

**CHILDREN'S SCHOLARSHIP FUND  
PHILADELPHIA**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Children's Scholarship Fund Philadelphia  
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Children's Scholarship Fund Philadelphia (a Pennsylvania nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows and, functional expenses for the years 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 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 statement 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.

#### MEMBER

- American Institute of Certified Public Accountants
- Pennsylvania Institute of Certified Public Accountants

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Children's Scholarship Fund Philadelphia as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Linda Goodman, PC*

August 31, 2017

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
Cash and cash equivalents - Unrestricted	\$ 345,914	\$ 228,780
Cash and cash equivalents - Restricted	12,795,228	5,117,395
Certificates of deposit - Restricted	1,267,006	3,748,921
Pledges receivable, net collectible - Restricted	161,190	2,467,410
Investments - Unrestricted	43,374	42,065
Property and equipment, net	2,321	4,972
Security deposits	2,775	2,775
Other Assets	3,000	-
	<u>\$ 14,620,808</u>	<u>\$ 11,612,318</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accrued expenses - Unrestricted	\$ 30,360	\$ 59,131
Accrued expenses - Restricted	550,110	-
Payroll liabilities	3,997	2,105
	<u>584,467</u>	<u>61,236</u>
Net Assets:		
Unrestricted	363,027	217,356
Temporarily restricted (Restated)	13,673,314	11,333,726
	<u>14,036,341</u>	<u>11,551,082</u>
Total Net Assets	<u>14,036,341</u>	<u>11,551,082</u>
Total Liabilities and Net Assets	<u>\$ 14,620,808</u>	<u>\$ 11,612,318</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and support:						
Individual contributions	\$ 31,251	\$ 3,069,495	\$ 3,100,746	\$ 5,000	\$ 172,622	\$ 177,622
Board contributions	277,500	52,500	330,000	139,600	-	139,600
Foundation and corporate contributions	335,100	8,926,428	9,261,528	426,013	1,448,731	1,874,744
Children's Scholarship Fund National contributions	-	910,127	910,127	-	510,181	510,181
Administrative Income	173,336	-	173,336	-	-	-
Investment income	65,536	43,398	108,934	21,182	19,838	41,020
<b>Total operating revenues and support</b>	<b>882,723</b>	<b>13,001,948</b>	<b>13,884,671</b>	<b>591,795</b>	<b>2,151,372</b>	<b>2,743,167</b>
Net assets released from restrictions	10,662,242	(10,662,242)	-	9,594,117	(9,594,117)	-
<b>Total operating revenues, support and net assets released from restrictions</b>	<b>11,544,965</b>	<b>2,339,706</b>	<b>13,884,671</b>	<b>10,185,912</b>	<b>(7,442,745)</b>	<b>2,743,167</b>
Operating expenses:						
Program services						
Scholarships and grants	10,043,854	-	10,043,854	9,020,874	-	9,020,874
Program expenses	661,661	-	661,661	639,486	-	639,486
<b>Total program services</b>	<b>10,705,515</b>	<b>-</b>	<b>10,705,515</b>	<b>9,660,360</b>	<b>-</b>	<b>9,660,360</b>
Support services						
Management and general expenses	258,766	118	258,884	232,976	39	233,015
Fundraising	435,013	-	435,013	328,621	-	328,621
<b>Total support services</b>	<b>693,779</b>	<b>118</b>	<b>693,897</b>	<b>561,597</b>	<b>39</b>	<b>561,636</b>
<b>Total operating expenses</b>	<b>11,399,294</b>	<b>118</b>	<b>11,399,412</b>	<b>10,221,957</b>	<b>39</b>	<b>10,221,996</b>
Pledge write-off expense	-	-	-	20,000	-	20,000
Increase (Decrease) in Net Assets	145,671	2,339,588	2,485,259	(56,045)	(7,442,784)	(7,498,829)
Net Assets - Beginning of Year	217,356	11,333,726	11,551,082	273,401	19,114,296	19,387,697
