



***HELP HOSPITALIZED VETERANS, INC.  
D/B/A/ HELP HEAL VETERANS***

***FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED JULY 31, 2019***

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## Independent Auditor's Report

To the Board of Directors of  
Help Hospitalized Veterans, Inc. d/b/a Help Heal Veterans

*Prager Metis CPAs LLP*

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### Report on the Financial Statements

We have audited the accompanying financial statements of Help Hospitalized Veterans, Inc., d/b/a Help Heal Veterans (a nonprofit organization) which comprise the statement of financial position as of July 31, 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 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 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 Organization'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 Organization'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 Help Hospitalized Veterans, Inc. as of July 31, 2019, 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.

Prager Metis CPAs LLP

Prager Metis CPAs LLP  
El Segundo, California  
February 4, 2020

**HELP HOSPITALIZED VETERANS, INC.  
D/B/A/ HELP HEAL VETERANS**

**STATEMENT OF FINANCIAL POSITION**

JULY 31, 2019

**Assets:**

Current assets:

Cash	\$ 288,899
Settlement receivable	2,000,000
Other receivables	78,996
Prepaid expenses	74,079
Inventory of therapeutic materials and direct mail supplies, net	<u>2,631,887</u>

Total current assets 5,073,861

Property and equipment, net 1,115,145

Total assets \$ 6,189,006

**Liabilities and net assets:**

Current liabilities:

Accounts payable	\$ 2,013,453
Accrued expenses	<u>191,770</u>

Total current liabilities 2,205,223

Line of credit 472,578

Underfunded pension liability 2,770,228

Total long-term liabilities 3,242,806

Total liabilities 5,448,029

Net assets:

Without donor restriction	(1,259,023)
With donor restriction	<u>2,000,000</u>

Total net assets 740,977

Total liabilities and net assets \$ 6,189,006

See accompanying notes to financial statements.

**HELP HOSPITALIZED VETERANS, INC.**  
**D/B/A/ HELP HEAL VETERANS**

**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JULY 31, 2019

	Without donor restriction	With donor restriction	Total
<b>Revenues and gains:</b>			
Contributions received	\$ 9,749,913	\$ -	\$ 9,749,913
Gain on legal settlement	-	145,849	145,849
Other revenue	380,375	-	380,375
In-kind contributions	4,771,877	-	4,771,877
Gain on pension valuation	56,127	-	56,127
Total revenues and gains	14,958,292	145,849	15,104,141
<b>Expenses:</b>			
Program services:			
Therapeutic materials	3,803,770	-	3,803,770
Craft care specialists	763,115	-	763,115
Veterans assistance and awareness	3,780,242	-	3,780,242
Total program services	8,347,127	-	8,347,127
Supporting services:			
Management and general	1,865,838	-	1,865,838
Fundraising	4,433,113	-	4,433,113
Total supporting services	6,298,951	-	6,298,951
Total expenses	14,646,078	-	14,646,078
Change in net assets before effect of pension liability	312,214	145,849	458,063
Pension-related changes other than net periodic pension cost	(896,762)	-	(896,762)
Change in net assets	(584,548)	145,849	(438,699)
Net assets, beginning of year	(674,475)	1,854,151	1,179,676
Net assets, end of year	\$ (1,259,023)	\$ 2,000,000	\$ 740,977

See accompanying notes to financial statements.

**HELP HOSPITALIZED VETERANS, INC.**  
**D/B/A/ HELP HEAL VETERANS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JULY 31, 2019**

	Program Services		Supporting Services			Total
	Therapeutic Materials	Craft Care Specialists	Veterans Assistance & Awareness	Management and General	Fundraising	
Printing	\$ 1,082	\$ 1,082	\$ 889,145	\$ 428,551	\$ 1,975,629	\$ 3,295,489
Postage	621,479	-	569,114	274,018	1,264,698	2,729,309
Direct mail services	-	-	135,601	65,290	301,335	502,226
Mailing list rental	-	-	78,365	37,731	174,144	290,240
Data processing	-	-	69,824	33,619	155,164	258,607
Promotion	-	-	1,856,993	54,851	253,160	2,165,004
Craft kits	2,476,914	-	-	-	-	2,476,914
Rent and facilities	-	121,996	-	-	-	121,996
Caging	-	-	-	293,588	-	293,588
Salaries and payroll taxes	396,514	448,359	11,670	299,617	201,753	1,357,913
Utilities	11,808	13,337	-	1,610	-	26,755
Telephone	7,189	2,995	599	599	599	11,981
Legal and accounting	-	-	-	116,968	-	116,968
Consulting	10,458	5,647	3,137	837	837	20,916
Office supplies	37,811	38,966	4,296	6,016	-	87,089
Taxes and licenses	27,560	-	-	9,384	-	36,944
Public relations	-	-	128,380	-	-	128,380
Outside services	32,175	-	6,033	1,207	804	40,219
Auto and travel expense	-	14,221	19,244	26,918	-	60,383
Depreciation	20,336	-	6,779	6,779	-	33,894
Bank charges	-	-	-	-	86,640	86,640
Interest	-	-	-	130,512	-	130,512
Insurance	101,220	116,512	1,062	27,256	18,350	264,400
Miscellaneous	59,224	-	-	50,487	-	109,711
<b>TOTAL</b>	<b>\$ 3,803,770</b>	<b>\$ 763,115</b>	<b>\$ 3,780,242</b>	<b>\$ 1,865,838</b>	<b>\$ 4,433,113</b>	<b>\$ 14,646,078</b>

