

LONG ISLAND CARES, INC.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006 AND 2005
TOGETHER WITH AUDITORS' REPORT

LONG ISLAND CARES, INC.
FINANCIAL STATEMENTS AND AUDITORS' REPORT
AS OF DECEMBER 31, 2006 AND 2005
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Callaghan Nawrocki LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

To the Board of Directors of
Long Island Cares, Inc.:

We have audited the accompanying statements of financial position of Long Island Cares, Inc. as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Long Island Cares, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Long Island Cares, Inc. as of December 31, 2006 and 2005, and the results of its activities and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements of Long Island Cares, Inc. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The information in these schedules has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects, in relation to the financial statements taken as a whole.

Melville, New York
March 9, 2007

Callaghan Nawrocki

LONG ISLAND CARES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006 AND 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CASH	\$ 421,263	\$ 283,696
ACCOUNTS RECEIVABLE (net of allowance for doubtful accounts of \$4,141 and \$3,726 in 2006 and 2005, respectively)	377,586	486,978
DONATED PRODUCT	695,409	574,556
FIXED ASSETS (net of accumulated depreciation of \$554,232 and \$589,269 in 2006 and 2005, respectively)	2,399,525	2,476,112
OTHER ASSETS	18,828	35,569
	<u>\$ 3,912,611</u>	<u>\$ 3,856,911</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
LOAN PAYABLE TO BANK	\$ 326,700	\$ 420,500
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	372,434	415,312
Total liabilities	<u>699,134</u>	<u>835,812</u>
NET ASSETS:		
Unrestricted:		
Designated for fixed assets	2,072,825	2,055,612
Designated for donated product	695,409	574,556
Undesignated	370,515	287,357
Total unrestricted net assets	<u>3,138,749</u>	<u>2,917,525</u>
Temporarily restricted	24,728	53,574
Permanently restricted	50,000	50,000
Total net assets	<u>3,213,477</u>	<u>3,021,099</u>
	<u>\$ 3,912,611</u>	<u>\$ 3,856,911</u>

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

LONG ISLAND CARES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues	\$ 8,234,360	\$ 7,555,175
Expenses -		
Program services	7,154,061	6,430,517
Supporting services	424,008	400,327
Fundraising services	435,067	537,699
	<u>8,013,136</u>	<u>7,368,543</u>
Total expenses		
Increase in unrestricted net assets	<u>221,224</u>	<u>186,632</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Revenues	81,408	142,571
Net assets released from restrictions	<u>(110,254)</u>	<u>(211,551)</u>
Decrease in temporarily restricted net assets	<u>(28,846)</u>	<u>(68,980)</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	192,378	117,652
NET ASSETS, BEGINNING OF YEAR	<u>3,021,099</u>	<u>2,903,447</u>
NET ASSETS, END OF YEAR	<u>\$ 3,213,477</u>	<u>\$ 3,021,099</u>

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

LONG ISLAND CARES, INC.
STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 192,378	\$ 117,652
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	115,341	119,282
Decrease in accounts receivable	108,977	42,199
Increase (decrease) in allowance for doubtful accounts	415	(465)
(Increase) decrease in donated product	(120,853)	23,843
(Increase) decrease in other assets	16,741	(10,548)
Increase (decrease) in accounts payable and accrued liabilities	<u>(42,879)</u>	<u>59,497</u>
Net cash provided by operating activities	<u>270,120</u>	<u>351,460</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in fixed assets	<u>(38,753)</u>	<u>(54,154)</u>
Net cash used by investing activities	<u>(38,753)</u>	<u>(54,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loan payable to bank	<u>(93,800)</u>	<u>(232,000)</u>
Net cash used by financing activities	<u>(93,800)</u>	<u>(232,000)</u>
NET INCREASE IN CASH	137,567	65,306
CASH, BEGINNING OF YEAR	<u>283,696</u>	<u>218,390</u>
CASH, END OF YEAR	<u>\$ 421,263</u>	<u>\$ 283,696</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 29,061</u>	<u>\$ 31,025</u>
Retirement of fully depreciated fixed assets	<u>\$ 150,378</u>	<u>\$ 10,800</u>

