

MACC Alliance of Connected Communities
Minneapolis, Minnesota

Consolidated Financial Statements
Auditor's Report
For the Years Ended
December 31, 2016 and 2015



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

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Independent Auditor's Report

Board of Directors
MACC Alliance of Connected Communities
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of MACC Alliance of Connected Communities, which are comprised of the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MACC Alliance of Connected Communities as of December 31, 2016 and 2015, 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.

Carpenter Evert and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
July 20, 2017

EXHIBIT B

MACC ALLIANCE OF CONNECTED COMMUNITIES
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	2016			2015	
	Total Program Services	Management & General	Support Services	Total All Services	Total All Services
Wages	\$ 2,564,909	\$ 262,243	\$ 46,062	\$ 2,873,214	\$ 2,446,552
Employee Benefits	388,857	39,758	6,983	435,598	392,051
Payroll Taxes	190,867	19,515	3,428	213,810	175,015
Temporary Agency	97,690	9,988	1,754	109,432	92,957
Subtotal Personnel	3,242,323	331,504	58,227	3,632,054	3,106,575
Professional Fees	2,362,011	18,375	1,207	2,381,593	1,827,167
Office and Technology	464,906	11,084	1,727	477,717	399,506
Occupancy	134,104	10,529	1,880	146,513	140,080
Other Expense	34,769	42,413	404	77,586	121,259
Staff and Volunteer Training	42,479	5,917	543	48,939	33,983
Transportation	10,832	377	67	11,276	7,302
Telecommunication	8,632	772	138	9,542	9,001
Depreciation	58,774	268	47	59,089	68,911
Total Expense	\$ 6,358,830	\$ 421,239	\$ 64,240	\$ 6,844,309	\$ 5,713,784

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

MACC ALLIANCE OF CONNECTED COMMUNITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2015

	Total Program Services	Support Services			Total All Services
		Management & General	Fund- raising	Total Support Services	
Wages	\$ 2,275,293	\$ 171,259	\$ -	\$ 171,259	\$ 2,446,552
Employee Benefits	364,607	27,444	-	27,444	392,051
Payroll Taxes	162,763	12,252	-	12,252	175,015
Temporary Agency	86,450	6,507	-	6,507	92,957
Subtotal Personnel	2,889,113	217,462	-	217,462	3,106,575
Professional Fees	1,791,983	35,184	-	35,184	1,827,167
Office and Technology	393,803	5,703	-	5,703	399,506
Occupancy	135,241	4,839	-	4,839	140,080
Other Expense	67,587	53,672	-	53,672	121,259
Staff and Volunteer Training	32,744	1,239	-	1,239	33,983
Transportation	7,113	189	-	189	7,302
Telecommunication	8,694	307	-	307	9,001
Depreciation	68,670	241	-	241	68,911
Total Expense	\$ 5,394,948	\$ 318,836	\$ -	\$ 318,836	\$ 5,713,784

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

MACC ALLIANCE OF CONNECTED COMMUNITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and Cash Equivalents	\$ 273,219	\$ 452,825
Accounts Receivable	1,060,365	818,424
Grants Receivable	250,000	-
Prepaid Expense	90,796	133,463
Total Current Assets	<u>1,674,380</u>	<u>1,404,712</u>
Long-term Assets:		
Property and Equipment - Net	175,717	140,273
Net Long-term Assets	<u>175,717</u>	<u>140,273</u>
 TOTAL ASSETS	 <u>\$ 1,850,097</u>	 <u>\$ 1,544,985</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 244,921	\$ 242,362
Accrued Expense	322,541	331,461
Funds Held for Others	62,118	-
Notes Payable - Current	10,000	10,000
Deferred Revenue	3,983	14,572
Total Current Liabilities	<u>643,563</u>	<u>598,395</u>
Notes Payable - Long-term	39,511	48,814
Notes Payable to Founders	255,574	255,574
Total Liabilities	<u>938,648</u>	<u>902,783</u>
Net Assets:		
Unrestricted	578,449	633,340
Temporarily Restricted	333,000	8,862
Total Net Assets	<u>911,449</u>	<u>642,202</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,850,097</u>	 <u>\$ 1,544,985</u>

