

THE NATIONAL CRYPTOLOGIC MUSEUM
FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2016

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The National Cryptologic Museum Foundation, Inc.
Ft. George G. Meade, Maryland

We have audited the accompanying financial statements of The National Cryptologic Museum Foundation, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Managements 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 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 from 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 National Cryptologic Museum Foundation, Inc. as of June 30, 2016, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 state in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited The National Cryptologic Museum Foundation, Inc.'s 2015 financial statements, and our report dated October 7, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

November 28, 2016

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(with comparative totals as of June 30, 2015)

	ASSETS	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,562,581	\$ 1,856,336
Investments	4,088,495	3,480,532
Current portion of contributions receivable	840,833	690,833
Accounts receivable	160	3,000
Prepaid expenses	10,750	11,824
	<u>6,502,819</u>	<u>6,042,525</u>
PROPERTY AND EQUIPMENT		
Computer equipment	15,330	14,555
Office furniture and equipment	17,591	17,591
	<u>32,921</u>	<u>32,146</u>
Less accumulated depreciation	27,721	23,703
	<u>5,200</u>	<u>8,443</u>
OTHER ASSET		
Contributions receivable, net of current portion	1,660,829	1,733,702
	<u>1,660,829</u>	<u>1,733,702</u>
Total assets	<u>\$ 8,168,848</u>	<u>\$ 7,784,670</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 156,182	\$ 71,138
	<u>156,182</u>	<u>71,138</u>
Total current liabilities	<u>156,182</u>	<u>71,138</u>
COMMITMENTS		
NET ASSETS		
Unrestricted	800,551	525,951
Temporarily restricted	7,212,115	7,187,581
	<u>8,012,666</u>	<u>7,713,532</u>
Total net assets	<u>8,012,666</u>	<u>7,713,532</u>
Total liabilities and net assets	<u>\$ 8,168,848</u>	<u>\$ 7,784,670</u>

See accompanying notes to financial statements and independent auditor's report.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

(with comparative totals for the year ended June 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Comparative Totals Only
REVENUE AND SUPPORT				
Contributions and membership dues	\$ 364,532	\$ 1,195,460	\$ 1,559,992	\$ 4,514,236
Special events and activities	33,667	0	33,667	8,164
In-kind donations	23,840	0	23,840	22,140
Investment income (loss) and realized gains (losses) on marketable securities	64	(109,493)	(109,429)	140,393
Net change in unrealized gains (losses) on marketable securities	0	112,076	112,076	(150,582)
Net assets released from restrictions	<u>1,173,509</u>	<u>(1,173,509)</u>	<u>0</u>	<u>0</u>
Total revenue and support	<u>1,595,612</u>	<u>24,534</u>	<u>1,620,146</u>	<u>4,534,351</u>
EXPENSES				
Program	919,506	0	919,506	250,649
Administrative and general	32,212	0	32,212	41,831
Fund raising	<u>369,294</u>	<u>0</u>	<u>369,294</u>	<u>329,739</u>
Total expenses	<u>1,321,012</u>	<u>0</u>	<u>1,321,012</u>	<u>622,219</u>
Increase in net assets	274,600	24,534	299,134	3,912,132
Net assets, beginning of year	<u>525,951</u>	<u>7,187,581</u>	<u>7,713,532</u>	<u>3,801,400</u>
Net assets, end of year	<u>\$ 800,551</u>	<u>\$ 7,212,115</u>	<u>\$ 8,012,666</u>	<u>\$ 7,713,532</u>

See accompanying notes to financial statements and independent auditor's report.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF CASH FLOWS

