

OPERATION CARE, INC.
A Not-for-Profit Organization

Financial Report

June 30, 2019

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT



**HARDING, SHYMANSKI
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An Independently
Owned Member,
RSM US Alliance

Board of Directors, Finance Committee, and Management
Operation Care, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Care, Inc., a Not-for-Profit Organization (Organization), which comprise the statement of financial position as of June 30, 2019, 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

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 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.

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Evansville, IN ■ Louisville, KY



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wardig, Szymanski & Company, P.S.C.

Louisville, Kentucky
October 15, 2019

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF FINANCIAL POSITION
 June 30, 2019 with Comparative Totals for June 30, 2018

	2019	2018
ASSETS		
Current Assets		
Cash	\$ 35,581	\$ 57,364
Inventories	277,411	431,168
Grant receivables	<u>60,450</u>	<u>56,522</u>
Total current assets	373,442	545,054
Property and Equipment, Net	<u>728,843</u>	<u>756,980</u>
	<u>\$1,102,285</u>	<u>\$1,302,034</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 37,538	\$ 36,256
Current maturities of long-term debt	<u>23,278</u>	<u>21,557</u>
Total current liabilities	60,816	57,813
Long-Term Debt	<u>133,899</u>	<u>169,326</u>
Total liabilities	<u>194,715</u>	<u>227,139</u>
Net Assets		
Without donor restrictions	837,971	1,008,967
With donor restrictions	<u>69,599</u>	<u>65,928</u>
	<u>907,570</u>	<u>1,074,895</u>
	<u>\$1,102,285</u>	<u>\$1,302,034</u>

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2019 with Comparative Totals for June 30, 2018

	2019			2018
	Without Donor Restriction	With Donor Restriction	Total	Total
Revenue and Other Support				
Grants	\$ 0	\$ 62,450	\$ 62,450	\$ 78,021
Contributions	73,658	36,215	109,873	161,866
Donated services	107,730	0	107,730	111,110
Donated goods	650,762	0	650,762	774,226
Retail sales	217,585	0	217,585	158,680
Program fees	55,637	0	55,637	65,826
Special events	55,357	0	55,357	53,653
Rental income	3,700	0	3,700	1,500
Other revenues	9,790	0	9,790	27,294
Net assets released from restrictions	94,994	(94,994)	0	0
Total revenue, gains, and other support	1,269,213	3,671	1,272,884	1,432,176
Expenses				
Program services				
Medical and Dental Clinic	780,907	0	780,907	710,679
Transitional Housing Program	97,423	0	97,423	105,910
Thrift Store and Emergency Helps Program	477,526	0	477,526	380,882
Total program expenses	1,355,856	0	1,355,856	1,197,471
Supporting services				
Fundraising	10,293	0	10,293	14,006
General and administrative	74,060	0	74,060	81,472
Total supporting services expenses	84,353	0	84,353	95,478
Total expenses	1,440,209	0	1,440,209	1,292,949
Change in Net Assets	(170,996)	3,671	(167,325)	139,227
Net assets at beginning of year	1,008,967	65,928	1,074,895	935,668
Net assets at end of year	\$ 837,971	\$ 69,599	\$ 907,570	\$1,074,895

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019 with Comparative Totals for June 30, 2018

	2019							2018
	Program Services			Total	Supporting Services			Total
	Medical and Dental Clinic	Transitional Housing Program	Thrift Store and Emergency Helps Program		Fundraising Expenses	General and Administrative	Total	
Salaries and wages	\$ 68,631	\$ 49,883	\$ 150,822	\$ 269,336	\$ 6,736	\$ 31,407	\$ 307,479	\$ 278,722
Payroll taxes	3,779	2,695	12,092	18,566	64	7,524	26,154	22,870
Donated services	97,937	0	0	97,937	0	0	97,937	101,009
Thrift store cost of goods sold	0	0	229,642	229,642	0	0	229,642	172,840
Donated medications	496,074	0	0	496,074	0	0	496,074	438,094
Donated in-kind - clothing/household	0	0	13,900	13,900	0	0	13,900	7,710
Donated in-kind - food	0	0	10,134	10,134	0	0	10,134	6,067
Donated medical supplies	66,084	0	0	66,084	0	0	66,084	60,371
Laboratory cost	20,365	456	0	20,821	0	0	20,821	18,990
Direct assist	0	207	5,889	6,096	0	0	6,096	5,311
Fundraising expenses	0	0	0	0	2,918	0	2,918	1,127
Depreciation	4,699	12,399	9,408	26,506	0	6,983	33,489	34,902
Advertising	0	0	150	150	93	93	336	468
Occupancy	14,149	15,697	20,894	50,740	7	4,665	55,412	60,313
Repair and maintenance	1,199	7,835	2,353	11,387	0	30	11,417	21,196
Insurance	7,516	5,836	8,336	21,688	394	586	22,668	22,481
Professional fees	0	0	0	0	0	19,149	19,149	23,417
Bank fees	0	0	2,819	2,819	81	17	2,917	3,482
Interest expense	0	0	8,888	8,888	0	0	8,888	10,594
Miscellaneous expenses	474	2,415	2,199	5,088	0	3,606	8,694	2,985
Total expenses by function	<u>\$ 780,907</u>	<u>\$ 97,423</u>	<u>\$ 477,526</u>	<u>\$ 1,355,856</u>	<u>\$ 10,293</u>	<u>\$ 74,060</u>	<u>\$ 1,440,209</u>	<u>\$ 1,292,949</u>

See notes to financial statements.

