

KRAMDEN INSTITUTE, INC.

FINANCIAL REPORT

DECEMBER 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kramden Institute, Inc.
4915 Prospectus Drive, Suite J
Durham, NC 27713

We have audited the accompanying statements of financial position of Kramden Institute, Inc. (a nonprofit organization) as of December 31, 2015 and 2014, and the related statements of activities, cash flows, functional expenses and related notes to the financial statements for the years then ended.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kramden Institute, Inc. as of December 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited Kramden Institute, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gospodarich & Decker, C.P.A., P.A.

August 16, 2016

KRAMDEN INSTITUTE, INC
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 and 2014

ASSETS

	2015	2014
Current Assets		
Cash and Cash Equivalents	\$ 300,313	\$ 253,212
Inventory	246,895	196,890
Investments	3,123	3,494
Unconditional Promises to Give, Net	25,519	-
Donations - Receivable	87,556	61,105
Prepaid Expenses	9,041	9,041
Total Current Assets	672,447	523,742
Property and Equipment, Net	71,131	49,203
Other Assets		
Security Deposits	2,444	2,444
Total Other Assets	2,444	2,444
TOTAL ASSETS	\$ 746,022	\$ 575,389

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts Payable	\$ 30,000	\$ -
Credit Cards Payable	2,439	8,031
Accrued Expenses	13,076	16,366
Total Current Liabilities	45,515	24,397
Total Liabilities	45,515	24,397
Net Assets		
Temporarily Restricted Net Assets	10,000	6,667
Unrestricted Net Assets	690,507	544,325
Total Net Assets	700,507	550,992
TOTAL LIABILITIES AND NET ASSETS	\$ 746,022	\$ 575,389

See Accompanying Notes and Independent Auditors' Report

KRAMDEN INSTITUTE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Totals</u>	<u>2014 Totals</u>
UNRESTRICTED NET ASSETS				
REVENUES				
Contributions - Cash	591,810	\$ 10,000	\$ 601,810	\$ 414,432
Contributions - In-kind	497,686	-	497,686	403,207
Program Related Sales	182,249	-	182,249	185,635
Interest and Dividend Income	1,715	-	1,715	331
Realized and Unrealized Gains/Losses	(371)	-	(371)	(7,395)
Other Program Related Service Fees	11,147	-	11,147	1,100
Total Revenue and Support	<u>1,284,236</u>	<u>10,000</u>	<u>1,294,236</u>	<u>997,310</u>
Net Assets Released from Restrictions	<u>6,667</u>	<u>(6,667)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program Services	1,002,466	-	1,002,466	642,667
Supporting Services				
General and Administrative	106,612	-	106,612	76,240
Fund Raising Expenses	<u>35,643</u>	<u>-</u>	<u>35,643</u>	<u>25,334</u>
Total Expenses	<u>1,144,721</u>	<u>-</u>	<u>1,144,721</u>	<u>744,241</u>
CHANGE IN NET ASSETS	<u>146,182</u>	<u>3,333</u>	<u>149,515</u>	<u>253,069</u>
NET ASSETS BEGINNING OF YEAR	<u>544,325</u>	<u>6,667</u>	<u>550,992</u>	<u>297,923</u>
NET ASSETS END OF YEAR	<u>\$ 690,507</u>	<u>\$ 10,000</u>	<u>\$ 700,507</u>	<u>\$ 550,992</u>

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 149,515	\$ 253,069
Adjustments to Reconcile Increase in Net Assets		
To Cash Provided by Operating Activities		
Donated Inventory	(50,005)	(196,890)
Depreciation	10,228	7,999
Investment gains, Unrealized and Realized	371	7,395
Reinvested Dividends	-	(108)
(Increase)/Decrease in Unconditional Promised to Give	(25,519)	-
(Increase)/Decrease in Pledges Receivable	(26,451)	(18,686)
(Increase)/Decrease in Prepaid Expenses	-	(9,041)
Increase/(Decrease) in Accounts Payable	30,000	-
Increase/(Decrease) in Credit Cards Payable	(5,592)	3,105
Increase/(Decrease) in Accrued Expenses	(3,290)	6,332
	<u>79,257</u>	<u>53,175</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(32,156)	(21,264)
	<u>(32,156)</u>	<u>(21,264)</u>
NET CASH USED BY INVESTING ACTIVITIES		
INCREASE IN CASH	47,101	31,911
CASH AT BEGINNING OF YEAR	<u>253,212</u>	<u>221,301</u>
CASH AT END OF YEAR	<u>\$ 300,313</u>	<u>\$ 253,212</u>
NON-CASH INVESTING ACTIVITIES:		
Accrued Mobile App Development Services	<u>\$ 30,000</u>	<u>\$ -</u>

