

TIMOTHY SMITH NETWORK, INC.
FINANCIAL STATEMENTS
June 30, 2016 and 2015

TIMOTHY SMITH NETWORK, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Timothy Smith Network, Inc.
Roxbury, Massachusetts

We have audited the accompanying financial statements of Timothy Smith Network, Inc., (a Massachusetts nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities, 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 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 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 Timothy Smith Network, Inc. as of June 30, 2016 and 2015, 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.

Andrew M. Zuroff, CPA
Andrew M. Zuroff, C.P.A., P.C.
February 13, 2017

TIMOTHY SMITH NETWORK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30,

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 961,814	\$ 1,052,111
Accounts receivable	1,038,355	976,981
Prepaid expense	<u>5,302</u>	<u>8,681</u>
Total Current Assets	<u>2,005,471</u>	<u>2,037,773</u>
PROPERTY AND EQUIPMENT		
Property and equipment	92,011	92,011
Less: Accumulated Depreciation	<u>(68,232)</u>	<u>(57,251)</u>
Net Property and Equipment	<u>23,779</u>	<u>34,760</u>
OTHER ASSETS		
Security Deposits	<u>4,830</u>	<u>4,830</u>
Total Assets	<u>\$ 2,034,080</u>	<u>\$ 2,077,363</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 79,883	\$ 31,630
NET ASSETS		
Unrestricted		
Operating	445,904	130,707
Board designated	544,366	576,129
Property and Equipment	<u>23,779</u>	<u>34,760</u>
Total unrestricted	<u>1,014,049</u>	<u>741,596</u>
Temporarily restricted	<u>940,148</u>	<u>1,304,137</u>
Total Net Assets	<u>1,954,197</u>	<u>2,045,733</u>
Total Liabilities and Net Assets	<u>\$ 2,034,080</u>	<u>\$ 2,077,363</u>

The accompanying notes are an integral part of these financial statements.

The accompanying notes are an integral part of these financial statements.

TIMOTHY SMITH NETWORK, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2016

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total</u>
REVENUES			
Grants - Timothy Smith Fund	\$ 0	\$ 884,779	\$ 884,779
Other grants	0	70,369	70,369
Support services	250	24,764	25,014
Administrative fees - Timothy Smith Fund	151,326	0	151,326
Interest Income	13,394	0	13,394
Net assets released from restriction	<u>1,343,901</u>	<u>(1,343,901)</u>	<u>0</u>
 Total Unrestricted Revenues	 <u>1,508,871</u>	 <u>(363,989)</u>	 <u>1,144,882</u>
FUNCTIONAL EXPENSES			
Program services	1,085,296	0	1,085,296
Supporting services	151,122	0	151,122
Fund raising services	<u>0</u>	<u>0</u>	<u>0</u>
 Total Functional Expenses	 <u>1,236,418</u>	 <u>0</u>	 <u>1,236,418</u>
 INCREASE (DECREASE) IN ASSETS	 272,453	 (363,989)	 (91,536)
 NET ASSETS - Beginning	 <u>741,596</u>	 <u>1,304,137</u>	 <u>2,045,733</u>
 NET ASSETS - Ending	 <u>\$ 1,014,049</u>	 <u>\$ 940,148</u>	 <u>\$ 1,954,197</u>

The accompanying notes are an integral part of these financial statements.

TIMOTHY SMITH NETWORK, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2015

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total</u>
REVENUES			
Grants - Timothy Smith Fund	\$ 0	\$ 811,987	\$ 811,987
Other grants	0	11,550	11,550
Support services	1,010	31,200	32,210
Administrative fees - Timothy Smith Fund	154,124	0	154,124
Interest income	11,304	0	11,304
Net assets released from restriction	<u>573,615</u>	<u>(573,615)</u>	<u>0</u>
 Total Unrestricted Revenues	 <u>740,053</u>	 <u>281,122</u>	 <u>1,021,175</u>
FUNCTIONAL EXPENSES			
Program services	530,865	0	530,865
Supporting services	216,041	0	216,041
Fund raising services	<u>0</u>	<u>0</u>	<u>0</u>
 Total Functional Expenses	 <u>746,906</u>	 <u>0</u>	 <u>746,906</u>
 INCREASE (DECREASE) IN ASSETS	 <u>(6,853)</u>	 <u>281,122</u>	 <u>274,269</u>
 NET ASSETS - Beginning	 <u>748,449</u>	 <u>1,023,015</u>	 <u>1,771,464</u>
 NET ASSETS - Ending	 <u><u>\$ 741,596</u></u>	 <u><u>\$ 1,304,137</u></u>	 <u><u>\$ 2,045,733</u></u>

The accompanying notes are an integral part of these financial statements.