Prior Period Adjustment	-	-	-	-	(337,786)	(337,786)
Net Assets - Beginning of Year (Restated)	217,356	11,333,726	11,551,082	273,401	18,776,510	19,049,911
<b>Net Assets - End of Year</b>	<b>\$ 363,027</b>	<b>\$ 13,673,314</b>	<b>\$ 14,036,341</b>	<b>\$ 217,356</b>	<b>\$ 11,333,726</b>	<b>\$ 11,551,082</b>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ 2,485,259	\$ (7,498,829)
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	2,650	3,235
Pledge write-off	-	20,000
Unrealized and realized (gain) on investments	(69,863)	(11,134)
(Increase) decrease in assets		
Pledges receivable	2,306,220	1,322,175
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	521,339	42,694
Payroll liabilities	1,892	1,227
Net Cash Provided By (Used By) Operating Activities	<u>5,247,497</u>	<u>(6,120,632)</u>
Cash Flows From Investing Activities:		
Proceeds redeemed from certificates of deposit	2,488,000	500,000
Net (purchases) of investments	<u>59,470</u>	<u>(1,973,585)</u>
Net Cash Provided By (Used By) Investing Activities	<u>2,547,470</u>	<u>(1,473,585)</u>
Net Increase (Decrease) In Cash	7,794,967	(7,594,217)
Cash and Cash Equivalents - Beginning of Year	<u>5,346,175</u>	<u>12,940,392</u>
Cash and Cash Equivalents - End of Year	<u>\$ 13,141,142</u>	<u>\$ 5,346,175</u>
Cash and cash equivalents - Unrestricted	\$ 345,914	\$ 228,780
Cash and cash equivalents - Restricted	<u>12,795,228</u>	<u>5,117,395</u>
	<u>\$ 13,141,142</u>	<u>\$ 5,346,175</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016				2015			
	Management and General Expenses	Program Expenses	Fundraising	Totals	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals
Compensation expenses								
Payroll	\$ 108,243	\$ 311,286	\$ 287,939	\$ 707,468	\$ 90,370	\$ 259,059	\$ 239,342	\$ 588,771
Payroll taxes	9,181	26,403	24,423	60,007	7,966	22,836	21,098	51,900
Employee benefits	15,582	44,809	41,448	101,839	7,759	22,243	20,550	50,552
	<u>133,006</u>	<u>382,498</u>	<u>353,810</u>	<u>869,314</u>	<u>106,095</u>	<u>304,138</u>	<u>280,990</u>	<u>691,223</u>
Advertising	-	36,191	-	36,191	-	-	-	-
Computer expense	7,373	-	2,457	9,830	10,496	-	3,499	13,995
Depreciation	663	1,987	-	2,650	3,235	-	-	3,235
Dues and subscriptions	3,784	-	-	3,784	20,295	-	-	20,295
Events and partnerships	-	-	44,296	44,296	-	-	7,051	7,051
Insurance expense	6,489	-	-	6,489	5,091	-	-	5,091
Marketing	-	3,365	-	3,365	-	101,774	-	101,774
Office expense	11,982	11,983	-	23,965	3,639	3,679	-	7,318
Outside services	50,570	117,997	-	168,567	43,767	102,123	-	145,890
Postage and delivery	4,922	11,073	8,612	24,607	5,361	12,061	9,381	26,803
Printing and reproduction	8,788	19,769	15,376	43,933	10,273	23,112	17,976	51,361
Program evaluation	-	29,107	-	29,107	-	30,183	-	30,183
Rent	26,001	39,001	-	65,002	20,319	30,479	-	50,798
Scholarship program expenses	-	-	-	-	-	24,397	-	24,397
Telephone	2,650	3,535	2,651	8,836	1,666	2,222	1,667	5,555
Travel and entertainment	2,656	5,155	7,811	15,622	2,739	5,318	8,057	16,114
	<u>\$ 258,884</u>	<u>\$ 661,661</u>	<u>\$ 435,013</u>	<u>\$ 1,355,558</u>	<u>\$ 232,976</u>	<u>\$ 639,486</u>	<u>\$ 328,621</u>	<u>\$ 1,201,083</u>
Total Expenses								

See accompanying notes to financial statements



**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Children's Scholarship Fund Philadelphia (the Organization) is a not-for-profit charitable organization whose mission is to provide low-income Philadelphia children with financial access to safe, quality, kindergarten through eighth grade tuition-based schools. All scholarships are need-based, four years in length and issued by random lottery.

