

**Emerge Community Development**  
Minneapolis, Minnesota

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Consolidated Financial Statements  
Auditor's Report  
For the Years Ended  
December 31, 2014 and 2013

**Carpenter *Evert***  
Certified Public Accountants



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Independent Auditor's Report

Board of Directors  
Emerge Community Development  
Minneapolis, Minnesota

Carpenter Evert

Certified Public Accountants

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Bloomington, Minnesota 55435

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We have audited the accompanying consolidated financial statements of Emerge Community Development, which comprise the statements of financial position as of December 31, 2014 and 2013, 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 consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Emerge Community Development as of December 31, 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.

*Carpenter Evert and Associates, Ltd.*

Certified Public Accountants

Minneapolis, Minnesota  
June 24, 2015

EMERGE COMMUNITY DEVELOPMENT  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014		2013	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Support and Revenue:</b>				
Grants and Contributions	\$ 203,192	\$ 578,703	\$ 186,527	\$ 485,492
Capital Campaign Contributions	-	36,754	-	3,487,377
Government Grants and Contracts	2,990,562	-	2,724,074	-
Program Fees	642,235	-	468,747	-
United Way	527,048	15,000	478,981	-
Investment and Other Income	14,548	-	133,809	-
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	500,725	(500,725)	370,246	(370,246)
Satisfaction of Capital Restrictions	218,632	(218,632)	-	-
<b>Total Support and Revenue</b>	<b>5,096,942</b>	<b>(88,900)</b>	<b>4,362,384</b>	<b>3,602,623</b>
<b>Expense:</b>				
<b>Program Services:</b>				
Workforce	2,523,330	-	2,240,584	-
Ventures and Community Development Villages	858,937	-	566,221	-
	745,105	-	744,610	-
<b>Total Program Services</b>	<b>4,127,372</b>	<b>-</b>	<b>3,551,415</b>	<b>-</b>
<b>Support Services:</b>				
Management and General Fundraising	568,006	-	469,931	-
	265,511	-	201,609	-
<b>Total Support Services</b>	<b>833,517</b>	<b>-</b>	<b>671,540</b>	<b>-</b>
<b>Total Expense</b>	<b>4,960,889</b>	<b>-</b>	<b>4,222,955</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>136,053</b>	<b>(88,900)</b>	<b>139,429</b>	<b>3,602,623</b>
<b>Net Assets - Beginning of Year</b>	<b>2,364,448</b>	<b>4,379,809</b>	<b>2,225,019</b>	<b>777,186</b>
<b>Net Assets - End of Year</b>	<b>\$ 2,500,501</b>	<b>\$ 4,290,909</b>	<b>\$ 2,364,448</b>	<b>\$ 4,379,809</b>
				<b>\$ 6,744,257</b>

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

EXHIBIT B

EMERGE COMMUNITY DEVELOPMENT  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS FOR 2013

	2014					2013		
	Program Services			Support Services		Total All Services		
	Workforce	Ventures & Community Development	Villages	Total Program Support	Management & General	Fund-raising	Total Support Services	Total All Services
Salary and Wages	\$ 1,298,357	\$ 544,570	\$ 241,470	\$ 2,084,397	\$ 172,119	\$ 151,140	\$ 323,259	\$ 2,407,656
Benefits	160,192	28,632	30,733	219,557	22,558	19,002	41,560	261,117
Payroll Taxes	107,301	87,723	20,079	215,103	13,494	13,250	26,744	241,847
Total Personnel Expense	1,565,850	660,925	292,282	2,519,057	208,171	183,392	391,563	2,910,620
Participant	429,742	19,930	362,691	812,363	-	-	-	812,363
Professional Fees	140,674	61,144	27,046	228,864	292,796	45,036	337,832	566,696
Occupancy	176,423	63,024	34,797	274,244	18,375	7,337	25,712	299,956
Office Expense	38,547	24,117	3,171	65,835	12,218	13,642	25,860	91,695
Transportation	75,084	2,560	6,152	83,796	1,842	703	2,545	86,341
Other Expense	13,476	15,997	2,833	32,306	12,974	9,012	21,986	54,292
Staff and Volunteer	18,618	4,260	5,555	28,433	17,010	2,437	19,447	47,880
Telecommunication	23,774	3,089	4,514	31,377	3,045	2,054	5,099	36,476
Depreciation	41,142	3,891	6,064	51,097	1,575	1,898	3,473	54,570
Total Expense	\$ 2,523,330	\$ 858,937	\$ 745,105	\$ 4,127,372	\$ 568,006	\$ 265,511	\$ 833,517	\$ 4,960,889
								\$ 4,222,955

