



Grant Thornton

Combined financial statements

Resource Recovery Fund Board Inc. and
Resource Recovery Fund (operating as Divert NS)

March 31, 2017

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Grant Thornton

Independent auditor's report

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To the Board of Directors of the
Resource Recovery Fund Board Inc. and Resource Recovery Fund (operating as Divert NS)

We have audited the accompanying combined financial statements of the Resource Recovery Fund Board Inc. and Resource Recovery Fund (operating as Divert NS), which comprise the combined statement of financial position as at March 31, 2017, the combined statements of operations, changes in net resources, changes in net financial resources and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organizations' preparation and fair presentation of the combined 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 Organizations' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates

made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements present fairly, in all material respects, the combined financial position of the Resource Recovery Fund Board Inc. and Resource Recovery Fund (operating as Divert NS) as at March 31, 2017, and the combined results of operations, changes in net resources, changes in net financial resources and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The schedule included on Page 16 is presented for purposes of additional information and is not a required part of the combined financial statements. Such supplementary information has been subjected to the auditing procedures applied, only to the extent necessary to express an opinion, in the audit of the combined financial statements taken as a whole.

Truro, Canada
June 1, 2017

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of operations

Year ended March 31, 2017

	Budget 2017 (Unaudited)	<u>2017</u>	<u>2016</u>
Revenues			
Deposits	\$ 41,296,000	\$ 42,799,456	\$ 41,020,897
Sales of recyclable materials (Note 10)	4,384,000	4,814,501	4,996,899
Tire program	4,279,000	4,658,734	4,145,889
Investment and other income	421,000	552,338	394,997
Rental income	<u>182,000</u>	<u>182,000</u>	<u>182,000</u>
Total revenues	<u>50,562,000</u>	<u>53,007,029</u>	<u>50,740,682</u>
Expenses			
Operating (Page 13)	40,014,500	40,812,182	41,063,248
Administrative (Page 14)	2,088,500	2,009,467	1,897,044
Other expenditures and funding			
Approved program grants	1,200,000	1,051,330	1,082,171
Education and communication	1,581,500	1,314,271	1,391,774
Household hazardous waste program	112,000	112,000	112,000
Municipal enforcement program funding	630,000	630,000	707,500
Regional committees	335,000	335,780	328,628
Research, development and special projects	<u>250,000</u>	<u>166,084</u>	<u>96,520</u>
	<u>46,211,500</u>	<u>46,431,114</u>	<u>46,678,885</u>
Excess of revenues over expenses before allocations	<u>4,350,500</u>	<u>6,575,915</u>	<u>4,061,797</u>
Municipal solid waste diversion credits	3,045,350	4,603,140	2,843,258
Nova Scotia Environment	870,100	1,315,183	812,359
Special municipal allocation	<u>-</u>	<u>700,000</u>	<u>-</u>
(Deficiency) excess of revenue over expenditures	<u>\$ 435,050</u>	<u>\$ (42,408)</u>	<u>\$ 406,180</u>
Net resources, beginning of period	\$ 7,577,987	\$ 7,577,987	\$ 7,171,807
Net resources, end of period	<u>\$ 8,013,037</u>	<u>\$ 7,535,579</u>	<u>\$ 7,577,987</u>

See accompanying notes to the combined financial statements

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of financial position

March 31

2017

2016

Financial assets

Cash and cash equivalents	\$ 8,333,849	\$ 7,383,176
Receivables	5,374,766	4,516,151
Accrued receivables	295,526	583,895
Notes receivable (Note 3)	177,704	163,542
Investments (Note 4)	15,800,025	13,922,503
Inventory	<u>275,043</u>	<u>153,404</u>
	<u>30,256,913</u>	<u>26,722,671</u>

Financial liabilities

Payables and accruals	1,438,740	2,183,090
Municipal solid waste diversion credits payable	4,603,140	2,843,260
Payable to Nova Scotia Environment	1,315,183	812,359
Unearned revenue	<u>19,592,245</u>	<u>17,974,000</u>
	<u>26,949,308</u>	<u>23,812,709</u>