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

MACC ALLIANCE OF CONNECTED COMMUNITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 269,247	\$ 11,893
Total Adjustments	<u>(345,017)</u>	<u>(780,176)</u>
Net Cash (Used) by Operating Activities	(75,770)	(768,283)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	<u>(94,533)</u>	<u>(39,700)</u>
Net Cash (Used) by Investing Activities	(94,533)	(39,700)
Cash Flows from Financing Activities:		
Principal Payments of Notes Payable	<u>(9,303)</u>	<u>(7,019)</u>
Net Cash (Used) by Financing Activities	(9,303)	(7,019)
Net (Decrease) in Cash and Cash Equivalents	(179,606)	(815,002)
Cash - Beginning of Year	<u>452,825</u>	<u>1,267,827</u>
Cash - End of Year	<u>\$ 273,219</u>	<u>\$ 452,825</u>
 <u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid For:		
Interest	<u>\$ 2,137</u>	<u>\$ 2,622</u>

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

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of MACC Alliance of Connected Communities (the Alliance) include the accounts of MACC Service Network, LLC. (MSN). Significant inter-company transactions have been eliminated. The Board of Directors of the Alliance controls the appointment of the MSN Board of Governors. MSN became the single member of the Alliance on February 22, 2012.

Organizational Purpose

The Alliance launched in 1999, is a partnership of community-based social service organizations, primarily neighborhood and community centers, with the primary goal of advocating collectively for changes in both policy and practice in order to affect long-term, systemic change in the lives of low-income individuals, families and communities in the Minneapolis/St. Paul Metropolitan area.

MSN was launched by the Alliance in 2012 to provide operating flexibility for fund raising and program operation of and between Alliance members.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Alliance and MSN, 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 Alliance and MSN 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Alliance and MSN considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Doubtful Accounts

The Alliance and MSN extends credit to their customers on terms established 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 overdue balances may be charged interest at 1% per month. Alliance and MSN review accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. Allowance for doubtful accounts was stated at \$0 at December 31, 2016 and 2015, respectively.

Equipment

All major expenditures for equipment in excess of \$2,500 are recorded at cost if purchased, or an estimated market value if donated. Depreciation is provided using the straight-line method, over the following estimated useful lives:

Computer Equipment	2-5 years
Furniture and Equipment	3-10 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, except when receipt and satisfaction occur in the same period, in which case the contribution is shown as unrestricted.

Contributions of long-lived assets are recorded as temporarily restricted when received and the restriction is satisfied as they are depreciated.

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.

Deferred Revenue

Deferred revenue is recorded when program revenue is received but not yet earned. The program revenue is recognized as a liability until the year that they become earned begins.

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expense

Expenses are recorded in functional categories when incurred. In certain cases, allocations between categories must be made. When allocations are required, they are based on the best estimates of management. Fundraising expenses were minimal in 2015 and were included in the management & general category.

Income Tax

The Alliance has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. MSN is a disregarded tax entity of the Alliance. The Alliance and MSN have adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The policy of the Alliance 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 Alliance continues to operate consistent with their original exemption applications and each year takes the necessary actions to maintain their exempt status. The Alliance has been classified as organizations that are not private foundations under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, the Alliance annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending December 31, 2013 and later remain subject to examination by the Internal Revenue Service.

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 revenue 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 Alliance and MSN have evaluated the effect that subsequent events would have on the financial statements through July 20, 2017, which is the date financial statements were available to be issued.

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. Significant Concentrations of Credit Risk

The Alliance and MSN provide services within the Twin Cities area. Contributions, service fees and accounts receivable are from local institutions and members.

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

At December 31, 2016 and 2015, the Alliance and MSN had funds on deposit in a local financial institution in excess of federally insured limits.

