

**WORKSYSTEMS, INC.**  
**FINANCIAL STATEMENTS**  
**Year Ended June 30, 2019**  
**(With Comparative Totals**  
**for the Year Ended June 30, 2018)**



**KERN ▲ THOMPSON**  
CERTIFIED PUBLIC ACCOUNTANTS

**WORKSYSTEMS, INC.**  
**FINANCIAL STATEMENTS**  
**Year Ended June 30, 2019**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Worksystems, Inc.  
Portland, Oregon

***Report on the Financial Statements***

We have audited the accompanying financial statements of Worksystems, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Worksystems, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Worksystems, Inc.

**Other Matters**

**Other Reporting Requirement by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, on our consideration of Worksystems, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Worksystems, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Worksystems, Inc.'s internal control over financial reporting and compliance.

***Report on Summarized Comparative Information***

We have previously audited the Worksystems, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Emphasis of Matter***

As discussed in Note B, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958)*, for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.



Portland, Oregon  
January 29, 2020

**WORKSYSTEMS, INC.**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2019**

(With Comparative Totals as of June 30, 2018)

**ASSETS**

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,119,630	\$ 2,723,673
Restricted cash, revolving loan fund	150,597	257,109
Accounts receivable	4,100,137	3,502,772
Prepaid expenses and deposits	135,387	265,455
Loans receivable, revolving loan fund	211,109	166,460
Equipment, net	<u>23,432</u>	<u>33,366</u>
<b>Total assets</b>	<b><u>\$ 7,740,292</u></b>	<b><u>\$ 6,948,835</u></b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Accounts payable	\$ 4,044,946	\$ 4,178,589
Accrued compensation costs	1,108,992	927,620
Deferred revenues	266,741	356,475
Revolving loan fund	361,466	424,682
<b>Total liabilities</b>	<b><u>5,782,145</u></b>	<b><u>5,887,366</u></b>
<b>Net assets</b>		
Without donor restrictions	1,465,918	979,969
With donor restrictions	492,229	81,500
<b>Total net assets</b>	<b><u>1,958,147</u></b>	<b><u>1,061,469</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,740,292</u></b>	<b><u>\$ 6,948,835</u></b>

See notes to financial statements.

**WORKSYSTEMS, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2019**

(With Comparative Totals for the Year Ended June 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
<b>Revenues and other support:</b>				
Federal grants	\$ 17,636,062	\$ -	\$ 17,636,062	\$ 19,129,076
State and local grants and contracts	9,107,737	128,841	9,236,578	6,492,615
Private grants	383,611	707,680	1,091,291	927,268
Interest earnings	6,474	-	6,474	994
Stand-in, federal leveraged resources and third party match contributions	1,919,775	-	1,919,775	1,989,901
Net assets released from restrictions	425,792	(425,792)	-	-
<b>Total revenues and other support</b>	<b><u>29,479,451</u></b>	<b><u>410,729</u></b>	<b><u>29,890,180</u></b>	<b><u>28,539,854</u></b>
<b>Expenses</b>				
Program services	27,109,828	-	27,109,828	26,476,167
Management and general	1,883,674	-	1,883,674	1,686,914
<b>Total expenses</b>	<b><u>28,993,502</u></b>	<b><u>-</u></b>	<b><u>28,993,502</u></b>	<b><u>28,163,081</u></b>
<b>Change in net assets</b>	<b>485,949</b>	<b>410,729</b>	<b>896,678</b>	<b>376,773</b>
Net assets, beginning of year	<u>979,969</u>	<u>81,500</u>	<u>1,061,469</u>	<u>684,696</u>
<b>Net assets, end of year</b>	<b><u>\$ 1,465,918</u></b>	<b><u>\$ 492,229</u></b>	<b><u>\$ 1,958,147</u></b>	<b><u>\$ 1,061,469</u></b>

See notes to financial statements.

