CYGNET THEATRE COMPANY

FINANCIAL REPORT

June 30, 2011

WITH REPORT OF CERTIFIED PUBLIC ACCOUNTANT

RONALD E. GRUND, C.P.A., INC.

CONTENTS

Independent auditor's report	1
Financial statements:	
Statement of financial position	2
Statement of activities	3
Statement of cash flow	4
Statement of functional expenses	5
Notes to financial statements	6-10

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P.O. BOX 420163
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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS

Board of Directors
CYGNET THEATRE COMPANY

I have audited the accompanying statement of financial position of **Cygnet Theatre Company** as of June 30, 2011 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Cygnet Theatre Company** of June 30, 2011 and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RONALD E. GRUND, C.P.A.,INC.

July 30, 2011

CYGNET THEATRE COMPANY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(with combined fund totals for 2010)

	2010	2010
Assets:		
Cash (including $ 40,000 pledged as security for theatre lease)	$ 64,067.59	$ 57,176.55
Capital campaign pledges receivable	42,157.90	111,167.27
Accounts receivable	140,165.25	229,255.75
Prepaid expenses	44,460.65	12,000.00
Deposits	21,836.46	22,593.19
Property and equipment, net of accumulated depreciation	567,833.13	633,130.24
Total Assets	$ 880,520.98	$ 1,065,323.00
Liabilities:		
Note payable to bank	$ 39,999.00	$ 90,000.00
Capitalized lease obligations	20,299.29	89,192.13
Accounts payable	104,816.80	183,607.16
Accrued vacation/payroll	12,257.50	10,230.40
Credit cards	2,039.59	5,731.75
Advance ticket sales	287,383.00	242,879.13
0% Notes payable to officers/directors	69,200.00	77,900.00
Total Liabilities	535,995.18	699,540.57
Commitments and contingencies		
Net Assets:		
Unrestricted	225,525.80	119,982.43
Temporarily restricted	119,000.00	245,800.00
Total Net Assets	344,525.80	365,782.43
Total Liabilities and Net Assets	$ 880,520.98	$ 1,065,323.00

CYGNET THEATRE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(with combined fund totals for the year 2010)

	2011			2010
	UNRESTRICTED	**TEMPORARILY RESTRICTED**	**TOTAL**	**TOTAL**
SUPPORT AND REVENUE				
SUPPORT				
CONTRIBUTIONS				
OTHER - CASH	$ 281,266.44	$ -	$ 281,266.44	$ 281,266.44
IN KIND	10,670.06	-	10,670.06	10,670.06
FUND RAISING	102,251.00	-	102,251.00	102,251.00
TOTAL SUPPORT	394,187.50	-	394,187.50	394,187.50
REVENUE				
TICKET SALES	968,132.78	-	968,132.78	968,132.78
CONCESSIONS AND OTHER	60,974.76	-	60,974.76	60,974.76
GOVERNMENT GRANT	64,593.00	-	64,593.00	64,593.00
OTHER GRANTS	157,200.00	245,800.00	403,000.00	403,000.00
INVESTMENT INCOME	1,123.16	-	1,123.16	1,123.16
NET ASSETS RELEASED FROM RESTRICTIONS:				
SATISFACTION OF PROGRAM RESTRICTIONS	-	-	-	-
TOTAL REVENUE	1,252,023.70	245,800.00	1,497,823.70	1,497,823.70
TOTAL SUPPORT AND REVENUE	1,646,211.20	245,800.00	1,892,011.20	1,892,011.20
EXPENSES				
PROGRAM EXPENSES	1,817,567.67	-	1,817,567.87	1,817,567.67
FUND RAISING EXPENSES	95,691.33	-	95,691.33	95,691.33
TOTAL EXPENSES	1,913,259.00	-	1,913,259.00	1,913,259.00
INCREASE (DECREASE) IN NET ASSETS	(267,047.80)	245,800.00	(21,247.80)	(21,247.80)
NET ASSETS, BEGINNING OF THE YEAR	119,982.43	245,800.00	365,782.43	387,030.23
NET ASSETS, END OF THE YEAR	$ -	$ -	$ -	$ 365,782.43