See Accompanying Notes and Independent Auditors' Report

KRAMDEN INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Computer Refurbishing / Surplus Sales</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	
In-kind Computer Refurbish Supplies	\$ 447,681	\$ -	\$ -	\$ 447,681
Wages	265,902	47,726	27,272	340,900
Office Lease	101,116	6,667	3,333	111,116
Volunteer Event Support	37,274	-	-	37,274
Computer Refurbish Supplies	33,870	-	-	33,870
Taxes - Payroll	22,235	3,991	2,280	28,506
Employee Benefits	15,631	2,806	1,603	20,040
Utilities	13,463	888	444	14,795
Travel and Meeting Expenses	10,964	2,741	-	13,705
Temporary Staff	13,550	-	-	13,550
Depreciation Expense	-	10,228	-	10,228
Postage, Shipping and Delivery	8,180	2,045	-	10,225
Training	9,868	-	-	9,868
Professional Services	-	9,150	-	9,150
Bank Fees	-	8,718	-	8,718
Miscellaneous	7,923	-	-	7,923
Insurance	-	6,188	-	6,188
Advertising	3,442	-	-	3,442
Supplies	2,928	-	-	2,928
Equipment Rental & Maintenance	2,140	-	-	2,140
Retirement Expense	1,607	288	165	2,060
Internet	800	799	-	1,599
Volunteer Appreciation	1,547	-	-	1,547
Telephone	-	1,403	-	1,403
Dues	-	1,390	-	1,390
Small Equipment	1,050	262	-	1,312
Printing and Copying	1,135	-	-	1,135
Other Payroll Expenses	-	674	-	674
Board meeting Expenses	-	648	-	648
Fundraising Expense	-	-	546	546
Computer Distribution	160	-	-	160
TOTAL	\$ 1,002,466	\$ 106,612	\$ 35,643	\$ 1,144,721

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Computer Refurbishing / Surplus Sales</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	
Wages	\$ 177,189	\$ 31,803	\$ 18,173	\$ 227,165
In-Kind Computer Refurbish Supplies	206,317	-	-	206,317
Office Lease	84,314	5,559	2,780	92,653
Computer Refurbish Supplies	49,059	-	-	49,059
Volunteer Event Support	30,951	-	-	30,951
Taxes - Payroll	14,276	2,562	1,464	18,302
Temporary Staff	15,459	-	-	15,459
Employee Benefits	10,428	1,872	1,070	13,370
Utilities	11,941	787	394	13,122
Travel and Meeting Expenses	9,321	2,330	-	11,651
Postage, Shipping and Delivery	7,401	1,850	-	9,251
Miscellaneous	8,603	-	-	8,603
Depreciation Expense	-	7,999	-	7,999
Bank Fees	-	6,618	-	6,618
Professional Services	-	6,100	-	6,100
Advertising	5,065	-	-	5,065
Supplies	3,958	-	-	3,958
Training	3,716	-	-	3,716
Insurance	-	3,640	-	3,640
Telephone	-	1,862	-	1,862
Volunteer Appreciation	1,668	-	-	1,668
Fundraising Expense	-	-	1,453	1,453
Dues	-	1,300	-	1,300
Internet	651	649	-	1,300
Equipment rental & Maintenance	922	-	-	922
Printing and Copying	784	-	-	784
Other Payroll Expenses	-	739	-	739
Computer Distribution	644	-	-	644
Board Meeting Expenses	-	570	-	570
TOTAL	\$ 642,667	\$ 76,240	\$ 25,334	\$ 744,241

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Kramden Institute, Inc. (“the Entity” or “the Institute”) is a not-for-profit organization whose mission is to empower hardworking, less-advantaged students by giving them home computers, allowing them to bridge the digital divide and advance their achievement, strengthening their contribution to the community. The Institute does this by collecting, refurbishing, and reusing computers, extending their useful lives. The Entity was founded in November 2003 and is located in Durham, North Carolina.

The Entity receives its funding from a variety of sources including grants and donations.

Basis of Accounting

The financial statements for Kramden Institute, Inc. have been prepared on the accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Estimates

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

Financial Statement Presentation

The Entity follows the recommendations of the Financial Accounting Standards Board in its FASB ASC 958, “Not-for-Profit Entities.” Under FASB ASC 958, the Entity is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Entity does not use fund accounting.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of the donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Temporarily restricted contributions whose requirements are met in the same period as the contribution are reported as unrestricted contributions and net assets. Permanently restricted net assets are those contributions or other inflows of assets whose use by the Entity is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Entity.

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Cont'd

Investments

Investments consist of certificates of deposit, equity securities and mutual fund investments. Consistent with FASB ASC 958-320, FASB 820-10 and FASB ASC 825-10, these investments are stated at fair value based on market quoted from identical investments.

Inventory

Inventories consist of donated computer equipment and parts. Donated inventory is recorded at fair value on the date of donation using a base line valuation adjusted up or down according to average sales prices.

Property and Equipment

It is the Entity's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Entity reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Entity reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line or accelerated method over estimated useful lives of five to thirty-nine years.

Donated Materials, Equipment and Services

Donated materials and equipment are recorded as contributions at their estimated fair market values at the date of receipt. No amounts are recorded for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Entity's program services, fund-raising campaigns and management.

