

CSA WELFARE FUND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2011 AND 2010

CSA WELFARE FUND

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of CSA Welfare Fund
Brooklyn, New York

We have audited the accompanying statements of benefit obligations and net assets available for benefits of CSA Welfare Fund as of September 30, 2011 and 2010, and the related statements of changes in benefit obligations and net assets available for benefits for the years then ended. These financial statements are the responsibility of the Fund'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 status of the Fund as September 30, 2011 and 2010, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of benefit costs and management and general expenses, referred to as "supplementary information", are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of the Fund's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Tarlow & Co., C.P.A.'s

New York, New York
January 19, 2012

CSA WELFARE FUND

STATEMENTS OF BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR
BENEFITS

AS OF SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>BENEFIT OBLIGATIONS</u>		
Health claims payable	\$ 305,008	\$ 234,370
Claims incurred but not reported	<u>647,592</u>	<u>599,030</u>
Total benefit obligations	<u>952,600</u>	<u>833,400</u>
<u>NET ASSETS</u>		
<u>Assets</u>		
<u>Investments, at fair value:</u>		
Mutual funds	8,299,267	-
Mortgage and asset backed securities	77	5,019,349
Common stocks	<u>1,718,537</u>	<u>1,863,590</u>
Total investments	<u>10,017,881</u>	<u>6,882,939</u>
<u>Receivables:</u>		
Contributions - Board of Education	843,401	840,488
Accrued interest and dividends receivable	8,928	27,213
Accrued prescription formulary rebates receivable	306,112	475,607
Accrued prescription discounts receivable	74,307	448,067
Due from CSA Retiree Welfare Fund	-	65,600
Due from DCC/CSA Welfare Fund	-	3,300
Due from CSA Union - optical	1,715	3,941
Due from CSA Union - supplemental medical	<u>-</u>	<u>11,951</u>
Total receivables	<u>1,234,463</u>	<u>1,876,167</u>
Cash and cash equivalents	2,128,746	2,050,417
Cash at broker	57,254	2,877,696
Furniture and equipment (net of accumulated depreciation of \$429,385 and \$400,728 in 2011 and 2010, respectively)	74,170	78,311
Other assets	<u>18,218</u>	<u>18,452</u>
Total assets	<u>13,530,732</u>	<u>13,783,982</u>
<u>Liabilities:</u>		
Accounts payable for administrative expenses	25,998	46,662
Due to DCC/CSA Welfare Fund	42,654	-
Due to CSA Retiree Welfare Fund	23,100	-
Due to CSA Union - supplemental medical	3,372	-
CSA Union Retirement Plan- contributions payable	<u>72,000</u>	<u>72,000</u>
Total liabilities	<u>167,124</u>	<u>118,662</u>
Net assets available for benefits	<u>13,363,608</u>	<u>13,665,320</u>
Excess of net assets available for benefits over benefit obligations	<u>\$ 12,411,008</u>	<u>\$ 12,831,920</u>

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

CSA WELFARE FUND

STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS AND NET ASSETS
AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>NET INCREASE IN BENEFIT OBLIGATIONS</u>		
Increase (decrease) during the year attributable to:		
Claims reported and approved for payment	\$ 9,928,292	\$ 10,089,287
Changes in actuarial assumptions for claims incurred but not reported	48,562	52,520
Claims paid	<u>(9,857,654)</u>	<u>(10,134,207)</u>
Net increase in benefit obligations	<u>119,200</u>	<u>7,600</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS</u>		
<u>Additions</u>		
<u>Contributions</u>		
Board of Education - sponsor	10,143,210	11,206,255
Council and Fund employees - participants	34,128	41,951
CSA Union Optical administrative fee	860	742
Charter school - participants	38,527	41,358
RSSA and CSA Retiree Chapter administrative fees	<u>12,867</u>	<u>18,452</u>
Total contributions	<u>10,229,592</u>	<u>11,308,758</u>
<u>Investment income</u>		
Net appreciation (depreciation) in fair value of investments	(34,652)	461,272
Interest	45,841	469,791
Dividends	<u>334,623</u>	<u>49,638</u>
Total investment income	345,812	980,701
Less: Investment expenses	<u>(38,594)</u>	<u>(20,042)</u>
Net investment income	<u>307,218</u>	<u>960,659</u>
Sundry additions	<u>31,014</u>	<u>35,387</u>
Total additions	<u>10,567,824</u>	<u>12,304,804</u>
<u>Deductions</u>		
<u>Benefit costs</u>		
Premiums paid	140,946	142,635
Benefits paid to participants and providers	<u>9,716,708</u>	<u>9,991,572</u>
Total benefit costs	9,857,654	10,134,207
Management and general expenses	<u>1,011,882</u>	<u>1,048,536</u>
Total deductions	<u>10,869,536</u>	<u>11,182,743</u>
Net increase (decrease)	<u>(301,712)</u>	<u>1,122,061</u>
Increase (decrease) in excess net assets available for benefits over benefit obligations:	(420,912)	1,114,461
Excess of net assets available for benefits over benefit obligations:		
Beginning of year	<u>12,831,920</u>	<u>11,717,459</u>
End of year	<u>\$ 12,411,008</u>	<u>\$ 12,831,920</u>

