

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
(With Independent Auditor's Report Thereon)

Insight. Oversight. Foresight.SM

 **DoerenMayhew**
CPAs AND ADVISORS

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
of **The Sunshine Kids Foundation**

Report on the Financial Statements

We have audited the accompanying financial statements of The Sunshine Kids Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Foundation'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 Foundation'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 Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Doeren Mayhew".

Houston, Texas
May 8, 2019

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents (Note 3)	\$ 1,801,792	\$ 1,188,496
Contributions receivable	468,801	755,636
Note receivable (Note 4)	84,119	95,909
Inventory	19,970	27,087
Prepaid expenses and other assets	67,015	52,891
Investments (Note 5)	3,051,263	2,921,296
Property and equipment, net (Note 7)	447,854	497,752
	<hr/>	<hr/>
Total assets	\$ 5,940,814	\$ 5,539,067
	<hr/>	<hr/>
<u>Liabilities and Net Assets</u>		
Liabilities - accounts payable and accrued liabilities	\$ 8,398	\$ 6,485
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	5,848,297	5,436,673
With donor restrictions (Note 8)	84,119	95,909
	<hr/>	<hr/>
Total net assets	5,932,416	5,532,582
	<hr/>	<hr/>
Total liabilities and net assets	\$ 5,940,814	\$ 5,539,067
	<hr/>	<hr/>

See accompanying notes to financial statements.

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Public support, revenue and other:						
Contributions (Notes 3 and 10)	\$ 4,586,549	\$ -	\$ 4,586,549	\$ 3,630,186	\$ -	\$ 3,630,186
Investment income, net (Note 6)	32,648	-	32,648	71,883	-	71,883
Other income	6,310	-	6,310	6,815	-	6,815
Net assets released from restrictions (Note 8)	11,790	(11,790)	-	13,385	(13,385)	-
Total public support, revenue and other	4,637,297	(11,790)	4,625,507	3,722,269	(13,385)	3,708,884
Expenses:						
Program services	3,745,857	-	3,745,857	3,280,210	-	3,280,210
Management and general	192,539	-	192,539	213,349	-	213,349
Fundraising	287,277	-	287,277	271,080	-	271,080
Total expenses	4,225,673	-	4,225,673	3,764,639	-	3,764,639
Change in net assets	411,624	(11,790)	399,834	(42,370)	(13,385)	(55,755)
Net assets, beginning of year	5,436,673	95,909	5,532,582	5,479,043	109,294	5,588,337
Net assets, end of year	<u>\$ 5,848,297</u>	<u>\$ 84,119</u>	<u>\$ 5,932,416</u>	<u>\$ 5,436,673</u>	<u>\$ 95,909</u>	<u>\$ 5,532,582</u>

See accompanying notes to financial statements.

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Accommodations/meals	\$ 967,887	\$ 7,664	\$ 79,159	\$ 1,054,710
Activity supplies and support	1,024,551	50	8,743	1,033,344
Contract labor	1,682	-	-	1,682
Consulting fees	70,245	3,300	-	73,545
Depreciation and amortization	43,874	3,871	3,871	51,616
Dues and fees	34,374	3,715	7,499	45,588
Equipment rental	61,378	4,760	4,760	70,898
Insurance	132,505	25,582	25,582	183,669
Legal and professional	7,967	15,980	6,836	30,783
Office supplies and expenses	56,426	19,578	11,231	87,235
Payroll taxes	66,195	5,841	5,841	77,877
Photography and video production	8,669	-	5,588	14,257
Printing and duplicating	11,864	3,334	5,067	20,265
Rent	71,245	-	-	71,245
Repairs and maintenance	37,874	1,488	724	40,086
Salaries	797,075	70,275	70,385	937,735
Telephone	22,624	6,666	6,912	36,202
Travel	322,722	18,328	42,972	384,022
Utilities	5,616	2,015	2,015	9,646
Miscellaneous	1,084	92	92	1,268
Total expenses	<u>\$ 3,745,857</u>	<u>\$ 192,539</u>	<u>\$ 287,277</u>	<u>\$ 4,225,673</u>

See accompanying notes to financial statements.

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total
Accommodations/meals	\$ 785,627	\$ 32,469	\$ 55,571	\$ 873,667
Activity supplies and support	821,025	151	29,110	850,286
Contract labor	2,091	-	-	2,091
Consulting fees	70,630	8,310	-	78,940
Depreciation and amortization	44,384	3,916	3,916	52,216
Dues and fees	35,929	3,201	8,424	47,554
Equipment rental	39,748	4,940	8,935	53,623
Insurance	137,363	25,837	25,846	189,046
Legal and professional	17,894	16,798	5,662	40,354
Office supplies and expenses	57,302	14,007	10,685	81,994
Payroll taxes	69,612	6,114	6,274	82,000
Photography and video production	4,983	-	-	4,983
Printing and duplicating	9,574	3,294	5,526	18,394
Public awareness/advertising	12,100	-	-	12,100
Rent	68,715	-	-	68,715
Repairs and maintenance	37,272	1,780	125	39,177
Salaries	761,298	66,739	69,013	897,050
Telephone	22,103	5,777	4,832	32,712
Travel	274,818	17,651	34,352	326,821
Utilities	5,910	2,031	2,222	10,163
Miscellaneous	1,832	334	587	2,753
Total expenses	<u>\$ 3,280,210</u>	<u>\$ 213,349</u>	<u>\$ 271,080</u>	<u>\$ 3,764,639</u>

See accompanying notes to financial statements.