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

EMERGE COMMUNITY DEVELOPMENT  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services			Support Services			Total All Services
	Workforce	Ventures & Community Development	Villages	Management & General	Fund- raising	Support Services	
Salary and Wages	\$ 1,330,919	\$ 275,402	\$ 241,922	\$ 121,735	\$ 83,870	\$ 205,605	\$ 2,053,848
Benefits	176,950	21,860	36,907	20,555	13,594	34,149	269,866
Payroll Taxes	91,802	74,717	19,179	4,879	7,285	12,164	197,862
Total Personnel Expense	1,599,671	371,979	298,008	147,169	104,749	251,918	2,521,576
Participant	209,148	8,774	341,145	-	-	-	559,067
Professional Fees	90,280	121,725	24,961	261,318	55,642	316,960	553,926
Occupancy	154,478	45,590	48,734	13,580	7,494	21,074	269,876
Office Expense	47,639	1,071	5,971	11,047	7,746	18,793	73,474
Transportation	60,359	1,521	5,009	2,012	432	2,444	69,333
Other Expense	885	495	510	11,493	2,582	14,075	15,965
Staff and Volunteer	21,192	7,455	4,108	17,612	19,406	37,018	69,773
Telecommunication	22,133	4,106	4,449	2,975	1,831	4,806	35,494
Depreciation	34,799	3,505	11,715	2,725	1,727	4,452	54,471
Total Expense	\$ 2,240,584	\$ 566,221	\$ 744,610	\$ 469,931	\$ 201,609	\$ 671,540	\$ 4,222,955

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

EMERGE COMMUNITY DEVELOPMENT  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,108,081	\$ 1,260,557
Grants Receivable	1,510,618	3,248,363
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$-0- in both 2014 and 2013)	556,922	558,395
Prepaid Expense	154,064	100,792
Total Current Assets	<u>3,329,685</u>	<u>5,168,107</u>
Other Assets	93,600	93,600
Property and Equipment - Net	<u>5,056,783</u>	<u>1,735,637</u>
 TOTAL ASSETS	 <u>\$ 8,480,068</u>	 <u>\$ 6,997,344</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 138,445	\$ 51,904
Accrued Expenses	223,727	196,909
Notes Payable - Current	511,047	-
Deferred Income	-	4,274
Total Current Liabilities	<u>873,219</u>	<u>253,087</u>
Long-term Liabilities:		
Notes Payable	<u>815,439</u>	-
Total Liabilities	<u>1,688,658</u>	<u>253,087</u>
Net Assets:		
Unrestricted:		
Operations	344,721	628,811
Property and Equipment	<u>2,155,780</u>	<u>1,735,637</u>
Total Unrestricted	<u>2,500,501</u>	<u>2,364,448</u>
Temporarily Restricted	<u>4,290,909</u>	<u>4,379,809</u>
Total Net Assets	<u>6,791,410</u>	<u>6,744,257</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 8,480,068</u>	 <u>\$ 6,997,344</u>