June 30, 2016

(with comparative totals as of June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 299,134	\$ 3,912,132
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,018	4,027
Non-cash contributions and membership dues	(915,460)	(4,156,718)
Net realized and unrealized losses on investments	60,787	62,424
Payments received on contributions receivable	838,333	321,000
Changes in operating assets and liabilities:		
Accounts receivable	2,840	5,470
Prepaid expenses	1,074	(9,405)
Accounts payable and accrued expenses	<u>85,044</u>	<u>24,130</u>
Net cash provided by operating activities	<u>375,770</u>	<u>163,060</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	(775)	0
Investments purchased	(5,264,739)	(1,318,517)
Proceeds from sales of investments	<u>4,595,989</u>	<u>1,395,551</u>
Net cash provided by (used in) investing activities	<u>(669,525)</u>	<u>77,034</u>
Net increase (decrease) in cash and cash equivalents	(293,755)	240,094
Cash and cash equivalents, beginning of year	<u>1,856,336</u>	<u>1,616,242</u>
Cash and cash equivalents, end of year	<u>\$ 1,562,581</u>	<u>\$ 1,856,336</u>

See accompanying notes to financial statements and independent auditor's report.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Cryptologic Museum Foundation, Inc. (a Maryland corporation) was formed on April 17, 1996 to support the National Cryptologic Museum (Museum), an instrumentality of the United States Department of Defense. The Foundation's support includes making purchases of artifacts that are donated to the Museum, publicizing the Museum and building a network of Museum supporters, and raising funds and facilitating the construction of a new Museum facility. Additionally, the Foundation supports a history symposium along with other special events, presents a variety of programs and hosts an annual golf tournament. The Foundation periodically publishes "The Link" newsletter. The costs associated with these activities are program expenses on the accompanying statements of activities and functional expenses.

The Foundation works with the Museum to educate future generations and the public at large about the struggles and accomplishments of America's cryptologists and cryptoanalysts. In addition to activities as the Museum tailored to students and visiting groups, the Foundation sponsors programs dealing with significant events in the history of cryptology, many of which were once classified. Because one of the chief goals of the Foundation is to introduce the importance of cryptology to the next generation of Americans, several awards based on student scholarship are sponsored.

Basis of Accounting

The Foundation prepares its financial statements in conformity with U.S. generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

The Foundation 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.

Unrestricted net assets include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Foundation without limitation. Unrestricted net assets also include resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds are received.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial Statement Presentation (Cont.)

Temporarily restricted net assets include those resources restricted by grantor-imposed criteria and which either expire with the passage of time or by actions of the Foundation.

Permanently restricted net assets include those resources restricted by grantor-imposed criteria and must be permanently maintained by the Foundation. The Foundation does not have any permanently restricted net assets.

Revenue Recognition

Contributions received are recorded as unrestricted or temporarily restricted, depending on the existence and/or nature of any donor restrictions. The Foundation has not received any permanently restricted contributions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily restricted net assets. 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. Membership dues are recognized as income when received. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions Receivable

Unconditional promises to give are recognized as revenue when the promise is received. Conditional promises are not recognized until they become unconditional; that is, in the period in which the conditions on which they depend are substantially met. Contributions receivable in more than one year are discounted to their present value (estimated fair value) using a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. If the value of unconditional promises decreases after the contribution was initially recorded because of a change in the quantity or nature of assets to be received, the decline is recorded as a bad debt loss in the net asset category where the revenue was originally recognized. Management determines an allowance for unredeemed promises by considering such factors as prior collection history, type of contribution, and the type of fund-raising event. As of June 30, 2016, management has estimated that all contributions receivable are fully collectible.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Advertising

The Foundation expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2016 and 2015 was \$45,706 and \$26,908, respectively.

In-Kind Donations

The Foundation recognizes contributions for the fair value of services received where the services required specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. The Foundation recognizes contributions for the use of facilities that would otherwise need to be obtained through traditional commercial channels. In-kind contributions of equipment and other materials are recorded at the fair value of the items contributed. The Foundation receives a significant amount of donated services from unpaid volunteers who serve on the Board of Directors and various committees. None of these volunteer amounts have been recognized in the accompanying financial statements because the criteria for recognition of such volunteer efforts under FASB ASC Section 958 have not been satisfied.

