

THREE ANGELS BROADCASTING NETWORK, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2001

I N D E X

	<u>Page</u>
Independent Auditors' Report	1 - 2
FINANCIAL STATEMENTS AS AT OR FOR THE YEAR ENDED DECEMBER 31, 2001	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2001	
Schedule of Program Service Expenses	12
Schedule of Supporting Service Expenses	13

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Three Angels Broadcasting Network, Inc.

We have audited the accompanying statement of financial position of Three Angels Broadcasting Network, Inc. (a nonprofit organization) as of December 31, 2001, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, 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 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 audit provides a reasonable basis for our opinion.

Downlink equipment acquired by gift is not recorded in the financial statements. In our opinion, generally accepted accounting principles require that such donated property be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of the unrecorded equipment on the financial statements.

In connection with the recording of real estate revocable trusts, the fair values of the trusts were based on internal estimates performed by the Organization. We were unable to obtain sufficient evidential matter in connection with the estimates of fair value.

In our opinion, except for the effects of the items discussed in the third paragraph, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to the real estate revocable trusts as discussed in the fourth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Three Angels Broadcasting Network, Inc. as of December 31, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Program Service Expenses and Schedule of Supporting Service Expenses are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, for the items mentioned in the preceding paragraphs, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marion, Illinois

August 19, 2002, except for Note 17, as to which the date is August 20, 2002.

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2001

Current Assets	
Cash	\$ 2,643,031.84
Contributions receivable (Note 12)	164,861.83
Accounts receivable (Note 1)	133,357.59
Inventory (Note 1)	143,239.21
Prepaid expenses	88,809.07
Assets held for sale	<u>133,121.21</u>
Total Current Assets	\$ 3,306,420.75
Cash restricted to investment in equipment	\$ 122,235.04
Property and equipment, less accumulated depreciation (Note 2)	<u>11,883,555.22</u>
	\$12,005,790.26
Other Assets:	
Investments (Note 3)	\$ 2,833,717.06
Deposits	352,620.75
Revocable trusts (Note 11)	16,229,925.73
Charitable gift annuities (Note 11)	<u>7,621,899.39</u>
Total Other Assets	\$27,038,162.93
Total Assets	\$42,350,373.94
Current Liabilities	
Accounts payable	\$ 240,025.14
Accrued wages and vacation pay	91,049.30
Accrued payroll taxes	4,167.10
Accrued sales tax	5,979.81
Accrued interest	6,046.16
Deferred revenue	8,571.00
Current portion of long-term debt (Note 5)	1,643,427.95
Funds due to other ministries	81,906.68
Charitable gift annuities (Note 11)	397,038.00
Liabilities under unitrust agreements (Note 11)	37,119.00
Estimated liability for future group medical insurance claims (Note 1)	<u>24,482.41</u>
Total Current Liabilities	\$ 2,539,812.55
Long-term Liabilities	
Long-term debt (Note 5)	\$ -
Refundable advances (Note 11)	16,229,925.73
Charitable gift annuities (Note 11)	4,008,255.24
Liabilities under unitrust agreements (Note 11)	<u>1,414,850.23</u>
Total Long-term Liabilities	\$21,653,031.20
Total Liabilities	\$24,192,843.75
Net Assets	
Unrestricted	\$15,364,863.91
Temporarily restricted (Note 6)	<u>2,792,666.28</u>
Total Net Assets	\$18,157,530.19
Total Liabilities and Net Assets	\$42,350,373.94
See accompanying notes.	

