

A Grace Place Adult Care Center

Financial Statements

June 30, 2011



Meadows Urquhart Acree & Cook, LLP
Certified Public Accountants



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Independent Auditor's Report

To the Board of Directors
A Grace Place Adult Care Center

We have audited the accompanying statements of financial position of A Grace Place Adult Care Center (hereafter the "Organization") as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A Grace Place Adult Care Center as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Meadows Urquhart Acree + Cook, LLP

October 21, 2011

A Grace Place Adult Care Center

Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 428,786	\$ 306,158
Accounts receivable, less allowance for doubtful accounts of \$13,939 for 2011 and \$22,000 for 2010	216,356	288,907
Unconditional promises to give (Note 3)	56,001	59,426
Investments, at fair value	9,269	7,242
Prepaid rent	-	19,096
Prepaid expenses	23,407	41,855
Total current assets	733,819	722,684
Unconditional Promises to Give (Note 3)	320,000	-
Property and Equipment		
Furniture and office equipment	292,671	289,791
Leasehold improvements	852,614	852,614
Construction in progress	64,810	-
Vehicles	266,078	266,078
	1,476,173	1,408,483
Less accumulated depreciation and amortization	(1,198,107)	(1,110,882)
	278,066	297,601
Total assets	\$ 1,331,885	\$ 1,020,285

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 53,087	\$ 27,160
Accrued payroll, payroll taxes, withholdings and benefits	101,058	109,730
Accrued vacation	103,156	111,707
Deferred rent	2,385	11,925
Total current liabilities	<u>259,686</u>	<u>260,522</u>
Deferred rent	13,711	13,710
Total liabilities	<u>273,397</u>	<u>274,232</u>
Net Assets		
Unrestricted		
Board designated	49,510	47,295
Undesignated	646,287	634,332
Total unrestricted net assets	<u>695,797</u>	<u>681,627</u>
Temporarily restricted (Note 3)	362,691	64,426
Total net assets	<u>1,058,488</u>	<u>746,053</u>
Total liabilities and net assets	<u><u>\$ 1,331,885</u></u>	<u><u>\$ 1,020,285</u></u>

A Grace Place Adult Care Center

Statements of Activities

Years ended June 30, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Program Service Revenue:			
Medicaid reimbursements	\$ 1,965,188	\$ -	\$ 1,965,188
Other state and local government reimbursements	597,889	-	597,889
	<u>2,563,077</u>	-	<u>2,563,077</u>
Other Revenue and Support:			
United Way	48,937	56,001	104,938
Program service fees	99,593	-	99,593
Capital expansion contributions	-	320,000	320,000
Other contributions	223,154	6,000	229,154
Donated services and goods	89,214	-	89,214
Interest and other income	6,112	-	6,112
	<u>467,010</u>	<u>382,001</u>	<u>849,011</u>
Total program service revenue and other revenue and support	3,030,087	382,001	3,412,088
Net assets released from restrictions	83,736	(83,736)	-
Net program service revenue and other revenue and support	3,113,823	298,265	3,412,088
Expenses:			
Program services:			
Adult Day Care	887,942	-	887,942
Day Support	1,677,842	-	1,677,842
Transportation	77,854	-	77,854
Supporting services:			
Fundraising	112,475	-	112,475
Administrative	343,540	-	343,540
	<u>3,099,653</u>	-	<u>3,099,653</u>
Change in net assets	14,170	298,265	312,435
Net assets, beginning of year	681,627	64,426	746,053
Net assets, end of year	<u>\$ 695,797</u>	<u>\$ 362,691</u>	<u>\$ 1,058,488</u>

See Notes to Financial Statements.

2010		
Unrestricted	Temporarily Restricted	Total
\$ 2,065,002	\$ -	\$ 2,065,002
616,268	-	616,268
2,681,270	-	2,681,270
46,183	59,426	105,609
121,864	-	121,864
-	-	-
208,323	-	208,323
61,525	-	61,525
13,362	-	13,362
451,257	59,426	510,683
3,132,527	59,426	3,191,953
60,951	(60,951)	-
3,193,478	(1,525)	3,191,953
873,707	-	873,707
1,875,195	-	1,875,195
88,197	-	88,197
106,620	-	106,620
348,186	-	348,186
3,291,905	-	3,291,905
(98,427)	(1,525)	(99,952)
780,054	65,951	846,005
\$ 681,627	\$ 64,426	\$ 746,053