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 399,834	\$ (55,755)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	51,616	52,215
Unrealized and realized (gain) loss on investments	35,033	(5,603)
Donation of property and equipment	-	(5,200)
Changes in operating assets and liabilities:		
Contributions receivable	286,835	(198,829)
Note receivable	11,790	13,385
Inventory	7,117	4,177
Prepaid expenses and other assets	(14,124)	(31,177)
Accounts payable and accrued liabilities	1,913	(72,669)
	<u>780,014</u>	<u>(299,456)</u>
 Cash flows from investing activities:		
Purchases of investments	(500,000)	-
Sales of investments	335,000	-
Purchases of property and equipment	(1,718)	(4,774)
	<u>(166,718)</u>	<u>(4,774)</u>
 Net increase (decrease) in cash and cash equivalents	 613,296	 (304,230)
 Cash and cash equivalents, beginning of year	 <u>1,188,496</u>	 <u>1,492,726</u>
 Cash and cash equivalents, end of year	 <u><u>\$ 1,801,792</u></u>	 <u><u>\$ 1,188,496</u></u>
 Non-cash investing activity -		
Donation of property and equipment	 <u><u>\$ -</u></u>	 <u><u>\$ 5,200</u></u>

See accompanying notes to financial statements.

THE SUNSHINE KIDS FOUNDATION
(a Texas Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Organization

The Sunshine Kids Foundation (the Foundation) was incorporated on March 1, 1982 under the provisions of the Texas Nonprofit Corporation Act. The Foundation provides group activity programs for children confronted with cancer, from hospitals across the country. The Foundation is funded by contributions from individuals, corporations and foundations. All of the Foundation's activities are completely free of charge to the children's families and hospitals.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors or grantors. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

If donor-imposed restrictions are met in the same reporting period as the contribution was recognized as revenue, the Foundation reports such contributions as an increase in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions and when the restriction expires or is satisfied, these net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Conditional promises to give are not included as support until the conditions are met. At December 31, 2018 and 2017, the Foundation had no long-term contributions receivable. Management of the Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be charged to operations when the determination is made.

Note receivable

Note receivable represents a promissory note received by the Foundation in connection with a bequest.

Inventory

Inventory consists of T-shirts, hats, bandanas, visors and other supplies for the program participants. Inventory is valued using the first-in first-out method and is stated at the lower of cost or net realizable value.

Investments and Investment Income

Investments are stated at fair value as described in Note 5. Marketable securities donated to the Foundation are recorded at fair value on the date of donation. Investment income, including unrealized gains and losses, is included as a change to net assets without donor restrictions unless otherwise specified by donor restrictions. Investment income is reported net of investment related expenses.

Property and Equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at fair value at the date of the gift. Expenditures greater than \$1,000 that materially increase values or extend useful lives are capitalized. Routine maintenance and replacement costs are charged against operations in the year incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 15 to 30 years for building and building improvements and 3 to 10 years for equipment and vehicles.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as donor-restricted revenue. Contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Gifts of property and equipment are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support and absent explicit donor stipulations about how long those long-lived assets must be maintained, are released from donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

The costs of providing program and supporting service activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimated use or time and effort. The statements of functional expenses present the natural classification detail of expenses by function.

Income Taxes

The Foundation is exempt from Federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi) and §509(a)(1) and §509(a)(1). The Foundation files annual Federal information returns and its filings are still open to examination by taxing authorities for fiscal years 2015 and later, though there are no known years under examination. The Foundation follows the provisions of the Financial Accounting Standards Board (FASB) ASC Topic 740-10, *Accounting for Income Taxes*, and management believes it has no material uncertain tax positions or any related penalties and interest to accrue or disclose for the years ended December 31, 2018 and 2017.

Use of Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Accordingly, actual results could vary from the estimates that were used.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, the FASB issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amended the reporting model for nonprofit organizations and enhanced required disclosures. The Foundation adopted ASU 2016-14 during fiscal year 2018, with retrospective application to fiscal year 2017. The major changes to the Foundation's financial statements as a result of adopting ASU 2016-14 include (a) the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) modifying other disclosures intended to increase the usefulness of the financial statements.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation.

Note 3 - Concentrations

Credit Risk

The Foundation is subject to concentration of credit risk relating primarily to cash and investments. The Foundation's cash deposits are maintained in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the FDIC up to \$250,000 per depositor. At December 31, 2018 and 2017, amounts in excess of the insured limits were \$1,338,677 and \$646,861, respectively. Management believes the Foundation's credit risk has been mitigated by the financial strength of the financial institution in which the funds are held.