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 7,725,336.51	\$ 3,349,492.59	\$11,074,829.10
Charitable remainder unitrusts (Note 11)	-	173,575.18	173,575.18
Charitable gift annuities (Note 11)	1,074,757.47	-	1,074,757.47
Airtime and production fees	857,768.47	-	857,768.47
Satellite sales	618,832.21	-	618,832.21
Video and other sales	251,109.82	-	251,109.82
Rental income	35,039.93	-	35,039.93
Investment income (Note 3)	38,396.98	-	38,396.98
Net unrealized and realized gains and (losses) on investments	(2,634.73)	15,261.29	12,626.56
Change in value of split-interest agreements	(275,175.49)	47,745.59	(227,429.90)
Other	11,193.19	14,619.63	25,812.82
Net assets released from restrictions (Note 7)	<u>2,652,526.47</u>	<u>(2,652,526.47)</u>	<u>-</u>
Total Revenues and Other Support	<u>\$12,987,150.83</u>	<u>\$ 948,167.81</u>	<u>\$13,935,318.64</u>
Expenses			
Program service			
Television and radio broadcasting	\$ 7,913,486.66	\$ -	\$ 7,913,486.66
Supporting service			
Management and general	<u>4,026,680.45</u>	<u>-</u>	<u>4,026,680.45</u>
Total Expenses	<u>\$11,940,167.11</u>	<u>\$ -</u>	<u>\$11,940,167.11</u>
Change in Net Assets	<u>\$ 1,046,983.72</u>	<u>\$ 948,167.81</u>	<u>\$ 1,995,151.53</u>
Net assets, beginning of year as previously reported	11,976,735.57	1,748,892.88	13,725,628.45
Prior period adjustments -			
Reclassification of net assets previously classified as unrestricted net assets (Note 15)	(75,879.59)	75,879.59	-
Record split interest agreements previously unrecorded (Note 15)	2,417,024.21	34,008.00	2,451,032.21
Reclassification of amounts due other ministries previously classified as temporarily restricted net assets (Note 15)	<u>-</u>	<u>(14,282.00)</u>	<u>(14,282.00)</u>
Net assets, beginning of year, as restated	<u>\$14,317,880.19</u>	<u>\$ 1,844,498.47</u>	<u>\$16,162,378.66</u>
Net assets, end of year	<u>\$15,364,863.91</u>	<u>\$ 2,792,666.28</u>	<u>\$18,157,530.19</u>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2001

Cash Flows from Operating Activities:	
Cash received from contributors	\$13,521,717.34
Cash received from airtime and production fees	889,874.67
Cash received from satellite sales	627,403.21
Cash received from video and other sales	251,109.82
Rental receipts	35,039.93
Interest received	38,396.98
Other receipts	25,812.82
Cash paid to employees and suppliers	(4,014,807.05)
Cash paid for program service	(6,465,626.23)
Interest paid	(28,291.40)
Cash paid for school subsidy	(24,031.19)
Cash paid for farm, rental and miscellaneous expense	<u>(26,669.12)</u>
Net Cash Provided by Operating Activities	<u>\$ 4,829,929.78</u>
Cash Flows from Investing Activities:	
Purchases of property and equipment	\$(3,156,842.29)
Proceeds from sales of property and equipment	6,000.00
Purchases of investments	(499,289.55)
Purchases of gift annuity assets	(2,503,462.87)
Proceeds from sales of investments	76,209.26
Transfer of restricted contributions to restricted cash	(211,170.36)
Release of restricted cash for designated purposes	339,713.01
Receipts on employee advances	<u>979.98</u>
Net Cash Used by Investing Activities	<u>\$(5,947,862.82)</u>
Cash Flows from Financing Activities:	
Proceeds from notes payable	\$ 1,720,320.00
Retirement of notes payable	(196,992.04)
Contributions restricted for investment in equipment	211,170.36
Payments from trust accounts	24,000.00
Payments to trust accounts	<u>(36,545.62)</u>
Net Cash Provided by Financing Activities	<u>\$ 1,721,952.70</u>
Net increase in cash and cash equivalents	\$ 604,019.66
Cash and cash equivalents at beginning of period	<u>2,039,012.18</u>
Cash and cash equivalents at December 31, 2001	<u>\$ 2,643,031.84</u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities:	
Increase in net assets	\$ 1,995,151.53
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Provision for bad debts	28,161.95
Depreciation	1,594,085.78
Change in value of split interest agreements	227,429.90
Contributions restricted to investment in equipment	(211,170.36)
Net unrealized and realized gains and losses on investments	(12,626.56)
Donated assets	(101,237.62)
Decrease in accounts receivable	32,106.20
Increase in contribution receivable	(164,861.83)
Increase in inventory	(55,079.50)
Increase in deposits	(63,995.00)
Increase in prepaid expense	(70,071.08)
Decrease in accounts payable	(98,282.48)
Increase in funds due to other ministries	42,969.68
Decrease in liability for future medical claims	(12,916.89)
Increase in accrued wages, taxes and other	20,408.50
Decrease in accrued interest payable	(4,538.84)
Increase in deferred revenue	8,571.00
Increase in charitable gift annuity liability	1,428,705.40
Increase in liabilities under unitrust agreements	<u>247,120.00</u>
Net Cash Provided by Operating Activities	<u>\$ 4,829,929.78</u>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