OPERATION CARE, INC.
A Not-for-Profit Organization

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2019 with Comparative Totals for June 30, 2018

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$(167,325)	\$ 139,227
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	33,489	34,902
Gain on the sale of property and equipment	0	(21,156)
Changes in assets and liabilities:		
Decrease (increase)		
Inventories	153,757	(99,647)
Grant receivables	(3,928)	(5,918)
Increase (decrease)		
Accounts payable and accrued expenses	1,282	(8,185)
	<u>17,275</u>	<u>39,223</u>
Net cash provided by operating activities	<u>17,275</u>	<u>39,223</u>
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	0	79,006
Purchase of property and equipment	(5,352)	(57,877)
	<u>(5,352)</u>	<u>(57,877)</u>
Net cash provided by (used in) investing activities	<u>(5,352)</u>	<u>21,129</u>
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(33,706)	(32,000)
	<u>(33,706)</u>	<u>(32,000)</u>
Net increase (decrease) in cash	(21,783)	28,352
Cash at beginning of year	57,364	29,012
	<u>57,364</u>	<u>29,012</u>
Cash at end of year	<u>\$ 35,581</u>	<u>\$ 57,364</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 8,888</u>	<u>\$ 10,595</u>

See notes to financial statements.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business

Operation Care, Inc. (Organization) promotes public awareness and identifies and provides services to families and individuals in crisis situations in the Shelby County, Kentucky area. The Organization provides a wide range of services to the public, focusing on the crisis needs of the citizens in the area it serves. Metro United Way funds, various other grants, program fees, and private donations account for the majority of the Organization's funding.

Comparative Amounts

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived. As disclosed further in *Recently Adopted Accounting Standards*, the Organization adopted ASU 2016-14, which changed the presentation and certain descriptions related to net assets for the previously-issued June 30, 2018 financial statements.

Basis of Presentation

The Organization presents its financial statements in conformance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in "Financial Statements of Not-For-Profit Organizations", which establishes standards for external financial reporting by not-for-profit organizations. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resource be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and grant receivables. At times, cash in banks may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Grant Receivables

Grant receivables are stated at the amount granted by the granting agency. The Organization attempts to minimize exposure to loss by monitoring the financial situation of the granting agency on a continuing basis. The direct charge-off method is used to account for losses in collection of grant receivables, which the Organization estimates to be zero at June 30, 2019 and 2018. As of June 30, 2019 and 2018, the grant receivables are expected to be collected within a year.

Inventories

Thrift store inventories, which are primarily donated, are stated at estimated resale value which approximates fair value. Medical clinic inventories of donated medication and supplies are stated at estimated fair value.

Property and Equipment

Property and equipment are stated at cost, or if donated, are recorded at fair market value at the date of donation. The Organization capitalizes expenditures in excess of \$2,500 with useful lives of one year or more. Provisions for depreciation of property and equipment have been computed on the straight-line and accelerated methods over the estimated useful life.

	<u>Years</u>
Buildings	32-39
Improvements to land and buildings	5-39
Equipment	5-15
Vehicles	3

Contributions and Miscellaneous Funding

Gifts of cash and other assets received without donor stipulations are reported as revenue without donor restrictions and net assets. Gifts received with a donor stipulation that limits their use are reported as revenue with donor restrictions and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Program Revenues

The Organization derives program revenue from a variety of programs:

Medical and Dental Clinic – Provides medical and dental services for low-income, uninsured individuals.

Thrift Store and Emergency Helps Program – The Organization runs a thrift store stocked with donated items of clothing, furniture, and other household items. However, these items are also priced and available for sale to the general public. The Thrift Store also administers the Helps Program. Through the Helps Program, the Organization distributes items to qualifying individuals in crisis, such as non-perishable food from the food pantry, clothing, household furnishings, personal hygiene products, book bags, and school supplies.

Transitional Housing Program – The Organization maintains transitional housing facilities for women and children. The goal of the program is designed to move women and children from homelessness to self-sufficiency.

Donated Services

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in the financial statements and similarly increase contribution revenue by a like amount.

Donated services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service, and the service would typically need to be purchased if not donated.

Functional Allocation of Expenses

The Organization allocates expenses between the respective programs, fundraising, and general and administrative. Certain costs have been allocated categories based on the estimated time spent on activities and other methods. Costs of items that can be specifically identified are charged directly to the respective category.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Management evaluated the Organization's uncertain tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements.

