

The Food Group
New Hope, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
September 30, 2014 and 2013

Carpenter *Evert*
Certified Public Accountants



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Independent Auditor's Report

Board of Directors
The Food Group
New Hope, Minnesota

Carpenter Evert

Certified Public Accountants

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We have audited the accompanying financial statements of The Food Group as of September 30, 2014 and 2013, which comprise the statements of financial position and the related statements of activities and changes in net assets, functional expense, and cash flows for the years 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

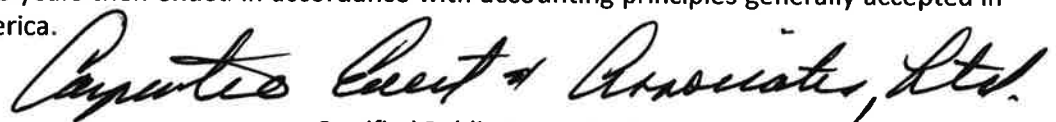
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Food Group as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Certified Public Accountants

Minneapolis, Minnesota
January 28, 2015

EXHIBIT A

THE FOOD GROUP

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contributions	\$ 1,827,739	\$ 249,606	\$ 2,077,345	\$ 1,771,775	\$ 223,868	\$ 1,995,643
In-Kind Contributions	3,033,026	-	3,033,026	5,618,471	-	5,618,471
United Way	192,103	-	192,103	188,706	50,000	238,706
Government Grants	309,766	-	309,766	292,086	41,478	333,564
Program Service Fees	2,994,298	-	2,994,298	2,345,917	-	2,345,917
Special Event (Net of Direct Expense of \$29,711 in 2014 and \$38,935 in 2013)	60,594	-	60,594	48,886	-	48,886
Investment Income	277	-	277	319	-	319
Miscellaneous	8,097	-	8,097	9,256	-	9,256
Loss on Disposal of Property and Equipment	(19,596)	-	(19,596)	-	-	-
Net Assets Released from Restrictions:						
Satisfaction of Capital Restrictions	40,365	(40,365)	-			
Satisfaction of Program Restrictions	224,544	(224,544)	-	441,434	(441,434)	-
Total Support and Revenue	8,671,213	(15,303)	8,655,910	10,716,850	(126,088)	10,590,762
Expense:						
Program Services	7,670,400	-	7,670,400	9,630,961	-	9,630,961
Support Services:						
Management and General Fundraising	362,009	-	362,009	433,716	-	433,716
Total Support Services	460,122	-	460,122	463,817	-	463,817
Total Expense	822,131	-	822,131	897,533	-	897,533
	8,492,531	-	8,492,531	10,528,494	-	10,528,494
Change in Net Assets	178,682	(15,303)	163,379	188,356	(126,088)	62,268
Net Assets - Beginning of Year	2,463,250	80,303	2,543,553	2,274,894	206,391	2,481,285
Net Assets - End of Year	\$ 2,641,932	\$ 65,000	\$ 2,706,932	\$ 2,463,250	\$ 80,303	\$ 2,543,553

The accompanying Notes to Financial Statements are an integral part of these statements.

THE FOOD GROUP
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED SEPTEMBER 30, 2014 WITH COMPARATIVE TOTALS FOR 2013

	2014				2013	
	Program Services	Management & General	Fund-raising	Total Support Services	Total All Services	Total All Services
Salaries	\$ 1,034,888	\$ 75,265	\$ 205,662	\$ 280,927	\$ 1,315,815	\$ 1,276,687
Employee Benefits	135,620	9,863	26,952	36,815	172,435	188,141
Payroll Taxes	124,120	9,027	24,666	33,693	157,813	107,896
Total Personnel Costs	<u>1,294,628</u>	<u>94,155</u>	<u>257,280</u>	<u>351,435</u>	<u>1,646,063</u>	<u>1,572,724</u>
In-Kind Food	2,971,130	-	-	-	2,971,130	5,389,542
Food Costs	2,781,066	-	3,105	3,105	2,784,171	2,363,983
Occupancy	217,059	12,370	33,803	46,173	263,232	263,556
Professional Fees	3,603	212,795	13,455	226,250	229,853	177,856
Office Expenses	50,981	15,115	118,439	133,554	184,535	177,834
Travel, Transportation and Shipping	97,481	552	1,737	2,289	99,770	85,381
Miscellaneous	28,566	12,149	27,939	40,088	68,654	66,765
Non-food In-kind Expenses	61,895	-	-	-	61,895	228,929
Program Supplies	37,957	-	-	-	37,957	33,243
Staff and Volunteer	8,584	10,810	2,764	13,574	22,158	24,150
Depreciation and Amortization	117,450	4,063	1,600	5,663	123,113	144,531
Total Expense	<u>\$ 7,670,400</u>	<u>\$ 362,009</u>	<u>\$ 460,122</u>	<u>\$ 822,131</u>	<u>\$ 8,492,531</u>	<u>\$ 10,528,494</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

