



Federation
of American
Scientists

FINANCIAL STATEMENTS

JUNE 30, 2018

FEDERATION OF AMERICAN SCIENTISTS

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Independent Auditors' Report

Board of Directors
Federation of American Scientists
Washington, D.C.

We have audited the accompanying financial statements of Federation of American Scientists (FAS), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, 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.

Auditors' 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 auditors' 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 auditors consider 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 FAS as of June 30, 2018, and the change 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.

Board of Directors
Federation of American Scientists

Prior Period Financial Statements

The financial statements of Federation of American Scientists as of June 30, 2017, were audited by other auditors whose report dated November 1, 2017, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
January 14, 2019

Certified Public Accountants

FEDERATION OF AMERICAN SCIENTISTS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 329,989	\$ 274,250
Investments	4,841,515	4,187,860
Accounts Receivable	-	87,856
Grants Receivable	25,000	20,000
Prepaid Expenses	31,746	58,325
Total Current Assets	<u>5,228,250</u>	4,628,291
Fixed Assets		
Furniture and Equipment	31,044	178,308
Website Development	9,999	9,999
Leasehold Improvements	-	64,891
	<u>41,043</u>	253,198
Less Accumulated Depreciation and Amortization	<u>(25,368)</u>	<u>(242,873)</u>
Net Fixed Assets	15,675	10,325
Other Assets		
Security Deposit	8,904	31,008
Total Assets	<u><u>\$ 5,252,829</u></u>	<u><u>\$ 4,669,624</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 55,553	\$ 22,637
Accrued Salaries and Related Benefits	31,329	41,106
Refundable Advances	75,000	-
Deferred Rent Liability	1,999	22,408
Total Current Liabilities	<u>163,881</u>	86,151
Long-Term Liabilities		
Deferred Rent Liability, Net of Current Portion	33,252	-
Sublease Security Deposits	-	19,469
Total Long-Term Liabilities	<u>33,252</u>	19,469
Total Liabilities	<u>197,133</u>	105,620
Net Assets		
Unrestricted	2,304,120	2,182,610
Temporarily Restricted	751,576	381,394
Permanently Restricted	2,000,000	2,000,000
Total Net Assets	<u>5,055,696</u>	4,564,004
Total Liabilities and Net Assets	<u><u>\$ 5,252,829</u></u>	<u><u>\$ 4,669,624</u></u>

See accompanying Notes to Financial Statements.

FEDERATION OF AMERICAN SCIENTISTS

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue					
Grants and Contributions	\$ 188,941	\$ 1,133,500	\$ -	\$ 1,322,441	\$ 511,696
Government Grants	59,417	-	-	59,417	118,292
Contracts	-	-	-	-	144,353
Rental Income	109,880	-	-	109,880	208,246
Other Revenue	4,403	-	-	4,403	1,798
Net Assets Released from Donor Restrictions	939,909	(939,909)	-	-	-
Total Revenue	1,302,550	193,591	-	1,496,141	984,385
Expenses					
Program Services	936,500	-	-	936,500	1,135,427
Management and General	395,265	-	-	395,265	467,161
Development	24,753	-	-	24,753	104,446
Total Expenses	1,356,518	-	-	1,356,518	1,707,034
Change in Net Assets before Other Item	(53,968)	193,591	-	139,623	(722,649)
Other Item					
Investment Income	175,478	176,591	-	352,069	499,956
Change in Net Assets	121,510	370,182	-	491,692	(222,693)
Net Assets, Beginning of Year	2,182,610	381,394	2,000,000	4,564,004	4,786,697
Net Assets, End of Year	<u>\$ 2,304,120</u>	<u>\$ 751,576</u>	<u>\$ 2,000,000</u>	<u>\$ 5,055,696</u>	<u>\$ 4,564,004</u>

See accompanying Notes to Financial Statements.

FEDERATION OF AMERICAN SCIENTISTS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			Total Expenses	2017
	Program Services	Management and General	Development		Total Expenses
Salaries and Related Expenses	\$ 450,238	\$ 80,594	\$ 11,804	\$ 542,636	\$ 665,407
Professional Fees	251,877	94,012	-	345,889	367,311
Travel Expenses	79,082	2,362	-	81,444	103,807
Occupancy Expense	89,062	179,983	1,985	271,030	430,632
Office Expenses	8,216	5,250	369	13,835	11,610
IT and Equipment Expense	38,158	19,585	9,438	67,181	96,139
Event Expense	-	-	-	-	8,910
Administrative Expenses	19,867	13,479	1,157	34,503	23,218
Total	\$ 936,500	\$ 395,265	\$ 24,753	\$ 1,356,518	\$ 1,707,034

See accompanying Notes to Financial Statements.