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(with combined fund totals for 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (21,256.63)	$ (21,247.60)
Adjustments to reconcile change in net assets to net cash provided by(used in) operating activities		
Depreciation	67,516.00	67,516.00
(Increase) decrease in operating assets:		
Accounts receivable	158,099.87	44,764.23
Other assets	(31,703.92)	(6,929.12)
Increase (decrease) in operating liabilities:		
Accounts payable	(78,790.36)	101,794.22
Accrued payroll/vacation	2,027.10	(22,914.60)
Advance ticket sales	44,503.87	23,421.17
Credit cards	(3,692.16)	(1,553.54)
Notes payable - officers/theatre supporters	(8,700.00)	(110,000.00)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	128,003.77	74,850.56
CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES		
Note payable to bank	(50,001.00)	(72,500.00)
Capitalized lease obligation (net of repayments)	(68,892.84)	(27,596.96)
Additions (disposals) of property and equipment (net)	(2,216.89)	38,998.12
NET CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES	(112,112.72)	(61,098.84)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,891.04	13,751.72
CASH AND CASH EQUIVALENTS :		
Beginning of the year	57,176.55	43,424.83
End of the year	$ 64,067.59	$ 57,176.55

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(with combined fund totals for 2010)

	2011			2010
EXPENSE CATEGORY	**PROGRAM SERVICES**	**FUND RAISING**	**TOTAL**	**TOTAL**
ARTISTIC AND ADMIN. STAFF COMPENSATION & BENEFITS	$ 734,550.86	$ 60,410.15	$ 794,961.01	$ 79,491.01
PRODUCTION STAFF COMPENSATION	225,815.73	-	225,815.73	225,815.73
OTHER PRODUCTION EXPENSES	236,805.07	-	236,805.07	236,805.07
ADVERTISING AND MARKETING	148,278.77	-	148,278.77	148,278.77
OCCUPANCY	186,877.47	-	186,877.47	186,877.47
COST OF CONCESSION SALES	11,296.59	-	11,296.59	11,296.59
OFFICE EXPENSE	9,248.44	-	9,248.44	9,248.44
BANK AND CREDIT CARD FEES	32,225.68	-	32,225.68	32,225.68
REPAIRS AND MAINTENANCE	3,057.91	-	3,057.91	3,057.91
BOX OFFICE EXPENSE	9,420.84	-	9,420.84	9,420.84
DEPRECIATION	67,516.00	-	67,516.00	67,516.00
INSURANCE	8,861.11	-	8,861.11	8,861.11
INTEREST EXPENSE	14,676.31	-	14,676.31	14,676.31
DUES AND SUBSCRIPTIONS	4,754.00		4,754.00	4,754.00
PROFESSIONAL SERVICES	4,925.00	-	4,925.00	4,925.00
FUND RAISING EXPENSES	-	35,281.18	35,281.18	35,281.18
TELEPHONE	3,165.82	-	3,165.82	3,165.82
TAXES AND LICENSES	4,630.82	-	4,630.82	4,630.82
COMPUTER EXPENSE	3,536.17	-	3,536.17	3,536.17
EDUCATION OUTREACH	5,400.00	-	5,400.00	5,400.00
LOSS ON ABANDONMENT OF LEASEHOLD IMPROVEMENTS	92,973.33	-	92,973.33	92,973.33
OTHER, MISCELLANEOUS	9,551.75	-	9,551.75	9,551.75
GRAND TOTAL	$ 1,817,567.67	$ 95,691.33	$ 1,913,259.00	$1,913,259.00

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization:

Cygnet Theatre Company was incorporated in December 2002 under the laws of the State of California as a nonprofit public benefit corporation. Believing in the power of theatre to startle the soul, ignite, debate and embrace the diversity of the community in which it serves, the Company, is fearlessly committed to the dissection, examination and celebration of the human story through the medium of live theatre.