Source of Revenue

The Foundation is subject to concentration of revenue through its relationship with Berkshire Hathaway HomeServices, which adopted the Foundation as their network-wide charity in 1991. For the years ended December 31, 2018 and 2017, contributions from Berkshire Hathaway HomeServices represented approximately 47% and 49%, respectively, of total contributions.

Note 4 - Note Receivable

In connection with a bequest, the Foundation received a promissory note in the original amount of \$123,750 and bearing interest at 6%. Under the terms of the note, the first installment of \$5,000 was due in March 2016 and payments of \$1,250 are due monthly until March 2021, whereupon the remaining principal balance is due. Prepayments are allowed. At December 31, 2018 and 2017, the principal balance due on the promissory note is \$84,119 and \$95,909, respectively.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 5 - Fair Value Measurements

GAAP requires that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The Foundation's investments are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical securities as of the reporting date.

Level 2 - Pricing inputs other than quoted priced included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 - Pricing inputs include those that are significant to the fair value and are generally unobservable.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Financial instruments measured at fair value on a recurring basis at December 31, 2018 and 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2018</u>				
Fixed income securities -				
Government Sponsored				
Enterprise Securities	\$ 3,051,263	\$ -	\$ -	\$ 3,051,263
 <u>December 31, 2017</u>				
Fixed income securities -				
Government Sponsored				
Enterprise Securities	\$ 2,921,296	\$ -	\$ -	\$ 2,921,296

Fixed income securities are valued at the closing price reported in the active market in which the individual securities are traded. Other financial instruments that are not valued on a recurring or nonrecurring basis are contributions receivable, note receivable and accounts payable. Management believes the carrying amounts of these financial instruments approximate their fair values.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 5 - Fair Value Measurements (Continued)

The valuation methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values and the inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security. Furthermore, although management of the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 - Investment Income

Investment income is net of related investment fees and is as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest	\$ 67,681	\$ 66,280
Net realized and unrealized (loss) gain, net of fees	<u>(35,033)</u>	<u>5,603</u>
Total investment income (loss), net	<u>\$ 32,648</u>	<u>\$ 71,883</u>

Note 7 - Property and Equipment

Following is a summary of property and equipment at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 105,000	\$ 105,000
Building and improvements	909,866	909,866
Office equipment	228,270	228,270
Computer equipment	243,607	241,889
Vehicles	<u>133,741</u>	<u>133,741</u>
Total property and equipment	1,620,484	1,618,766
Less: accumulated depreciation	<u>(1,172,630)</u>	<u>(1,121,014)</u>
Property and equipment, net	<u>\$ 447,854</u>	<u>\$ 497,752</u>

Depreciation expense for the years ended December 31, 2018 and 2017 is \$51,616 and \$52,215, respectively.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 8 - Net Assets With Donor Restrictions

At December 31, 2018 and 2017, there was \$84,119 and \$95,909, respectively, of net assets with donor restrictions related to timing. Net assets with donor restrictions of \$11,790 and \$13,385 were released from donor restrictions during the years ended December 31, 2018 and 2017, respectively, through the passage of time.

Note 9 - Liquidity and Availability of Resources

The following table reflects the Foundation's financial assets at December 31, 2018, reduced by amounts not available for general expenditure within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or they are not convertible to cash within one year. Financial assets are available for general expenditure if they do not have donor or other restrictions limiting their use through purpose restrictions.

Financial assets:

Cash and cash equivalents	\$ 1,801,792
Contributions receivable	468,801
Note receivable	84,119
Investments	<u>3,051,263</u>

Total financial assets at year-end 5,405,975

Less those unavailable for general expenditure within one year:

Note receivable collectible beyond one year	<u>(74,895)</u>
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Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,331,080</u>
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The Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations become due.

Note 10 - Donated Materials and Services

Donated lodging, meals, materials and property are recorded at fair value as contributions when an unconditional commitment is received from the donor. Included in public support is approximately \$1,127,000 and \$982,000 of contributed goods and services in 2018 and 2017, respectively.

A substantial number of volunteers have donated significant amounts of their time to the Foundation's programs. No value for these volunteer hours has been recorded in the statements of activities because they do not meet the criteria for recognition under GAAP.

THE SUNSHINE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 11 - Defined Contribution Plan

The Foundation employees participate in a 401(k) defined contribution plan (the Plan) into which the Foundation makes a matching contribution equal to 50% of a participant's elective deferrals provided, however, that the matching contribution shall be made only with respect to the first 6% of the participant's compensation for each payroll period. The Foundation's contribution to the Plan for the years ended December 31, 2018 and 2017 approximated \$21,400 and \$22,400, respectively.

Note 12 - Operating Leases

The Foundation has various operating leases for office space and equipment expiring through fiscal year 2022. The minimum rental commitments under the noncancelable operating leases at December 31, 2018 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 27,247
2020	22,970
2021	16,387
2022	<u>12,935</u>
Total	<u>\$ 79,539</u>

Rental expense related to operating leases approximated \$57,000 for each of the years ended December 31, 2018 and 2017.

Note 13 - Subsequent Events

Management has evaluated subsequent events through May 8, 2019, the date which the financial statements were available to be issued. Management has determined that no subsequent events require recognition or disclosure in these financial statements.

* * * **End of Notes** * * *