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

LONG ISLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

(1) **Background and current operational considerations**

Long Island Cares, Inc. (the "Organization") is a nonprofit, anti-hunger organization founded in 1980 by the late singer and activist, Harry Chapin. The Organization's aims are to promote the food welfare of the Long Island community; to raise the nutritional standards of community life; to bring into closer relation the resources and food needs of the community; and to sponsor and encourage equal rights in relation to food access, balanced nutrition and food self-reliance activities. The Organization has responded by providing immediate emergency food relief to hungry Long Islanders through The Harry Chapin Food Bank and by addressing the systemic causes of hunger through Community Outreach Programs. The Organization is a broad based, regionally responsive organization working in partnership with human service groups in Nassau and Suffolk Counties.

The Organization is an affiliate member of America's Second Harvest, a national network of food banks and food rescue organizations. Through this membership, it is able to access donated food through national and regional corporate sponsors. In concert with The Harry Chapin Food Bank, the Organization collects, warehouses and delivers government donated and surplus foods to food pantries, soup kitchens, shelters, group homes, day treatment facilities, senior citizen sites and day care centers.

The Organization operates the only designated food bank serving Nassau and Suffolk Counties, located at the Organization's Hauppauge, New York office and warehouse facility. It is the only contracted agency for the distribution of Federal commodities through The Emergency Food Assistance Program (TEFAP), administered by the New York State Office of General Service (OGS) under a continuous agreement effective May 1989.

In addition, the Organization, under a five-year contract renewed annually, is responsible for the support services of the Hunger Prevention and Nutrition Assistance Program (HPNAP) administered by the New York State Department of Health. The current annual contract is renewed through June 30, 2007. The supported service provides nutritional assistance to various high-risk groups of individuals, including the homeless at approved food and nutrition service sites.

The Organization addresses education as a continuing process through Community Outreach Programs - New Paths to Achievement, Job Training and Hunger Education.

The New Paths to Achievement Program focuses on assisting low-income and single head-of-household women in gaining self-esteem, job skills and employment experience in order to become self-sufficient and independent of the public welfare system.

The Job Training Program targets at-risk high school students and young adults and provides on-the-job training at Long Island Cares to assist the participants in gaining clerical, computer and warehousing skills.

Hunger 101, the hunger education program, is a role play and discussion activity designed to raise awareness about the problems of hunger and poverty on Long Island. It helps participants gain an understanding of the causes and consequences of hunger and develop strategies to address the problem. It is presented to students, churches, service and professional groups and many others.

Two other programs at Long Island Cares are designed to meet specific community needs: School Tools and Kids Café.

School Tools works in partnership with corporations and individuals to collect and distribute new school supplies to our member agencies serving school aged children so these economically disadvantaged children have the necessary tools to start the new school year.

The Kids Café is an after school program which provides safe and convenient environments for at-risk children to receive nutritious food, tutoring and mentoring, nutrition and food safety education, homework assistance and recreational activities.

(2) **Summary of significant accounting policies:**

The accompanying financial statements include the assets, liabilities, revenues and expenses of all the funds of the Organization which are reflected under the accrual basis of accounting. The following is a summary of significant accounting policies followed by the Organization:

Financial statement presentation –

The accompanying financial statements include the accounts of the Organization's program, administration and fundraising. The Organization presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, Financial Statements of Not-For-Profit Organizations. SFAS No. 117 requires that the Organization's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets. The Organization's net assets consist of the following:

Unrestricted – net assets of the Organization which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the Organization.

Temporarily restricted – net assets of the Organization which have been limited by donor-imposed stipulations or by law that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations.