Advertising

Advertising costs are expensed as incurred.

Subsequent Events Evaluation

The Organization has evaluated subsequent events through October 15, 2019, the date on which the financial statements were available to be issued.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain items in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 classifications.

Recently Adopted Accounting Standards

Financial Statement Presentation

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. In the current year, the Organization adopted ASU 2016-14, which did not have a material effect on the Organization's financial statements other than presentation and disclosure changes.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The ASU is expected to impact the Organization's financial statements as the Organization has certain operating and lease arrangements for which it is the lessee. The standard is effective on January 1, 2020, with early adoption permitted. The change is not expected to have a material effect on the financial statements.

Revenue Recognition from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. It also requires additional disclosures. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for reporting periods after December 15, 2018. This standard will be effective for contributions made for reporting periods after December 15, 2019. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 2 – Liquidity and Availability

The Organization regularly monitors the liquidity required to meet its general operating needs and other contractual commitments. The Organization considers general operating needs to be expenditures related to fundraising and general and administrative functions. Expenditures directly related to the ongoing activities of programs and services are reviewed separately, as programs and services are largely funded through various donor restricted grants each year.

The Organization's mission is centered on providing various support and services to community members in crisis; therefore, the majority of total expenditures are program specific and not deemed to be general in nature. The Organization manages its liquid resources by reviewing necessary spending and determining priority general expenditures. In addition to liquid assets, the Organization relies upon the Board of Directors and community for benevolence in meeting general operating needs. The Organization utilizes the Thrift Store as its primary revenue source, through the sale of donated goods, to meet liquidity needs for general expenditures and additional support for various programs. The Thrift Store had record sales of approximately \$218,000 for the year ended June 30, 2019.

Historically, the Organization has liquid assets, mainly composed of cash. As of June 30, 2019, the Organization had total cash of \$35,581, of which \$9,149 is donor restricted for use in 2019, leaving \$26,432 available for general expenditures within one year. In addition, as noted above the Organization expects to convert Thrift Store inventories into cash throughout the year to fund general expenditures.

Note 3 – Inventories

Inventories at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Thrift Store	\$ 49,584	\$ 60,119
Food Pantry	11,709	7,725
Medications	215,581	347,651
Medical supplies	<u>537</u>	<u>15,673</u>
	<u>\$277,411</u>	<u>\$431,168</u>

OPERATION CARE, INC.
A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 with Comparative Totals for June 30, 2018

Note 4 – Property and Equipment

Property and equipment at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Buildings	\$1,009,144	\$1,005,244
Equipment	146,892	146,892
Vehicles	<u>1,452</u>	<u>1,369</u>
	1,157,488	1,153,505
Accumulated depreciation	<u>(428,645)</u>	<u>(396,525)</u>
	<u>\$ 728,843</u>	<u>\$ 756,980</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$33,489 and \$34,902, respectively.

Note 5 – Long-Term Debt

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Note payable to bank, 4.99%, \$2,549 monthly, due April 2022, including a balloon payment of approximately \$90,600, secured by building	\$ 157,177	\$ 190,883
Less current maturities	<u>(23,278)</u>	<u>(21,557)</u>
	<u>\$ 133,899</u>	<u>\$ 169,326</u>

Long-term debt maturities are as follows:

2020	\$ 23,278
2021	24,467
2022	<u>109,432</u>
	<u>\$ 157,177</u>

Total interest expense for the years ended June 30, 2019 and 2018 was \$8,888 and \$10,595, respectively.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 6 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Purpose restrictions		
Women's shelter	\$ 17,100	\$ 18,077
Medical clinic	37,100	38,445
Community Christmas	7,149	9,406
Food pantry	8,250	0
	<u>\$ 69,599</u>	<u>\$ 65,928</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Women's shelter	\$ 56,521	\$ 60,604
Community Christmas	5,620	3,881
Staff gifts	2,470	0
Emergency Helps Program	754	1,056
Medical clinic	13,713	15,952
Transitional housing	15,240	41,312
Food Pantry	676	112
Southeast Christian Church special projects	0	53,207
	<u>\$ 94,994</u>	<u>\$176,124</u>

Note 7 – Donated Professional Services and Materials

The Organization received donated professional services and materials of \$684,129 and \$613,251 for the years ended June 30, 2019 and 2018, respectively. Donated professional services and materials are separately identified on the statements of functional expenses and classified as program services.

OPERATION CARE, INC.

A Not-for-Profit Organization

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 with Comparative Totals for June 30, 2018

Note 8 – Rental Income

The Organization leased the first floor at 802 Washington Street under two separate month-to-month rental agreements during the years ended June 30, 2019 and 2018. Total rental income for the years ended June 30, 2019 and 2018 was \$3,805 and \$1,500, respectively. In September 2017, the first floor lease expired and the first floor remained vacant until a new rental agreement was signed in February 2019.