

COURT INNOVATIONS INCORPORATED
REVIEWED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

COURT INNOVATIONS INCORPORATED

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Independent Accountants' Review Report

November 18, 2016

To the Board of Directors of
Court Innovations Incorporated
Ann Arbor, MI

We have reviewed the accompanying financial statements of Court Innovations Incorporated, which comprise the balance sheets as of December 31, 2015 & 2014 and the related statements of income, stockholder's equity and cash flows for the year ended, December 31, 2015 and the period January 27, 2014 to December 31, 2014 and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformance with accounting principles generally accepted in the United States of America.

Rogow & Loney PC

ROGOW & LONEY, P.C.

COURT INNOVATIONS INCORPORATED
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 93,773	\$ 45,617
Accounts Receivable	87,343	64,971
Prepaid Expenses	3,230	549
Total Current Assets	184,346	111,137
Fixed Assets:		
Furniture and Equipment	18,211	2,773
Accumulated Depreciation	(4,315)	(554)
Net Fixed Assets:	13,896	2,219
Other Assets:		
Trademark	4,159	-
Accumulated Amortization	(139)	-
Net Trademark:	4,020	-
<u>TOTAL ASSETS</u>	202,262	113,356
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts Payable	\$ 7,680	\$ 1,678
Credit Card Payable	129	-
Federal & State Income Tax Payable	8,414	5,028
Officer Loan	-	1,000
Payroll Liabilities	15,541	23,962
Total Current Liabilities	31,764	31,668
Deferred Income Taxes	26,954	12,857
Total Liabilities	58,718	44,525
Equity		
Common Stock	-	-
Retained Earnings	143,544	68,831
Total Equity	143,544	68,831
<u>TOTAL LIABILITIES AND EQUITY</u>	202,262	113,356

See Accompanying Notes and Independent Accountant's Review Report.

COURT INNOVATIONS INCORPORATED
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JANUARY 27, 2014 TO DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
<u>REVENUE</u>		
3rd Century Online Court Contract	\$ 977,659	\$ 306,370
Court Services	<u>15,167</u>	<u>-</u>
<u>TOTAL INCOME</u>	992,826	306,370
<u>EXPENSES</u>		
Amortization Expense	139	-
Business Consulting	9,000	-
Customer Support	708	-
Depreciation Expense	3,761	554
Development Expense	31,894	6,308
Human Resource Expense	3,229	235
Marketing Expense	43,623	11,304
Office/General Administrative Expenses	13,431	2,435
Operations Hosting & Materials	12,123	-
Payroll Expenses	717,627	181,842
Professional Fees	6,733	6,067
Registration Licenses	2,538	65
Rent Expense	28,094	9,356
Travel Expense	<u>17,742</u>	<u>1,488</u>
<u>TOTAL EXPENSES</u>	890,642	219,654
Net Operating Income Before Income Tax	102,184	86,716
Federal & State Income Tax	<u>27,471</u>	<u>17,885</u>
<u>NET INCOME</u>	<u>\$ 74,713</u>	<u>\$ 68,831</u>

See Accompanying Notes and Independent Accountant's Review Report.

COURT INNOVATIONS INCORPORATED
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JANUARY 27, 2014 TO DECEMBER 31, 2014

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance, January 27, 2014	\$ 0	\$ 0	\$ 0
Net Income	0	68,831	\$ 68,831
Distributions	<u>0</u>	<u>0</u>	<u>\$ 0</u>
Balance, December 31, 2014	0	68,831	\$ 68,831
Net Income	0	74,713	\$ 74,713
Distributions	<u>0</u>	<u>0</u>	<u>\$ 0</u>
Balance, December 31, 2015	<u>\$ 0</u>	<u>\$ 143,544</u>	<u>\$ 143,544</u>

COURT INNOVATIONS INCORPORATED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JANUARY 27, 2014 TO DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net Income	\$ 74,713	\$ 68,831
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,900	554
Deferred income taxes (benefit)	14,097	12,857
Loss on sale of assets	0	0
Change in assets and liabilities		
Accounts receivable	(22,372)	(64,971)
Prepaid expenses and other assets	(2,681)	(549)
Accrued income taxes	3,386	5,028
Accounts and Credit Card payable	6,131	1,678
Accrued liabilities	(8,421)	23,962
Total adjustments	(5,960)	(21,441)
Net cash provided by operating activities	<u>68,753</u>	<u>47,390</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of furniture and equipment	(15,438)	(2,773)
Trademark Investment	(4,159)	<u>0</u>
Net cash used in investing activities	(19,597)	(2,773)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Officer Loan	0	4,000
Payment of Officer Loan	(1,000)	(3,000)
Net cash provided by (used in) financing activities	(1,000)	<u>1,000</u>
Increase (decrease) in cash	<u>48,156</u>	<u>45,617</u>
<u>CASH AND CASH EQUIVALENT-Beginning of Year</u>	<u>45,617</u>	<u>0</u>
<u>CASH AND CASH EQUIVALENT-End of Year</u>	<u>\$ 93,773</u>	<u>\$ 45,617</u>
INCOME TAXES PAID	<u>\$ 9,988</u>	<u>\$ 0</u>

COURT INNOVATIONS INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - BUSINESS ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Court Innovations Incorporated (the “Company”) was incorporated under the laws of the State of Delaware on January 27, 2014. The Company designs and develops software for the use by courthouses and other government entities.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Company maintains its financial records on an accrual basis, reflecting revenues when earned and expenses when incurred.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, and such differences could be material to the accompanying financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains cash in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant concentration of credit risk on cash and cash equivalents.