EXHIBIT C

THE FOOD GROUP
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Support Services</u>				
	Program Services	Management & General	Fund- raising	Total Support Services	Total All Services
Salaries	\$ 887,157	\$ 157,328	\$ 232,202	\$ 389,530	\$ 1,276,687
Employee Benefits	130,737	23,185	34,219	57,404	188,141
Payroll Taxes	74,976	13,296	19,624	32,920	107,896
Total Personnel Costs	1,092,870	193,809	286,045	479,854	1,572,724
Food Costs	7,753,525	-	-	-	7,753,525
Occupancy	213,217	14,759	35,580	50,339	263,556
Professional Fees	8,003	164,695	5,158	169,853	177,856
Office Expenses	40,190	32,366	105,278	137,644	177,834
Travel, Transportation and Shipping	82,792	480	2,109	2,589	85,381
Miscellaneous	33,983	17,693	15,089	32,782	66,765
Non-food In-kind Expenses	228,929	-	-	-	228,929
Program Supplies	33,243	-	-	-	33,243
Staff and Volunteer	6,327	5,144	12,679	17,823	24,150
Depreciation and Amortization	137,882	4,770	1,879	6,649	144,531
Total Expense	\$ 9,630,961	\$ 433,716	\$ 463,817	\$ 897,533	\$ 10,528,494

The accompanying Notes to Financial Statements are an integral part of this statement.

THE FOOD GROUP
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 470,309	\$ 460,192
Investments	30,658	11,831
Accounts Receivable	149,259	119,541
Grants Receivable	52,119	63,229
Prepaid Expense	28,339	29,246
Inventory	445,353	433,025
Total Current Assets	<u>1,176,037</u>	<u>1,117,064</u>
Property and Equipment - Net	3,140,694	3,051,561
Intangible Assets - Net	<u>1,920</u>	<u>3,691</u>
 TOTAL ASSETS	 <u>\$ 4,318,651</u>	 <u>\$ 4,172,316</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Notes Payable - Short Term	\$ 144,936	\$ 144,491
Accounts Payable	68,329	33,188
Accrued Salaries and Vacation	74,231	63,194
Accrued Expenses	11,226	28,850
Total Current Liabilities	<u>298,722</u>	<u>269,723</u>
Long-Term Liabilities:		
Notes Payable	<u>1,312,997</u>	<u>1,359,040</u>
Total Liabilities	<u>1,611,719</u>	<u>1,628,763</u>
Net Assets:		
Unrestricted	2,641,932	2,463,250
Temporarily Restricted	<u>65,000</u>	<u>80,303</u>
Total Net Assets	<u>2,706,932</u>	<u>2,543,553</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,318,651</u>	 <u>\$ 4,172,316</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

THE FOOD GROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

<u>Increase (Decrease) in Cash</u>	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 163,379	\$ 62,268
Total Adjustments	<u>122,408</u>	<u>(148,489)</u>
Net Cash Provided (Used) by Operating Activities	285,787	(86,221)
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(230,071)	(91,781)
Proceeds from Sale of Property and Equipment	-	3,398
Purchases of Investments	(18,828)	(9,051)
Proceeds from Sale of Contributed Investments	<u>18,827</u>	<u>9,078</u>
Net Cash (Used) by Investing Activities	(230,072)	(88,356)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Note Payable	98,000	-
Repayment of Line of Credit	-	-
Repayment of Note Payable	(143,598)	(137,419)
Repayment of Capital Lease	-	<u>(13,519)</u>
Net Cash (Used) by Financing Activities	<u>(45,598)</u>	<u>(150,938)</u>
Net Increase (Decrease) in Cash	10,117	(325,515)
Cash - Beginning of Year	<u>460,192</u>	<u>785,707</u>
Cash - End of Year	<u>\$ 470,309</u>	<u>\$ 460,192</u>