Permanently restricted – net assets of the Organization which have been restricted by donors to be maintained in perpetuity by the Organization.

Revenue and expense recognition –

Contributions are recognized as income when received and are considered to be available for unrestricted use unless specifically restricted by the donor. Revenues under contracts for service are generally recognized as earned. Contract advances arise from payments received under contracts for service in advance of revenue recognition. Expenses are recognized when incurred. The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various rational bases.

In-kind contributions –

The Organization follows the provisions of Statement of Financial Accounting Standards No. 116, Accounting For Contributions Received And Contributions Made with respect to donated product including donated food, supplies and Federal commodities. Donated product received, distributed and on hand are accounted for at fair value. The fair value of donated product received and distributed during the year is reflected in the accompanying financial statements as in-kind contributions and in-kind expenses. Significant fluctuations in operating results may occur due to variances in quantity and valuation of donated product.

The Organization has received professional services on a pro-bono basis. The value of these services for the years ended December 31, 2006 and 2005 was \$10,586 and \$769, respectively. Such amounts are reflected in the accompanying financial statements as in-kind contributions and in-kind expenses.

Cash and cash equivalents –

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents, principally money market funds.

Donated product –

Donated product represents the fair value of donated food, supplies and Federal commodities on hand as of year-end.

Fixed assets –

Fixed assets are stated at cost or current fair value for donated items. Maintenance and repairs are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (generally periods of three to forty years).

Income taxes –

The Organization qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and applicable New York State tax laws. Accordingly, no provision for federal or state income taxes is required.

Impairment of long-lived assets and long-lived assets to be disposed of –

The Organization follows the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The provisions of this Statement did not have a material impact on the Organization's financial position, results of activities or liquidity during the year ended December 31, 2006.

Donated services –

A number of volunteers have donated significant amounts of their time in the Organization's program services, administration and fundraising campaigns. However, since these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America, they are not reflected in the accompanying financial statements.

The use of estimates in the preparation of financial statements –

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 reported period. Estimates include accounts receivable, fixed assets and certain accrued expenses. Actual results may differ from those estimates.

Recently issued accounting pronouncements –

In March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. This accounting pronouncement requires the Organization to recognize the fair value of its legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. As of December 31, 2006, the Organization does not have sufficient information to reasonably estimate the fair value of any asset retirement obligations.

(3) Fixed assets

Fixed assets as of December 31, 2006 and 2005 are comprised of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 885,500	\$ 885,500
Building	1,427,183	1,427,183
Building improvements	88,006	77,030
Office equipment	161,437	209,488
Vehicles	66,748	128,237
Warehouse equipment	<u>324,883</u>	<u>337,943</u>
	2,953,757	3,065,381
Less: accumulated depreciation	<u>554,232</u>	<u>589,269</u>
	<u>\$2,399,525</u>	<u>\$2,476,112</u>

(4) Line of credit

The Organization has a \$300,000 line of credit with a bank. The loan is secured by equipment and bears interest at the bank’s prime rate (8.25% as of December 31, 2006) plus 2.5% per annum. The line is fully available as of December 31, 2006.

(5) Loans payable:

Loan payable to bank –

The Organization has a loan payable to a bank with an original amount of \$1,300,000, of which \$326,700 is outstanding at December 31, 2006. The loan is collateralized by the Organization’s land and building. The loan is payable in twelve monthly installments of interest only, followed by sixty installments of principal and interest (equal to the one-month LIBOR, 5.33% as of December 31, 2006, plus 250 basis points per annum) of \$7,640 and a final lump sum principal payment due on June 19, 2008.

