

**THE SHEPHERD'S CALL, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2017**

**The Shepherd's Call, Inc.**  
**December 31, 2017**

**Contents**

	<u>Page</u>
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6 - 7
Notes to the Financial Statements	8 - 14



USELTON CLAY & BRIGHT, P.C.  
certified public accountants | consultants

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
The Shepherd's Call, Inc.

We have audited the accompanying financial statements of The Shepherd's Call, Inc. d/b/a Dawson McAllister Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The Organization's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Shepherd's Call, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Uselman, Clay & Bright, P.C*

July 5, 2018  
Nashville, Tennessee

**The Shepherd's Call, Inc.**  
**Statement of Financial Position**  
**December 31, 2017**

ASSETS	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 166,665
<b>Total Current Assets</b>	<u>166,665</u>
 <b>PROPERTY AND EQUIPMENT</b>	
Land	152,600
Buildings and improvements	3,379,626
Furniture and fixtures	81,872
Equipment	1,347,901
Website	<u>95,728</u>
	5,057,727
Less: accumulated depreciation	<u>( 2,474,595)</u>
<b>Property and Equipment, Net</b>	<u>2,583,132</u>
 <b>Total Assets</b>	 <u><b>\$ 2,749,797</b></u>
LIABILITIES AND NET ASSETS	
<b>CURRENT LIABILITIES</b>	
Line of credit	\$ 146,547
Accounts payable and accrued liabilities	59,089
Current portion of long-term liabilities	77,641
Employee benevolence	<u>5,597</u>
<b>Total Current Liabilities</b>	<u>288,874</u>
 <b>LONG-TERM LIABILITIES</b>	
Notes payable, less current portion above and net of debt issuance costs of \$16,376	<u>2,267,690</u>
 <b>NET ASSETS</b>	
Unrestricted	168,233
Temporarily restricted	<u>25,000</u>
<b>Total Net Assets</b>	<u>193,233</u>
 <b>Total Liabilities and Net Assets</b>	 <u><b>\$ 2,749,797</b></u>

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

**The Shepherd's Call, Inc.**  
**Statement of Activities**  
**For the year ended December 31, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 1,973,750	\$ 25,000	\$ 1,998,750
In-kind contributions	12,770	-	12,770
Rental income, net of expenses	8,424	-	8,424
Interest income	85	-	85
Other income	11,385	-	11,385
Net assets released from restrictions	<u>1,000</u>	<u>( 1,000)</u>	<u>-</u>
<b>Total Support and Revenues</b>	<b><u>2,007,414</u></b>	<b><u>24,000</u></b>	<b><u>2,031,414</u></b>
<b>EXPENSES</b>			
Program services:			
Radio	581,544	-	581,544
Hopeline	774,339	-	774,339
Web and social media outreach	<u>234,132</u>	<u>-</u>	<u>234,132</u>
<b>Total Program Services</b>	<b><u>1,590,015</u></b>	<b><u>-</u></b>	<b><u>1,590,015</u></b>
Supporting services:			
Management and general	223,177	-	223,177
Fundraising	<u>380,129</u>	<u>-</u>	<u>380,129</u>
<b>Total Supporting Services</b>	<b><u>603,306</u></b>	<b><u>-</u></b>	<b><u>603,306</u></b>
<b>Total Expenses</b>	<b><u>2,193,321</u></b>	<b><u>-</u></b>	<b><u>2,193,321</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b>( 185,907)</b>	<b>24,000</b>	<b>( 161,907)</b>
Net assets, beginning of year	<u>354,140</u>	<u>1,000</u>	<u>355,140</u>
<b>Net assets, end of year</b>	<b><u>\$ 168,233</u></b>	<b><u>\$ 25,000</u></b>	<b><u>\$ 193,233</u></b>

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

**The Shepherd's Call, Inc.**  
**Statement of Cash Flows**  
**For the year ended December 31, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$( 161,907)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	112,462
Bad debt expense	11,000
Changes in operating assets and liabilities:	
Rent receivable	1,933
Pledges receivable	1,000
Prepaid expenses	2,959
Accounts payable and accrued liabilities	<u>( 21,405)</u>
<b>Cash Flows Used by Operating Activities</b>	<b><u>( 53,958)</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of fixed assets	<u>( 1,763)</u>
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**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from notes payable	31,383
Principal payments on notes payable	( 38,293)
Proceeds from line of credit	166,547
Principal payments on line of credit	( 20,000)
Loan fees paid	<u>( 19,267)</u>

<b>Cash Flows Provided by Financing Activities</b>	<b><u>120,370</u></b>
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<b>Net Increase in Cash and Cash Equivalents</b>	<b>64,649</b>
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Net Cash and Cash Equivalents, beginning of year	<u>102,016</u>
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<b>Net Cash and Cash Equivalents, end of year</b>	<b><u>\$ 166,665</u></b>
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Interest paid	<u>\$ 136,307</u>
Income taxes paid	<u>\$ -</u>

**SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING TRANSACTIONS:**

During the year ended December 31, 2017 the Organization refinanced two notes payable for \$2,400,000 with a local bank and paid off debt of \$2,368,617.