See accompanying notes to financial statements.

**HELP HOSPITALIZED VETERANS, INC.**  
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**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JULY 31, 2019

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (438,699)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Pension liability	840,635
Depreciation	63,071
Cash surrender value of life insurance	179,161
Change in settlement receivable	(145,849)
Change in other receivables	9,694
Change in prepaid expenses	8,223
Change in inventory of therapeutic materials and direct mail supplies	(935,970)
Change in accounts payable	417,863
Change in accrued expenses	<u>6,484</u>
Net cash provided by operating activities	<u>4,613</u>
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	<u>(6,911)</u>
Net cash used in investing activities	<u>(6,911)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from line of credit	117,578
Payments on line of credit	<u>(119,150)</u>
Net cash used in financing activities	<u>(1,572)</u>
Decrease in cash	(3,870)
Cash, beginning	<u>292,769</u>
Cash, ending	<u>\$ 288,899</u>

See accompanying notes to financial statements.



**HELP HOSPITALIZED VETERANS, INC.  
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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**1. General and Summary of Significant Accounting Policies**

*Organization* - Help Hospitalized Veterans, Inc. d/b/a Help Heal Veterans (the Organization) is a not-for-profit corporation organized in 1971 for the purposes of informing the public of the needs of veteran patients, encouraging the public to participate in programs that assist in the veteran's rehabilitation, and providing therapeutic products and services that include arts and craft materials to veteran patients.

Contributions are received primarily as a result of direct mail and media solicitations to individuals throughout the country. Contributions are recognized as support when received.

*Financial Statement Presentation* - The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 for financial statement presentation. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

*Without Donor Restrictions* - Net assets not subject to donor-imposed stipulations.

*With Donor Restrictions* - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time or net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

The Organization reports gifts of cash and other assets as with donor restricted revenue 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, 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. Restricted contributions whose restrictions are met in the same reporting period are recorded as contributions without donor restrictions.

*Donated Services, Materials, and Facilities* - Donated services are recognized as contributions in accordance with FASB ASC 958, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

**HELP HOSPITALIZED VETERANS, INC.  
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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**1. General and Summary of Significant Accounting Policies (continued)**

Donations of materials 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 are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Donations of facilities and equipment are recorded as contributions based on the square footage occupied by the Organization at the estimated rental value per square foot and the estimated rental value of the equipment. The estimated rental value is based on commercial real estate value guidelines for the location of the property.

*Allocation of Expenses* - Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis and consistently applied. Expenses associated with direct mailings are allocated based on a direct line count method of allocating joint costs. Salaries and related benefits, payroll taxes, and telephone expenses are allocated based on the estimated time and effort of employees performing their assigned functions. Utility expenses are allocated based on the square footage of the building.

*Functional Expenses* - The costs of providing various program and supporting services have been summarized on a functional basis on the schedule of functional expenses. Certain costs have been allocated among program and supporting services as follows:

*Therapeutic Materials* - All expenses incurred to purchase, manufacture, store, manage and distribute therapeutic materials containing arts and craft materials to veteran patients.

*Craft Care Specialists* - All expenses incurred to pay and administer employees and consultants whom service the therapeutic materials program in the hospitals and the Community Based Craft Kit Program locations.

*Veterans Assistance and Awareness* - All expenses incurred to educate the general public about the country's military and veterans' hospital system and the patients ongoing need for physical therapy. Also, all expenses incurred to encourage the general public to participate in the Organization's correspondence and veteran assistance programs. Additionally, all expenses contributed to organizations that

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**1. General and Summary of Significant Accounting Policies (continued)**

provide assistance to veterans or support various special events for veterans are recorded as veterans assistance and awareness.

*Management and General* - All other operating expenses incurred by the Organization in the accomplishment of its tax exempt purposes.

*Fundraising* - All expenses incurred with the purpose of raising funds.