Functional Allocation of Expenses

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

**KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Cont'd

Income Taxes

The Kramden Institute, Inc. is a not-for-profit organization that is exempt from income taxes under Section 501(c) 3 of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

Advertising

Costs associated with advertising are charged to expense as incurred. Advertising expenses were \$3,442 and \$5,065 for the years ended December 31, 2015 and 2014, respectively

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Entity considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Donations receivable

Donations receivable reflect unconditional promises to give which are expected to be received within 12 months. The Entity believes the receivables are fully collectible and as such has not provided an allowance for uncollectible accounts.

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Tech Scholars Program	\$ -	\$ 6,667
Digital Literacy	<u>10,000</u>	<u>-</u>
	<u>\$ 10,000</u>	<u>\$ 6,667</u>

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS - Cont'd

Temporarily restricted net assets released from restrictions for the years ended December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Tech Scholars Program	<u>\$ 6,667</u>	<u>\$ 3,333</u>

NOTE 3 – INVESTMENTS

The Entity's investments as of December 31, 2014 and 2015, consist of unrestricted stocks and are recorded at market value and are summarized as follows:

	<u>2015</u>	<u>2014</u>
Cost	<u>\$ 3,558</u>	<u>\$ 3,444</u>
Fair Market Value	<u>\$ 3,123</u>	<u>\$ 3,494</u>

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Dividends	\$ 113	\$ 108
Unrealized gain (loss)	<u>(371)</u>	<u>(7,395)</u>
Total	<u>\$ (258)</u>	<u>\$ (7,287)</u>

The Entity adopted FASB ASC 820-10 for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 3 – INVESTMENTS - Cont'd

Level 1 inputs are quoted prices (unadjusted) for identical investments in active markets.

Level 2 inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 inputs are model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement.

The investments in stocks are measured at fair value on a recurring basis and are Level 1.

NOTE 4 – PROMISES TO GIVE

An unconditional promise to give is a promise to give that depends only on the passage of time or demand by the promise for performance. The fair value of unconditional promises to give is measured on a nonrecurring basis using an income approach with estimates of future cash flows and based on previous experience (level 3 inputs).

At December 31, 2015, the Entity had an uncollateralized unconditional promise to give from one company as follows:

Promises to give expected to be collected in:

	<u>2015</u>
One to five years	\$ 36,000
Discount on promise	<u>(10,481)</u>
	<u>\$ 25,519</u>

Management believes that all unconditional promises to give are fully collectible; therefore, no allowance for doubtful accounts was recorded as of December 31, 2015.

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Furniture, Fixtures and Equipment	\$ 11,174	\$ 9,018
Leasehold Improvements	27,505	27,505
Vehicles	21,264	21,264
Software	<u>30,000</u>	<u>-</u>
	89,943	57,787
Accumulated Depreciation	<u>(18,812)</u>	<u>(8,584)</u>
	<u>\$ 71,131</u>	<u>\$ 49,203</u>

The depreciation expense for the years ended December 31, 2015 and 2014, was \$10,228 and \$7,999, respectively.

NOTE 6 – CONCENTRATIONS

The Entity maintains its cash account in a North Carolina commercial bank. Interest bearing accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Noninterest bearing accounts are completely insured. At December 31, 2015 and 2014, all cash accounts were considered unrestricted. At December 31, 2015 and 2014, total unrestricted cash and equivalents on deposit amounted to \$307,515 and \$259,269, respectively, resulting in \$53,347 in 2015 and \$9,500 in 2014 in excess of the FDIC insured amount.

NOTE 7 – LEASE AGREEMENT

The Entity has a non cancelable operating lease at its facility that expires February 28, 2019. The initial lease payment is for \$6,923 per month and increases each year of the lease. In addition, the Organization is assessed an amount for general overhead expenses which it pays on a pro-rata basis with the lease payment. The assessment is adjusted periodically based on the actual expense incurred by the landlord. The total rent expense and overhead expenses under their lease for the years ended December 31, 2015 and 2014, was \$111,116 and \$92,563, respectively.

Future minimum lease payments, by year and in the aggregate, under the noncancelable operating leases with remaining terms of one year or more are due as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2016	\$112,346
2017	114,519
2018	116,747
2019	<u>19,520</u>
Total	<u>\$363,132</u>

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 8 – RETIREMENT PLAN

The Entity has established a simple IRA plan covering eligible employees. The Entity makes matching contributions up to 3% of the qualified employee's compensation. The retirement expense for 2015 was \$2,060.

NOTE 9 – COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Entity's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

NOTE 10 – DONATED SERVICES AND MATERIALS

The value of donated materials is determined based upon the resale value of comparable used equipment. For the year ended December 31, 2015 and 2014, donated materials totaled \$497,686 and \$403,207, respectively.

A substantial number of volunteers donate significant amounts of their time in Kramden Institute, Inc.'s program services. These donated hours are a necessary part of the Entity's activities since its services could not be sustained without such support. The services contributed do not enhance nonfinancial assets or require specialized skills; therefore, no dollar amounts have been reflected in the accompanying financial statements for these services.

NOTE 11 – INCOME TAXES

The Entity has open tax years with both the Internal Revenue Service and the North Carolina Department of Revenue from 2012 through 2015.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through August 16, 2016, which is the date the financial statements were available to be issued.