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

**The Shepherd's Call, Inc.**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2017**

	<b>Program services</b>			
	<b>Radio</b>	<b>Hopeline</b>	<b>Web and Social Media Outreach</b>	<b>Total</b>
Accounting fees	\$ -	\$ -	\$ -	\$ -
Bad debt expense	-	-	-	-
Building and grounds maintenance	2,396	4,577	215	7,188
Business registrations and taxes	-	-	-	-
Communications	12,427	8,890	1,485	22,802
Depreciation	12,582	24,036	1,128	37,746
Development support	145	277	13	435
Dues and subscriptions	1,041	1,149	-	2,190
Employee travel	1,007	1,382	-	2,389
Gifts and donations	-	180	-	180
In-kind	6,000	-	6,770	12,770
Insurance	6,212	11,868	557	18,637
Interest	10,277	19,633	921	30,831
Internet communication	9,484	14,347	645	24,476
Meetings expense	23	151	-	174
Merchant fees	4	33	-	37
Promotion	10,530	10,530	7,100	28,160
Other expense	5,205	9,943	467	15,615
Salaries and payroll taxes	369,834	484,460	182,543	1,036,837
Payroll fees	1,374	2,625	123	4,122
Postage and shipping	668	1,337	60	2,065
Printing and reproduction	1,067	2,214	96	3,377
Radio production and syndication expense	77,440	1,174	1,681	80,295
Real estate taxes	825	1,577	74	2,476
Rescue support	13,500	61,103	6,089	80,692
Supplies	553	877	201	1,631
Technology support	34,908	76,821	14,733	126,462
Utilities	2,262	4,320	203	6,785
Website support	1,780	30,835	9,028	41,643
<b>Total Expenses</b>	<b>\$ 581,544</b>	<b>\$ 774,339</b>	<b>\$ 234,132</b>	<b>\$ 1,590,015</b>

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



**The Shepherd's Call, Inc.**  
**Statement of Functional Expenses - Continued**  
**For the year ended December 31, 2017**

<b>Supporting services</b>				
	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total</b>
Accounting fees	\$ 12,750	\$ -	\$ 12,750	\$ 12,750
Bad debt expense	11,000	-	11,000	11,000
Building and grounds maintenance	711	364	1,075	8,263
Business registrations and taxes	3,278	4,690	7,968	7,968
Communications	1,380	1,694	3,074	25,876
Depreciation	3,731	1,909	5,640	43,386
Development support	43	79,717	79,760	80,195
Dues and subscriptions	2,725	1,041	3,766	5,956
Employee travel	-	5,328	5,328	7,717
Gifts and donations	232	-	232	412
In-kind	-	-	-	12,770
Insurance	1,842	943	2,785	21,422
Interest	3,048	1,559	4,607	35,438
Internet communication	2,134	1,092	3,226	27,702
Meetings expense	323	1,452	1,775	1,949
Merchant fees	1,021	7,542	8,563	8,600
Promotion	-	-	-	28,160
Other expense	1,543	790	2,333	17,948
Salaries and payroll taxes	160,699	222,887	383,586	1,420,423
Payroll fees	842	208	1,050	5,172
Postage and shipping	611	6,425	7,036	9,101
Printing and reproduction	317	35,333	35,650	39,027
Radio production and syndication expense	-	-	-	80,295
Real estate taxes	245	125	370	2,846
Rescue support	-	-	-	80,692
Supplies	3,732	1,341	5,073	6,704
Technology support	10,299	5,269	15,568	142,030
Utilities	671	343	1,014	7,799
Website support	-	77	77	41,720
<b>Total Expenses</b>	<b>\$ 223,177</b>	<b>\$ 380,129</b>	<b>\$ 603,306</b>	<b>\$ 2,193,321</b>

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

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 1. BACKGROUND INFORMATION**

The Shepherd's Call (the "Organization") is incorporated as a nonprofit organization whose purpose is to provide real hope through Jesus Christ to teenagers and young adults in crisis. This is accomplished by Christ-centered clear thinking and right values promoted through nationwide internet live and archived streaming programs, web and social media outreach, as well as one-on-one interactions through chat, but also by telephone and social media, with those seeking help from across the country and often from persons in countries other than the United States of America.