Trade Account Receivable

The Company does not perform ongoing credit evaluations nor require collateral as its customers are government entities.

Property and Equipment

Property and equipment are recorded at cost, including improvements that substantially add to the productive capacity or extend the useful life of the related asset, less accumulated depreciation. Maintenance, repairs and minor renewals are expensed as incurred. The cost and related accumulated depreciation of property and equipment are removed from the accounts upon disposition or retirement and any resulting gain or loss included in income.

Depreciation is calculated using the accelerated methods over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5-7 years

Depreciation expense was \$3,761 and \$554 in 2015 and 2014, respectively.

COURT INNOVATIONS INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Software Development Costs

Software development costs are expensed and billed for reimbursement from the University of Michigan Grant. This grant out of the U of M Provost Office's Third Century Fund has been the Company's main funding source. Total development costs were \$539,001 for 2015 and \$121,846 for 2014.

Intangible Assets

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives ranging from three to fifteen years.

Revenue Recognition

The Company's revenue is derived primarily from the University of Michigan Grant and software licensing and services provided to court customers (starting in July 2015). Arrangements with court customers are accounted for as license and service contracts, with revenue recognized in the period in which the services are provided. Upfront setup fees are recognized in the month the setup occurred and advance payment received from customers deferred and recognized as revenue when services are provided.

Royalties Expense

The Company pays \$5,000 annual license fee to the University of Michigan. The annual fee is accrued on June 30 of the first year after the first commercial sale and shall continue for four additional annual payments. The first annual license payment was scheduled on June 30, 2016.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities represent the future income tax effect of temporary differences between book and tax bases of assets and liabilities assuming they will be realized and settled in amounts reported in the financial statements. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company recognizes the tax benefit from uncertain tax positions when it is more likely than not that the position will be sustained on examination by taxing authorities, including resolution of any related appeals or litigation processes. The related tax benefit is measured as the largest amount that is cumulatively more than 50% likely to be realized upon ultimate settlement.

Interest and penalties related to uncertain tax positions are included in income tax expense on the statement of income.

COURT INNOVATIONS INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The potential recognition and disclosure impact of subsequent events was evaluated through November 18, 2016, which is the date the financial statements were available to be issued.

NOTE 2 -- INTANGIBLE ASSETS

A summary of the Company's intangible assets with finite lives is presented below:

	<u>As of December 31, 2015</u>		
	<u>Gross</u>	<u>Accumulated</u>	<u>Net Amount</u>
	<u>Amount</u>	<u>Amortization</u>	
Trademarks	\$ 4,159	\$ 139	\$ 4,020
	<u>\$ 4,159</u>	<u>\$ 139</u>	<u>\$ 4,020</u>

Intangibles amortization expense was \$139 in 2015 and -0- in 2014.

NOTE 3 – STOCKHOLDERS' EQUITY

Common Stock

The Company has authorized 4,400 shares of common stock with \$.001 per share per value. 4010 shares were issued in 2014, including 330 shares issued to The University of Michigan as part of the licensing agreement disclosed in Note 1.

NOTE 4 – OPERATING LEASES

The Company subleases office space. The sublease is for a 3 year term that ends April 1, 2019. The rent is \$3000 per month, all inclusive (utilities, taxes, cleaning services, coffee room supplies, and existing office furnishings).

If both parties agree on early termination, the party requesting termination will owe two month's rent (\$6,000) as compensation or early termination.

COURT INNOVATIONS INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 5 –EMPLOYEE INCENTIVE PLAN

The Court Innovations Incorporated 2014 and 2015 Stock Option and Restricted Stock Plans (the “Plans”) permit the Company to grant to employees, outside directors and consultants stock options or restricted stock. A maximum of 390 shares of common stock are reserved to be granted under the Plans.

The Company has issued stock options to employees under the Plans. The options are subject to forfeiture until vested. The options may be exercised with respect to the first 25% of the shares subject to the options when the employee completes 12 months of continuous service beginning with the vesting commencement date that coincides with initial employment date. The options may be exercised with respect to an additional 1/48th of the shares subject to options when the employee completes each month of continuous service thereafter. Shares issued under the Plans, are subject to forfeiture conditions, rights of repurchase rights of first refusal, and other transfer restrictions.

The activity under the Plans is as follows:

	<u>Shares</u>	<u>Ave. grant date fair value per Share</u>
<u>Year ended December 31, 2014</u>		
Granted	40	0.001
Vested/Exercised	0	
Cancelled	0	
<u>Year ended December 31, 2015</u>		
Granted	61	100
Vested	0	
Cancelled	0	

NOTE 6 – INCOME TAXES

Components of the provision for income tax expense consist of:

	<u>2015</u>	<u>2014</u>
Current		
Federal	\$ 9,818	\$ 5,028
State	<u>3,556</u>	<u>0</u>
Total current income taxes	13,374	5,028
Deferred		
Federal	11,454	12,857
State	<u>2,643</u>	<u>0</u>
Total deferred income taxes	<u>14,097</u>	<u>12,857</u>
Total income expense	<u>\$ 27,471</u>	<u>\$ 17,885</u>