Net financial resources

3,307,605 2,909,962

Non-financial assets

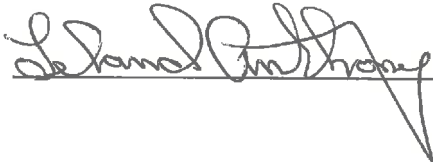
Prepays	37,357	48,165
Tangible capital assets (Note 5)	<u>4,190,617</u>	<u>4,619,860</u>
	<u>4,227,974</u>	<u>4,668,025</u>


Net resources (Page 3 and Note 9)

\$ 7,535,579 \$ 7,577,987

Commitment (Note 7)

On Behalf of the Board

 Director

 Director

See accompanying notes to the combined financial statements

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of changes in
net financial resources

March 31	Budget 2017 (Unaudited)	2017	2016
(Deficiency) excess of revenue over expenditures	\$ <u>435,050</u>	\$ <u>(42,408)</u>	\$ <u>406,180</u>
Acquisition of tangible capital assets, net	(589,700)	(228,182)	(380,975)
Amortization of tangible capital assets	<u>713,200</u>	<u>657,425</u>	<u>611,343</u>
	<u>123,500</u>	<u>429,243</u>	<u>230,368</u>
Usage of prepaids	<u>10,808</u>	<u>10,808</u>	<u>17,671</u>
Increase in net financial resources	\$ <u>569,358</u>	\$ <u>397,643</u>	\$ <u>654,219</u>
Net financial resources, beginning of year		\$ 2,909,962	\$ 2,255,743
Increase in financial resources		<u>397,643</u>	<u>654,219</u>
Net financial resources, end of year		\$ <u>3,307,605</u>	\$ <u>2,909,962</u>

See accompanying notes to the combined financial statements

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of cash flows

Year ended March 31

2017

2016

Increase (decrease) in cash and cash equivalents:

Operating		
(Deficiency) excess of revenue over expenditures	\$ (42,408)	\$ 406,180
Amortization	<u>657,425</u>	<u>611,343</u>
	615,017	1,017,523
Change in non-cash operating working capital		
Receivables	(570,246)	(32,897)
Inventory	(121,639)	(39,917)
Prepays	10,808	17,671
Payables and accruals	1,518,354	(1,452,930)
Unearned revenue	<u>1,618,245</u>	<u>2,587,400</u>
	3,070,539	2,096,850
Capital		
Purchase of tangible capital assets	<u>(228,182)</u>	<u>(380,975)</u>
Investing		
Proceeds from sale of investments	4,122,503	4,357,557
Purchase of investments	(6,000,025)	(6,000,000)
Issue of notes receivable	(50,565)	(19,000)
Repayment of notes receivable	<u>36,403</u>	<u>33,729</u>
	(1,891,684)	(1,627,714)
Net increase in cash and cash equivalents	950,673	88,161
Cash and cash equivalents, beginning of year	<u>7,383,176</u>	<u>7,295,015</u>
Cash and cash equivalents, end of year	\$ 8,333,849	\$ 7,383,176

See accompanying notes to the combined financial statements

Resource Recovery Fund Board Inc.

Resource Recovery Fund (operating as Divert NS)

Notes to the combined financial statements

March 31, 2017

1. Nature of operations

The Resource Recovery Fund Board Inc. is a not-for-profit organization established by the Nova Scotia government to develop and administer industry stewardship programs that increase waste diversion, enable the establishment of new industries based on the processing of materials diverted from the waste stream, and provide incentives to the people of Nova Scotia to reduce, reuse, recycle and compost.

Under regulation, all revenues earned are deposited to the Resource Recovery Fund, which is the property of the Province of Nova Scotia. All expenditures incurred by the Resource Recovery Fund Board Inc. to operate, administer and fulfil the mandates of the Province of Nova Scotia Solid Waste Management Strategy are expenditures of the Resource Recovery Fund. Accordingly, all assets, liabilities and net resources reported in these financial statements are the property of the Resource Recovery Fund and are held on behalf of the Province of Nova Scotia by the Resource Recovery Fund Board Inc.