The programs through which the Organization provides its services are as follows:

**Radio Production / Syndication**

During 2017, the Organization provided live and pre-recorded content to over 130 top-40 radio and Christian Radio affiliates serving thousands of listeners in the United States and Canada. The live programming consists primarily of one-on-one talk between Dawson McAllister and callers into the show who are seeking help and advice from Dawson on life issues. Radio content is also offered by the Organization through 24/7 internet streaming, featuring replays of the most recent top-40 and Christian programming. The streams are available via the Organization's website, or a free smartphone application available for Android and iPhone devices. The radio programs were discontinued in October 2017 due to cost concerns.

**HopeLine**

In conjunction with the radio and internet programs, the Organization operates TheHopeLine, an off-air, online chat service serving teenagers and young adults worldwide between the ages of 13-29. In 2017, the organization interacted with 84,496 teenagers and young adults via one-on-one chat and telephone. This represented almost a 8.08% decrease from 2016. Included in that number were 6,526 suicide interventions, a 31.49% decrease from 2016. HopeLine interactions always offer, but do not force, prayer and a faith-based perspective on the issue being dealt with. Interactions also always conclude with an offer encouraging young people to connect with one of 20 vetted, faith-based partners, providing specific long-term services that address their need. TheHopeLine also offers, when appropriate, tangible resources including Bibles, books, e-books and more, which provide encouragement, education, and support to those who seek to receive help.

**Web and Social Media Outreach**

In 2017, the Organization maintained a robust presence on the Web and in Social Media. The Organization's website, [www.thehopeline.com](http://www.thehopeline.com), had more than 3,621,171 unique visits, 25.8% decrease from 2016. The prayer website was launched in 2016, [www.theprayerzone.com](http://www.theprayerzone.com), and received 7,056 unique visitors during 2017. The Prayer Zone is for young people to post their prayer requests, which will be prayed for by "prayer champions" recruited by the Organization.

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

**Classification of Net Assets**

In the accompanying financial statements, the Organization's net assets that have similar characteristics have been combined into the following three categories:

- Unrestricted net assets are free of donor-imposed restrictions and included all revenues, expenses, gains and losses that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets include gifts, grants, income, gains, and pledges for which donor-imposed restrictions have not been met.
- Permanently restricted net assets include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested.

**Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase. The Organization considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents.

The Organization classifies investments with an original maturity of more than three months on their acquisition date as investments.

**Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and cash equivalents – Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Bank loans payable – Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities.

**Pledges Receivable**

When a donor has unconditionally promised to contribute funds in future periods, the Organization recognizes the fair value of the pledge receivable. Pledges expected to be collected within one year are recorded as a donation and a receivable at net realizable value, which approximates fair value. Pledges expected to be collected in future years are recorded as a donation and a receivable at the present value of the expected future cash flows.

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Property and Equipment**

Fixed assets are recorded at cost, or in the case of contributed property, at the fair market value at the date of contribution. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is expensed as incurred. Depreciation is computed generally using the straight-line method over estimated useful lives as follows:

<u>Asset Category</u>	<u>Years</u>
Buildings & Improvements	20-39
Furniture & Fixtures	5-7
Equipment	5-7
Vehicles	5
Website	3

Depreciation expense for the year ended December 31, 2017 totaled \$109,572.

**Debt Issuance Costs**

In 2017 the Organization incurred \$19,267 in debt issuance costs. The Organization follows FASB ASC 835-30 which requires debt issuance costs to be presented as a reduction of the carrying amount of the debt. The debt issuance cost is being amortized using the straight-line method over the term of the loan which does not materially differ from the interest method. For the year ended December 31, 2017 loan cost amortization charged to interest expense totaled \$2,890.

**Advertising and Promotion**

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising/promotional expenses for the year ended December 31, 2017 totaled \$28,160.

**Contributions**

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. The Organization does not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. If a donor's restriction is met in the same period that the support is recognized, the contribution is reported as an increase in unrestricted net assets.

**Donated Service**

Unpaid volunteers make contribution of time in various administrative and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to objective measurement of valuation.

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**In-Kind Donations**

Contributions of donated non-cash assets are recorded at the fair values in the period received.