Supplemental Disclosure of Cash Flow Information

Cash Paid for:		
Interest	<u>\$ 66,048</u>	<u>\$ 72,416</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

1. Summary of Significant Accounting Policies

Organizational Purpose

The Food Group (the Organization), is a nonprofit organization incorporated under the laws of the state of Minnesota. The mission of the Organization is being an innovative food bank dedicated to serving the hunger needs of our changing communities. The Organization provides services primarily through the following programs:

Bulk Purchasing makes staple food and household items available to hunger relief organizations at low prices.

Fare for All offers quality food packages to families at 30-40% off grocery store prices - a great way to stretch your food dollar.

Mobile Foodshelf provides and distributes donated food to 17 subsidized housing facilities and 4 on-site meal programs.

Culturally Specific Initiatives works to increase access to culturally appropriate foods for Immigrant populations in our communities.

Lost Harvest and Harvest for the Hungry provides support to our goal to increase the amount of fresh produce available to the Organization partner agencies.

Baskets of Hope provides free holiday food packages to partner agencies allowing them to afford a holiday program and provide their clients with a holiday meal.

Community Food Drives permit the Organization to collect and distribute food to the Organizations' partner agencies free of charge.

Support Services provides assistance with nutrition support, database support and product delivery to agencies.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued):

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of the Organization and its resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations

Investments

The Organization carries its investments at fair value.

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. No allowance for doubtful accounts has been provided as receivables are considered collectable.

Inventory

Inventory consists of canned, frozen and fresh foods and hygiene products used in various programs. Inventory is valued at the average cost, determined on a first-in first-out basis (FIFO).

Property and Equipment

All major expenditures for property and equipment over \$2,500 are capitalized at cost. Depreciation is provided through the use of the straight-line method.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued):

Intangible Assets

Purchased intangible assets are stated at cost less accumulated amortization. Amortization is computed using straight-line method over the economic lives of the respective assets, generally 1-7 years.

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions.

Contributions other than cash are recorded at their estimated market value.

Promises-To-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Functional Allocation of Expense

Salaries and related expenses are recorded in programs based on time and activity reports. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, The Organization annually files an Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending September 30, 2011 and later remain subject to examination by the Internal Revenue Service.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued):

Use of 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform with the presentation in the current year financial statements.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through January 28, 2015, which is the date financial statements were available to be issued.

2. Significant Concentrations of Credit Risk

The Organization provides services within Minnesota. Grants and contributions receivable are from local governments or institutions.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At September 30, 2014 and 2013, the Organization held funds at a local financial institution in excess of federally insured limits.

3. Investments

The Organization held the following investments as of:

	September 30,			
	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Money Market	\$ 30,658	\$ 30,658	\$ 11,831	\$ 11,831

The Organization had realized losses of (\$467) and (\$315) and investment income of \$744 and \$634 for the years ending September 30, 2014 and 2013, respectively.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

4. Fair Value

The Organization adopted Financial Accounting Standards Board Accounting Standards Codification Topic 820 Fair Value Measurements and Disclosures (ASC 820). In accordance with ASC 820, "fair value" is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. ASC 820 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical investments.
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – Significant unobservable inputs.

The following is a summary of the inputs used to determine the fair values of the investments at:

September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	<u>\$ 30,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,658</u>

September 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	<u>\$ 11,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,831</u>

5. Grants Receivable

The outstanding balance of grants receivable at September 30, 2014 is expected to be collected over the following fiscal years:

<u>Due in the Year Ending September 30,</u>	
2015	<u>\$ 52,119</u>

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

6. Property and Equipment

The Organization owned the following as of:

	<u>September 30,</u>		<u>Estimated Useful Lives</u>
	<u>2014</u>	<u>2013</u>	
Land	\$ 1,108,561	\$1,108,561	
Buildings and Building Improvements	2,469,937	2,360,631	5-39 years
Furniture and Equipment	506,332	653,481	5 years
Vehicles	<u>565,681</u>	<u>518,210</u>	5 years
	4,650,511	4,640,883	
Less Accumulated Depreciation	<u>1,509,817</u>	<u>1,589,322</u>	
	<u>\$ 3,140,694</u>	<u>\$ 3,051,561</u>	

Depreciation expense of \$121,342 and \$143,661 was recorded for the years ended September 30, 2014 and 2013, respectively.