**WORKSYSTEMS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended June 30, 2019**

(With Comparative Totals for the Year Ended June 30, 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	
			<u>2019</u>	<u>2018</u>
Personnel expenses	\$ 3,125,307	\$ 1,300,272	\$ 4,425,579	\$ 4,406,006
Depreciation and amortization	9,934	-	9,934	20,812
Fees and other expenses	4,856	31,350	36,206	50
Insurance	-	25,175	25,175	24,979
Travel and parking	85,440	15,367	100,807	97,634
Occupancy and equipment	252,709	1,302	254,011	206,715
Office	51,921	4,427	56,348	77,593
Outreach and promotion	13,704	84,487	98,191	80,037
Professional fees and legal fees	93,916	162,889	256,805	237,227
Professional memberships	711	32,677	33,388	38,313
Staff and board development	7,427	34,462	41,889	46,031
Subcontracted community services	19,580,451	-	19,580,451	18,891,638
Technology	345,842	33,757	379,599	292,603
Third party match and stand-in costs	1,919,775	-	1,919,775	2,189,255
Training and placement subcontracted services	1,775,210	-	1,775,210	1,543,815
Allocation and other	<u>(157,375)</u>	<u>157,509</u>	<u>134</u>	<u>10,373</u>
<b>Total expenses</b>	<b><u>\$ 27,109,828</u></b>	<b><u>\$ 1,883,674</u></b>	<b><u>\$ 28,993,502</u></b>	<b><u>\$ 28,163,081</u></b>

See notes to financial statements.

**WORKSYSTEMS, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2019**

(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 896,678	\$ 376,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,934	20,812
Net changes in:		
Accounts receivable	(597,365)	1,269,068
Prepaid expenses and deposits	130,068	19,918
Accounts payable	(133,643)	(522,581)
Accrued compensation costs	181,372	194,639
Deferred revenue	(89,734)	(184,844)
Revolving loan fund payable	(63,216)	(46,378)
<b>Net cash provided by (used in) operating activities</b>	<u><b>334,094</b></u>	<u><b>1,127,407</b></u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	-	(8,713)
Net change in restricted cash, revolving loan fund	106,512	93,418
Net change in loans receivable, revolving loan fund	(44,649)	(33,804)
<b>Net cash provided by (used in) investing activities</b>	<u><b>61,863</b></u>	<u><b>50,901</b></u>
<b>Net change in cash and cash equivalents</b>	<b>395,957</b>	<b>1,178,308</b>
Cash and cash equivalents, beginning of year	<u>2,723,673</u>	<u>1,545,365</u>
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 3,119,630</b></u>	<u><b>\$ 2,723,673</b></u>

See notes to financial statements.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**NOTE A – DESCRIPTION OF AGENCY**

Worksystems, Inc. (the Organization), an Oregon not-for-profit corporation, is a collaboration of public and private leaders that establishes policy and provides leadership for the development and support of a workforce investment system within jurisdictions of Multnomah County, Washington County, and the City of Portland, and carries out programs designed to enhance employment opportunities for the region's citizens.

The Organization and its partners are working to:

- Develop a better understanding of how the regional labor market is evolving;
- Advocate for improved local, state, and national workforce policies;
- Align existing public and private education and training efforts into a more coordinated regional system;
- Establish performance measures to analyze the system's effectiveness and communicate the value of an excellent workforce system.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Adoption of New Accounting Pronouncement**

During the fiscal year ended June 30, 2019, the Organization implemented *Accounting Standards Update No. 2016-14, Not-for-Profit Entities Topic 958 ("ASU 2016-14")*. This standard revised the net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

As a result of the implementation of ASU 2016-14, net assets and transactions are now presented in two categories (with donor restrictions and without donor restrictions) instead of three (unrestricted, temporary, and permanent). Additionally, disclosures regarding liquidity have been added and the expansion of disclosures regarding the nature of donor restrictions have been made. Other matters impacted include additional information about the methodology used for allocating functional expenses. The implementation of ASU 2016-14 had no impact on total beginning net assets.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. Otherwise, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**Functional Allocation of Expenses**

The costs of providing the programs and supporting services have been summarized in the statement of Activities. Directly identifiable expenses are charged to programs and supporting services when incurred. Certain costs, including office expense, occupancy, leases and utilities have been allocated among the programs and supporting services benefited based primarily on estimates of time and effort.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net assets, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and other support and expenses during the reporting period. Actual results could vary from the estimates used.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

For financial reporting purposes, the Organization considers all highly liquid short-term investments with a maturity of three months or less when purchased to be cash equivalents.