TIMOTHY SMITH NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	<u>Program Services</u>				
	<u>Centers and</u>		<u>Support</u>		
	<u>Technology</u>		<u>Services</u>	<u>Fund</u>	
	<u>Services</u>			<u>Raising</u>	<u>Total</u>
Grants	\$ 793,527	\$	173	\$ 0	\$ 793,700
Salary expense	215,547		67,075	0	282,622
Advertising	50		0	0	50
Books and subscriptions	0		49	0	49
Payroll taxes & benefits	29,346		2,615	0	31,961
Computer expenses	36		161	0	197
Conference and meetings	335		3,494	0	3,829
Depreciation	0		10,981	0	10,981
Insurance	0		4,593	0	4,593
Other expenses	0		1,897	0	1,897
Outside computer services	15,000		47	0	15,047
Membership dues	225		305	0	530
Postage and delivery	0		126	0	126
Printing and copying	0		0	0	0
Professional fees	30,970		28,848	0	59,818
Rent	0		23,104	0	23,104
Supplies	154		27	0	181
Telephone	0		296	0	296
Travel	0		603	0	603
Utilities	106		6,728	0	6,834
	<u>106</u>		<u>6,728</u>	<u>0</u>	<u>6,834</u>
Total	\$ <u>1,085,296</u>	\$	<u>151,122</u>	\$ <u>0</u>	\$ <u>1,236,418</u>

TIMOTHY SMITH NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	<u>Program Services</u>				
	<u>Centers and</u>		<u>Support</u>		
	<u>Technology</u>		<u>Services</u>	<u>Fund</u>	
	<u>Services</u>			<u>Raising</u>	<u>Total</u>
Grants	\$ 411,223	\$ 0	\$ 0	\$ 0	\$ 411,223
Salary expense	84,813	144,453	0	0	229,266
Advertising	0	0	0	0	0
Books and subscriptions	2,013	65	0	0	2,078
Payroll taxes & benefits	7,864	17,409	0	0	25,273
Computer expenses	92	457	0	0	549
Conference and meetings	0	0	0	0	0
Depreciation	0	11,511	0	0	11,511
Insurance	0	5,347	0	0	5,347
Other expenses	0	2,710	0	0	2,710
Membership dues	0	845	0	0	845
Postage and delivery	42	55	0	0	97
Printing and copying	0	0	0	0	0
Professional fees	22,375	1,840	0	0	24,215
Rent	0	22,138	0	0	22,138
Supplies	42	322	0	0	364
Telephone	2,171	3,196	0	0	5,367
Travel	230	1,827	0	0	2,057
Utilities	0	3,866	0	0	3,866
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Total	\$ 530,865	\$ 216,041	\$ 0	\$ 0	\$ 746,906
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TIMOTHY SMITH NETWORK, INC.
STATEMENTS OF CASH FLOW
Years Ended June 30,

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (91,536)	274,269
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,981	11,511
Accounts receivable	(61,374)	81,732
Prepaid expenses	3,379	(4,201)
Accounts payable and other current liabilities	48,254	(2,292)
	<u> </u>	<u> </u>
Net Cash Provided (Used) By Operating Activities	<u>(90,296)</u>	<u>361,019</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(90,296)	361,019
Cash and Cash Equivalents - Beginning	<u>1,052,111</u>	<u>691,092</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 961,815</u></u>	<u><u>1,052,111</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid for Interest	<u><u>\$ 0</u></u>	<u><u>0</u></u>
Cash Paid for Taxes	<u><u>\$ 0</u></u>	<u><u>0</u></u>

The accompanying notes are an integral part of these financial statements.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – NATURE OF ACTIVITIES

Organization and Nature of Activities

The Timothy Smith Network, Inc. (TSN) incorporated in Massachusetts on June 5, 2003. It is recognized as a non-profit in the Commonwealth of Massachusetts and by the Internal Revenue Service as a 501(c) (3) corporation. All TSN sites are 501(c) (3) corporations. The Timothy Smith Network, Inc. is a member organization established to build the capacity of Greater Roxbury's twenty seven (27) Timothy Smith Centers (TSC). The mission of TSN is to increase the capacity of the Greater Roxbury community of Boston to effectively use and access technology by providing technology-related services, educational programs and resources as well as strengthening and supporting the individual TSCs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation: TSN is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support that is restricted by the donor 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.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. 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 vary from the estimates that were used.

