

UNITED STATES OF AMERICA CHESS FEDERATION
FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

MAY 31, 2018 AND 2017

UNITED STATES OF AMERICA CHESS FEDERATION

YEARS ENDED MAY 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
United States of America Chess Federation
Crossville, Tennessee

We have audited the accompanying financial statements of the United States of America Chess Federation (a nonprofit organization) which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and changes in net assets, 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 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 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 the United States of America Chess Federation as of May 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of unrestricted expenses on pages 13 - 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
August 2, 2018

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 31,	
	2018	2017
OPERATING ASSETS		
Cash	\$ 2,314,662	\$ 1,516,562
Accounts Receivable	46,894	72,515
Prepaid Expenses	6,867	4,975
Certificates of Deposit	104,836	104,470
Furniture and Equipment (net of accumulated depreciation of \$117,128 and \$209,172 in 2018 and 2017)	12,363	20,282
Total Operating Assets	2,485,622	1,718,804
LIFE MEMBERSHIP ASSETS		
Cash and Investments	525,415	701,194
Land	264,000	264,000
Building and Improvements (net of accumulated depreciation of \$224,377 and \$207,062 in 2018 and 2017)	417,044	434,359
Total Life Membership Assets	1,206,459	1,399,553
TOTAL ASSETS	\$ 3,692,081	\$ 3,118,357
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts Payable	\$ 43,376	\$ 8,738
Accrued Expenses and Other Liabilities	68,974	67,931
Deferred Multi-Year Memberships	816,413	820,950
Deferred Sales and Tournament Income	35,691	18,342
Deferred Scholarships	61,567	55,192
Deferred Revenue - Life and Sustaining Memberships	412,391	445,571
TOTAL LIABILITIES	\$ 1,438,412	\$ 1,416,724
NET ASSETS		
Unrestricted Net Assets (Deficit)	1,843,373	1,291,765
Temporarily Restricted Net Assets	410,296	409,868
Total Net Assets	2,253,669	1,701,633
TOTAL LIABILITIES AND NET ASSETS	\$ 3,692,081	\$ 3,118,357

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

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MAY 31, 2018 AND 2017

	2018	2017
UNRESTRICTED REVENUES		
Memberships	\$ 2,015,768	\$ 1,928,801
Tournaments	882,841	1,032,038
Magazine Revenues	187,375	173,315
Sales Revenues	120,000	121,547
Donations	128,331	115,328
Investment Return	2,242	11,895
Interest Income	4,580	163
Other Services	307,685	282,533
Other Revenues	45,731	33,995
Net Assets Released From Restrictions	-	-
Total Revenues	3,694,553	3,699,615
UNRESTRICTED EXPENSES		
Depreciation	24,314	43,793
General and Administrative Expenses	769,526	746,355
Governance	121,157	66,722
Magazine	764,098	728,549
Membership Development	290,517	296,603
Overhead Expenses	219,697	200,262
Tournament Expenses	953,636	1,139,666
Total Expenses	3,142,945	3,221,950
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	551,608	477,665
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Donations	-	1,530
Interest Income	428	427
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	428	1,957
Increase (Decrease) in Net Assets	552,036	479,622
NET ASSETS - BEGINNING	1,701,633	1,222,011
NET ASSETS - ENDING	\$ 2,253,669	\$ 1,701,633

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

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 552,036	\$ 479,622
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	24,314	43,793
(Gain) Loss on Disposal of Equipment	921	224
Unrealized (Gain) Loss on Life Membership Investments	11,557	(6,917)
Reinvested earnings - Certificates of Deposit	(366)	(365)
Reinvested earnings - Life Membership Assets	(13,799)	(4,978)
(Increase) Decrease in Assets:		
Accounts Receivable	25,621	(60,401)
Prepaid Expenses	(1,892)	5,235
Deposits	-	2,686
Cash and Equivalents - Life Membership Assets	178,020	-
Increase (Decrease) in Liabilities:		
Accounts Payable	34,638	2,160
Accrued Expenses and Other Liabilities	1,043	4,292
Deferred Multi-Year Memberships	(4,537)	(2,869)
Deferred Sales and Tournament Income	17,349	(8,675)
Deferred Revenue-Life and Sustaining Memberships	(33,180)	(43,155)
Deferred Scholarships	6,375	(7,656)
Net Cash Provided By (Used In) Operating Activities	798,100	402,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	-	(19,225)
Net Cash Provided By (Used In) Investing Activities	-	(19,225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	-	(20,729)
Net Cash Provided By (Used In) Financing Activities	-	(20,729)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS EQUIVALENTS	798,100	363,042
CASH AND CASH EQUIVALENTS - BEGINNING	1,516,562	1,153,520
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,314,662	\$ 1,516,562
 SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest on product financing arrangements	\$ -	\$ 762
Cash paid during the year for other interest	\$ -	\$ -