A Grace Place Adult Care Center

Statement of Functional Expenses

Year ended June 30, 2011

	Program Services			Supporting Services		Total
	Adult Day Care	Day Support	Transportation	Fundraising	Administrative	
Salaries	\$ 485,422	\$ 1,046,970	\$ 31,357	\$ 61,431	\$ 139,648	\$ 1,764,828
Occupancy	115,656	101,222	75	11,247	44,844	273,044
Employee health and retirement benefits	57,424	140,452	5,822	5,881	31,894	241,473
Payroll taxes	36,598	80,561	2,260	4,460	9,994	133,873
Travel	9,080	77,375	21,236	-	4,625	112,316
Insurance	36,127	60,378	4,938	3,070	5,215	109,728
Supplies	59,544	33,611	157	1,143	4,231	98,686
Donated services	43,763	21,144	-	1,860	20,800	87,567
Depreciation and amortization	5,894	66,684	10,392	223	4,032	87,225
Professional fees	19,320	26,344	977	2,228	35,746	84,615
Conferences, conventions, and meetings	3,881	3,644	60	15,454	5,090	28,129
Equipment maintenance	5,402	7,893	412	1,030	7,830	22,567
Telephone	552	5,429	110	-	14,343	20,434
Other	2,699	3,564	58	530	11,012	17,863
Bad debts	6,000	2,000	-	-	-	8,000
Printing	380	521	-	3,460	1,638	5,999
Postage and shipping	-	-	-	458	2,598	3,056
Contributed goods	200	50	-	-	-	250
	<u>\$ 887,942</u>	<u>\$ 1,677,842</u>	<u>\$ 77,854</u>	<u>\$ 112,475</u>	<u>\$ 343,540</u>	<u>\$ 3,099,653</u>

See Notes to Financial Statements.

A Grace Place Adult Care Center

Statement of Functional Expenses

Year ended June 30, 2010

	Program Services			Supporting Services		Total
	Adult Day Care	Day Support	Transportation	Fundraising	Administrative	
Salaries	\$ 454,707	\$ 1,138,511	\$ 29,416	\$ 59,907	\$ 132,568	\$ 1,815,109
Occupancy	126,567	98,997	-	11,000	47,811	284,375
Employee health and retirement benefits	56,045	158,132	6,242	5,459	35,053	260,931
Payroll taxes	33,825	84,848	2,129	4,439	9,608	134,849
Travel	9,529	116,012	24,392	59	687	150,679
Insurance	38,883	67,235	5,352	3,696	9,991	125,157
Supplies	67,821	60,807	232	1,781	8,475	139,116
Donated services	30,815	18,470	-	1,740	10,500	61,525
Depreciation and amortization	5,731	73,824	18,433	305	6,853	105,146
Professional fees	27,240	31,462	1,387	3,430	40,840	104,359
Conferences, conventions, and meetings	4,182	5,725	43	10,664	6,046	26,660
Equipment maintenance	5,903	7,587	467	1,397	9,545	24,899
Telephone	604	7,590	104	-	15,020	23,318
Other	2,463	2,525	-	874	9,814	15,676
Bad debts	9,104	3,035	-	-	-	12,139
Printing	278	435	-	1,605	2,206	4,524
Postage and shipping	10	-	-	264	3,079	3,353
Interest	-	-	-	-	90	90
	<u>\$ 873,707</u>	<u>\$ 1,875,195</u>	<u>\$ 88,197</u>	<u>\$ 106,620</u>	<u>\$ 348,186</u>	<u>\$ 3,291,905</u>

See Notes to Financial Statements.

A Grace Place Adult Care Center

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 312,435	\$ (99,952)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	87,225	105,146
Deferred rent	(9,539)	(12,341)
Unrealized gain on investments	(2,027)	(777)
Loss (gain) on sale of property and equipment	(846)	144
Bad debts, net	(8,061)	10,000
Decrease (increase) in assets:		
Accounts receivable	80,612	(1,203)
Unconditional promises to give	(316,575)	(601)
Prepaid rent	19,096	(757)
Prepaid expenses	18,448	(13,726)
Increase (decrease) in liabilities:		
Accounts payable	25,927	(4,858)
Accrued payroll, payroll taxes, withholdings and benefits	(8,672)	21,385
Accrued vacation	(8,551)	3,164
Net cash provided by operating activities	<u>189,472</u>	<u>5,624</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(69,337)	(6,875)
Proceeds from sale of property and equipment	2,493	-
Net cash used in investing activities	<u>(66,844)</u>	<u>(6,875)</u>
Net increase (decrease) in cash and cash equivalents	122,628	(1,251)
Cash and cash equivalents, beginning of year	<u>306,158</u>	<u>307,409</u>
Cash and cash equivalents, end of year	<u>\$ 428,786</u>	<u>\$ 306,158</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ -</u>	<u>\$ 90</u>

