

# The Center for Literacy, Inc.

Financial Statements  
Year Ended June 30, 2019



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# THE CENTER FOR LITERACY, INC.

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## INDEPENDENT AUDITOR'S REPORT

**Board of Trustees  
The Center for Literacy, Inc.  
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of The Center for Literacy, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Literacy, Inc., as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Report on Summarized Comparative Information***

We have previously audited The Center for Literacy, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 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.

*BBD, LLP.*

**Philadelphia, Pennsylvania  
December 6, 2019**

# THE CENTER FOR LITERACY, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash	\$ 201,040	\$ 108,796
Grants and contracts receivable	167,034	331,371
Reserve for unemployment claims	-	11,904
Prepaid expenses and other assets	40,564	45,441
Investments	454,870	581,901
Equipment and leasehold improvements	<u>6,095</u>	<u>10,154</u>
<b>Total assets</b>	<b><u>\$ 869,603</u></b>	<b><u>\$ 1,089,567</u></b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 43,587	\$ 23,942
Accrued salaries	99,872	99,743
Deferred rent	<u>-</u>	<u>31,818</u>
<b>Total liabilities</b>	<b><u>143,459</u></b>	<b><u>155,503</u></b>
<b>NET ASSETS</b>		
Without donor restrictions		
Operating	182,043	314,046
Board designated reserves	<u>454,870</u>	<u>581,901</u>
Total without donor restrictions	636,913	895,947
With donor restrictions	<u>89,231</u>	<u>38,117</u>
<b>Total net assets</b>	<b><u>726,144</u></b>	<b><u>934,064</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 869,603</u></b>	<b><u>\$ 1,089,567</u></b>

See accompanying notes

# THE CENTER FOR LITERACY, INC.

## STATEMENT OF ACTIVITIES

Year ended June 30, 2019 with comparative totals for 2018

	Without	With	Totals	
	Donor Restrictions	Donor Restrictions	2019	2018
<b>REVENUE AND SUPPORT</b>				
Grants and contracts	\$ 1,600,298	\$ -	\$ 1,600,298	\$ 1,530,168
Contributions	127,115	149,750	276,865	384,696
In-kind contributions	60,483	-	60,483	362,587
Investment income	55,863	-	55,863	6,174
Net assets released from restrictions	<u>98,636</u>	<u>(98,636)</u>	<u>-</u>	<u>-</u>
<b>Total revenue and support</b>	<u>1,942,395</u>	<u>51,114</u>	<u>1,993,509</u>	<u>2,283,625</u>
<b>EXPENSES</b>				
Program services	1,765,316	-	1,765,316	2,021,953
General and administrative	212,205	-	212,205	170,398
Fundraising	<u>223,908</u>	<u>-</u>	<u>223,908</u>	<u>299,260</u>
<b>Total expenses</b>	<u>2,201,429</u>	<u>-</u>	<u>2,201,429</u>	<u>2,491,611</u>
<b>CHANGE IN NET ASSETS</b>	(259,034)	51,114	(207,920)	(207,986)
<b>NET ASSETS</b>				
Beginning of year	<u>895,947</u>	<u>38,117</u>	<u>934,064</u>	<u>1,142,050</u>
<b>End of year</b>	<u>\$ 636,913</u>	<u>\$ 89,231</u>	<u>\$ 726,144</u>	<u>\$ 934,064</u>