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

UNITED STATES OF AMERICA CHESS FEDERATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017

Note 1 - Nature of Organization and Significant Accounting Policies

The Organization – The United States of America Chess Federation (Federation) was organized in 1939. The purpose of the Federation is educational and instructional. The Federation seeks to broaden and develop chess as art and recreation. The Federation accomplishes this objective by cooperating with schools, colleges, hospitals, military bases, community centers, recreation departments, and other groups and institutions in teaching chess, conducting tournaments, and other activities. In addition, the Federation disseminates information through its publications and representatives.

Basis of Accounting – The financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized in the period in which they are earned, and expenses are recognized when incurred.

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 revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Federation considers cash equivalents to include all highly liquid investments available for current use with an initial maturity of three months or less, and cash funds.

Provision for Doubtful Accounts – The Federation provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Accounts are charged off as uncollectible if over 365 days old and less than \$1,000, or if the collection efforts are exhausted.

Life Membership Assets (LMA) – The Federation offers lifetime and sustaining memberships to its members. The membership fees received are designated as LMA assets, which include land, building, cash, and investments. Life and sustaining membership fees are deferred and recognized in income over a twenty-year period from the date an individual becomes a life member.

Investments – Investments are stated at fair value. Fair value for all investments is determined by reference to quoted market prices in active markets for identical assets (Level 1). Net realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations or by law.

Deferred Multi-Year Memberships and Deferred Sales and Tournament Income – These deferred income categories include multi-year membership income and deferred tournament income for tournaments which have not yet taken place. Income is recognized when earned based on management's estimate of: the amount considered a contribution, and recognized upon receipt; the amount considered an exchange transactions, and recognized ratably during the duration of the membership; and adoption of a mid-year cost flow assumption.

Compensated Absences – Employees’ vacation benefits are recognized in the period earned.

Financial Instruments and Fair Value Measurements – The Federation believes the carrying amount of cash, accounts receivable (net of allowances), other current assets, accounts payable, line of credit, accrued expenses and other liabilities approximates fair value due to their short maturity. FASB ASC 820-10, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Federation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Federation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Tax Exempt Status – The Federation operates under 501(c)(3) status. If applicable, the Federation accounts for unrelated business income taxes under the provisions of FASB ASC 740-10. During the years ended May 31, 2018 and 2017, the Federation did not have net income derived from unrelated business activities, and it was determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax exempt status. In years where the Federation has net income derived from unrelated business activities, it would be subject to examinations by taxing authorities generally for three years after filing the federal Exempt Organization Business Income Tax Returns (Form 990T). It is the Federation’s policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of May 31, 2018 and 2017, the Federation had no accruals for interest and/or penalties.

Financial Statement Presentation – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Federation and changes therein are classified and reported as follows.

Unrestricted net assets – Net assets that are not subject to donor imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Federation or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with restrictions that are met in the same reporting period are reported as unrestricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Federation. Generally, the donors of these assets permit the Federation to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at May 31, 2018 and 2017.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received.

Donated Services – The Federation receives donated services from unpaid volunteers who perform a variety of tasks to assist the Federation in its activities. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

If the criteria for recognition are satisfied, donated services are recorded at their fair values in the period received. No donated services met these criteria and none were recorded for the fiscal years ended May 31, 2018 and 2017.

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

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Items with a useful life of greater than one year and a cost of greater than \$500 are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets.

Note 2 – Prepaid Expenses - Prepaid expenses consist of the following:

	May 31,	
	2018	2017
Prepaid Insurance	\$ 1,700	\$ 3,475
Prepaid Tournament Expenses	5,167	1,500
Total	<u>\$ 6,867</u>	<u>\$ 4,975</u>

Note 3 – Furniture and Equipment - Furniture and equipment is summarized as follows:

	May 31,	
	2018	2017
Furniture and Office Equipment	\$ 57,628	\$ 57,628
Computer Equipment Software	61,949	65,349
Capital Lease- Computer Equipment	9,914	106,477
	<u>129,491</u>	<u>229,454</u>
Less: Accumulated Depreciation	(117,128)	(209,172)
Total	<u>\$ 12,363</u>	<u>\$ 20,282</u>

Note 4 – Life Membership Assets (LMA)

Cash and investments consisted of the following:

	May 31,	
	2018	2017
Cash- Money Market	\$ 221,786	\$ 584,878
Securities	303,629	116,316
Total	<u>\$ 525,415</u>	<u>\$ 701,194</u>

The Federation's securities are reported at fair value in the accompanying statement of financial position.