Cash and Cash Equivalents: TSN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Promises to Give: Contributions are recognized when the donor makes a pledge to give to TSN that is unconditional promise. TSN does not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor- restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises are not recorded as a contribution until the condition on which it depends is substantially met.

Bad Debt: Timothy Smith Network, Inc. uses the direct write-off method to determine uncollectible unconditional promises receivable. Although this method is not generally accepted, it does approximate generally accepted accounting principles. This method is based on prior years' experience and management's analysis of specific promises made.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Materials, Equipment and Services: A number of volunteers have donated significant amounts of their time to TSN’s program and administrative services; however, these donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services contained in generally accepted accounting principles.

Contributed equipment and services, if any, are recorded in the accompanying financial statements at their fair value at the date of receipt.

Property and Equipment: TSN’s policy is to capitalize property and equipment at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are recorded as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long these donated assets must be maintained, TSN reports expiration of the donor restrictions when acquired assets are placed in service as instructed by the donor. TSN reclassifies temporarily restricted net assets to unrestricted net assets at this time. Property and equipment are depreciated over its estimated useful life using the straight-line method.

Equipment	3-5 years
Furniture and fixtures	7 years
Leasehold improvements	39 years

For the years ended June 30, 2016 and 2015 depreciation expense was \$10,981 and \$11,511, respectively.

Functional Expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: TSN qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and therefore has no provision for federal and state income taxes. However, income from certain activities not directly related to the TSN’s tax-exempt purpose is subject to taxation as unrelated business income.

Fair Value Measurements: In accordance with Codification Topic 820 (“ASC 820”) TSN reports its qualifying assets and liabilities in accordance with the *Fair Value Measurements and Disclosures Standards* under U.S. Generally Accepted Accounting Principles. These standards define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. This policy establishes a fair value framework that prioritizes the inputs and assumptions used to measure fair value.

The three levels of fair value framework are as follows:

- Level 1- Inputs that reflect adjusted quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2- Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3- Inputs that are unobservable.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A qualifying assets or liability's level within the framework is based upon the lowest level of any inputs that significant to fair value measurement. TSN's qualifying assets or liabilities are recorded at fair values using level 1 inputs.

Advertising Expenses: Advertising costs are expensed as incurred. For the years ended June 30, 2016 and 2015 advertising expense was \$50 and \$0, respectively.

Presentation of Sales Taxes: The State of Massachusetts imposes a sales tax of 6.25% on all of TSN's sales to nonexempt customers. TSN has not entered into any of this type of transaction to date. TSN's accounting policy is to recognize the sales tax collected as a liability on the Statements of Financial Position.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30 2016 and 2015 consists of following:

	2016	2015
Timothy Smith Fund	\$ 1,036,105	\$ 966,111
Other	2,250	10,870
Accounts Receivable	\$ 1,038,355	\$ 976,981

Management considers all receivables at June 30, 2016 and 2015, to be fully collectible, no allowance for doubtful accounts is required.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2016	2015
Computer and equipment	\$ 51,283	\$ 51,283
Furniture	23,671	23,671
Leasehold improvements	17,057	17,057
Property and equipment	92,011	92,011
Less: accumulated depreciation	(68,232)	(57,251)
Net Property and Equipment	\$ 23,779	\$ 34,760

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The Timothy Smith Fund for "Old Roxbury" (TSF), the primary funding source, originates all funding as an equipment or operational grant. The Timothy Smith Fund for "Old Roxbury" authorizes the Timothy Smith Network, Inc. to support other programs and projects without formally changing the original grant allocation.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets available to support projects at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Eplus Technology, Certification for BPS Employees	\$30,369	0
Youth Design, Youth Portal	10,000	0
Hyams Foundation, Youth Portal	10,000	0
Mass Housing, Youth Portal	5,000	0
TSF, Equipment Grants	749,779	1,033,531
TSF, Operational Grants	<u>135,000</u>	<u>270,606</u>
Temporarily Net Restricted Assets	<u>\$940,148</u>	<u>\$ 1,304,137</u>

On June 23, 2016, a Memorandum of Agreement was signed between the TSF, the City of Boston, and TSN to provide TSN with continued funding for operations through June 30, 2021. This agreement will automatically renew unless terminated by either party any time during term of agreement by no less than 60 days written termination notice.