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

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 1 - DESCRIPTION OF FUND

The following description of the CSA Welfare Fund (the "Fund") provides only general information. Participants should refer to the plan agreement for a complete description of the Fund.

Benefits

The CSA Welfare Fund was formed in 1966 under the terms of an agreement and Declaration of Trust entered into by the Trustees designated by the Executive Board of the Council of Supervisors and Administrators (the "Council"). The Fund provides life insurance, supplemental medical, dental, prescription drugs, optical and hearing aids to persons employed by the New York City Board of Education for whom a contribution is to be made. The Fund further provides coverage for eligible surviving dependents of deceased members for supplemental medical, dental, prescription drugs, optical and hearing aids for a period not to exceed 5 years. The Fund provides basic hospital and medical coverage similar to the city health plan for a period not to exceed 24 months for these surviving dependents. In addition, officers and employees of the Council and the Fund are covered by payment of the required contribution.

The group insurance contract with the Fund's carriers provides that premiums paid are for insured benefits which are not subject to dividends or premium refunds.

Effective October 1, 2010, coverage for children was extended to age 26 in compliance with the provisions of the Patient Protection and Accountability Act of 2010. Coverage for children age 26 through 29 will be made available, with member contributions set at Fund cost.

Termination

The Fund may be terminated under certain conditions. Upon termination, the assets remaining should be subject to the applicable provisions of the Fund then in effect and should be used until exhausted to pay benefits to members in order of their entitlement.

Contributions

Contributions are determined according to the negotiated settlement between CSA Union and the City of New York Board of Education funded through the controller's office. Contributions are currently \$133.10 per participant per month.

In addition to the normal contributions, the Fund received a one-time contribution of \$200 per member in October 2009 based on the City/MLC agreement.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Fund are prepared on the accrual basis of accounting.

Use of estimates

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

Allowance for doubtful accounts

The allowance for doubtful accounts are based on known troubled accounts, historical experience, and, other currently available evidence. Accounts receivable are written off at the time said accounts are determined to be uncollectible.

Investment valuation and income recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 7 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Fund's gains and losses on investments bought and sold as well as held during the year.

Furniture and equipment

Furniture and equipment are stated at cost. Depreciation is being provided by the use of the straight line method over the estimated useful lives of the assets which range from 3 to 10 years. Depreciation expense charged to operations for the years ended September 30, 2011 and 2010 was \$28,657 and \$22,724, respectively.

Claims incurred but not reported

Plan obligations at September 30, 2011 and 2010, for health claims incurred by active participants but not reported at that date, are estimated by the Fund's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of benefit obligations and net assets available for benefits and were estimated using a "claims development", "lag method" or "trend factors", methods generally accepted and commonly used in actuarial practice.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 3 - ADMINISTRATIVE AGREEMENT

The Fund provides administrative services for both the Day Care Council/Council of Supervisors and Administrators Welfare Fund and for the CSA Retiree Welfare Fund through an agreement between the three funds. Under the terms of the agreement, the Day Care Council/Council of Supervisors and Administrators Welfare Fund and the CSA Retiree Welfare Fund reimburse the CSA Welfare Fund a percentage of common administrative costs. Such reimbursement was \$891,900 and \$918,500 for the years ended September 30, 2011 and 2010, respectively.

NOTE 4 - LEASE COMMITMENTS

The Fund is obligated for annual rental payments exclusive of escalation clauses as follows:

Year Ending <u>September 30,</u>	
2012	\$43,275

Contingent rentals consist of electric, heat and real estate tax escalations. Electric charges are determined by the actual electric usage by the Fund. Heating and real estate taxes are charged based on 22% of each and every payment the sublessor, the CSA Union, is obligated to pay.