See accompanying notes

**THE CENTER FOR LITERACY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2019 with comparative totals for 2018**

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Totals</u>	
	<u>Adult Education</u>	<u>Out of School Youth</u>	<u>English as a Second Language (ESL)</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2019</u>	<u>2018</u>
Salaries (using a professional employer organization)	\$ 1,285,508	\$ 125,962	\$ -	\$ 18,903	\$ 168,010	\$ 1,598,383	\$ 1,503,348
Communications	13,183	1,151	-	134	2,256	16,724	16,873
Consulting services, professional fees and contracted program services	-	-	15,169	146,065	17,636	178,870	193,215
Depreciation	-	-	-	4,058	-	4,058	5,671
Equipment rental	26,430	2,475	-	1,298	3,380	33,583	36,829
Insurance	13,955	680	-	2,846	1,105	18,586	24,399
Volunteer tutor and intern services	11,136	-	-	-	-	11,136	223,096
Instructional supplies	42,058	14	6,400	5,594	6,471	60,537	41,440
Office expenses	4,753	387	-	2,300	1,448	8,888	5,245
Other expenses	14,302	232	118	11,113	844	26,609	62,137
Rent	145,152	1,643	6,300	19,272	4,861	177,228	329,999
Technology upgrade and equipment	45,938	2,370	-	622	17,897	66,827	49,359
<b>Total expenses</b>	<b>\$ 1,602,415</b>	<b>\$ 134,914</b>	<b>\$ 27,987</b>	<b>\$ 212,205</b>	<b>\$ 223,908</b>	<b>\$ 2,201,429</b>	<b>\$ 2,491,611</b>

*See accompanying notes*

# THE CENTER FOR LITERACY, INC.

## STATEMENT OF CASH FLOWS

Year ended June 30, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ (207,920)	\$ (207,986)
<b>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</b>		
Depreciation	4,058	5,671
Unrealized (gain) loss on investments	(44,746)	9,324
(Increase) decrease in		
Grants and contracts receivable	164,337	15,446
Reserve for unemployment claims	11,904	39,305
Prepaid expenses and other assets	4,877	26,429
Increase (decrease) in		
Accounts payable and accrued expenses	19,645	10,614
Accrued salaries	129	(12,554)
Deferred rent	(31,818)	(10,606)
<b>Net cash used for operating activities</b>	<u>(79,534)</u>	<u>(124,357)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment and leasehold improvements	-	(9,793)
Purchase of investments	(386,246)	(13,229)
Proceeds from sales of investments	<u>558,024</u>	<u>-</u>
<b>Net cash provided by (used for) investing activities</b>	<u>171,778</u>	<u>(23,022)</u>
<b>Change in cash</b>	92,244	(147,379)
<b>CASH</b>		
Beginning of year	<u>108,796</u>	<u>256,175</u>
<b>End of year</b>	<u>\$ 201,040</u>	<u>\$ 108,796</u>

See accompanying notes



# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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### (1) NATURE OF OPERATIONS

Center for Literacy ("**CFL**" or the "**Organization**") has been unleashing the power of literacy to change lives since 1968. Philadelphia's oldest and largest adult literacy organization not only teaches Philadelphians the Three R's of reading, writing, and arithmetic, but helps adults apply these skills to every aspect of their lives. Connecting our basic skills education program to the contexts of parenting, finance, health, and work leads to stronger families, businesses, and ultimately a stronger Philadelphia.

While carrying out our mission with passion and compassion, CFL provides the highest level of responsible stewardship of funds received from government contracts, and donations from corporations, foundations and individuals.

CFL provides the following programs:

#### **Adult Education**

CFL's community classes improve the literacy skills of our learners and serve as a pipeline into our preparation for the GED® test classes. Classes are designed to improve learners' reading, writing, language, math, and/or technology skills. Lessons may be delivered individually, in small groups, or as a whole class, and address goal-specific objectives that are defined during the orientation process.

#### **Out of School Youth**

CFL's youth programming is done in partnership with the Philadelphia Youth Network's ("**PYN**") E3 Power Centers, where CFL literacy specialists provide specific educational and literacy coaching to a targeted in-school and out-of-school population, 16-21 years of age. The E3 Centers partner with multiple organizations to offer basic skill-building experiences for youth that have dropped out of school or are returning from juvenile placement as well as ongoing case management services.

#### **English as a Second Language**

CFL holds English as a second language ("**ESL**") classes throughout Philadelphia. Offerings include beginning, intermediate, and advanced classes that progressively address the basics of the English language and the concept of civic responsibility. Many of the ESL learners apply for citizenship, and CFL's classes support their application.

### (2) SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("**GAAP**").

#### **Basis of Presentation**

CFL reports information regarding its financial position and activities according to the following classes of net assets:

##### ***Without donor restrictions***

Net assets that are not subject to donor-imposed restrictions. The Board has designated a portion of its net assets without donor restriction for future operational purposes.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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### ***With donor restrictions***

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of CFL and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets to be maintained indefinitely while permitting CFL to expend the income generated in accordance with the provisions of the contribution. CFL did not have this type of net assets with donor restrictions at June 30, 2019 and 2018.