2. Summary of significant accounting policies

Basis of presentation

The combined financial statements include the accounts of the Resource Recovery Fund Board Inc. and the Resource Recovery Fund. Significant inter-entity loans and transactions have been eliminated in these combined financial statements. These combined financial statements are the representations of management prepared in accordance with generally accepted accounting principles for provincial governments as established by the Canadian Public Sector Accounting Board (PSA) of Chartered Professional Accountants (CPA) Canada.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Organization's management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the year. Certain of these estimates require subjective or complex judgements by management that may be uncertain. Some of these items include allowance for doubtful accounts, amortization and unearned revenue. Actual results could differ from those reported.

Revenue recognition

Resource Recovery Fund follows the deferral method of accounting for revenue. Revenue is recognized in the month it is receivable (or received) if the amount can be reasonably estimated and collection is reasonably assured. Interest income is recognized as it is earned.

Resource Recovery Fund Board Inc.

Resource Recovery Fund (operating as Divert NS)

Notes to the combined financial statements

March 31, 2017

2. Summary of significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost. Rates and bases of amortization applied to write-off the cost of tangible capital assets over their estimated lives are as follows:

Building	5%, straight-line
Field equipment	20%, straight-line
Processing equipment	12.5%, 20%, 33 1/3%, straight-line
Leasehold improvements	10%, straight-line
Office and warehouse equipment	20%, straight-line
Computer hardware and software	20%, 33 1/3%, straight-line
Containers	
- Bags	33 1/3%, straight-line
- Tubs	10%, straight-line
Vehicles	33 1/3%, straight-line
Trailers	14.2%, straight-line

When conditions indicate that a tangible capital asset no longer contributes to the Resource Recovery Fund's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is reduced to reflect the decline in the asset's value. Write-downs are not reversed.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Forgivable loans

The Resource Recovery accounts for forgivable loans as conditional grants. The forgivable loans are non-interest bearing and are advanced with repayment not to be expected unless certain conditions are not met.

Unearned revenue and measurement uncertainty

Unearned revenue represents deposits received for beverage containers that have not been returned for redemption and fees received for tires which will be returned for disposal at a future date. Unearned beverage revenue is sixty (60) days' worth of revenue calculated on the last twelve (12) months' average daily revenue adjusted by the current year's return rate. Unearned tire revenue is calculated on the last three (3) years of tire revenue adjusted by the past six (6) years' average return rate. The actual revenue the Fund may collect compared to the unearned revenue calculation is uncertain as the calculation is affected by the above management assumptions. However, in the past, the unearned revenue has remained consistent even with updated inputs for the calculation for each fiscal year. As a result, it is expected that the range of uncertainty for the unearned revenue is not significant.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term investments with maturity dates of 90 days or less. Bank borrowings are considered to be financing activities.

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Notes to the combined financial statements

March 31, 2017

2. Summary of significant accounting policies (continued)

Foreign currency translation

The Fund does not enter into foreign currency futures and forward contracts to reduce its exposure to foreign currency fluctuations. Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Revenue and expenditures denominated in foreign currencies are translated at the exchange rate prevailing at the time of the transaction. Translation gains or losses are recognized in the period in which they occur.

Financial instruments

The Resource Recovery Fund classifies its financial instruments at amortized cost.

This category includes cash and cash equivalents, receivables, notes receivable, investments, payables and accruals, unearned revenue, and municipal solid waste diversion credits payable. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Management assesses each financial instrument to determine whether there is any impairment losses, if any are reported in the statement of operations.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

There are no unrealized gains or losses therefore, the statement of remeasurement gains and losses has not been presented.

Income taxes

The Organization is exempt from income taxes under Section 149(l)(d) of the *Canadian Income Tax Act*.

3. Notes receivable

	<u>2017</u>	<u>2016</u>
Non-interest bearing notes with variable payments, maturing between 2018 and 2028	\$ <u>177,704</u>	\$ <u>163,542</u>

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Notes to the combined financial statements

March 31, 2017

4. Investments

Investments consist of loans receivable from the Province of Nova Scotia – Department of Finance. These loans are issued at interest rates ranging from 0.89% to 1.85% and mature as follows:

<u>2018</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
\$ <u>3,800,000</u>	\$ <u>2,000,000</u>	\$ <u>4,000,000</u>	\$ <u>6,000,025</u>	\$ <u>15,800,025</u>