7. Intangible Assets

The Organization owned the following as of:

	<u>September 30,</u>		<u>Estimated Useful Lives</u>
	<u>2014</u>	<u>2013</u>	
Loan Closing Costs	\$ 11,035	\$ 11,035	7-10 years
Less Accumulated Amortization	<u>9,115</u>	<u>7,344</u>	
	<u>\$ 1,920</u>	<u>\$ 3,691</u>	

Amortization expense of \$1,771 and \$870 was recorded for the years ended September 30, 2014 and 2013, respectively.

8. Line of Credit

The Organization maintains a \$200,000 line-of-credit with Central Bank, maturing June 7, 2015. The interest rate at September 30, 2014 was 5%. Line-of-credit has been paid in full at both September 30, 2014 and 2013. Secured by land and building.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

9. Notes Payable

The breakdown of notes payable is as follows:

	<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>
4.125% mortgage payable to Central Bank. Payable in monthly amounts of \$12,870 including interest with the last payment due October 2015. Secured by land and building.	\$ 1,140,687	\$ 1,245,203
7% mortgage payable on demand to Central Bank. If no demand is made, mortgage is payable in monthly amounts of \$1,600 including interest with the last payment due October 2015. Secured by land and building.	201,404	206,126
4% note payable to St. Paul Port Authority. Payable in monthly amounts of \$1,340 including interest with the last payment due October 1, 2021. Secured by purchased equipment.	98,000	-
5.0% note payable to Sunrise Bank. Payable in monthly amounts \$3,018 including interest with last payment due March 2015. Secured by all business assets.	<u>17,842</u>	<u>52,202</u>
Less Portion Due Within One (1) Year	<u>1,457,933</u>	<u>1,503,531</u>
Long-term Portion	<u>144,936</u>	<u>144,491</u>
	<u>\$ 1,312,997</u>	<u>\$ 1,359,040</u>

Principal payments required are as follows:

<u>Due in the Year Ending September 30,</u>	
2015	144,936
2016	1,240,260
2017	13,409
2018	13,955
2019 and thereafter	<u>45,373</u>
Total	<u>\$ 1,457,933</u>

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts from the following as of:

	<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>
Lost Harvest	\$ 40,000	\$ 30,000
Baskets of Hope	25,000	5,000
Mobile Food Shelf	-	43,000
Other	-	2,303
	<u>\$ 65,000</u>	<u>\$ 80,303</u>

11. In-kind Contributions

The Organization records in-kind contributions at fair market value at date of donation. In kind contributions include the following as of:

	<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>
Foods	\$ 2,971,131	\$ 5,389,542
Non-Food Items	61,895	228,929
	<u>\$ 3,033,026</u>	<u>\$ 5,618,471</u>

12. Pension Plan

The Organization contributes up to three percent of an eligible employee's annual compensation to a 401(k) plan. Contributions of \$27,160 and \$32,132 were made in the years ended September 30, 2014 and 2013, respectively.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

14. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities were as follows as of:

	<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>
Depreciation and Amortization	\$ 123,113	\$ 144,531
Gain on Sale of Assets	-	5,583
Contributed Securities	(19,293)	(9,393)
Realized Loss on Investment	467	315
Loss on Disposal of Property and Equipment	19,596	-
Increases (Decreases) in Current Liabilities:		
Accounts Payable	35,141	(172,852)
Accrued Expenses	(6,587)	(32,349)
Decreases (Increases) in Current Assets:		
Accounts Receivable	(29,718)	(26,599)
Grants Receivable	11,110	(6,704)
Prepaid Expense	907	(7,227)
Inventory	(12,328)	(43,794)
Total Adjustments	<u>\$ 122,408</u>	<u>\$ (148,489)</u>