NOTE 6 – BOARD DESIGNATED UNRESTRICTED NET ASSETS

In March 2013 TSN’s board of directors unanimously voted to set up board designated unrestricted net assets in the amount of \$650,000. The board designated unrestricted net assets were allocated as \$350,000 rent and utilities and \$300,000 unrestricted net assets functioning as endowment. For the years ended June 30, 2016 and 2015 funds released from board designated net assets for rent and utilities amounted \$31,764 and \$26,004, respectively.

Board designated unrestricted assets available at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Rent and Utilities	\$ 244,366	\$ 276,129
Functioning as Endowment	<u>300,000</u>	<u>300,000</u>
Board Designated Unrestricted Net Assets	<u>\$ 544,366</u>	<u>\$ 576,129</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

Members of the TSN’S Board of Directors and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with non-profit organizations doing business with the TSN. Under the TSN’s conflict-of-interest policy, all business and financial relationships between the TSN and entities affiliated with Board Members and senior management are subject to review and approval of the Board of Directors.

The TSN received subcontract service from non-profit organizations affiliated with some members of the TSN Board of Directors. These organizations were required to meet certain qualifications and adhere to agreements with the TSN prior to their receiving any funds. Management believes that these transactions are completed at arm’s length and are within the normal scope of business.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7 – RELATED PARTY TRANSACTIONS (continued)

The following related-party transactions occurred between the TSN and non-profit organizations affiliated with members of the TSN Board of Directors for the year ending June 30:

	<u>2016</u>	<u>2015</u>
Boston Community Access and Proqraming Foundation, Inc.	\$ 2,205	\$ 59,598
Boston Public Schools	101,870	24,094
Computer Learning Resources	1,544	384
Dimock Center	78,161	0
United South End Settlements	3,380	65,971
Vine Street Community Center	<u>56,250</u>	<u>1,000</u>
Total	<u>\$ 243,410</u>	<u>\$ 151,047</u>

NOTE 8 – INCOME TAX STATUS

TSN’s activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Since TSN is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. TSN is not currently under examination by any taxing jurisdictions. TSN’s federal and state tax returns are generally open for examination for three years following the date filed.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The Timothy Smith Network, Inc.’s primary funding source is from “the Timothy Smith Fund for “Old Roxbury” which was established by the City of Boston on March 8, 1996. The Timothy Smith Fund for “Old Roxbury” releases the funds due to TSN on an as-required basis. In addition TSN received administrative fees from the Timothy Smith Fund. For years ended June 30, 2016 and, 2015, TSN received temporary restricted contributions of \$884,779 and \$811,987 and administrative fees of \$151,326 and \$154,124, respectively.

Credit risk for accounts receivable is concentrated as well because substantially all of the accounts receivable at June 30, 2016 and 2015 represented receivables from the Timothy Smith Fund.

Timothy Smith Network, Inc. maintains its cash balances in a bank that is a member of both the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF). The FDIC insurance covers all deposit accounts, including checking and savings accounts, money market accounts and certificates of deposit up to \$250,000 per depositor. Funds in excess of FDIC limit are fully insured by DIF.

TIMOTHY SMITH NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 – LEASE COMMITMENT

Effective August 1, 2011 TSN entered into a nine years lease, for office space. This lease expires on July 31, 2020. First year's annual base rent under this lease is \$19,320. Total rental expense under this operating lease for the years ended June 30, 2016 and 2015 was \$23,104 and \$22,138, respectively.

Future minimum rental payments required under this lease are as follows:

<u>June 30</u>	<u>Amount</u>
2017	24,070
2018	25,036
2019	26,002
2020	26,968
2021	<u>2,254</u>
Total	<u>\$ 104,330</u>

NOTE 11 – CORRECTION AND RECLASSIFICATION

Net assets released from restriction for year ended June 30, 2015 is corrected to reflect the correct temporarily restricted balance at June 30, 2015. This correction has no effect on previously reported change in total net assets.

Certain items in Statement of Financial Position for June 30, 2015 have been reclassified to conform to the June 30, 2016 presentation.

NOTE 12 – SUBSEQUENT EVENTS

TSN's management has performed subsequent events procedures through February 13, 2017, which is the date the financial statements were available to be issued. There were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.