- a. Nature and purpose of operations. Three Angels Broadcasting Network, Inc. is an Illinois nonprofit corporation chartered March 26, 1985. Its purpose is exclusively religious in nature and includes, but is not limited to, the development, planning, promotion, production, and direction of all types of religious programming for electronic transmission for television and radio broadcasting throughout the world.

The Organization's primary funding source is individual and corporate contributions.
- b. Principles of presentation. These financial statements are intended to present the financial position, results of operations and cash flows of Three Angels Broadcasting Network, Inc. in conformity with generally accepted accounting principles.
- c. Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.
- d. Fixed assets and depreciation. Three Angels Broadcasting Network, Inc. reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Three Angels Broadcasting Network, Inc. reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Purchased fixed assets are carried at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives.
- e. Cash and cash equivalents. For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand, unrestricted cash in banks, and unrestricted cash invested in money market funds.
- f. Tax status. The Internal Revenue Service has determined that Three Angels Broadcasting Network, Inc. is an exempt organization within the meaning of Section 501(c)(3) of the Internal Revenue Code.
- g. Investments. The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.
- h. Inventories. Inventories are stated at the lower of cost or market, determined by the FIFO method.

- i. Accounts receivable. Accounts receivable are recorded at their net realizable values. Uncollectible accounts are written off in the year they are deemed uncollectible. Total accounts receivable are shown net of an allowance for uncollectible accounts of \$32,233.34.
- j. Self-Insurance program. The Organization maintains a self-insurance program to fund a portion of certain expected losses related to group health costs. Provisions for losses expected under this program are recorded based on estimates of the aggregate liabilities for known claims and estimated claims incurred but not reported.
- k. Restricted support. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. **FIXED ASSETS**

Fixed assets and accumulated depreciation at December 31, 2001 are summarized as follows:

Land	\$ 681,177.87
Land improvements	187,510.08
Buildings	3,372,548.45
Houses	144,861.00
Downlink equipment	5,863,049.88
Broadcast and office equipment	6,593,023.77
Aircraft	1,346,893.43
Vehicles	1,564,985.49
Construction in progress	<u>542,975.69</u>
<u>Total</u>	\$20,297,025.66
Accumulated depreciation	<u>8,413,470.44</u>
<u>Fixed Assets - Net</u>	<u>\$11,883,555.22</u>

Depreciation expense for the year ended December 31, 2001 was \$1,594,085.78.

3. **INVESTMENTS**

The following investments consist of money market accounts, United States government securities, mutual funds, equity securities, and real estate.

Fair values of the investments were provided by dealer or bank quotes, or appraisals. Fair values and unrealized gains (losses) are summarized as follows:

	<u>Book Value</u>	<u>Fair Value</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>
Money market accounts	\$1,268,892.21	\$1,268,892.21	\$ -	\$ -
Government securities	1,150,409.40	1,184,983.55	34,687.72	113.57
Mutual funds	146,046.11	143,359.94	603.89	3,290.06
Equity securities	48,178.58	44,381.36	-	3,797.22
Real estate	<u>192,100.00</u>	<u>192,100.00</u>	-	-
	<u>\$2,805,626.30</u>	<u>\$2,833,717.06</u>	<u>\$35,291.61</u>	<u>\$ 7,200.85</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ending December 31, 2001:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income	\$38,396.88	\$ -	\$38,396.88
Net realized and unrealized gains (losses)	<u>(2,634.73)</u>	<u>15,261.29</u>	<u>12,626.56</u>
<u>Total Investment Return</u>	<u>\$35,762.15</u>	<u>\$15,261.29</u>	<u>\$51,023.44</u>