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

EMERGE COMMUNITY DEVELOPMENT  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 47,153	\$ 3,742,052
Total Adjustments	<u>(97,162)</u>	<u>(3,477,608)</u>
Net Cash Provided (Used) by Operating Activities	(50,009)	264,444
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(33,149)	(2,201)
Use of Cash Restricted for Capital Campaign	<u>(3,342,566)</u>	<u>(329,908)</u>
Net Cash (Used) by Investing Activities	(3,375,715)	(332,109)
Cash Flows from Financing Activities:		
Proceeds from Contributions Restricted for Capital Campaign	1,946,762	300,000
Proceeds from Notes Payable	<u>1,326,486</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>3,273,248</u>	<u>300,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(152,476)	232,335
Cash and Cash Equivalents - Beginning of Year	<u>1,260,557</u>	<u>1,028,222</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,108,081</u>	<u>\$ 1,260,557</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 8,274</u>	<u>\$ -</u>

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



EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of Emerge Community Development (Emerge) include the accounts of Emerge Ventures, LLC. Emerge is the sole member of Emerge Ventures, LLC. All significant inter-company transactions have been eliminated.

Organizational Purpose

The mission of Emerge is *to partner with people as they redefine themselves and create economic opportunities in our communities*. Key organizational goals include eliminating chronic homelessness via innovative transitional and supportive housing initiatives; promoting self-sufficiency through a myriad of employment and training programs and services; and by creating jobs and wealth through social enterprise and community development activities.

Emerge serves individuals and families through 18 distinct programs/enterprises that fall under four integrated units:

Workforce: Training, career counseling, job placement, career laddering, and ongoing support to help participants develop their wage-earning and wealth-building potential, and increase access to professional development.

Ventures and Community Development:

*Ventures* – Quality services to business and government agencies throughout the Twin Cities, while providing employment for hard-to-employ adults and at-risk youth, to create paths out of poverty.

*Community Development* – A catalyst for the housing and commercial development of the West Broadway corridor and North Minneapolis to restore community vitality.

Villages: Transitional and permanent, supportive housing projects provide a holistic model of human services to support success in ending homelessness by creating safe housing and supportive family-based services.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 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 Emerge, 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. Land, buildings and equipment are reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of Emerge 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 statement of cash flows, Emerge considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Doubtful Accounts

Emerge 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 Emerge does not charge interest on accounts receivable balances. Emerge reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. Emerge provides an allowance for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. Accounts are stated net of the allowance for doubtful accounts of \$-0- at both December 31, 2014 and 2013.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property, equipment and leasehold improvements 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 an estimated useful life as follows:

Building	30 years
Building and Leasehold Improvements	10 – 40 years
Furniture, Fixtures and Other Equipment	2 – 10 years
Vehicles	2 – 5 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 the receipt and expiration occur in the same period in which case the contribution is shown as unrestricted.

Promises-To-Give (Grants 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.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Emerge will record such disallowance at the time the final assessment is made.

Functional Allocation of Expense

Expenses for providing various programs have been summarized on a functional basis. Certain costs have been allocated among programs and supporting services based on best estimates of management.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued)

Income Tax

Emerge 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. Emerge'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. Emerge 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, Emerge annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending December 31, 2011 and later remain subject to examination by the Internal Revenue Service.

Risks and Uncertainties

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions can affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

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.

Subsequent Events

Emerge has evaluated the effect that subsequent events would have on the consolidated financial statements through June 24, 2015, which is the date consolidated financial statements were available to be issued.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$4,219 and \$503 for the years ended December 31, 2014 and 2013, respectively.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

2. Financial Instruments

Significant Concentrations of Credit Risk

Emerge provides services within the Twin Cities area. The amounts due for services provided are from individuals, or their third-party payors, substantially all of whom are local residents. In addition, grants receivable are from local residents, governments or institutions.

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

At December 31, 2014 and 2013, EmERGE held funds at a local financial institution in excess of federally insured limits

3. Property and Equipment

Emerge owned the following as of:

	December 31,	
	2014	2013
Land	\$ 242,846	\$ 242,846
Building	532,435	532,435
Building Improvements	384,212	384,212
Furniture, Fixtures and Other Equipment	197,502	176,952
Vehicles	64,467	48,382
Construction in Progress	4,077,740	755,723
	5,499,202	2,140,550
Less Accumulated Depreciation	442,419	404,913
	<u>\$ 5,056,783</u>	<u>\$ 1,735,637</u>

Depreciation expense of \$54,570 and \$54,471 was recorded for the years ended December 31, 2014 and 2013, respectively.