FEDERATION OF AMERICAN SCIENTISTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ 491,692	\$ (222,693)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	6,586	10,334
Unrealized Gain on Investments	(248,651)	(428,290)
Loss on Disposal of Fixed Asset	31	-
(Increase) Decrease		
Accounts Receivable	87,856	(58,046)
Grants Receivable	(5,000)	255,000
Pledges Receivable	-	68,869
Prepaid Expenses	26,579	2,335
Security Deposit	22,104	-
(Decrease) Increase		
Accounts Payable and Accrued Liabilities	32,916	(48,244)
Accrued Salaries and Related Benefits	(9,777)	2,479
Refundable Advances	75,000	-
Sublease Security Deposits	(19,469)	-
Deferred Rent Liability	12,843	(37,394)
Deferred Income	-	(11,176)
Net Cash Provided by (Used in) Operating Activities	472,710	(466,826)
Cash Flows from Investing Activities		
Purchases of Fixed Assets	(11,967)	(4,054)
Purchases of Investments	(520,370)	(4,214,018)
Proceeds from Sales of Investments	115,366	4,492,421
Net Cash (Used in) Provided by Investing Activities	(416,971)	274,349
Net Increase (Decrease) in Cash and Cash Equivalents	55,739	(192,477)
Cash and Cash Equivalents, Beginning of Year	274,250	466,727
Cash and Cash Equivalents, End of Year	\$ 329,989	\$ 274,250

See accompanying Notes to Financial Statements.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Federation of American Scientists (FAS) is a nonprofit organization incorporated and located in the District of Columbia. FAS' general purpose is to provide educational, scientific, and legislative information to the public and government. FAS' major sources of support are grants and contributions.

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

Cash and Cash Equivalents

FAS considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Investments

Investments consist of mutual funds which are recorded at their fair value based on quoted prices on national exchanges. Interest, dividends, realized and unrealized gains and losses, net of investment fees, are included in investment income in the statement of activities and change in net assets.

Fixed Assets

FAS capitalizes all fixed asset acquisitions of \$1,000 and above. Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally three to seven years. Leasehold improvements are amortized over the lesser of the useful life or remaining life of the lease. Maintenance and repairs, including planned major maintenance activities, are charged to expense when incurred; major renewals and betterments are capitalized. Donated fixed assets are recorded at fair market value at the date of donation.

Receivables

Receivables are recorded at their net realizable value. All accounts and grants receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Government Grants

FAS receives revenue from federal government grants and recognizes income as amounts are earned, generally as qualifying reimbursable expenses are incurred.

Lease Commitment

Rent expense is recognized on a straight-line basis over the term of the lease.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification

The net assets are reported in three groups as follows:

- *Unrestricted net assets* include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of FAS and include both internally designated and undesignated resources.
- *Temporarily restricted net assets* include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of FAS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from donor restrictions.
- *Permanently restricted net assets* represent funds restricted by the donor to be maintained in perpetuity by FAS. There are restrictions placed on the use of investment earnings from these endowment funds.

Grants and Contributions

Conditional grants and contributions are not recorded as revenue until the conditions are substantially met. FAS reports contributions and grants as unrestricted and available for general operations, unless specifically restricted by the donor. If such contributions and grants are received with donor stipulations that limit the use of the donated funds for a particular purpose or for a specific period of time, they are reported as temporarily restricted. When the stipulated time restriction ends, or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from donor restrictions.

Functional Allocation of Expenses

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

Income Taxes

FAS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. FAS is exempt from the payment of taxes on income other than net unrelated business income. No provision for federal or state income taxes is required as of June 30, 2018, for net unrelated business income.

FAS requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. FAS does not believe its financial statements include, or reflect, any uncertain tax positions. FAS’ Form 990 is generally subject to examination by the taxing authorities for three years after filing.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Prior Year Information

The financial statements include certain prior year summarized comparative totals as of and for the year ended June 30, 2017. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain 2017 financial statement amounts have been reclassified for comparative purposes.

New Accounting Pronouncements Not Yet Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities and change in net assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. While the ASU will change the presentation of FAS' financial statements, it is not expected to alter FAS' reported financial position.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Contributions are expressly excluded from the standard. The guidance is effective for not-for-profit entities for fiscal years beginning after December 15, 2018. Management has not evaluated the impact of the ASU on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2019, with certain exceptions. Management has not evaluated the impact of the ASU on its financial statements.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2. INVESTMENTS

FAS invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

For the year ended June 30, 2018, investment income consisted of the following:

Interest and Dividends	\$ 102,525
Unrealized Gain	248,651
Realized Gain	16,259
Investment Fees	<u>(15,366)</u>
Total Investment Income	<u>\$ 352,069</u>

3. CONCENTRATIONS

FAS maintains cash balances at financial institutions in the Washington, D.C., metropolitan area. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times during the year, FAS' account balances exceeded the FDIC insurance amount. Management believes the risk in these situations to be minimal.