3. Equipment

The Alliance's equipment was comprised of the following as of:

	December 31,	
	2016	2015
Computer Equipment	\$ 395,383	\$ 311,948
Leasehold Improvements	100,618	95,208
Furniture & Equipment	24,892	19,204
	520,893	426,360
Less Accumulated Depreciation	345,176	286,087
	\$ 175,717	\$ 140,273

Depreciation and amortization expense of \$59,089 and \$68,911 was recorded for the years ended December 31, 2016 and 2015, respectively.

4. Notes Payable

The breakdown of interest bearing notes payable is as follows:

	December 31,	
	2016	2015
Note payable to Wells Fargo, payable in monthly principal installments of \$833, excluding interest at 3.85%. The final payment is scheduled for July 1, 2021 when the all unpaid principal and interest is due. The note is secured by all receivables, savings, inventory, property, and equipment.	\$ 49,511	\$ 58,814
Less Portion Due within One (1) Year	10,000	10,000
Long-term Portion	\$ 39,511	\$ 48,814

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. Notes Payable (continued)

Principal payments required at December 31, 2016 are as follows:

<u>Due in the Year Ending December 31,</u>	
2017	\$ 10,000
2018	10,000
2019	10,000
2020	10,000
2021	<u>9,511</u>
Total	<u>\$ 49,511</u>

Non-interest bearing notes payable to founders are as follows as of:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Pillsbury United Communities	\$ 147,753	\$ 147,753
The Family Partnership	84,405	84,405
Plymouth Christian Youth Center	17,225	17,225
Phyllis Wheatley Community Center	<u>6,191</u>	<u>6,191</u>
	<u>\$ 255,574</u>	<u>\$ 255,574</u>

The member notes are payable upon dissolution of the Alliance unless prepaid.

5. In-kind Contributions

The Alliance and MSN record in-kind contributions at fair market value at date of donation. In-kind contributions include the following as of:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Interest	<u>\$ 12,816</u>	<u>\$ 12,816</u>

6. Leased Facilities

The Alliance leases office space from The Family Partnership on a month-to-month basis. Rent expense was \$124,251 and \$114,948 for the years ending December 31, 2016 and 2015, respectively.

MACC ALLIANCE OF CONNECTED COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Pension Plan

The Alliance initiated a 403(b) retirement plan January 1, 2009. The plan is funded by discretionary employer profit sharing and matching contributions, and employee contributions. Employer contributions of \$141,355 and \$115,649 were made in the years ended December 31, 2016 and 2015, respectively.

8. Temporarily Restricted Net Assets

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

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Social Enterprise Development Network	\$ 333,000	\$ -
Future Operations	-	7,500
Wagner Travel Expense	-	1,362
	<u>\$ 333,000</u>	<u>\$ 8,862</u>

9. Line-of-Credit

The Alliance maintains a \$150,000 line-of-credit with Wells Fargo Bank at a rate of Prime plus 1.25% which expires August 30, 2017. Principal is due on demand and is unsecured. Balance was \$-0- for both years ended December 31, 2016 and 2015.

10. Cash Flow Operating Adjustments

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

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Depreciation	\$ 59,089	\$ 68,911
Increases (Decreases) in Current Liabilities:		
Accounts Payable	2,559	199,354
Accrued Expense	(8,920)	(431,010)
Deferred Revenue	(10,589)	(16,472)
Funds Held for Others	62,118	-
Decreases (Increases) in Current Assets:		
Accounts Receivable	(241,941)	(549,641)
Grants Receivable	(250,000)	-
Prepaid Expense	42,667	(51,318)
Total Adjustments	<u>\$ (345,017)</u>	<u>\$ (780,176)</u>

ADDITIONAL INFORMATION



Carpenter, Evert & Associates

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Statement of Auditor's Responsibility

Board of Directors
MACC Alliance of Connected Communities
Minneapolis, Minnesota

We have audited the consolidated financial statements of MACC Alliance of Connected Communities as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 20, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of assets and liabilities as of December 31, 2016, and the consolidating schedule of revenue and expense for the year ended December 31, 2016, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carpenter Evert and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
July 20, 2017