Maturities of loans payable –

At December 31, 2006, future principal payments on outstanding loans payable are as follows:

<u>Year Ending December 31,</u>	
2007	\$ 50,175
2008	<u>276,525</u>
	<u>\$ 326,700</u>

(6) Temporarily restricted net assets

Temporarily restricted net assets are available for or relate to the following purposes:

	<u>2006</u>	<u>2005</u>
TEFAP Handling Fees	\$ 12,830	\$ 23,149
Capital Campaign interest	9,022	9,029
Donations for Purchasing Turkeys	2,524	1,660
New Paths to Achievement	352	-
Capital Campaign	-	13,601
Check Out Hunger Program	-	1,135
Kraft Foods Community Garden	<u>-</u>	<u>5,000</u>
	<u>\$ 24,728</u>	<u>\$ 53,574</u>

(7) Permanently restricted net assets

Permanently restricted net assets relate to an endowment of \$50,000 to be maintained in perpetuity, the income from which is expendable to support general operations.

(8) Employee benefit plan

The Organization has a 403(b) Tax Deferred Annuity Plan (the "Plan"). Eligible participants in the Plan may contribute up to 25% of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. The Plan does not provide for matching contributions by the Organization.

(9) Fair value of financial instruments

Statement of Financial Accounting Standards No. 107, Disclosure about Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying value of all instruments classified as current assets or liabilities is deemed to approximate fair value because of their short-term nature.

(10) Concentrations of credit risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash. Cash exceeding federally insured limits totaled \$320,761 at December 31, 2006, based on actual bank account balances.

(11) Fundraising activities

<u>Fund Raisers</u>	<u>Gross Revenues</u>	<u>Direct Expenses</u>	<u>Fundraising Income, net</u>
<u>2006</u>			
Direct mailing	\$ 241,141	\$ 83,876	\$ 157,265
Golf outing	122,240	46,801	75,439
Check Out Hunger	71,688	6,069	65,619
Awards Dinner	61,250	24,123	37,127
Concert Events	26,300	11,520	14,780
Newsletter	13,712	4,182	9,530
Share-A-Meal	2,343	-	2,343
	<u>\$ 538,674</u>	<u>\$ 176,571</u>	<u>\$ 362,103</u>
<u>2005</u>			
Direct mailing	\$ 198,322	\$ 82,428	\$ 115,894
Golf outing	146,211	76,164	70,047
Awards Dinner	145,370	44,310	101,060
Check Out Hunger	66,106	11,118	54,988
Community Charity Events	40,250	20,076	20,174
Newsletter	36,297	3,735	32,562
Share-A-Meal	3,868	-	3,868
	<u>\$ 636,424</u>	<u>\$ 237,831</u>	<u>\$ 398,593</u>

LONG ISLAND CARES, INC.
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Totals	2005 Totals
Public Support And Fundraising:					
Fund raisers	\$ 538,674	\$ -	\$ -	\$ 538,674	\$ 636,424
Contributions	346,414	79,158	-	425,572	387,922
Grants	191,158	2,192	-	193,350	251,035
Corporate support	71,641	-	-	71,641	91,738
Foundation support	61,000	-	-	61,000	88,350
	<u>1,208,887</u>	<u>81,350</u>	<u>-</u>	<u>1,290,237</u>	<u>1,455,469</u>
Government Support:					
HPNAP	967,860	-	-	967,860	1,054,787
Suffolk County	114,719	-	-	114,719	105,525
Other	-	-	-	-	4,500
	<u>1,082,579</u>	<u>-</u>	<u>-</u>	<u>1,082,579</u>	<u>1,164,812</u>
Distribution Revenue And Handling Fees:					
Food Bank Agencies	290,656	-	-	290,656	306,023
HPNAP	348,538	-	-	348,538	178,372
TEFAP	138,879	-	-	138,879	141,352
Suffolk County	1,791	-	-	1,791	1,885
	<u>779,864</u>	<u>-</u>	<u>-</u>	<u>779,864</u>	<u>627,632</u>
Other Income:					
In-kind contributions	5,046,704	-	-	5,046,704	4,226,401
Miscellaneous	2,888	-	-	2,888	9,821
Interest income	3,184	58	-	3,242	2,060
	<u>5,052,776</u>	<u>58</u>	<u>-</u>	<u>5,052,834</u>	<u>4,238,282</u>
Subtotal	<u>8,124,106</u>	<u>81,408</u>	<u>-</u>	<u>8,205,514</u>	<u>7,486,195</u>
Net Assets Released From Restrictions:					
Food Bank	110,254	(110,254)	-	-	-
	<u>110,254</u>	<u>(110,254)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ 8,234,360</u>	<u>\$ (28,846)</u>	<u>\$ -</u>	<u>\$ 8,205,514</u>	<u>\$ 7,486,195</u>