As of June 30, 2018, approximately 100% of grants receivable was due from one donor, and approximately 58% of total revenue for the year ended June 30, 2018, was from one donor.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018:

Strategic Security	\$ 623,705
Government Secrecy	<u>127,871</u>
Total Temporarily Restricted Net Assets	<u>\$ 751,576</u>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Strategic Security	\$ 538,760
Government Secrecy	224,558
Appropriation of Endowment Assets for Expenditure	<u>176,591</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 939,909</u>

5. LEASE COMMITMENTS

Through December 2017, FAS leased office space under a ten-year agreement, which included annual step increases and a provision for FAS to share in operating expenses. In 2017, FAS

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

5. LEASE COMMITMENTS (CONTINUED)

entered into a five-year lease agreement for office space to begin January 2018. The lease includes annual step increases and a provision for FAS to share in operating expenses.

The following is a schedule of the future minimum lease payments:

For the Years Ending June 30,

2019	\$	108,084
2020		110,787
2021		113,556
2022		116,395
Thereafter		99,175
	\$	<u>547,997</u>

For the year ended June 30, 2018, rent expense was approximately \$261,000 and is included in occupancy expense in the accompanying statement of functional expenses. Through December 31, 2017, FAS sublet portions of its office space under several subleases. Sublease income is included in revenue in the accompanying statement of activities and change in net assets.

6. RETIREMENT PLAN

FAS provides retirement benefits to its employees through a Section 403(b) plan (the Plan) covering all full-time employees. Eligible employees may make elective pre-tax and Roth deferrals. FAS may make a matching contribution, following twelve consecutive months of service, of 100% of employee elective deferrals up to 5% of compensation. FAS may also make a discretionary contribution, following twelve consecutive months of service, of 5% of each employee's compensation regardless of the level of elective deferrals. This discretionary contribution increases to 9% of compensation after four years of employment.

For the year ended June 30, 2018, FAS made matching and discretionary contributions to the Plan totaling approximately \$46,000.

7. FAIR VALUE MEASUREMENT

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include equity securities);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate or municipal bonds);

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities).

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

7. FAIR VALUE MEASUREMENT (CONTINUED)

The following presents investments carried at fair value, by level within the fair value hierarchy, as of June 30, 2018:

Asset Class	Level 1	Level 2	Level 3	Total
Fixed Income Mutual Funds	\$ 1,508,786	\$ -	\$ -	\$ 1,508,786
Equity Mutual Funds				
Domestic	2,382,184	-	-	2,382,184
International	950,545	-	-	950,545
Total	\$ 4,841,515	\$ -	\$ -	\$ 4,841,515

8. CONDITIONAL GRANTS

FAS has a conditional grant for institutional support totaling approximately \$925,000, which will be payable through December 2020, assuming spending purposes continue to be met.

9. ENDOWMENT

FAS' endowment consists of a donor-restricted endowment fund. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, FAS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, FAS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

FEDERATION OF AMERICAN SCIENTISTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2018.

For the year ended June 30, 2018, changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000
Investment Return				
Dividend Income	-	48,909	-	48,909
Net Appreciation (Realized and Unrealized)	-	127,682	-	127,682
Total Investment Return	-	176,591	-	176,591
Appropriation of Endowment				
Assets for Expenditure	-	(176,591)	-	(176,591)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

Return Objectives and Risk Parameters

FAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to:

1. Maintain the principal of the endowment adjusted for inflation (U.S. Department of Labor Consumer Price Index).
2. Generate earned income for operations and programs.
3. Preserve the purchasing power of the endowment.
4. Generate capital growth to increase the value of the endowment.

Spending Policy

FAS has a policy of appropriating for distribution each year an amount not to exceed earnings from dividends, interest and realized gains and losses. This is consistent with FAS' objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The distributions are intended to be used to start new, time-critical projects.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

10. CONTINGENCY FOR FEDERAL GRANT REVENUE

The ultimate determination of amounts received under FAS' government grants is based upon allowable costs which are subject to audit. Management believes that adjustments, if any, arising from such audits, will not have a material effect on the financial statements.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 14, 2019, which is the date the financial statements were available to be issued.