4. LEASED PROPERTY

Three Angels Broadcasting Network, Inc. leases transponder services and various parcels of land for the establishment of downlink installations under operating leases expiring in various years through 2007.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2001 for each of the next five years and in the aggregate are:

2002	\$2,256,479.86
2003	1,761,790.26
2004	1,667,504.81
2005	1,067,646.79
2006	275,671.22
Subsequent to 2006	<u>5,476.80</u>

Total minimum future rental payments \$7,034,569.74

Rental expense for the year ended December 31, 2001 was approximately \$2,485,650.00. These costs are included in various expense categories.

5. LONG-TERM DEBT

Following is a summary of long-term debt at December 31, 2001:

Note payable to individual, due within 30 days after demand, interest at 7.0% due quarterly. Debt is relieved in the event of lender's death.	\$ 20,000.00
Note payable to individual, due within 30 days after demand, interest at 6.00% due quarterly. Debt is relieved in the event of lender's death.	100,000.00
Note payable to individual, due March 27, 2002, non-interest bearing. Debt is relieved in the event of lender's death. (See Note 16)	800,000.00
Note payable to individual, due upon demand, non-interest bearing. Debt is relieved in the event of lender's death.	20,000.00
Note payable to Community National Bank, due May 16, 2002, interest at 6.0%, collateralized by an aircraft, two aircraft engines and avionics equipment.	703,427.95

Line of credit payable to Community National Bank for maximum of \$251,583.00, due in monthly installments, interest at 7.50%, collateralized by real estate and rents/leases, due November 3, 2004.

<u>Less:</u> Current maturities	\$1,643,427.95
	<u>(1,643,427.95)</u>
Long-Term Portion of Debt	<u>\$ -</u>

Total interest expense for notes payable and other obligations during the year ended December 31, 2001 was \$23,752.56.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2001:

Downlink installations and equipment	\$ 122,235.04
Special projects and other	1,332,622.57
Contributions made for future periods	<u>1,337,808.67</u>
<u>Total</u>	<u>\$2,792,666.28</u>

7. RELEASE OF TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:	
Downlink	\$ 48,822.05
Equipment	290,890.96
Other	162,824.39
Special projects	448,782.87
Transponder fees	<u>1,701,206.20</u>
<u>Total</u>	<u>\$2,652,526.47</u>

8. CONCENTRATION OF CREDIT RISK

Three Angels Broadcasting Network, Inc. maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.00. At December 31, 2001, the Organization's uninsured cash balances were approximately \$1,396,000.00. The Organization also maintains cash balances in money market funds. Such balances are not insured. At December 31, 2001, cash balances in money market funds were approximately \$109,000.00.

9. CONTRIBUTED ASSETS

During the year ended December 31, 2001, the Organization received donated assets valued at \$101,237.62. The assets received are recorded at fair market value and are included in contribution revenue.

10. ADVERTISING COST

Advertising costs are charged to operations when incurred. Advertising costs for the year ended December 31, 2001 were \$118,578.68.

11. SPLIT INTEREST AGREEMENTS

Three Angels Broadcasting Network, Inc. is the beneficiary of several irrevocable charitable remainder unitrust agreements under which the assets funding the trusts were transferred to the Organization. Under these agreements, the Organization is to pay certain amounts for specified periods of time to the donors. The assets received are recorded at fair market value in the financial statements. The liabilities under unitrust agreements are recorded at the present value of expected future cash flows to be paid to the donors. Discount rates range from 5.6% to 7.4% in calculating the present value of the liabilities under unitrust agreements. The present value calculations are based upon single or joint life expectancy as applicable.

The Organization is the beneficiary of several revocable trust agreements. Assets received under revocable trust agreements are recorded as assets and refundable advances at fair value when received. Contribution revenue for the assets received is recognized when the agreements become irrevocable or when the assets are distributed to the Organization for its unconditional use.