MACC ALLIANCE OF CONNECTED COMMUNITIES
CONSOLIDATING SCHEDULE OF REVENUE AND EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2016

	MACC Alliance of Connected Communities	MACC Services Network, LLC	2016 Total
Support and Revenue:			
Contributions	\$ 550,346	\$ -	\$ 550,346
Government Grants and Contracts	24,010	1,282,420	1,306,430
Service Fees	4,740,630	-	4,740,630
Membership Dues	166,037	-	166,037
Interest and Other Income	339,952	10,161	350,113
Total Support and Revenue	<u>5,820,975</u>	<u>1,292,581</u>	<u>7,113,556</u>
Expense:			
Wages	2,841,961	31,253	2,873,214
Employee Benefits	430,969	4,629	435,598
Payroll Taxes	211,523	2,287	213,810
Temporary Agency	109,432	-	109,432
Total Personnel Expense	<u>3,593,885</u>	<u>38,169</u>	<u>3,632,054</u>
Professional Fees	1,132,236	1,249,357	2,381,593
Office and Technology	477,056	661	477,717
Occupancy	145,524	989	146,513
Other Expense	77,563	23	77,586
Staff and Volunteer Training	48,939	-	48,939
Transportation	11,248	28	11,276
Telecommunication	9,524	18	9,542
Allocations	(3,983)	3,983	-
Depreciation	59,089	-	59,089
Total Expense	<u>5,551,081</u>	<u>1,293,228</u>	<u>6,844,309</u>
Change in Net Assets:	269,894	(647)	269,247
Net Assets - Beginning of Year	<u>584,193</u>	<u>59,009</u>	<u>643,202</u>
Net Assets - End of Year	<u>\$ 854,087</u>	<u>\$ 58,362</u>	<u>\$ 912,449</u>

MACC ALLIANCE OF CONNECTED COMMUNITIES
CONSOLIDATING SCHEDULE OF ASSETS AND LIABILITIES
DECEMBER 31, 2016

<u>ASSETS</u>	<u>MACC Alliance of Connected Communities</u>	<u>MACC Services Network, LLC</u>	<u>Eliminations</u>	<u>2016 Total</u>
Current Assets:				
Cash and Cash Equivalents	\$ 200,862	\$ 72,357	\$ -	\$ 273,219
Accounts Receivable	798,065	262,300	-	1,060,365
Grants Receivable	250,000	-	-	250,000
Due From Affiliate Organization	275,195	-	(275,195)	-
Prepaid Expense	90,796	-	-	90,796
Total Current Assets	1,614,918	334,657	(275,195)	1,674,380
Investment in MACC Service Network	1,000	-	(1,000)	-
Property and Equipment - Net	175,717	-	-	175,717
TOTAL ASSETS	\$ 1,791,635	\$ 334,657	\$ (276,195)	\$ 1,850,097
 <u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 244,921	\$ -	\$ -	\$ 244,921
Accrued Expense	321,441	1,100	-	322,541
Funds Held for Others	62,118	-	-	62,118
Due to Affiliate Organization	-	275,195	(275,195)	-
Notes Payable - Current	10,000	-	-	10,000
Deferred Revenue	3,983	-	-	3,983
Total Current Liabilities	642,463	276,295	(275,195)	643,563
Notes Payable - Long-term	39,511	-	-	39,511
Notes Payable to Founders	255,574	-	-	255,574
Total Liabilities	937,548	276,295	(275,195)	938,648
Net Assets:				
Unrestricted	521,087	58,362	(1,000)	578,449
Temporarily Restricted	333,000	-	-	333,000
Total Net Assets	854,087	58,362	(1,000)	911,449
TOTAL LIABILITIES AND NET ASSETS	\$ 1,791,635	\$ 334,657	\$ (276,195)	\$ 1,850,097

See Statement of Auditor's Responsibility.