### **Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

### **Grants and Contracts**

CFL receives funding from governmental agencies under cost reimbursement grants and contracts. Grant and contract revenue from government sources is recognized as the related expenses are incurred.

Grants and contracts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with funding sources having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. CFL does not charge interest on outstanding balances.

The contracts under which the CFL conducts its programs contain provisions defining costs, which are allowable and reimbursable with the program. Program billings are subject to audit by various governmental funding sources. Audits of these billings may result in adjustments for disallowances. No provision has been made for any liabilities that may arise from such audits.

### **Reserve for Unemployment Claims**

CFL was primarily self-insured for certain unemployment costs. The unemployment claims were administered by Unemployment Services Trust ("**UST**"). CFL had an interest bearing proprietary reserve account held by UST, to cover all unemployment claims that had been submitted to and processed by the Commonwealth of Pennsylvania for former CFL employees. CFL was required to deposit funds on a quarterly basis into this account to cover potential future claims. Effective January 1, 2018, CFL moved to a premium expense model in which CFL pays monthly premiums. The balance of the proprietary reserve account is being used first to make these premium payments and after these funds are exhausted, CFL will make the payments. The balance of the proprietary reserve account funds were fully exhausted in fiscal 2019.

### **Investments and Investment Income**

Investments in debt and equity securities with readily determinable fair values are reported at fair value as determined by quoted market prices with gains and losses included in the statement of activities. Shares of mutual funds are valued at the net asset value of shares held by CFL at year end. Dividend and interest income is recorded as earned. Donated securities are recorded at fair value at the date of receipt and sold as soon as possible.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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### **Fair Value Measurements of Assets and Liabilities**

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable, that is, inputs that reflect the Organization's own assumptions.

### **Equipment and Leasehold Improvements**

Equipment and leasehold improvements are carried at cost, net of accumulated depreciation, if purchased and at fair value at the date contributed if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. CFL capitalizes all equipment and leasehold improvements in excess of \$5,000.

### **Deferred Rent**

Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period on the straight-line basis differ from the cash payments required.

### **In-Kind Contributions**

CFL recognizes revenue for donated services when they require specialized skills which would need to be purchased if they were not donated. Donated services are recorded as both revenue and expenses in the accompanying statement of activities at their estimated value at the date of receipt.

### **Contributions**

Contributions received are recorded as net assets with donor restriction or net assets without donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as net assets without donor restrictions.

Unconditional contributions are recognized when the related promise to give is received. Conditional contributions are recognized when the conditions are satisfied. Conditional promises to CFL at June 30, 2019 amounted to \$230,000 and relate to a foundation grant for adult education.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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### **Functional Allocation of Expenses**

The costs of providing various programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries, rent, technology upgrade and equipment, consulting services, professional fees and contracted program services which were allocated based on estimates of time and effort.

### **Income Tax Status**

CFL is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to CFL's tax-exempt purpose is subject to taxation as unrelated business income.

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. CFL believes that it had no uncertain tax positions as defined in GAAP.

### **Concentration of Credit, Market and Revenue Risk**

#### **Cash and Grants and Contracts Receivable**

Cash, grants and contracts receivable potentially subject CFL to concentrations of credit risk. CFL maintains its cash at high quality institutions. At times, such deposits may exceed federally-insured limits. Grants and contracts receivable are due from governmental agencies and are expected to be collected in 2020.

#### **Investments**

CFL invests in a professionally-managed portfolio that contains various types of securities (**See Note 4**). One mutual fund investment represents approximately 95% of the portfolio balance at June 30, 2019. Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

#### **Revenue**

CFL received 70% and 67%, respectively, of its total revenue and support (not including in-kind contributions) from one funding source for the years ended June 30, 2019 and 2018.

### **Summarized Prior-Year 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 GAAP. Accordingly, such information should be read in conjunction with CFL's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

### **Reclassifications**

Certain items in the 2018 comparative totals have been reclassified to conform with the presentation in the 2019 financial statements.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

### Accounting Pronouncements Adopted

On August 18, 2016, the Financial Accounting Standards Board ("**FASB**") issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. CFL has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of CFL's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (**Note 11**).