**Concentration of Credit Risk**

Cash and cash equivalents of the Organization include bank deposits and money market mutual funds in excess of federally insured limits. To limit credit risk, the Organization places its cash and cash equivalents with high credit quality financial institutions.

**Accounts Receivable**

Generally accounts receivable are due 30 days after the issuance of the invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the grantor. There were no amounts older than 90 days at June 30, 2019. No allowance for doubtful accounts was deemed necessary as of June 30, 2019.

**Equipment**

Equipment is capitalized at cost when purchased, or at fair value at date of gift when donated, as long as original cost basis or fair value is \$5,000 or more. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from 2 to 8 years. Normal repairs and maintenance are charged to operations as incurred.

**Revenue Recognition**

The Organization's revenue is primarily derived from cost reimbursable grants and contracts. Funds received are deemed to be earned and are reported as revenue when the Organization has incurred expenditures in compliance with the specific contract or grant restrictions. Amounts received but not yet earned are reported as deferred revenue.

**In-Kind Contributions**

Contributions of services that create or enhance nonfinancial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Stand-In, Federal Leveraged Resources and Third Party Match In-Kind Contributions**

Contributions of services and expenditures in support of program activities in excess of reimbursable costs (as defined by specific grant and contract terms) are reported to the Organization by subrecipient contractors and others, and are reported by the Organization to its grantors.

**Compensation Costs**

Employees are entitled to paid and accrued vacation, sick days, and severance leave. Vacation and sick time vest as accrued. Severance leave is payable under specific conditions and is subject to a maximum number of hours per employee. The Organization has accrued approximately \$821,000 as of June 30, 2019.

**Income Taxes**

The Organization has been approved as a tax-exempt organization under the Internal Revenue Code section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization does not believe it has unrelated trade or business income in excess of \$1,000.

**Prior Year Summarized Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**NOTE C – ACCOUNTS RECEIVABLE**

The Organization's receivable balance consists of grant receivables from federal, state, and local governments. Major grantors include the State of Oregon and the U.S. Department of Labor.

At year-end the following receivables were outstanding:

Due from the State of Oregon Office of the Higher Education Coordinating Commission	\$ 1,351,700
Due from the U.S. Department of Labor ETA (DOL)	796,063
Due from other federal, state, and local government agencies	1,749,248
Miscellaneous	<u>203,126</u>
	<u>\$ 4,100,137</u>

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE D – REVOLVING LOAN FUND – RESTRICTED CASH, LOANS RECEIVABLE AND PAYABLE**

The Oregon Legislature has provided \$636,000 in general funds in support of a project to train new truck drivers to meet industry needs. The funds were set aside for an indefinite-term revolving fund for tuition loans to students attending trucking schools that meet the industry's Professional Truck Driver Certification standards.

The Organization is the fiscal agent for the truck driver loan program, and works with two other agencies to administer the program. The Oregon Trucking Association manages state-wide deployment and quality assurance. This includes determining industry criteria for drivers, approving participating schools, and approving loan applications. Applications are approved based on evaluation of the borrower's financial condition and character. After approval, the Organization funds the loans and submits to TFC Credit Corporation for servicing. Loans require monthly payments of principal and interest at 10% over 36 months. Past due loans are monitored based on a combination of the Organization's established policies and prescribed methodologies.

The Organization is required to segregate the cash for the truck driver loan program in a separate bank account, and new loans made, defaults, and loan servicing costs reduce the funds available in the account. Principal and interest payments received are deposited to the dedicated account. Restricted cash for the truck driver loan program totaled \$150,597 at June 30, 2019. The Organization is required to repay to the state any unused loan funds when the program is terminated.

At June 30, 2019, outstanding loans receivable totaled \$211,109. This represents loans due from individuals who borrowed for tuition costs at approved trucking schools.

The revolving loan fund is required to be maintained indefinitely. The balance of the revolving loan fund payable was \$361,466 at June 30, 2019.