Donated investments (marketable securities) are recorded as contributions at their estimated fair values at the date of donation.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Functional Expense Allocation

Expenses relating to more than one function are allocated to program, administrative and general, and fund raising costs based on employee time estimates or other appropriate usage factors.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid unrestricted investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments and property and equipment costing over \$500 are capitalized. Maintenance and repairs that do not improve or extend the life of respective assets are charged to expense when incurred. All property is depreciated over the estimated useful lives of the assets using the straight line method. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the date of the accountant's report, which is the date the financial statements were available to be issued.

NOTE B – CONDITIONAL PROMISES

The Foundation has received conditional promises to give for capital campaign purposes in the amount of \$1,490,000 as of June 30, 2016. Pursuant to the Foundation's policy and in conformity with FASB ASC Section 958, the Foundation does not recognize conditional promises as revenue until the condition is met.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE C – CONTRIBUTIONS RECEIVABLE

The Foundation assists the National Cryptologic Museum in its efforts to commemorate the accomplishments and contributions of the cryptologic community. To enhance these efforts, a capital campaign for the construction of a new museum facility has been reinvigorated. Contributions receivable, which are unconditional promises to give, are summarized as follows:

	2016	2015
Receivables to be collected in less than one year	\$ 840,833	\$ 690,833
Receivables to be collected in one to five years	1,688,334	1,766,667
Receivables to be collected in more than five years	<u>0</u>	<u>0</u>
Total	2,529,167	2,457,500
Less discount to net present value at 1.0%	27,505	32,965
Less estimated collection losses	<u>0</u>	<u>0</u>
Net contributions receivable	<u>\$ 2,501,662</u>	<u>\$ 2,424,535</u>

Contributions receivable are temporarily restricted for capital campaign purposes.

NOTE D – INVESTMENTS

Investments, carried at fair value based on quoted prices in active markets (all level 1 measurements) at June 30, 2016 and 2015 consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Mutual funds – equity securities	\$ 594,089	\$ 608,514	\$ 1,198,455	\$ 1,193,463
Mutual funds – fixed income securities	3,371,779	3,425,436	2,146,810	2,122,816
Mutual funds – real estate	0	0	77,614	66,968
Mutual funds – commodities	<u>60,062</u>	<u>54,545</u>	<u>107,165</u>	<u>97,285</u>
	<u>\$ 4,025,930</u>	<u>\$ 4,088,495</u>	<u>\$ 3,530,044</u>	<u>\$ 3,480,532</u>

The net change in unrealized gains (losses) on marketable securities for the years ended June 30, 2016 and 2015 was \$112,076 and (\$150,582), respectively.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE D – INVESTMENTS (cont.)

Investment income (loss) from these investments for the years ended June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Interest and dividends	\$ 89,259	\$ 70,837
Realized gains (losses) on sale	(172,863)	88,158
Management fees	(25,825)	(18,602)
	<u>\$ (109,429)</u>	<u>\$ 140,393</u>

NOTE E – RESTRICTED NET ASSETS

As of June 30, 2016 and 2015, all temporarily restricted net assets are available for capital campaign purposes. Temporarily restricted net assets consisted of the following:

	2016	2015
Cash and cash equivalents	\$ 764,845	\$ 1,342,310
Contributions receivable	2,501,662	2,424,535
Investments	4,088,495	3,480,532
Accounts payable and accrued expenses	(142,887)	(59,796)
Temporarily restricted net assets	<u>\$ 7,212,115</u>	<u>\$ 7,187,581</u>

NOTE F – INCOME TAXES

The Foundation is a nonprofit organization under section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from Federal and state income taxes. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purposes.

The Foundation's income tax filings are subject to audit by various taxing authorities. The Foundation's open audit periods are for fiscal years ending June 30, 2013 through June 30, 2016. The Foundation recognizes interest and penalties related to income taxes as administrative and general expenses and has not incurred any of these expenses for the years ended June 30, 2016 and 2015.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE G - DONATED MATERIALS AND FACILITIES

The Foundation received the use of facilities for the years ended June 30, 2016 and 2015 valued at \$23,840 and \$22,140, respectively. These amounts have been recorded in the financial statements as unrestricted support.

NOTE H – FUNDRAISING EXPENSES

Revenue from fund raising activities has been reported net of related fund raising expenses in the amount of \$22,632 and \$23,249 for the years ended June 30, 2016 and 2015, respectively.