The Organization receives matching funds of one dollar for every eight dollars expended from Children's Scholarship Fund (national). The program also receives unrestricted program and administrative support from Children's Scholarship Fund (national).

Since 2001, the Organization has awarded 20,500 new four-year scholarships to low-income Philadelphia children.

The Organization receives corporate contributions under two Pennsylvania tax credit programs, the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC), which require corporations to receive approval from the state in order to make the contribution. Due to a delay in the passing of the 2015 state budget until 2016, the state's approval for these credits was also delayed. The Organization received verbal confirmation from contributors intending to make contributions under these tax credit programs, but the receipt and recognition of these contributions was delayed until 2016. Therefore, the Organization, in some cases, received donations for two years of scholarship support in 2016.

Basis of Accounting

In order to ensure observance of restrictions placed on the use of resources available to the Organization, the Organization's accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accordingly, the Organization's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets as follows:

Unrestricted Net Assets – consists of all funds which are expendable, at the discretion of the Organization's management and Board of Directors for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Temporarily Restricted Net Assets – net assets that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Organization did not have any permanently restricted net assets as of December 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents include cash in the bank and certificates of deposit that have a maturity date of less than 90 days from the original date of inception. The Organization maintains accounts at several financial institutions.

Investments

Investments are comprised of marketable equity securities with readily determinable fair values. All investments in securities are carried at fair value in the statement of financial position at December 31, 2016 and 2015. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Pledges Receivable

Unconditional pledges receivable are recognized as revenues and assets in the period in which the promise to give is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable are reported at the net present value of the future expected cash flows.

Fixed Assets

Fixed assets acquired by the Organization are stated at cost. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 7 years.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Restricted and Unrestricted Support

The Organization follows FASB ASC Section 958-605-25, *Not-For-Profit Entities, Revenue Recognition* in recording contributions received. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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. There are no permanently restricted net assets.

Scholarship Awards

The Organization awards partial scholarships so that children from low income families can attend the tuition-based school of their choice. These scholarships are recorded as an expense at the time they become unconditional.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Concentration of Credit Risk

During the year the Organization had balances with major financial institutions and brokerages, which exceeded Federal Depository Insurance (FDIC) and Securities Investor Protection Corporation (SIPC) limits. Accounts at each institution and brokerage are insured by the FDIC and SIPC up to \$250,000. Cash and Certificate of Deposit balances exceeded the insurance limits at December 31, 2016 and 2015 by \$12,957,547 and \$7,394,406, respectively.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Concentration of Credit Risk (Continued)

The Organization had pledges receivable from two sources totaling \$141,190 at December 31, 2016. These pledges comprised 88% of the net pledges receivable at December 31, 2016. The organization had pledges receivable from two sources totaling \$2,074,714 at December 31, 2015. These pledges comprised 84% of the net pledges receivable at December 31, 2015.

Donated Services

A substantial number of volunteers have contributed significant amounts of time to the Organization. The value of these donated services has not been included in the financial statements since no objective basis is available to measure the value of such services.

In-Kind Contributions

In-kind contributions are included in unrestricted contributions. No in-kind contributions were received during the years ended December 31, 2016 and 2015.

Taxes

The Organization was incorporated as a not-for-profit corporation under the laws of the State of Pennsylvania and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization files federal and Pennsylvania annual income tax returns that are subject to audit by the appropriate taxing authority. The Organization's federal and Pennsylvania income tax returns for tax years 2014, 2015, and 2016 remain open to examination by taxing authorities.

Reclassifications

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

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 2 – RESTRICTIONS ON NET ASSETS**

The restrictions on net assets are related to funds raised by the Organization for the purpose of funding scholarship awards to children of low-income families in Philadelphia. Each student selected will receive on average \$1,925 per year for four years.

For the years ended December 31, 2016 and 2015, Children's Scholarship Fund National (CSF) contributed funding for scholarships of \$910,127 and \$510,181, respectively, to the Organization.

