

UNITED THROUGH READING

FINANCIAL STATEMENTS

DECEMBER 31, 2015



Leaf & Cole, LLP
Certified Public Accountants

**UNITED THROUGH READING
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5 - 6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 15



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Trustees
United Through Reading

Report on the Financial Statements

We have audited the accompanying financial statements of United Through Reading, which comprise the statement of financial position as of December 31, 2015, 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.

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 United Through Reading as of December 31, 2015, 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.

Leaf & Cole LLP

San Diego, California
July 14, 2016

**UNITED THROUGH READING
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

Assets: (Notes 1, 2, 3, 4 and 5)

Cash and cash equivalents	\$ 559,537
Contributions receivable	14,570
Prepaid expenses	6,231
Furniture and equipment, net	406
Beneficial interests in endowment funds	<u>51,955</u>

TOTAL ASSETS	\$ <u><u>632,699</u></u>
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LIABILITIES AND NET ASSETS

Liabilities: (Note 1)

Accounts payable and accrued expenses	\$ 79,298
Total Liabilities	<u>79,298</u>

Commitment (Note 8)

Net Assets: (Notes 1, 6 and 7)

Unrestricted	439,380
Temporarily restricted	68,710
Permanently restricted	<u>45,311</u>
Total Net Assets	<u><u>553,401</u></u>

TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>632,699</u></u>
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The accompanying notes are integral part of the financial statements.

**UNITED THROUGH READING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Other Revenue:</u>				
Contributions:				
Corporations and corporate foundations	\$ 552,461	\$ -	\$ -	\$ 552,461
Foundations and civic groups	176,017	29,195	-	205,212
In-kind contributions	182,419	-	-	182,419
Individuals	104,236	-	-	104,236
Net assets released from restrictions	30,816	(30,816)	-	-
Total Contributions	<u>1,045,949</u>	<u>(1,621)</u>	<u>-</u>	<u>1,044,328</u>
Other Revenue:				
Special event revenue	471,268	-	-	471,268
Investment income (loss)	925	(687)	(341)	(103)
Total Other Revenue	<u>472,193</u>	<u>(687)</u>	<u>(341)</u>	<u>471,165</u>
Total Support and Other Revenue	<u>1,518,142</u>	<u>(2,308)</u>	<u>(341)</u>	<u>1,515,493</u>
<u>Expenses:</u>				
Program Services	<u>1,176,883</u>	<u>-</u>	<u>-</u>	<u>1,176,883</u>
Supporting Services:				
Management and general	172,701	-	-	172,701
Fundraising	155,017	-	-	155,017
Total Supporting Services	<u>327,718</u>	<u>-</u>	<u>-</u>	<u>327,718</u>
Total Program and Supporting Services	1,504,601	-	-	1,504,601
Special Events	<u>283,765</u>	<u>-</u>	<u>-</u>	<u>283,765</u>
Total Expenses	<u>1,788,366</u>	<u>-</u>	<u>-</u>	<u>1,788,366</u>
Change in Net Assets	(270,224)	(2,308)	(341)	(272,873)
Net Assets at Beginning of Year	<u>709,604</u>	<u>71,018</u>	<u>45,652</u>	<u>826,274</u>
NET ASSETS AT END OF YEAR	<u>\$ 439,380</u>	<u>\$ 68,710</u>	<u>\$ 45,311</u>	<u>\$ 553,401</u>

The accompanying notes are integral part of the financial statements.

**UNITED THROUGH READING
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
<u>Personnel:</u>				
Staff salaries, payroll taxes and benefits	\$ 779,907	\$ 83,369	\$ 136,236	\$ 999,512
Educational/resource expenses	<u>5,450</u>	<u>549</u>	<u>808</u>	<u>6,807</u>
Total Personnel	<u>785,357</u>	<u>83,918</u>	<u>137,044</u>	<u>1,006,319</u>
<u>Occupancy:</u>				
Office rent	11,896	1,190	1,783	14,869
Telephone	9,810	978	1,467	12,255
Transportation/mileage/meals	9,093	1,277	1,825	12,195
Equipment	9,704	1,048	1,383	12,135
Repairs and maintenance	<u>477</u>	<u>48</u>	<u>72</u>	<u>597</u>
Total Occupancy	<u>40,980</u>	<u>4,541</u>	<u>6,530</u>	<u>52,051</u>
<u>Insurance</u>	<u>4,636</u>	<u>463</u>	<u>695</u>	<u>5,794</u>
<u>Office:</u>				
Printing/reproduction/postage	10,760	1,089	1,614	13,463
Bank service fees	5,121	873	802	6,796
Office supplies/copies	3,035	783	441	4,259
Business property taxes	2,074	193	288	2,555
Depreciation	1,964	196	294	2,454
Miscellaneous	<u>503</u>	<u>9</u>	<u>75</u>	<u>587</u>
Total Office	<u>23,457</u>	<u>3,143</u>	<u>3,514</u>	<u>30,114</u>
<u>Professional:</u>				
Professional fees	<u>24,094</u>	<u>21,706</u>	<u>7,234</u>	<u>53,034</u>
Total Professional	<u>24,094</u>	<u>21,706</u>	<u>7,234</u>	<u>53,034</u>