5. Tangible capital assets

			<u>2017</u>	<u>2016</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 294,100	\$ -	\$ 294,100	\$ 294,100
Field equipment	519,796	445,784	74,012	88,800
Processing equipment	462,060	205,458	256,602	309,776
Building	3,129,933	1,042,225	2,087,708	2,158,166
Office and warehouse equipment	309,794	216,960	92,834	110,295
Containers	940,951	750,606	190,345	141,520
Leasehold improvements	9,508	2,281	7,227	8,178
Computer hardware and software	1,344,211	1,084,015	260,196	374,826
Vehicles	52,157	28,249	23,908	-
Trailers	<u>1,613,600</u>	<u>709,915</u>	<u>903,685</u>	<u>1,134,199</u>
	<u>\$ 8,676,110</u>	<u>\$ 4,485,493</u>	<u>\$ 4,190,617</u>	<u>\$ 4,619,860</u>

6. Bank indebtedness

The Resource Recovery Fund has an operating credit facility of \$2,000,000 of which \$Nil is used at March 31, 2017. Interest is calculated at prime plus 0.5%.

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Notes to the combined financial statements

March 31, 2017

7. Commitment

The Resource Recovery Fund has entered into agreements with specific organizations and businesses to provide funding for various recycling programs across Nova Scotia. At March 31, 2017, \$447,068 (2016 - \$520,564) of the restricted for approved programs resources has been committed under these agreements.

8. Related party transaction

The Fund reimburses the Nova Scotia Environment for services and expenses incurred on the Fund's behalf. During the year, costs of \$1,315,183 (2016 - \$812,359) were incurred, of which \$1,315,183 (2016 - \$812,359) is included in payables and accruals.

9. Net resources				<u>2017</u>	<u>2016</u>
	Invested in Capital <u>Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 4,619,860	\$ 1,380,072	\$ 1,578,055	\$ 7,577,987	\$ 7,171,807
(Deficiency) excess of revenues over expenditures	(657,425)	(167,414)	782,431	(42,408)	406,180
Transfers	<u>228,182</u>	<u>614,482</u>	<u>(842,664)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 4,190,617</u>	<u>\$ 1,827,140</u>	<u>\$ 1,517,822</u>	<u>\$ 7,535,579</u>	<u>\$ 7,577,987</u>

Restricted funds represented by:

Committed funds (Note 7)	\$ 447,068
Future projects	<u>1,380,072</u>
	<u>\$ 1,827,140</u>

Net resources under the Resource Recovery Fund (Divert NS) restricted for future projects, represents the amount internally restricted for funding various future projects as approved and in accordance with the goals and objectives of the Resource Recovery Fund (Divert NS).

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Notes to the combined financial statements

March 31, 2017

10. Financial instruments risk management

Credit risk

Credit risk is the risk of financial loss to the Resource Recovery Fund if a debtor fails to make payments when due. The Fund is exposed to this risk relating to its receivables and notes receivable.

Credit risk is mitigated by management's review of aging and collection of receivables, only 4% of receivables are over 60 days. The Fund recognizes a specific allowance for doubtful accounts when management considers the expected amounts to be recovered are lower than the actual receivable.

The Resource Recovery Fund is exposed to investment credit risk through its investments. The maximum exposure to investment credit risk is outlined in Note 4.

There have been no significant changes from the previous year in exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting the obligations associated with its financial liabilities. The organization is exposed to this risk mainly in respect of its bank indebtedness, payables and accruals and municipal solid waste diversion credits payable. At balance date, the organization has available financial assets to meet these obligations and there was no significant change in exposure from the prior year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The organization is mainly exposed to currency and price risk related to its sales of recyclable materials.

The currency risk is predominately US funds. The average US exchange rate was \$1.313 for the twelve-month period. As at March 31, 2017, the receivables denominated in US currency were approximately \$787,399 (2016 - \$397,444).