The Fund will not renew their current sublease of the office space located in Brooklyn N.Y. The Fund is expected to sublease office space from the CSA Union, after the current lease expires, in Manhattan, N.Y.

Rent expense, including contingent rents, was \$174,883 and \$164,555 for the years ended September 30, 2011 and 2010, respectively.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

- a) The Fund maintains its cash in bank deposit and money market accounts which, at times, may exceed federally insured limits. Accounts in the United States are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2011 and 2010, the Fund had approximately \$1,640,218 and \$4,397,751, respectively, in excess of FDIC insured limits. The Fund has not experienced any losses in such accounts.
- b) Contributions from the Board of Education accounted for approximately 99% of total contributions for the years ended September 30, 2011 and 2010, respectively.
- c) As discussed in Note 9, Alliance Bernstein became the custodian and investment advisor of the Fund's investments in May 2010. The Fund had \$10,075,135 and \$9,760,635 invested with Alliance Bernstein at September 30, 2011 and 2010, respectively, consisting of the following investments: cash deposits, money market accounts, mutual funds publicly traded equity securities and mortgage and asset backed securities. Alliance Bernstein is a member of the Securities Investor Protection Corporation (SIPC).

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 6 - INVESTMENTS

The Fund's investments were held and administered by Alliance Bernstein since May 2010. Prior to this date Smith Barney held and administered the Fund's investments. During the years ended September 30, 2011 and 2010, the Fund's investments (including investments bought, sold, and held during year) appreciated (depreciated) in value by \$(34,652) and \$461,272 respectively, as follows:

	September 30,			
	2011		2010	
	Net Increase (Decrease) In Value During Year	Fair Value at End of Year	Net Increase In Value During Year	Fair Value at End of Year
Fair value as determined by quoted market price:				
Mortgage and asset backed securities	\$ 278,594	\$ 77	\$ 313,644	\$ 5,019,349
Common stocks	(89,781)	1,718,537	147,628	1,863,590
Mutual funds	<u>(223,465)</u>	<u>8,299,267</u>	-	-
	<u>\$ (34,652)</u>	<u>\$ 10,017,881</u>	<u>\$ 461,272</u>	<u>\$ 6,882,939</u>

The fair value of individual investments that represent 5% or more of the Fund's net assets are as follows:

	September 30,	
	2011	2010
Investments at fair value, as determined by quoted market price:		
<u>Mutual funds</u>		
Bernstein Inter Duration Institutional Portfolio, 415,664.064 shares in 2011	\$ 6,721,288	\$ -

NOTE 7 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the 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 under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

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.

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 measurements.

The asset or liability's fair value measurement 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at September 30, 2011 and 2010.

Mutual funds: Valued based on quoted market prices, in the active market, which represent the net asset value (NAV) of the shares held by the Fund at the end of the reporting period.

Common stocks: Valued at the closing price reported in the active market in which the individual common stock is traded.

Mortgage and asset backed securities: Traded in over-the-counter markets and listed securities for which no sale was reported on the last business day of the reporting period are valued at the average of the last reported bid and asked prices.

Cash and cash equivalents: Consist of money market funds which are valued at cost which approximates fair value.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Fund's assets at fair value as of September 30, 2011 and 2010:

	Assets at Fair Value as of September 30, 2011		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 2,186,000	\$ -	\$ 2,186,000
Mortgage and asset backed securities	-	77	77
Common stocks	1,718,537	-	1,718,537
Mutual funds	8,299,267	-	8,299,267
Total assets at fair value	<u>\$ 12,203,804</u>	<u>\$ 77</u>	<u>\$ 12,203,881</u>

	Assets at Fair Value as of September 30, 2010		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 4,928,113	\$ -	\$ 4,928,113
Mortgage and asset backed securities	-	5,019,349	5,019,349
Common stocks	1,863,590	-	1,863,590
Total assets at fair value	<u>\$ 6,791,703</u>	<u>\$ 5,019,349</u>	<u>\$ 11,811,052</u>

NOTE 8 - RETIREMENT PLANS**CSA Welfare Fund 401(k) Plan**

The Fund has a 401(k) savings plan, which covers substantially all of its employees. Eligible employees may elect to contribute a portion of their wages on a tax-deferred basis, as defined in the plan, not to exceed Internal Revenue Code limitations. The Fund did not make contributions to the plan during the years ended September 30, 2011 and 2010.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 8 - RETIREMENT PLANS (Continued)