These financial statements give monetary recognition of in-kind donations in the amount of \$12,770. This amount represents \$4,770 of donated development support and \$8,000 of donated imaging services. Corresponding expenses are included in the statement of functional expenses.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Estimates**

The preparation of financial statements in conformity with accounting standards generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income Tax Status**

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue code and similar state income tax laws. However, income unrelated to the Organization's exempt purpose is subject to state and federal taxes. The rental income the Organization receives is subject to taxation as unrelated business income ("UBI"). The Organization had a net UBI of \$8,424 for the year ended December 31, 2017. The Organization has an adequate net operating loss carryover to offset the UBI to eliminate taxes due on the amount. The Organization is a non-private foundation and contributions to the Organization qualify as a charitable tax deduction by the contributor.

The Organization recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur.

The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

As of December 31, 2017, the Organization has accrued no interest or penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ended December 31, 2017 and 2016 and 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Subsequent Events**

Subsequent events have been evaluated through July 5, 2018, which is the date the financial statements were available to be issued.

**Note 3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of December 31, 2017 are as follows:

Accounts payable	\$ 46,936
Unearned rent	2,463
Credit cards payable	6,319
Tenant security deposits	<u>3,371</u>
	<b><u>\$ 59,089</u></b>

**Note 4. COMPENSATED ABSENCES**

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

**Note 5. LINE OF CREDIT**

During 2017 the Organization established a line of credit with a local bank that matures on October 24, 2018. Interest is based on the Wall Street Journal Prime rate plus 2% with interest payments due monthly. The line of credit is collateralized by the Organization's accounts and contract rights, real estate owned, and through an assignment of rents/leases. As of December 31, 2017 the interest rate is 6.25% and the amount outstanding totals \$146,547.

**Note 6. NOTES PAYABLE**

Notes payable as of December 31, 2017 are as follows:

Note payable due to local bank requiring fifty-nine monthly payments of \$15,276, including principal and interest at 4.48%, secured by real estate, with a final balloon payment of \$2,005,882 due on May 15, 2022. The note payable is collateralized by real estate and is personally guaranteed by a key executive of the Organization.	\$ 2,345,331
Less current portion	<u>( 73,788)</u>
	<b><u>\$ 2,271,543</u></b>

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

**Note 6. NOTES PAYABLE - CONTINUED**

Future minimum principal payment on notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Debt Issuance Costs</u>	<u>Total</u>
2018	\$ 77,641	\$( 3,853)	\$ 73,788
2019	81,242	( 3,853)	77,389
2020	84,728	( 3,853)	80,875
2021	88,940	( 3,853)	85,087
2022	<u>2,029,156</u>	<u>( 964)</u>	<u>2,028,192</u>
<b>Total</b>	<b><u>\$ 2,361,707</u></b>	<b><u>\$( 16,376)</u></b>	<b><u>\$ 2,345,331</u></b>

**Note 7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of \$25,000 that was received near year-end. The donor required that the funds be used to pay HopeCoach salaries and benefits.

**Note 8. RENTAL INCOME**

The Organization leases office space to tenants under non-cancelable operating leases with terms of twelve to one hundred-twenty months.

Minimum future rentals required under the operating lease agreements in effect at December 31, 2017 was as follows:

<u>Year Ending December 31,</u>	
2018	\$ 179,548
2019	189,647
2020	123,099
2021	106,133
2022	98,476
Thereafter	<u>254,549</u>
<b>Total</b>	<b><u>\$ 951,452</u></b>

As of December 31, 2017, 20,617 square feet of the 27,776 square foot building was being utilized under leasing agreements or held for lease. A summary of property held for leasing activities is as follows:

Rental portion of building, at cost	\$ 2,510,033
Less: accumulated depreciation	<u>( 735,470)</u>
	<b><u>\$ 1,774,563</u></b>

**The Shepherd's Call, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 8. RENTAL INCOME - CONTINUED**

Rental income is reported net of expenses on the statement of activities. The following schedule provides the detail of net rental income/(loss) as reported in the statement of activities.

Rental income	\$ 232,561
Depreciation	66,185
Insurance	5,875
Interest	93,754
Other facility expenses	3,866
Repairs and maintenance	23,798
Taxes and licenses	8,197
Utilities	<u>22,462</u>
<b>Net Rental Income</b>	<b><u>\$ 8,424</u></b>

**Note 9. CONCENTRATIONS**

The Organization maintains deposits in financial institutions that at times exceed the amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC).

Two donors contributions and pledges account for approximately 41.5% of total contribution revenue.