**NOTE 3 – INVESTMENTS**

Investments in securities are summarized as follows at December 31, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 38,074	\$ 43,374	\$ 47,902	\$ 42,065

Generally accepted accounting principles require that assets carried at fair value be classified and disclosed as belonging to one of three categories within the fair value hierarchy (Level 1, 2, or 3). Level 1 measurements should be used unless unavailable, followed by Level 2 and 3. The investments above fall into Level 1, which means fair values are determined by quoted market prices in active markets for identical assets or liabilities. The Organization is not required to use Level 2 or Level 3 for any of their assets.

Investment income included in unrestricted net assets from cash equivalents and investments, net of investment expenses, is comprised of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Dividend and interest income	\$ 39,071	\$ 29,885
Realized and unrealized gains, net	69,863	11,135
	\$ 108,934	\$ 41,020

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 – PLEDGES RECEIVABLE**

Unconditional pledges receivable at December 31, 2016, were as follows:

Receivable in less than one year	\$ 161,190
Less discounts to net present value	<u>-</u>
Net unconditional pledges receivable	<u><u>\$ 161,190</u></u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Computer Equipment	\$ 14,321	\$ 14,321
Office Equipment	8,532	8,532
Furniture	<u>2,866</u>	<u>2,866</u>
	25,719	25,719
Less: Accumulated Depreciation	<u>(23,398)</u>	<u>(20,747)</u>
Property and Equipment, net	<u><u>\$ 2,321</u></u>	<u><u>\$ 4,972</u></u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$3,235 and \$2,650, respectively.

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2016</u>	<u>2015</u>
Scholarship grant programs	<u>\$ 13,673,314</u>	<u>\$ 11,333,726</u>
Total temporarily restricted net assets	<u><u>\$ 13,673,314</u></u>	<u><u>\$ 11,333,726</u></u>

**NOTE 7 – PENSION PLAN**

The Organization sponsors a defined contribution pension plan in the form of a 401k plan. The organization matched up to 4% of each employee's contribution. Pension expense was \$17,167 and \$15,961, respectively, for the years ended December 31, 2016 and 2015, which is reflected within employee benefits in the statements of functional expenses.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 8 – COMMITMENTS**

The Organization leases its office under an operating lease expiring March 31, 2023. Monthly payments are scheduled to escalate over the term of the lease and range from \$4,799 to \$6,153. Minimum future rental payments under this non-cancelable operating lease are as follows:

<u>December 31:</u>	
2017	65,196
2018	66,768
2019	68,339
2020	69,909
2021	71,481
2022	73,052
2023	18,459
	<u>\$ 433,204</u>

Rent expense for the years ending December 31, 2016 and 2015, was \$65,002 and \$50,798, respectively.

**NOTE 9 – RESTATEMENT OF FINANCIAL STATEMENTS**

The statements of financial position have been restated to correct for an error in the recording of revenues and pledges receivable in the fiscal year ended December 31, 2011.

In previously issued financial statement, the Organization recorded cash receipts to revenues that should have been applied to pledges receivable. Cash receipts of \$337,786 during December 31, 2011 overstated revenues and overstated pledges receivable. That overstatement of pledges receivable existed in the previously issued December 31, 2015 financial statements.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 9 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

The correction of this error resulted in the following restatement of Net Assets – Beginning of Year, December 31, 2015:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total Net Assets</u>
Beginning of Year, December 31, 2015 as previously stated	\$ 273,401	\$ 19,114,296	\$ 19,387,697
Prior Period Adjustment - Pledges Receivable	<u>-</u>	<u>(337,786)</u>	<u>(337,786)</u>
Beginning of Year, December 31, 2015 as restated	<u>\$ 273,401</u>	<u>\$ 18,776,510</u>	<u>\$ 19,049,911</u>

Likewise, the correction of this error resulted in the following restatement of Pledges Receivable as of December 31, 2015:

	<u>Pledges Receivable</u>
Balance, December 31, 2015 as previously stated	\$ 2,805,196
Prior Period Adjustment	<u>(337,786)</u>
Balance, December 31, 2015 as restated	<u>\$ 2,467,410</u>

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management on August 31, 2017, the date the financial statements were available to be issued.