**NOTE E – EQUIPMENT, NET**

Property and equipment consists of the following:

Computer equipment and software	\$	63,190
Less accumulated depreciation and amortization		<u>(39,758)</u>
	\$	<u><u>23,432</u></u>

Federal and state agencies have a reversionary interest in substantially all equipment.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE F – RESTRICTIONS ON NET ASSETS**

The Organization's net assets with donor restrictions are subject to the following purpose or time restrictions:

**Subject to purpose restrictions:**

Bankworks training program	\$	98,143
Employment and housing		74,490
Truck driving training		61,360
Connect 2 careers		49,918
Health careers NW		39,953
Youth work experience project		32,242
Other		36,123
		<u>392,229</u>

**Subject to time and purpose restrictions:**

Summerworks	\$	<u>100,000</u>
		<u>100,000</u>
Total net assets with donor restrictions	\$	<u><u>492,229</u></u>

**NOTE G – RELATED PARTY TRANSACTIONS**

The Organization has many members of its Board who are employed by or represent entities that disburse grant funds to the Organization and/or receive grant funds and other related expense reimbursements from the Organization. At June 30, 2019, the accounts payable balances to these related parties were approximately \$1,363,000, and the accounts receivable balances from these related parties were approximately \$298,000. For the year ended June 30, 2019, the Organization received approximately \$6,924,000 from these related parties and paid approximately \$7,330,000 to these related parties.

**NOTE H – RETIREMENT PLAN**

The Organization has a Flexible Standardized 401(k) Profit Sharing Plan, which is a defined contribution plan. Substantially all Organization employees are participants in the Plan, and all new employees are eligible to participate on their date of hire. Benefits are fully vested at the time contributions are made to the Plan. Unless otherwise elected, the payment of benefits begins on the earlier of the date the participant attains age 59½ or the date the participant terminates employment with the Organization. The Plan provides for employer matching of employee contributions at 100% of up to six percent of employee gross wages. Contributions made by the Organization to the Plan totaled approximately \$183,000 for the year ended June 30, 2019.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE I – OPERATING LEASE COMMITMENTS**

The Organization has entered into various leases and subleases for office space. These leases expire at various dates through March 2025. The main office lease comprises the majority of the lease obligation, and contains a five year renewal option. Lease expense was approximately \$243,000 for the year ended June 30, 2019.

The following is a schedule of future minimum lease payments required under noncancelable operating leases for office space:

Year Ending June 30,	
2020	\$ 262,329
2021	270,198
2022	278,301
2023	286,653
2024	295,251
Thereafter	<u>226,386</u>
	<u>\$ 1,619,118</u>

**NOTE J – CONCENTRATION OF REVENUE**

The Organization received approximately 47% of total revenues, exclusive of stand-in, federal leveraged resources, and third-party matching contributions, from one grantor, the U.S. Department of Labor, during the year ended June 30, 2019.

**NOTE K – CONTINGENT LIABILITY**

A significant portion of the Organization's revenues and other support is earned under contracts with the U.S. Department of Labor through the State of Oregon. Amounts received or receivable from these contracting agencies are subject to audit and potential adjustment. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. As of the date of this report, management does not believe that there will be any potential adjustments or disallowed claims.

**NOTE L – AVAILABLE LINE OF CREDIT**

The Organization has a \$1,000,000 line of credit (secured by substantially all assets) with interest at the greater of 5.25%, or the Bank Base Rate (5.50% as of June 30, 2019) plus 0.25%. No amounts were outstanding as of the audit report date.

**WORKSYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2019**

**NOTE M - LIQUIDITY**

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of June 30, 2019:

Financial assets at year-end*	
Cash and cash equivalents	\$ 3,119,630
Restricted cash, revolving loan fund	150,597
Accounts receivable	4,100,137
Loans receivable, revolving loan fund	<u>211,109</u>
 Total financial assets	 <u>7,581,473</u>
 Less amounts unavailable for general expenditure use within one year:	
Contractual or donor-imposed restrictions	
Restricted cash, revolving loan fund	150,597
Revolving loan fund	361,466
Restricted by donors with purpose restriction	<u>492,229</u>
 Total unavailable financial assets	 <u>1,004,292</u>
 Financial assets available to meet cash needs for general expenditures within one year	  \$ <u>6,577,181</u>

\* Total assets, less nonfinancial assets (e.g. property and equipment, prepaid expenses)

As part of its liquidity management, the Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In addition, the Organization invests cash in excess of current requirements in short term investments.

**NOTE N – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 29, 2020, which is the date the financial statements were available to be issued.