(Continued)

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

**UNITED THROUGH READING
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
<u>Other:</u>				
Transportation/mileage/meals	\$ 62,474	\$ -	\$ -	\$ 62,474
Books	50,850	-	-	50,850
Program materials	20,353	-	-	20,353
Printing/reproduction/postage	9,216	-	-	9,216
Telephone	7,665	-	-	7,665
Equipment	7,281	-	-	7,281
Supplies	6,836	-	-	6,836
Consultants	6,161	-	-	6,161
Miscellaneous	1,724	-	-	1,724
Educational/resource expenses	1,603	-	-	1,603
Rent	549	-	-	549
Bank service fees	157	-	-	157
Total Other	<u>174,869</u>	<u>-</u>	<u>-</u>	<u>174,869</u>
 Total Expenses Before In-Kind Expenses	 1,053,393	 113,771	 155,017	 1,322,181
 <u>In-Kind Expenses</u>	 <u>123,490</u>	 <u>58,930</u>	 <u>-</u>	 <u>182,420</u>
 TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	 <u>\$ 1,176,883</u>	 <u>\$ 172,701</u>	 <u>\$ 155,017</u>	 <u>\$ 1,504,601</u>

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

**UNITED THROUGH READING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Cash Flows From Operating Activities:</u>	
Change in net assets	\$ (272,873)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	2,454
Permanently restricted investment income (loss)	341
(Increase) Decrease in:	
Contributions receivable	34,140
Prepaid expenses	29,277
Increase (Decrease) in:	
Accounts payable and accrued expenses	366
Net Cash Used in Operating Activities	<u>(206,295)</u>
<u>Cash Flows From Investing Activities:</u>	
Decrease in beneficial interests in endowment funds	1,028
Net Cash Provided by Investing Activities	<u>1,028</u>
<u>Cash Flows From Financing Activities:</u>	
Permanently restricted investment income	(341)
Net Cash Used in Financing Activities	<u>(341)</u>
Net Decrease in Cash and Cash Equivalents	(205,608)
Cash and Cash Equivalents at Beginning of Year	<u>765,145</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>559,537</u></u>

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

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Organization and Significant Accounting Policies:

Organization

United Through Reading (the “Organization”), a nonprofit California Corporation, was originally incorporated July 11, 1989 as Family Literacy Foundation, organized for the purpose of enhancing family relationships and community support of children through reading aloud together. On January 30, 2007, the Organization changed its name to United Through Reading. The Organization provides the opportunity for parents deployed with the military to be video-recorded reading storybooks to their children at home from locations around the world where U.S. Armed Forces are serving.

Significant Accounting Policies

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a 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.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, 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 such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Beneficial interests in endowment funds are considered Level 3 assets and are reported at the fair value of the underlying assets as reported by the fund manager.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful contributions receivable was recorded at December 31, 2015.

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted 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. Absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	5 years
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Depreciation totaled \$2,454 for the year ended December 31, 2015.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of furniture and equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Compensated Absences

Accumulated unpaid vacation totaling \$44,045 at December 31, 2015, is accrued when incurred and included in accounts payable and accrued expenses.

Investment Income

Investment income consists of the following for the year ended December 31, 2015.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest income	\$ 925	\$ -	\$ -	\$ 925
Investment return on beneficial interests in endowment funds	-	(687)	(341)	(1,028)
Total Investment Income (Loss)	<u>\$ 925</u>	<u>\$ (687)</u>	<u>\$ (341)</u>	<u>\$ (103)</u>

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Revenue Recognition

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. 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.

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated professional services are recorded at fair value, and totaled \$120,759 for the year ended December 31, 2015 and are included in in-kind contributions in the statement of activities.

In-kind contributions of books and supplies used for program services with an estimated fair value of \$61,660 for the year ended December 31, 2015, are included in in-kind contributions in the statement of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization's management.

