

KRAMDEN INSTITUTE, INC.

FINANCIAL REPORT

DECEMBER 31, 2017 and 2016

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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, 2017 and 2016, 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, 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.

Report on Summarized Comparative Information

We have previously audited Kramden Institute, Inc.'s 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 11, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dreher Martin CPAs, P.A.

August 30, 2018

KRAMDEN INSTITUTE, INC
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash and Cash Equivalents	\$ 366,369	\$ 407,403
Inventory	196,443	204,493
Investments	5,875	4,015
Unconditional Promises to Give, Net	15,960	24,362
Donations - Receivable	9,230	40,137
Total Current Assets	593,877	680,410
Property and Equipment, Net	64,873	79,197
Other Assets		
Security Deposits	11,485	11,485
Loan from Related Party	-	1,147
Total Other Assets	11,485	12,632
TOTAL ASSETS	\$ 670,235	\$ 772,239

LIABILITIES AND NET ASSETS

Current liabilities		
Credit Cards Payable	\$ 4,852	\$ 3,432
Accrued Expenses	21,521	19,589
Total Current Liabilities	26,373	23,021
Total Liabilities	26,373	23,021
Net Assets		
Temporarily Restricted Net Assets	125,293	34,362
Unrestricted Net Assets	518,569	714,856
Total Net Assets	643,862	749,218
TOTAL LIABILITIES AND NET ASSETS	\$ 670,235	\$ 772,239

See Accompanying Notes and Independent Auditors' Report

KRAMDEN INSTITUTE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
UNRESTRICTED NET ASSETS				
REVENUES				
Contributions - Cash	\$ 344,628	\$ 109,333	\$ 453,961	\$ 595,831
Contributions - In-kind	463,020	-	463,020	648,392
Program Related Sales	298,909	-	298,909	379,330
Interest and Dividend Income	2,547	-	2,547	3,268
Realized and Unrealized Gains/Losses	1,738	-	1,738	834
Other Income	4,892	-	4,892	-
Other Program Related Service Fees	16,039	-	16,039	7,889
Total Revenue and Support	<u>1,131,773</u>	<u>109,333</u>	<u>1,241,106</u>	<u>1,635,544</u>
Net Assets Released from Restrictions	<u>18,402</u>	<u>(18,402)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program Services	1,159,199	-	1,159,199	1,399,782
Supporting Services				
General and Administrative	138,633	-	138,633	138,372
Fund Raising Expenses	48,630	-	48,630	48,679
Total Expenses	<u>1,346,462</u>	<u>-</u>	<u>1,346,462</u>	<u>1,586,833</u>
CHANGE IN NET ASSETS	<u>(196,287)</u>	<u>90,931</u>	<u>(105,356)</u>	<u>48,711</u>
NET ASSETS BEGINNING OF YEAR	<u>714,856</u>	<u>34,362</u>	<u>749,218</u>	<u>700,507</u>
NET ASSETS END OF YEAR	<u>\$ 518,569</u>	<u>\$ 125,293</u>	<u>\$ 643,862</u>	<u>\$ 749,218</u>

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (105,356)	\$ 48,711
Adjustments to Reconcile Increase (Decrease) in Net Assets To Cash Provided by Operating Activities		
Donated Inventory	8,050	42,402
Depreciation	14,324	11,769
Investment gains, Unrealized and Realized	(1,738)	(834)
Reinvested Dividends	(122)	(58)
Decrease in Unconditional Promised to Give	8,402	1,157
Decrease in Pledges Receivable	30,907	47,419
(Increase)/Decrease in Loan from Related Party	1,147	(1,147)
Decrease in Accounts Payable	-	(30,000)
Increase in Credit Cards Payable	1,420	993
Increase in Accrued Expenses	1,932	6,513
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(41,034)	126,925
INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(19,835)
NET CASH USED BY INVESTING ACTIVITIES	-	(19,835)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,034)	107,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	407,403	300,313
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 366,369	\$ 407,403