The accompanying notes to financial statements
should be read in conjunction with this schedule.

LONG ISLAND CARES, INC.
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	Food Bank Fund	Community	Administration Fund		2006 Totals	2005 Totals
		Outreach Fund	Management & General	Development		
In-kind expenses	\$4,888,686	\$ -	\$ 10,586	\$ 29,522	\$4,928,794	\$4,278,388
Salaries	599,718	53,469	279,637	137,417	1,070,241	1,015,759
HPNAP food purchases	494,995	-	-	-	494,995	580,144
Payroll taxes and benefits	136,316	12,732	32,475	23,486	205,009	195,883
Fundraising	-	-	-	176,571	176,571	237,831
Food Bank food purchases	164,733	-	-	-	164,733	152,011
Depreciation	93,996	4,642	10,453	6,250	115,341	119,282
Transportation	109,365	-	-	-	109,365	89,286
HPNAP operational support	104,996	-	-	-	104,996	93,937
Utilities	71,759	1,772	4,349	2,658	80,538	76,171
HPNAP capital equipment	58,626	-	-	-	58,626	80,792
Suffolk County food purchases	51,141	-	-	-	51,141	47,405
Grants	50,000	-	-	-	50,000	50,000
Advertising	-	-	25	43,508	43,533	44,662
Freight	39,966	-	-	-	39,966	8,250
Building maintenance and sanitation	29,856	737	1,809	1,106	33,508	29,332
Other food purchases	31,994	-	-	-	31,994	33,244
Equipment rental and maintenance	24,873	534	4,290	1,812	31,509	25,116
Interest	-	-	29,061	-	29,061	31,025
Insurance	17,618	1,199	1,635	1,199	21,651	21,500
Dues and membership fees	13,522	-	7,073	295	20,890	22,489
Education supplies	15,282	-	-	-	15,282	10,065
Professional fees	-	-	15,000	-	15,000	13,500
Postage	7,327	2,098	3,719	1,216	14,360	15,034
Printing	5,304	2,859	5,224	304	13,691	13,552
Telephone and internet	7,390	1,075	2,284	2,687	13,436	14,106
Consultants	6,175	1,200	3,175	1,800	12,350	4,094
Travel	8,263	1,370	908	871	11,412	10,170
Supplies-office	5,628	387	2,597	1,961	10,573	13,349
Supplies-warehouse	10,381	-	-	-	10,381	6,864
Food acquisition handling fees	8,424	-	-	-	8,424	-
Bank and payroll fees	-	-	7,198	-	7,198	8,121
Workshop and education	4,982	1,560	-	-	6,542	8,631
HPNAP sanitation/safety supplies	4,863	-	-	-	4,863	9,689
Conference fees	800	-	2,460	-	3,260	2,570
Recruiting	280	-	-	2,373	2,653	4,766
Property taxes	436	11	26	16	489	497
Permits and licenses	391	10	24	15	440	312
Damage/shortage	236	-	-	-	236	517
Miscellaneous	84	-	-	-	84	174
Personnel training	-	-	-	-	-	25
Total expenses	\$7,068,406	\$ 85,655	\$ 424,008	\$ 435,067	\$8,013,136	\$7,368,543

The accompanying notes to financial statements
should be read in conjunction with this schedule.