	Fair Value Measurement Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Assets				
Equity Securities May 31, 2018	<u>\$ 303,629</u>	<u>\$ 303,629</u>	<u>\$ -</u>	<u>\$ -</u>
Equity Securities May 31, 2017	<u>\$ 116,316</u>	<u>\$ 116,316</u>	<u>\$ -</u>	<u>\$ -</u>

LMA investment return is as follows:

	May 31,	
	2018	2017
Interest/Dividends	\$ 13,799	\$ 4,978
Unrealized Gain/(Loss)	(11,557)	6,917
	<u>\$ 2,242</u>	<u>\$ 11,895</u>

LMA land, building and improvements consisted of the following:

	May 31,	
	2018	2017
Land	\$ 264,000	\$ 264,000
Building	601,704	601,704
Building Improvements	39,717	39,717
Total	<u>905,421</u>	<u>905,421</u>
Less: Accumulated Depreciation	<u>(224,377)</u>	<u>(207,062)</u>
Total	<u>\$ 681,044</u>	<u>\$ 698,359</u>

Note 5 – Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	May 31,	
	2018	2017
Accrued Vacation	\$ 45,965	\$ 31,014
Tournament Deposits	6,591	5,956
Other Accrued Expenses	-	9,048
Grand Prix Fund	10,214	21,913
	<u>\$ 68,974</u>	<u>\$ 67,931</u>

Note 6 – Deferred Revenue – Life and Sustaining Memberships

The Federation’s policy is to defer dues that it receives from life and sustaining members over 20 years from the time they become life members. The following is a summary of deferred life and sustaining membership income activity for the years ended May 31, 2018 and 2017.

Deferred Revenue Life and Sustaining Membership- May 31, 2016	488,726
Membership Dues Received	26,250
Amount Recorded as Income	(69,405)
Deferred Revenue Life and Sustaining Membership- May 31, 2017	<u>445,571</u>
Membership Dues Received	29,250
Amount Recorded as Income	(62,430)
Deferred Revenue Life and Sustaining Membership- May 31, 2018	<u>\$ 412,391</u>

The following is a schedule of life and sustaining memberships to be recognized in income in future years.

Year Ending May 31,	<u>Lifetime</u>	<u>Sustaining</u>	<u>Total</u>
2019	\$ 54,788	\$ 2,730	\$ 57,518
2020	48,285	2,730	51,015
2021	41,953	2,730	44,683
2022	35,407	-	35,407
2023	34,312	-	34,312
2024-2028	119,488	-	119,488
2029-2033	50,171	-	50,171
Thereafter	19,797	-	19,797
	<u>\$ 404,201</u>	<u>\$ 8,190</u>	<u>\$ 412,391</u>

Note 7 – Deferred Scholarships

The Federation awarded scholarships as prizes at certain scholastic tournaments. These awards are to be paid to the winners upon proof of enrollment in a post-secondary institution. The liability for the scholarship awards is at the estimated present value of the payments, taking into account a discount rate of 3% and the expected date of payment. It is at least reasonably possible that a change in this liability could occur in the near term.

Future payments are anticipated as follows:

2019	\$ 24,800
2020	8,500
2021	6,750
2022	3,500
Thereafter	18,750
Total	<u>62,300</u>
Less: unamortized discount	(733)
Present value of Deferred Scholarships at 05/31/18	<u>\$ 61,567</u>

Note 8 – Line of Credit and Short-Term Notes Payable

At May 31, 2018 and 2017 the Federation had a \$200,000 bank line of credit at 3.43%. The line is collateralized by a certificate of deposit. There were no balances outstanding at May 31, 2018, and 2017. The line of credit was renewed in July 2018.

Note 9 – Commitments and Contingencies

The Federation is insured for professional liability under an occurrence-basis policy with an independent insurance carrier. An occurrence-basis policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier.