See Accompanying Notes and Independent Auditors' Report

KRAMDEN INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Tech Programs</u>	<u>General and Administrative</u>	<u>Fund Raising</u>		
In-kind Computer Refurbish Supplies	\$ 471,070	\$ -	\$ -	\$ 471,070	
Wages	362,228	65,015	37,152	464,395	
Office Lease	109,828	7,241	3,621	120,690	
Employee Benefits	31,904	5,726	3,272	40,902	
Taxes - Payroll	28,836	5,176	2,958	36,970	
Volunteer Event Support	35,185	-	-	35,185	
Computer Refurbish Supplies	25,297	-	-	25,297	
Postage, Shipping and Delivery	12,190	3,047	-	15,237	
Depreciation Expense	-	14,324	-	14,324	
Utilities	11,656	768	384	12,808	
Retirement Expense	9,050	1,624	928	11,602	
Bank Fees	-	11,025	-	11,025	
Computer Distribution	10,952	-	-	10,952	
Training	10,928	-	-	10,928	
Professional Services	-	9,100	-	9,100	
Travel and Meeting Expenses	6,798	1,700	-	8,498	
Advertising	8,490	-	-	8,490	
Temporary Staff	8,000	-	-	8,000	
Insurance	-	6,125	-	6,125	
Miscellaneous	5,850	-	-	5,850	
Supplies	4,506	-	-	4,506	
Telephone	-	3,969	-	3,969	
Equipment Rental & Maintenance	3,118	-	-	3,118	
Dues	-	1,465	-	1,465	
Internet	684	684	-	1,368	
Volunteer Appreciation	1,183	-	-	1,183	
Other Payroll Expenses	-	1,059	-	1,059	
Printing and Copying	994	-	-	994	
Small Equipment	452	113	-	565	
Board Meeting Expenses	-	472	-	472	
Fundraising Expense	-	-	315	315	
TOTAL	\$ 1,159,199	\$ 138,633	\$ 48,630	\$ 1,346,462	

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Tech Programs</u>	<u>General and Administrative</u>	<u>Fund Raising</u>		
In-Kind Computer Refurbish Supplies	\$ 690,794	\$ -	\$ -	\$ 690,794	
Wages	355,145	63,744	36,425	455,314	
Office Lease	109,683	7,232	3,616	120,531	
Computer Refurbish Supplies	42,846	-	-	42,846	
Volunteer Event Support	42,262	-	-	42,262	
Taxes - Payroll	28,155	5,053	2,888	36,096	
Employee Benefits	23,265	4,176	2,386	29,827	
Training	21,435	-	-	21,435	
Bank Fees	-	14,947	-	14,947	
Postage, Shipping and Delivery	11,422	2,856	-	14,278	
Travel and Meeting Expenses	11,174	2,794	-	13,968	
Utilities	12,187	804	402	13,393	
Temporary Staff	11,944	-	-	11,944	
Miscellaneous	11,884	-	-	11,884	
Depreciation Expense	-	11,769	-	11,769	
Computer Distribution	9,414	-	-	9,414	
Professional Services	-	9,000	-	9,000	
Retirement Expense	6,782	1,217	696	8,695	
Insurance	-	4,952	-	4,952	
Telephone	-	4,373	-	4,373	
Dues	-	3,719	-	3,719	
Advertising	3,297	-	-	3,297	
Volunteer Appreciation	2,833	-	-	2,833	
Fundraising Expense	-	-	2,266	2,266	
Supplies	1,956	-	-	1,956	
Equipment Rental & Maintenance	1,574	-	-	1,574	
Internet	752	752	-	1,504	
Other Payroll Expenses	-	984	-	984	
Printing and Copying	978	-	-	978	
TOTAL	\$ 1,399,782	\$ 138,372	\$ 48,679	\$ 1,586,833	

See Accompanying Notes and Independent Auditors' Report.