CSA Union Retirement Plan

The Fund participates in the Council of Supervisors & Administrators Retirement Plan, (the "CSA Union Retirement Plan"). The plan covers substantially all of the Fund's employees, as well as CSA Union employees, that are not covered by a collective bargaining, agreement and have attained at least two years of service. The plan allows the Fund to make discretionary contributions, on behalf of eligible employees, as defined in plan. The plan is a calendar year plan and therefore the expense of \$93,698 and \$102,878, included in management and general expenses for the years ended September 30, 2011 and 2010, is estimated.

NOTE 9 - PARTY-IN-INTEREST TRANSACTIONS

Certain fund investments are managed by Alliance Bernstein (prior to May 2010 it was managed by Smith Barney) which is the investment advisor and custodian of the Fund's investments. The purchases and sales of these investments and resulting balances are considered party-in-interest transactions and balances. Fees paid by the Fund for investment management services amounted to \$38,594 and \$20,042 for the years ended September 30, 2011 and 2010, respectively.

NOTE 10 - RISKS AND UNCERTAINTIES

Actuarial estimates and assumptions

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates, and member demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that the changes in these estimates and assumptions in the near term would be material to the financial statements.

Investment valuations

The Fund invests in various securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of benefit obligations and net assets available for benefits.

The Fund invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

CSA WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 11 - TAX STATUS

The Trust established under the Fund, to hold the Fund's net assets, is intended to qualify pursuant to Section 501(c)(9) of the Internal Revenue Code (the "IRC") and, accordingly, the Fund's net investment income is exempt from income taxes. The fund administrator and the Fund's counsel believe that the Trust is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Accounting principles generally accepted in the United States of America require fund management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The fund administrator has analyzed the tax positions taken by the Fund, and has concluded that as of September 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Fund is subject to routine audits by the Internal Revenue Service; however, there are currently no audits for any tax periods in progress. The fund administrator believes it is no longer subject to income tax examinations for years prior to 2008.

NOTE 12 - SUBSEQUENT EVENTS

Fund management has evaluated subsequent events through January 19, 2012, the date that the financial statements were available to be issued.

NOTE 13 - RECLASSIFICATIONS

Certain amounts in the September 30, 2010 financial statements have been reclassified to conform to September 30, 2011 presentation.

SUPPLEMENTARY INFORMATION

CSA WELFARE FUND

SCHEDULES OF BENEFIT COSTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Premiums:</u>		
Group life	\$ 110,582	\$ 111,835
Dental premium	<u>30,364</u>	<u>30,800</u>
Total premiums paid	<u>\$ 140,946</u>	<u>\$ 142,635</u>
 <u>Benefits paid to participants and providers:</u>		
Prescription drugs, net of formulary rebates of \$629,308 and \$700,400 in 2011 and 2010, respectively	\$ 6,006,175	\$ 6,483,535
Dental	3,316,417	3,157,610
Supplemental major medical	202,700	160,695
Optical program	177,043	176,574
Hearing aids	9,600	8,400
Survivors insured coverage	<u>4,773</u>	<u>4,758</u>
Total benefits paid to participants and providers	<u>\$ 9,716,708</u>	<u>\$ 9,991,572</u>

CSA WELFARE FUND

SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Salaries	\$ 903,687	\$ 983,928
Employee benefits	244,726	267,166
Other benefit costs	208,462	214,017
Rent and electric	174,883	164,555
Payroll taxes	78,256	84,002
Equipment rental and maintenance	55,153	41,238
Consultant fees	43,052	40,170
Auditing fees	36,100	35,968
Postage	32,958	34,142
Office expense	33,188	31,347
Depreciation	28,657	22,724
Insurance	19,745	16,990
Outside services	12,301	-
Telephone	10,168	11,796
Miscellaneous	7,257	5,307
Meetings and conference	7,239	5,520
Legal fees	7,200	7,200
Dues and subscriptions	<u>750</u>	<u>966</u>
 Total	 1,903,782	 1,967,036
 Less: Service income	 <u>891,900</u>	 <u>918,500</u>
 Total management and general expenses	 <u>\$ 1,011,882</u>	 <u>\$ 1,048,536</u>