### (3) GRANTS AND CONTRACTS RECEIVABLE

CFL's grants and contracts receivable consisted of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Pennsylvania Department of Education	\$112,532	\$213,891
Philadelphia Youth Network	26,156	39,296
Other	<u>28,346</u>	<u>73,184</u>
	<u>\$167,034</u>	<u>\$326,371</u>

### (4) INVESTMENTS

The fair value of investments at June 30, is summarized as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ -	\$ 5,792
Common stocks	-	847
Mutual funds		
Fixed income	157,457	561,094
Equities	<u>297,413</u>	<u>14,168</u>
	<u>\$454,870</u>	<u>\$581,901</u>

Investment income was comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 11,117	\$ 15,498
Unrealized gain (loss)	<u>44,746</u>	<u>(9,324)</u>
	<u>\$ 55,863</u>	<u>\$ 6,174</u>

Investments are measured at fair value using Level 1 (quoted prices in active markets) valuation inputs.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

### (5) EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 9,793	\$ 64,394
Equipment	-	72,526
Leasehold improvements	<u>7,942</u>	<u>7,942</u>
	17,735	144,862
Less: accumulated depreciation	<u>(11,640)</u>	<u>(134,708)</u>
	<u>\$ 6,095</u>	<u>\$ 10,154</u>

Depreciation was \$4,058 and \$5,671, respectively, for the years ended June 30, 2019 and 2018.

### (6) LINE OF CREDIT

CFL has an available line of credit in the amount of \$400,000, which bears interest at a variable rate per annum equal to 0.5% in excess of the Wall Street Prime Rate and expires December 1, 2020. The line of credit is secured by substantially all of the assets of CFL. No advances were outstanding at June 30, 2019 and 2018.

### (7) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes and periods:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2019</u>
Purpose restrictions				
English as a Second Language				
Programming	\$ 5,617	\$ 5,750	\$(10,117)	\$ 1,250
Adult education	-	129,000	(44,769)	84,231
Other	-	15,000	(11,250)	3,750
Available in future periods	<u>32,500</u>	<u>-</u>	<u>(32,500)</u>	<u>-</u>
	<u>\$38,117</u>	<u>\$149,750</u>	<u>\$(98,636)</u>	<u>\$ 89,231</u>

### (8) IN-KIND CONTRIBUTIONS

In-kind contributions for the year ended June 30, consisted of the following:

	<u>2019</u>	<u>2018</u>
Volunteer tutor services and intern services	\$ 11,136	\$223,096
Computer equipment	20,547	-
Rent	<u>28,800</u>	<u>139,491</u>
	<u>\$60,483</u>	<u>\$362,587</u>

In-kind volunteer tutor services and intern services, computer equipment, and rent are included as program service expenses on the statement of functional expenses.

# THE CENTER FOR LITERACY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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### (9) OPERATING LEASES

In May 2019, the Organization entered into a new operating lease for its administrative offices expiring in July 2024. Rent expense for these facilities was \$148,428 for 2019 and \$190,507 for 2018. Minimum annual lease commitments under non-cancelable leases with initial or remaining terms in excess of one year are as follows:

#### Years ending June 30,

2020	\$ 91,116
2021	102,129
2022	105,191
2023	108,343
2024	111,586
Thereafter	<u>9,321</u>
	<u>\$527,686</u>

### (10) EMPLOYEE 403b PLAN

The Organization has a 403b plan for all eligible employees. Employees may contribute a percentage of their salary, up to federal limits. The Organization does not make contributions to the plan.

### (11) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects CFL's financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash	\$201,040
Grants and contracts receivable	167,034
Investments	<u>454,870</u>
Total financial assets	822,944
Less: financial assets not available for general operations within one year	
Restricted by donor for specific purposes or periods	<u>89,231</u>
Total financial assets available within one year	<u>\$733,713</u>

#### Liquidity Management

CFL regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. CFL has various sources of liquidity at its disposal, including cash, money market funds, mutual funds and a line of credit.

### (12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that would require recognition or disclosure in the financial statements.