The price risk is related to fluctuations in commodities. During the year, commodity prices for PET and aluminium fluctuated by approximately 12%. This fluctuation could result in an increase or decrease of sales by approximately \$609,000. The Resource Recovery Fund participates in a national buying group on certain of its commodity sales to minimize the risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of operating expenses

Year ended March 31	Budget 2017 (Unaudited)	2017	2016
Inventory, beginning of year	\$ 113,500	\$ 153,404	\$ 113,487
Amortization	230,500	230,514	230,521
Central processing expenses			
Amortization	104,200	89,187	46,735
Building	52,000	38,584	50,690
Forklift – maintenance and propane	7,500	8,006	8,015
Meetings and travel	27,000	20,488	25,811
Postage, delivery and office	4,300	694	3,235
Professional fees	25,000	16,954	26,395
Repairs and maintenance:			
Bulk bags and containers	11,500	16,464	6,112
Salaries and benefits	389,000	370,914	402,292
Shipping supplies	12,500	46,378	11,144
Telecommunications	9,500	9,936	8,686
Vehicle	2,500	2,876	1,553
Deposit refunds	17,636,000	18,232,208	18,275,945
Enviro-Depot handling fees	14,414,000	14,899,620	14,993,381
Freight-in	321,000	311,243	326,848
Insurance	30,000	28,708	29,048
Local cartage	2,133,000	1,890,884	2,037,573
Non-deposit materials	26,000	21,565	24,062
Other	157,000	144,867	65,013
Regional processing	753,000	676,054	692,084
Used tire management program	3,669,000	3,877,677	3,838,022
	40,128,000	41,087,225	41,216,652
Inventory, end of year	113,500	275,043	153,404
	<u>\$ 40,014,500</u>	<u>\$ 40,812,182</u>	<u>\$ 41,063,248</u>

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Combined statement of administrative expenses

Year ended March 31	Budget 2017 (Unaudited)	2017	2016
Amortization	\$ 251,000	\$ 233,628	\$ 235,448
Bad debt	6,000	36,172	12,876
Bank charges and interest	10,000	10,705	8,274
Board fees and expenses	60,000	46,122	57,231
Building	186,000	248,438	131,638
Dues and fees	8,000	8,462	5,828
Insurance	5,500	5,184	5,078
Meetings and travel	65,000	50,520	46,712
Office	23,000	21,251	22,736
Postage and delivery	10,000	5,201	6,114
Printing and stationery	1,000	-	902
Professional development	40,000	36,708	16,271
Professional fees	160,500	109,893	137,925
Public relations	90,000	80,449	69,560
Salaries and benefits	1,037,000	1,042,147	1,044,241
Technology support and licensing	75,000	50,901	61,609
Telecommunications	30,500	19,259	26,066
Website development and hosting	30,000	4,427	8,535
	<u>\$ 2,088,500</u>	<u>\$ 2,009,467</u>	<u>\$ 1,897,044</u>

Resource Recovery Fund Board Inc.
Resource Recovery Fund (operating as Divert NS)
Supplementary schedule of individual and combined
statements of operation

Year ended March 31, 2017

	Resource Recovery Fund <u>Board Inc.</u>	Resource Recovery <u>Fund</u>	<u>Combined</u>
Revenues			
Administrative ¹	\$ 43,492,547	\$ -	\$ -
Deposits	-	42,799,456	42,799,456
Sales of recyclable materials	-	4,814,501	4,814,501
Tire program	-	4,658,734	4,658,734
Investment and other income	-	552,338	552,338
Rental income	-	182,000	182,000
Total revenues	<u>43,492,547</u>	<u>53,007,029</u>	<u>53,007,029</u>
Expenses			
Operating	40,510,024	302,158	40,812,182
Administrative ¹	1,739,667	43,762,347	2,009,467
Other expenditures and funding			
Approved program grants	-	1,051,330	1,051,330
Education and communication	1,242,856	71,415	1,314,271
Household hazardous waste program	-	112,000	112,000
Municipal enforcement program funding	-	630,000	630,000
Regional committees	-	335,780	335,780
Research, development and special projects	-	166,084	166,084
	<u>43,492,547</u>	<u>46,431,114</u>	<u>46,431,114</u>
Excess of revenues over expenses before allocations	<u>-</u>	<u>6,575,915</u>	<u>6,575,915</u>
Municipal solid waste diversion	-	4,603,140	4,603,140
Nova Scotia Environment	-	1,315,183	1,315,183
Special municipal allocation	-	700,000	700,000
(Deficiency) excess of revenues over expenditures	<u>\$ -</u>	<u>\$ (42,408)</u>	<u>\$ (42,408)</u>

¹Administrative revenue and expenses of \$43,492,547 have been eliminated at consolidation.