The Organization is the beneficiary of several charitable gift annuities under which the assets funding the agreements were transferred to the Organization. Under these agreements the Organization is to pay fixed amounts for specified periods of time to the donors. The assets received are recorded at fair market value in the financial statements. The annuity liabilities are recorded at the present value of expected future cash flows to be paid to the annuity beneficiaries. Various discount rates are used in calculating the present values of the annuity liabilities. Present value calculations on some annuities are based upon single life expectancy, while others are based upon double life expectancy.

12. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent December, 2001 contributions received in January, 2002.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments, none of which are held for trading purposes, include cash, investments, accounts receivable, accounts payable and notes payable. The Organization estimates that the fair values of all financial instruments at December 31, 2001, other than investments which are recorded at fair value, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimates, however, are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

14. RELATED PARTY TRANSACTIONS

The Organization purchases a portion of their inventory from an entity that is owned by two Board members. Purchases from this entity totaled \$75,000.00 for the year ending December 31, 2001.

15. PRIOR PERIOD ADJUSTMENTS

Subsequent to the issuance of the 2000 financial statements, it was determined that \$75,879.59 of net assets previously classified as unrestricted should have been classified as temporarily restricted. As a result of this determination, a reclassification has been made for this amount as of January 1, 2001. This reclassification had no effect on net income.

Net assets at the beginning of 2001 have been adjusted to record charitable gift annuity revenue earned in prior years of \$2,419,024.21 and charitable remainder unitrust revenue earned in prior years of \$34,008.00.

The statements have also been restated to reflect a reclassification of \$14,282.00, previously reported as temporarily restricted net assets, to funds due to other ministries. The effect of this restatement was to decrease net income for 2000 by \$14,282.00.

16. SUBSEQUENT EVENTS

On June 2, 2002, the Board approved forming Angel Enterprises LLC.

On June 2, 2002, the Board approved donating real estate, with an original cost of \$54,640.00 and accumulated depreciation of \$25,650.00, to the City of West Frankfort, Illinois.

On January 2, 2002, the note payable to an individual for \$800,000.00 was forgiven and recorded as contribution revenue.

17. SUBSEQUENT EVENT

On August 20, 2002, the Board approved obtaining a letter of credit or bond in the amount of \$1,800,000.00.

SUPPLEMENTARY INFORMATION

THREE ANGELS BROADCASTING NETWORK, INC.

SCHEDULE OF PROGRAM SERVICE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2001

Television and Radio Broadcasting Expenses	
Advertising	\$ 118,578.68
Airtime	2,139,050.50
Broadcast services	80,797.74
Cable promotion and expense	50,268.42
Depreciation	1,594,085.78
Downlink	841,049.96
Dues	17,164.01
Equipment rental	21,195.66
Love gifts	100,737.45
Newsletter	173,655.01
Program schedules	57,969.00
Provision for bad debts	28,159.91
Registration	86,677.39
Satellite purchases	460,500.32
Special projects	796,889.10
Supplies - broadcasting	209,142.00
Telephone	199,463.44
Utilities	112,942.22
Wages	<u>825,160.07</u>
Total Television and Radio Broadcasting Expenses	<u>\$7,913,486.66</u>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.
SCHEDULE OF SUPPORTING SERVICE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001

Management and General Expenses	
Auto	
Camp meeting expense	\$ 39,923.59
Contract labor	26,816.62
Credit card fees	135,826.19
Insurance	24,966.13
Interest	441,645.89
Literature	23,752.56
Miscellaneous	105,779.46
Other	59,832.49
Penalties	16,093.35
Postage	6,308.11
Professional fees	528,478.54
Repair and maintenance - Building	220,664.54
Repair and maintenance - Equipment	60,405.58
Rental expense	88,742.10
School subsidy	10,575.77
Small tools and equipment	24,031.19
Supplies - office	54,073.13
Taxes - payroll	126,516.25
Taxes - real estate	153,483.35
Travel	63,046.47
Trust promotion and expense	501,860.99
Wages	94,218.92
	<u>1,219,639.23</u>
Total Management and General Expenses	<u>\$4,026,680.45</u>

See accompanying notes.