NOTE I – COMMITMENTS

The Organization has entered into a contract with a vendor to receive professional fund raising and building campaign advisory services. For the years ended June 30, 2016 and 2015, \$96,000 and \$96,000, respectively, has been incurred. A fixed term contract commenced in April 2012 and expired in April 2013, and has been extended several times, with the most recent contract extension expiring in April 2017. The current extension requires payments in the amount of \$8,000 per month.

The Organization has entered a contract with a vendor to receive lobbying services for the purpose of obtaining capital funding support from the State of Maryland Capital Budget and to set the stage for continued funding in future year budgets as the capital building campaign moves forward. For the years ended June 30, 2016 and 2015, \$33,750 and \$32,500, respectively, has been incurred. A fixed term contract commenced in January 2013 and expired in December 2013, and has been extended several times, with the most recent extension expiring in December, 2016. The extension requires payments in the amount of \$2,917 per month.

Future minimum payments required under these contracts as of June 30, 2016 are as follows:

2017	\$ 89,500
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THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

NOTE J – CONCENTRATIONS

In general, the Federal Deposit Insurance Corporation (FDIC) insures bank balances up to \$250,000. Throughout the year, the Foundation’s bank balance may exceed these insured limits. As of June 30, 2016 and 2015, amount on deposit in excess of insured limits were \$1,285,026 and \$1,456,632, respectively.

NOTE K - GRANTS

The Organization has been awarded a total of \$3,500,000 in various State of Maryland Capital Grants for the construction of a new museum facility. The awards are subject to certain conditions, including a 1:1 matching requirement. Management anticipates that sufficient funds will be raised to satisfy the full 1:1 match condition. These awards, which represent a commitment by the State of Maryland to provide funds on a cost-reimbursement basis will not be reflected in the financial statements until reimbursable activities have been conducted in accordance with the provisions of the grants.

NOTE L – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2016	2015
Cash paid for income taxes	\$ 0	\$ 0
Cash paid for interest	0	0
Non-cash acquisition of property and equipment	0	0

NOTE M – PRIOR YEAR SUMMARIZED COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2015 from which the summarized information was derived. Certain amounts in the 2015 comparative totals have been reclassified to conform to the 2016 presentation.

Supplementary Information

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

(with comparative totals for the year ended June 30, 2015)

	2016				2015
	Program	Administrative & General	Fund Raising	Total	Comparative Totals Only
Construction costs acquired for museum	\$ 733,017	\$ 0	\$ 0	\$ 733,017	\$ 114,788
Professional fundraising and lobbying	36,032	0	245,610	281,642	270,996
Salaries	42,683	8,537	62,913	114,133	111,681
Advertising	20,461	0	25,245	45,706	26,908
Other special programs and sponsorships	41,116	0	0	41,116	4,781
Rent	2,500	2,500	18,840	23,840	22,140
Artifact and exhibit acquisitions	13,054	0	0	13,054	6,933
Meetings and conferences	3,500	5,819	0	9,319	13,891
Payroll taxes and benefits	3,333	667	4,912	8,912	9,272
Legal and accounting	0	8,850	0	8,850	11,300
Communications	854	854	6,751	8,459	2,380
Postage & delivery	3,817	1,908	2,536	8,261	3,435
Supplies	4,348	0	953	5,301	4,439
Bank charges	4,076	0	0	4,076	2,698
Miscellaneous	4,059	0	0	4,059	2,763
Depreciation	4,018	0	0	4,018	4,027
Printing & publication	2,638	0	1,314	3,952	2,954
Insurance	0	1,824	0	1,824	3,315
Travel	0	463	220	683	2,933
Dues & subscriptions	0	490	0	490	285
Other taxes	0	300	0	300	300
	<u>\$ 919,506</u>	<u>\$ 32,212</u>	<u>\$ 369,294</u>	<u>\$ 1,321,012</u>	<u>\$ 622,219</u>

See accompanying notes to financial statements and independent auditor's report.