
Small equipment	1,023	10		1,033
Supplies	5,073	52	11	5,136
Surgical and animal supplies	10,784			10,784
Travel and parking	1,640	200	1,000	2,840
Utilities	27,000	548		27,548
Total Expenses before Depreciation	964,737	162,164	41,512	1,168,413
Depreciation	74,926	6,515		81,441
TOTAL OPERATING EXPENSES	\$ 1,039,663	\$ 168,679	\$ 41,512	\$ 1,249,854