*Other Receivables* - Other receivables are carried at their unpaid principal balance, less any allowance for doubtful accounts. Management periodically evaluates the adequacy of the allowance based on the customers' ability to repay. Past due status is based on contractual terms. The Organization writes off any receivables determined by management to be uncollectible. At July 31, 2019, other receivables are considered to be fully collectible.

*Inventory* - The inventory of purchased therapeutic materials, leather, wood, other raw materials, and direct mail supplies are stated at lower of cost or net realizable value determined on a first-in, first-out basis. Donated inventory is stated at fair market value at the time of receipt. Fair market value is the cost the Organization would incur to purchase the inventory which is deemed to approximate the estimated selling price.

The Organization reviews its inventories continuously for seldomly used or unused inventories that it considers to be slow-moving, and records an allowance for such inventories. For the year ended July 31, 2019, there was no allowance for slow-moving inventories.

*Property and Equipment* - Property and equipment are stated at cost if purchased or fair value if contributed and are depreciated on a straight-line basis over their estimated useful lives of five to ten years. The Organization capitalizes property and equipment with an estimated useful life greater than one year.

Expenditures for maintenance and repairs are expensed as incurred. Betterments, which increase the value or materially extend the life of the related assets, are capitalized.

*Valuation of Long-lived Assets* - The Organization accounts for the valuation of long-lived assets under FASB ASC 360. FASB ASC 360 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**1. General and Summary of Significant Accounting Policies (continued)**

is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value, less costs to sell. At July 31, 2019 the Organization has not deemed any assets impaired.

*Income Taxes* - The Organization has received a tax determination letter from the Internal Revenue Service and is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and related sections of the California Code. As such, only unrelated business income is subject to income tax. For the year ended July 31, 2019, there is no unrelated business income.

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

*Uses of Estimates* - Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**2. Financial Risks**

The Organization maintains cash balances that may exceed federally insured limits at times throughout the year. The cash accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account. The Organization has not experienced any loss in such accounts.

Other receivables include amounts due from two companies comprising 100% of total other receivables.

Direct mail fundraising income accounted for approximately 58% of the Organization's revenue.

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**3. Intentions to Give**

The Organization has received intentions of gifts in the form of bequests which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, the Organization has not recognized an asset or contribution revenue for these gifts. It is not practicable to estimate the total intentions to give.

**4. Inventories**

The following are the components included in the inventory of therapeutic materials and direct mail supplies on the statement of financial position as of July 31, 2019:

<u>Inventory Type</u>	<u>Value at July 31, 2019</u>
Raw materials	\$ 1,838,016
Direct mail	135,675
Therapeutic materials	647,701
Packing materials	<u>10,495</u>
	<u>\$ 2,631,887</u>

**5. Property and Equipment**

Property and equipment is summarized at July 31, 2019 as follows:

Office furniture and equipment	\$ 223,018
Leather equipment	127,657
Automobiles	2,500
Wood equipment	130,291
Land	675,738
Buildings	1,490,682
Land improvements	448,686
Building improvement	<u>50,515</u>
	3,149,087
Less accumulated depreciation	<u>2,033,942</u>
Property and equipment, net	<u>\$ 1,115,145</u>

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**5. Property and Equipment (continued)**

For the year ended July 31, 2019, depreciation expense is as follows:

Depreciation expense before indirect cost allocation	\$ 63,071
Indirect cost allocation	<u>(29,177)</u>
Total	<u>\$ 33,894</u>

**6. Pension and Profit Sharing Plan**

The Organization has a frozen defined benefit pension plan. The plan provides for payment of retirement benefits commencing at the later of age 65 or the completion of five years participation. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plan is determined on an employee's length of service and earnings. The annual measurement date is July 31 for the pension benefit. The plan was frozen effective July 2017.

The components of net pension costs are as follows:

Interest cost	\$ 327,756
Return on plan assets	(404,761)
Amortization of (gain) loss	<u>20,878</u>
Total	<u>\$ (56,127)</u>

The funded status of the plan is as follows:

Projected benefit obligation	\$ (7,754,681)
Fair value of plan assets	<u>4,984,453</u>
Funded status	<u>\$ (2,770,228)</u>

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**6. Pension and Profit Sharing Plan (continued)**

Actuarial assumptions are as follows:

Weighted average discount rate	4%
Weighted average long-term rate of return on assets	7%
Rate of compensation increase	4%

The expected long-term rate of return on assets of 7% was determined based on expected future investment returns. Historical market rates of return and interest rate levels were considered in determining the expected future investment returns.