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies

Nature of activities: A Grace Place Adult Care Center (the Organization) is a non-stock, non-profit corporation, formed in Virginia on October 9, 1969, to provide various programs of support, education, training, rehabilitation and recreation for adults with disabilities and age-related conditions. The Organization has two divisions, Adult Day Care and Day Support (referred to as "Connections").

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The financial statements of the Organization are prepared under the accrual method of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Basis of presentation: The Organization's financial statement presentation follows accounting principles generally accepted in the United States of America (GAAP). Under GAAP, the Organization 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 are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or for specified purposes.

Permanently restricted net assets result from contributions that must be maintained by the Organization in perpetuity. The Organization has no permanently restricted net assets.

Functional allocation of expenses: The costs of providing various programs and activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the applicable programs.

Cash equivalents: The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, and receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when collected. Substantially all of the Organization's accounts receivable are due from Medicaid.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Financial 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, and the Organization believes it is not exposed to any significant financial risk on cash.

Unconditional promises to give: Promises to give are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. At June 30, 2011 and 2010, all promises to give are considered collectible within one year.

Valuation of investments, at fair value: In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Organization uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy. All Organization investment assets have been categorized as Level 1 at June 30, 2011 and 2010 based on the criteria in GAAP.

The investments held at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
I-Shares TR S&P 500 Index Fund (70 shares)		
Cost	\$ 10,027	\$ 10,027
Fair value	<u>9,269</u>	<u>7,242</u>
Unrealized loss	<u>\$ (758)</u>	<u>\$ (2,785)</u>

The change in unrealized gain on the aforementioned investments of \$2,027 and \$777 for the years ended June 30, 2011 and 2010, respectively, is reflected in the accompanying statements of activities in "interest and other income".

Property and equipment: Property and equipment are capitalized according to original cost or, if donated, at fair value. Depreciation is computed using the straight-line method over estimated useful lives of the depreciable assets, as follows:

	<u>Years</u>
Furniture and office equipment	3 - 8
Leasehold improvements	10 - 15
Vehicles	7

Capitalized leased equipment and leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Amortization of leased property and equipment is included in depreciation and amortization. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Organization accounts for the valuation of long-lived assets under GAAP. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of carrying amount or fair value, less cost to sell.

Deferred rent: The Organization records rent related to its operating leases in accordance with GAAP, which requires rent expense to be recorded on a straight-line basis over the life of the lease. Rent expense in excess of rental payments is recognized as deferred rent.

Donated labor and materials: The Organization received \$87,567 and \$61,525 in donated labor from volunteers for the years ended June 30, 2011 and 2010, respectively. The Organization received \$1,647 in donated supplies for the year ended June 30, 2011. The Organization did not receive donated supplies for the year ended June 30, 2010. The Organization uses market hourly rates to determine the value of donated labor and values donated supplies at fair market value. During 2011 and 2010, respectively, the Organization also received approximately 244 and 370 hours of service from volunteers, which do not meet the requirements for recognition in the accompanying financial statements.

Revenue and support: The Organization received substantially all of its public support from the Richmond metropolitan community and is substantially dependent on continued government reimbursement programs. All revenue is recognized when earned.

Program service revenue is recorded at the Organization's established rates with contractual adjustments deducted, if any, to arrive at program service revenue. The Organization has agreements with third-party payers which provide for reimbursement to the Organization at amounts different from its established rates. The primary program is Medicaid, which accounted for approximately 59% and 65% of total program service revenue and other revenue and support for the years ended June 30, 2011 and 2010, respectively.

Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Income taxes: The Organization is generally exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code as evidenced in its IRS determination letter dated January 18, 2001.

In accordance with GAAP, the Organization has concluded that they do not have any material uncertain tax positions to be accounted for in the financial statements as of June 30, 2011 or 2010.

The Organization is subject to examination by federal and state tax authorities. As of June 30, 2011, the tax years that remain subject to examination under the statute of limitations are from the year June 30, 2008 forward. The Organization is not currently under tax examination for any of these periods.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Note 2— Line of Credit

The Organization has a \$100,000 line of credit with a commercial bank at an interest rate of Prime (3.25% at June 30, 2011). There was no outstanding balance on this line of credit as of June 30, 2011 and 2010.