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

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 provide technology tools and training to bridge the digital divide. The Institute does this by collecting, refurbishing and reusing computers, extending their useful lives while providing digital inclusion programming to low-income individuals and communities. 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 the Entity 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, 2017 and 2016

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 quotations for 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, 2017 and 2016

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

Income Taxes

The Entity 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 \$8,490 and \$3,297, for the years ended December 31, 2017 and 2016, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Education	\$ 81,833	\$ 10,000
Unconditional promise to give – Tech Scholars	15,960	24,362
Tech Scholars Program	2,500	-
Tech Events	25,000	-
	<u>\$ 125,293</u>	<u>\$ 34,362</u>

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS - Cont'd

Temporarily restricted net assets released from restrictions, for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Education	\$ 10,000	\$ 10,000
Tech Scholars Program	<u>8,402</u>	<u>-</u>
	<u>\$ 18,402</u>	<u>\$ 10,000</u>

NOTE 3 – INVESTMENTS

The Entity's investments, as of December 31, 2017 and 2016, consist of unrestricted stocks and are recorded at market value and are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cost	<u>\$ 3,755</u>	<u>\$ 3,633</u>
Fair Market Value	<u>\$ 5,875</u>	<u>\$ 4,015</u>

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Dividends	\$ 122	\$ 118
Unrealized gain (loss)	<u>1,738</u>	<u>834</u>
Total	<u>\$ 1,860</u>	<u>\$ 952</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, 2017 and 2016

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 promisee 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, 2017 and 2016, the Entity had an uncollateralized unconditional promise to give from one company as follows:

Promises to give expected to be collected in:

	<u>2017</u>	<u>2016</u>
One to five years	\$ 18,000	\$ 27,000
Discount on promise	<u>(2,040)</u>	<u>(2,638)</u>
	<u>\$ 15,960</u>	<u>\$ 24,362</u>

Unconditional promises to give, due in more than one year, are recognized at fair value using present value techniques and a discount rate of 3.5%. Management believes that all unconditional promises to give are fully collectible; therefore, no allowance for doubtful accounts was recorded, as of December 31, 2017.

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture, Fixtures and Equipment	\$ 12,509	\$ 12,509
Leasehold Improvements	27,505	27,505
Vehicles	39,764	39,764
Software	<u>30,000</u>	<u>30,000</u>
	109,778	109,778
Accumulated Depreciation	<u>(44,905)</u>	<u>(30,581)</u>
	<u>\$ 64,873</u>	<u>\$ 79,197</u>

The depreciation expense, for the years ended December 31, 2017 and 2016, was \$14,324 and \$11,769, respectively.

NOTE 6 – CONCENTRATIONS

The Entity maintains its cash account in North Carolina commercial banks and a credit union. Interest bearing accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) and at the credit union by the National Credit Union Association (NCUA) up to \$250,000, per bank or credit union. Noninterest bearing accounts are completely insured. At December 31, 2017 and 2016, all cash accounts were considered unrestricted. Amounts on deposit at a credit union exceed the NCUA insured amounts by \$80,636 in 2017 and \$156,974 in 2016.

NOTE 7 – LEASE AGREEMENT

The Entity has a non-cancelable operating lease for its facility that expires February 28, 2019. In addition to the facility rent, the Entity 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, 2017 and 2016, was \$120,690 and \$120,531, 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>
2018	\$ 133,319
2019	<u>22,610</u>
Total	<u>\$155,929</u>

KRAMDEN INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

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 2017 and 2016 was \$11,602 and \$8,695, respectively.

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, 2016, 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, 2017 and 2016, donated materials totaled \$463,020 and \$648,392, respectively.

A substantial number of volunteers donate significant amounts of their time in the Entity'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 2014 through 2017.

NOTE 12 – RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated through August 30, 2018, which is the date the financial statements were available to be issued.