Note 10 – Concentration of Credit Risk

The Federation has cash deposits with various financial institutions located within Tennessee and the United States at May 31, 2018. The Federation does not require collateral or other support for cash deposits in excess of the federally insured limit of \$250,000 for each financial institution. The Federation's bank balances exceeded the federally insured limit by approximately \$1,435,000 and \$1,225,000 at May 31, 2018 and 2017, respectively. The Federation's money market accounts are covered by SIPC insurance which offers limited protection but does not protect against loss in value.

The Federation's trade receivables potentially subject the Federation to credit risk. At May 31, 2018 there were no credit risks.

Note 11 – Restrictions on Net Assets

Temporarily restricted net assets are comprised of contributions received to fund prizes awarded for the U.S. Chess Championship and to provide certain medical and pension benefits to America's top chess players, and land. Temporarily restricted net assets as of May 31, 2018 and 2017 are summarized as follows:

	May 31,	
	2018	2017
Professional Players Health and Benefits Fund	\$ 135,084	\$ 134,673
Contributions for U.S. Chess Championship prizes	11,212	11,195
Land	264,000	264,000
Total Temporarily Restricted Net Assets	<u>\$ 410,296</u>	<u>\$ 409,868</u>

On July 15, 2003, the Federation received three acres of land located in Crossville, Tennessee. As a restriction on the use of the donated land, the Federation must not sell any undeveloped portion of the land without first offering it to the City of Crossville for the same per acre price as the original price of \$1, plus improvements and other items, if the land is sold as an undeveloped piece of the original acreage.

Note 12 – Retirement Plan

Effective January 1, 2016, the Federation established a 401(k) plan covering employees with six months of service who have attained the age of 21. Retirement plan administration expenses of approximately \$5,500 and \$1,900 were paid during the years ended May 31, 2018, and May 31, 2017, respectively. The 401(k) plan allows for an annual determination of the Federation's matching contributions. For the years ended May 31, 2018 and 2017, voluntary contributions totaled \$8,844 and \$14,898, respectively.

Note 13 – Subsequent Events

Management has evaluated subsequent events through August 2, 2018, the date the Financial Statements were available to be issued.

SUPPLEMENTARY INFORMATION

UNITED STATES OF AMERICA CHESS FEDERATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF UNRESTRICTED EXPENSES
YEARS ENDED MAY 31, 2018 AND 2017

	2018	2017
MAGAZINE		
Chess Life Printing and Contributor Fees	\$ 224,878	\$ 224,044
Chess Life Mailing	143,321	152,070
Professional Fees	58,919	58,055
Personnel Expense	329,828	292,125
Other	7,152	2,255
	764,098	728,549
GENERAL AND ADMINISTRATIVE EXPENSES		
Travel	35,137	15,407
Postage	1,849	7,182
Office Supplies	18,426	19,802
Professional Fees	33,135	32,123
Interest Expense	-	762
Other Administrative Expenses	127,478	159,677
Personnel Expense	553,501	511,402
	769,526	746,355
TOURNAMENT EXPENSES		
	953,636	1,139,666
MEMBERSHIP DEVELOPMENT		
Membership Forms and Supplies	1,001	1,289
Renewals and Promotional Mailers	13,943	6,951
Other	89,222	72,403
Personnel Expense	127,014	134,020
Professional Fees	15,590	4,821
Mailing and Postage	43,747	37,119
Website Development	-	40,000
	290,517	296,603
Subtotal current page	\$ 2,777,777	\$ 2,911,173

(CONTINUED ON PAGE 14)

The accompanying notes are an integral part of these financial statements

UNITED STATES OF AMERICA CHESS FEDERATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF UNRESTRICTED EXPENSES
YEARS ENDED MAY 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Subtotal from previous page	\$ 2,777,777	\$ 2,911,173
OVERHEAD EXPENSES		
Utilities	9,929	9,272
Telephone	28,438	24,982
Insurance	25,279	24,935
Repairs and Maintenance	24,883	23,202
Property and Other Taxes	5,353	4,462
Computer Software and Maintenance	-	1,528
Equipment Rental	8,116	7,653
Bank Charges	439	1,083
Credit Card Charge Expense	87,787	85,273
Miscellaneous	<u>29,473</u>	<u>17,872</u>
TOTAL OVERHEAD EXPENSES	<u>219,697</u>	<u>200,262</u>
DEPRECIATION	<u>24,314</u>	<u>43,793</u>
GOVERNANCE	<u>121,157</u>	<u>66,722</u>
TOTAL UNRESTRICTED EXPENSES AND LOSSES	<u><u>\$ 3,142,945</u></u>	<u><u>\$ 3,221,950</u></u>

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