Note 3—Temporarily Restricted Net Assets

As of June 30, 2011 and 2010, net assets were temporarily restricted for the following purposes:

	2011	2010
	<u> </u>	<u> </u>
Time restriction to be used for operations during the years ending June 30, 2012 and 2011, respectively	\$ 56,001	\$ 59,426
Restricted for capital expansion	306,690	5,000
	<u>\$ 362,691</u>	<u>\$ 64,426</u>

As a result of these restrictions, the following assets as of June 30, 2011 and 2010 are restricted as to use:

	2011	2010
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 6,500	\$ 5,000
Unconditional promises to give	356,191	59,426
	<u>\$ 362,691</u>	<u>\$ 64,426</u>

A Grace Place Adult Care Center

Notes to Financial Statements

Note 4—Net Assets Released From Restrictions

During the years ended June 30, 2011 and 2010, net assets released from restrictions were as follows:

	<u>2011</u>	<u>2010</u>
Expiration of time restrictions	\$ 59,426	\$ 58,825
Satisfaction of capital expansion restrictions	24,310	-
Satisfaction of other restrictions	-	2,126
	<u>\$ 83,736</u>	<u>\$ 60,951</u>

Note 5—Retirement Plans

The Organization provides a tax deferred annuity arrangement (the 403(b) Plan) qualified under Internal Revenue Code Section 403(b), which covers all eligible, regular full-time, and eligible part-time employees. Participants may elect to defer a portion of their salary to the 403(b) Plan in accordance with annual limitations. Additionally, after the first year of employment, the Organization may elect to match the employees' contribution based upon the lesser of 2% of each participant's base wages or 50% of the employee's voluntary contributions to the Plan. During fiscal year 2009-2010, the Plan was amended to include eligible participants who were both age 50 or older and had been participating in the Pension Plan and certain key managers of the Organization. During the year ended June 30, 2011 and 2010, the Organization contributed \$2,136 and \$16,871, respectively, to the 403(b) Plan in matching contributions.

The Organization also participates in an affiliated agency noncontributory multi-employer pension plan, sponsored and administered by the United Way of Greater Richmond (the Pension Plan). Effective July 1, 2008, participants in the Pension Plan were limited to those employees over 50 years of age. The actuarial present value of vested and non-vested accumulated plan benefits and net assets available for benefits are not determined for the affiliated participating agencies.

Effective December 31, 2008, the Organization received notification that the Administrator of the Pension Plan will freeze all future benefit accruals for those who are current active plan participants. In addition, the Administrator is developing a strategy to terminate the plan as soon as possible. For the year ended June 30, 2011 and 2010, the Organization accrued contributions of \$34,200 and \$54,467 to the Pension Plan, respectively.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 6—Operating Leases

The Organization leases space under operating lease agreements that expire in March 2018. The leases are subject to rent increases annually. The Organization also leases two copiers under operating lease agreements that expire in July 2011 and November 2013.

Future minimum annual rent payments for all operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 212,876
2013	214,425
2014	220,622
2015	219,779
2016	223,763
Thereafter	407,087

Total rent expense for 2011 and 2010 was \$220,235 and \$212,379, respectively, and is included in the accompanying statements of functional expenses in "Occupancy". Total equipment rent expense was \$11,278 and \$10,617 for each of the years ended June 30, 2011 and 2010, respectively, and is included in the accompanying statements of functional expenses in "Equipment maintenance".

Note 7—Commitments and Contingencies

In June 2011, the Organization entered into an agreement with a contractor to complete renovations on its facilities. The total cost of the renovations is anticipated to be \$305,000, the majority of which will occur during fiscal year 2012.

The Organization is currently appealing the findings of a Medicaid audit with the Department of Medical Assistance Services (DMAS) due to administrative errors. Based on a review of patient records by DMAS's auditors, DMAS is requesting reimbursement of approximately \$56,500. The Organization has acknowledged administrative errors and acknowledges it owes approximately \$12,000. However, as the case is still under review, the Organization has not made a determination as to the probability of an unfavorable outcome, and no amount has been accrued in the financial statements as of June 30, 2011.

Note 8—Subsequent Events

Subsequent events were evaluated through the date the financial statements were available to be issued which was October 21, 2011.