4. Grants Receivable

The outstanding balance of grants receivable at December 31, 2014, is expected to be collected over the following fiscal year:

<u>Due in the Year Ending December 31,</u>	
2015	<u>\$ 1,510,618</u>

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

5. Other Assets

Emerge has contributed \$93,600 to a reserve balance of PPLPUC Limited Liability Partnership. The partnership manages the Camden Apartments facility and Emerge manages a supportive housing program at the facility. Although Emerge is not currently a partner in the partnership, the process is underway to have one partner transfer their 50% ownership in the partnership to Emerge. The funds are expected to be returned to Emerge before 2036.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts for the following purposes as of:

	December 31,	
	2014	2013
Capital Campaign	\$ 3,700,720	\$ 3,882,598
Emerge Workforce	426,959	314,185
Emerge Villages	131,998	141,459
Other	31,232	41,567
	\$ 4,290,909	\$ 4,379,809

7. Leased Facilities

Emerge leases office space at various locations. Rental commitments under the noncancelable leases for space in effect at December 31, 2014, total \$257,840.

The future annual rental commitments are as follows:

<u>Due in the Year Ending December 31,</u>	
2015	\$ 141,360
2016	114,780
2017	1,700
Total	\$ 257,840

Rental expense was \$197,888 and \$189,607 for the years ended December 31, 2014 and 2013, respectively.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

8. Notes Payable

The breakdown of notes payable was as follows as of:

	December 31,	
	2014	2013
4% note payable due to the City of Minneapolis. Monthly interest only payments of \$1,667 through September 1, 2019 and principal and interest payments made thereafter of \$3,698 through September 1, 2034.	\$ 424,048	\$ -
3% note payable due to Hennepin County. Payments of \$3,862 that include principal and interest are due monthly beginning October 1, 2015. Final payment of unpaid principal and interest is due December 31, 2019.	400,000	-
6% line-of-credit with Local Initiative Support Corporation with a limit of \$990,000. Unpaid principal and interest is due September 1, 2015.	502,438	-
	1,326,486	-
Less Portion Due Within One (1) Year	511,047	-
Long-term Portion	\$ 815,439	\$ -

Principal payments required are as follows:

Due in the Year Ending December 31,

2015	\$ 511,047
2016	35,087
2017	36,154
2018	37,254
2019	289,011
2020 and Beyond	417,933
Total	\$ 1,326,486

9. Collaborative Agreements

In January 2009, Emerge became a member of MACC CommonWealth, Inc. (also a nonprofit), an organization formed to deliver a shared solution for meeting the key administrative functions of finance, human resources, information technology, medical billing, facilities and client data management. Emerge recorded expenses of \$378,889 and \$331,659 for these services in the years ended December 31, 2014 and 2013, respectively.

10. Pension Plan

Emerge has a defined contribution plan that covers those employees who meet eligibility requirements. Employer contributions of \$57,743 and \$56,251 were made in the years ended December 31, 2014 and 2013, respectively.

EMERGE COMMUNITY DEVELOPMENT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

11. Cash Flow Operating Adjustments

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Depreciation	\$ 54,570	\$ 54,471
(Gain) Loss on Disposals of Property and Equipment	-	-
Contributions Restricted for Capital Campaign	(36,754)	(3,487,377)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	86,541	(116,055)
Accrued Expenses	26,818	(31,080)
Payable to an Affiliated Organization	-	(1,192)
Deferred Income	(4,274)	(10,750)
Decreases (Increases) in Current Assets:		
Grants Receivable	(172,264)	(5,190)
Accounts Receivable	1,473	183,258
Prepaid Expense	(53,272)	(63,693)
Total Adjustments	<u>\$ (97,162)</u>	<u>\$ (3,477,608)</u>