The net periodic pension gain for the year ending July 31, 2019 is \$56,127. For the year ended July 31, 2019, benefits of \$1,013,443 were paid. Benefits expected to be paid during the next ten fiscal years are as follows:

<u>Year ended July 31,</u>	
2020	\$ 363,801
2021	363,400
2022	359,874
2023	402,087
2024	404,894
2025-2029	2,339,154

The plan's accumulated benefit obligation is \$7,754,681.

The Organization's pension plan assets were 100% invested in mutual funds which are considered a Level 1 investment and totaled \$4,984,453 at July 31, 2019.

The investment policy and strategy is to provide benefits at normal retirement age. The principal goal of the investment of the funds in the plan is both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of the participants. Investments are sufficiently liquid to enable the plan, on short notice, to make some distributions in cash in the event of death or disability of a participant.

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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**6. Pension and Profit Sharing Plan (continued)**

As of July 31, 2019, amounts recognized in the statement of financial position consist of:

Pension liability	<u>\$ 2,770,228</u>
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For the year ended July 31, 2019, net gain recognized in the statement of activities consists of:

Net gain	<u>\$ (896,762)</u>
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Plan assets and obligations are measured as of July 31, 2019 which is the Organization's fiscal year ending date. Therefore, a provision for the change of measurement date is not required. Subsequent to year end, a plan beneficiary passed resulting in a significant change in the estimated liability of the plan. As a result of the passing of the beneficiary, the actuarial valuation of the total pension liability subsequent to year end is estimated to be \$1,005,000. Subject to market valuations and conditions, a gain on pension related changes of approximately \$1,765,000 is expected for the year ended July 31, 2020.

**7. Operating Leases**

The Organization leases space under non-cancellable operating lease agreements. At July 31, 2019, the future minimum lease payments are as follows:

<u>Year ending July 31,</u>	
2020	\$ 21,527
2021	<u>8,474</u>
	<u>\$ 30,001</u>

The Organization also leases various storage units on a month to month basis. For the year ended July 31, 2019, rent expense for all operating lease agreements was \$63,468.



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**NOTES TO FINANCIAL STATEMENTS**

JULY 31, 2019

**8. Settlement Receivable**

In 2014, the State of California and the Organization settled a complaint with no admission or finding of any wrong doing, fault, violation of law, or liability. Pursuant to the terms of the settlement agreement, the Organization will receive \$2,000,000 from the estate of the former President upon the passing of his spouse. Subsequent to year end the spouse passed and as such the estimated amortization was revised at July 31, 2019, to recognize the remaining amortization.

**9. Contributed Services, Materials, and Facilities**

During the year ended July 31, 2019, the Organization received donated airings of public service announcements, shipping discounts, recreational models, and leather scraps. The Organization also received donated space. The donated space was used by the Organization to provide recreational therapies to veterans as part of the craft care specialists program. For the year ended July 31, 2019, contributed services and materials were as follows:

Description	Recorded As	Amount
Public service announcements	In-kind contribution revenue and promotion expense.	\$ 1,713,918
Shipping	In-kind contribution revenue and therapeutic materials expense.	440,698
Online public relations	In-kind contribution revenue and public relations expense.	127,392
Leather	In-kind contribution revenue and inventory.	1,264,697
Facilities	In-kind contribution revenue and craft care specialist expenses.	58,528
Fabric	In-kind contribution revenue and inventory.	1,022,291
Miscellaneous	In-kind contribution revenue and various accounts.	<u>144,353</u>
		<u>\$ 4,771,877</u>

**10. Allocation of Joint Costs**

During the year ended July 31, 2019, the Organization incurred joint costs of \$6,831,222 for direct mail communication materials and activities that include fundraising appeals of which \$1,844,430 was allocated to veteran awareness (program services), \$888,059 to management and general, and \$4,098,733 was allocated to fundraising expense.

***HELP HOSPITALIZED VETERANS, INC.***

***NOTES TO FINANCIAL STATEMENTS***

*JULY 31, 2019*

**11. Line of Credit**

In 2018, the Organization entered into a revolving line of credit in the amount of \$500,000. The line of credit bears interest at the prime rate as reported in the Wall Street Journal (5.5% at July 31, 2019) and expires in March 2022. Interest only payments are due monthly. The line of credit is collateralized by the Organization's headquarters building and property. As of July 31, 2019, the Organization was not in compliance with a covenant included in the line of credit. This covenant has been waived by the Bank.

**12. Liquidity**

The Organization has \$2,367,895 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$288,899, settlement receivable of \$2,000,000, and other receivables of \$78,996. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The settlement receivable was collected subsequent to year end and is not subject to purpose restrictions. The Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

**13. Subsequent Events**

Management has evaluated subsequent events through February 4, 2020, the date which the financial statements were available to be issued.