Income Tax Status

The Organization is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization's Return of Organization Exempt from Income Tax for the years ended December 31, 2015, 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use to be cash equivalents.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 14, 2016, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2015:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Beneficial Interests in Endowment				
Funds (Note 5)	\$ -	\$ -	\$ 51,955	\$ 51,955
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,955</u>	<u>\$ 51,955</u>

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Notes as indicated above.

Note 3 - Contributions Receivable:

Contributions receivable totaled \$14,570 at December 31, 2015 and are due in less than one year.

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 4 - Furniture and Equipment:

Furniture and equipment consist of the following at December 31, 2015:

Office furniture and equipment	\$ 68,637
Less: Accumulated depreciation	<u>(68,231)</u>
Furniture and Equipment, Net	<u><u>\$ 406</u></u>

Note 5 - Beneficial Interests in Endowment Funds:

The Organization has beneficial interests in endowment funds held by Rancho Santa Fe Foundation and San Diego Foundation. The beneficial interest in endowment funds held at Rancho Santa Fe Foundation is held in an investment pool, which is structured for long-term, total return consisting of 37% domestic equities, 18% international equities, 4% in emerging markets, 34% fixed income and 7% in cash and cash equivalents. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 26% domestic equities, 30% international equities, 14% alternative investments, 17% fixed income, 8% real estate investments, 4% commodities and 1% cash and cash equivalents. The activity of the beneficial interests in endowment funds consisted of the following for the year ended December 31, 2015:

	<u>Rancho Santa Fe Foundation</u>	<u>San Diego Foundation</u>	<u>Total</u>
Balance, Beginning of Year	\$ 25,082	\$ 27,901	\$ 52,983
Investment return	<u>(341)</u>	<u>(687)</u>	<u>(1,028)</u>
Balance, End of Year	<u><u>\$ 24,741</u></u>	<u><u>\$ 27,214</u></u>	<u><u>\$ 51,955</u></u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2015:

Technology and equipment	\$ 21,388
Books	18,695
Wounded Warriors	11,983
Classroom connections	10,000
San Diego Foundation - Unappropriated endowment earnings	<u>6,644</u>
	<u><u>\$ 68,710</u></u>

Net assets in the amount of \$30,816 were released from restrictions during the year ended December 31, 2015 by incurring expenses satisfying the purpose restrictions specified by donors.

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 7 - Endowment Net Assets:

The endowment fund investments of the Organization are held by Rancho Santa Fe Foundation (“RSFF”) and San Diego Foundation (“SDF”), in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The investment objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in an endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. Permanently restricted net assets held by RSFF and SDF are comprised of:

- The original value of gifts donated to the fund.
- The original value of Organization funds transferred to the fund.
- The original value of subsequent gifts donated to the fund.
- Investment income and realized and unrealized gains and losses on investments.
- Distributions from the fund in accordance with spending policy.

SDF endowment funds are invested in a portfolio of equity and debt securities, which are structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. Funding available for each asset classification is invested by professional money managers hired by SDF through a competitive process. The investment performance of each money manager is monitored by an independent consultant hired by SDF.

SDF’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received. There were no such deficiencies at December 31, 2015.

RSFF endowment funds are invested in permanent funds with long-term investment objectives and strategies that will accommodate relevant, reasonable or probable events. Management of the assets is designed to preserve the principal of the funds and provide a source of funds for current operations and programs. The Organization’s spending policy allows for annual distributions of equity to 5% of the current value, which includes contributions to the fund, income earned on such contributions and all gains and losses on such funds.

Endowment composition by type of fund at December 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beneficial interest in Rancho Santa Fe Foundation	\$ -	\$ 24,741	\$ 24,741
Beneficial interest in San Diego Foundation	6,644	20,570	27,214
	<u>\$ 6,644</u>	<u>\$ 45,311</u>	<u>\$ 51,955</u>

**UNITED THROUGH READING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 7 - Endowment Net Assets: (Continued)

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at Beginning of Year	\$ 7,331	\$ 45,652	\$ 52,983
Investment return	<u>(687)</u>	<u>(341)</u>	<u>(1,028)</u>
Endowment Net Assets at End of Year	<u>\$ 6,644</u>	<u>\$ 45,311</u>	<u>\$ 51,955</u>

Note 8 - Commitment:

The Organization has an operating lease for office space which expires April 30, 2016. Rent expense totaled \$14,869 for the year ended December 31, 2015. The following is a schedule of future minimum lease payments under the lease:

<u>Year Ended December 31</u>	
2016	\$ <u>4,757</u>