The Company promotes and produces live theatre performances in San Diego, California. In addition, the Company plans to establish a professional training program for local theatre artists who seek to improve their craft and skills in a professional environment under the mentorship of teachers recognized for their skills and experience. The Company's programs are funded by a combination of grants from governmental and private agencies, public donations and ticket sales.

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

Adoption of new accounting standards:

In 2009 the FASB (Financial Accounting Standards Board) amended the current hierarchy of GAAP (generally accepted accounting principles) and identified the FASB ASC (Accounting Standards Codification) as the single source of GAAP recognized by the FASB. Although the FASB ASC did not change current GAAP, it superseded all existing standards applicable to the Company as of the effective date of the new standard The Company has accordingly, adopted the FASB ASC.

Method of accounting:

The accompanying financial statements have been prepared in accordance with the accrual method of accounting.

Financial statement presentation:

The Company complies with the FASB ASC in respect to its financial position and activities. The Company reports information regarding its financial position and activities according to its three classes of net assets: unrestricted, temporarily restricted, and permanently restricted The combined fund information for the year 2010 has been extracted from the audited financial statements for the year ended June 30, 2010.

Contributions:

The Company complies with FASB ASC as to its accounting for contributions. Contributions are defined as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of Its liabilities in a voluntary non-reciprocal transfer. Other assets in this connection include use of facilities (or utilities), services and unconditional promises to give these items in the future. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

Generally contributions received, including unconditional promises to give, are recognized as revenues in the period received at fair value. In situations where promises to give are conditioned on the Company incurring certain qualifying expenses such promises become unconditional when the expenses are incurred. Accordingly, these revenues and costs are recognized as costs are incurred.

The Company reports grants, contracts, and gifts of cash and other assets as temporarily restricted support if they are received with stipulations that limit the use of the 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. However, the Company follows a practice of recording as unrestricted income all contributions (grants) where restrictions lapse in the same fiscal year in which they are received.

Cash and cash equivalents:

For purposes of reporting cash, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and equipment:

Property and equipment are recorded at cost for purchased assets and fair market value at the date of acquisition for donated assets. Property and equipment acquired with grant funds are considered to be owned by the granting agency and accordingly reflected as program expenditures and are not capitalized by the Company. Donations of assets are recorded as unrestricted support unless the donor stipulates a specific period over which the asset must be used by the Company.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Special Events:

For special fund raising events, which are significant and ongoing, revenues and expenses are reported gross.

Donated services:

The Company follows the practice of recording donated services only in instances where non-financial assets are thereby created or enhanced or where services are provided which require specialized skills, are provided by such skilled individuals and would typically need to be purchased. In addition, the Company's programs and fund raising activities have benefited from the significant amounts of time donated by other volunteers; however, no accounting recognition has been given to these additional donated services.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments:

The recorded value of the Company's financial instruments approximates their fair values. Financial instruments include cash, accounts receivable and accounts payable.

Economic Concentrations:

The Company's operations are concentrated in San Diego County. Management is not aware of the existence of any severe or substantial cut backs pending due to the described concentrations of economic risk.

Note 2. Property and Equipment

Property and equipment are stated and cost and consists of the following:

Tenant improvements	$ 469,437.00
Equipment	350,968.30
Less : accumulated depreciation	(252,572.17)
Net property and equipment	$ 567,833.13

Note 3. Commitments and contingencies

The Company leases its theatre, office and rehersal facilities. These leases expire at various dates through 2018 and require annual rentals of : $92,377 for 2012 and for 2013-2018 $ 40,000 annually. In addition, the Company has entered into a Concession Agreement with the State of California which requires percentage rentals of 3% on gross receipts against minimum annual rentals of $ 40,000.

The Company receives funding from government agencies which is restricted under the terms of the related funding agreements. Expenditures are charged against these restricted funds are subject to audit by the funding agencies. It is possible future audits will result in expenditure disallowances; however, based on their knowledge of the funding agencies and the fact that no material cost disallowances have occurred in the past, management believes that any such disallowances will not be material.

Note 4. Notes Payable to Officers/Directors

At June 30, 2011 the Company is indebted to officers/directors in the amount of $ 69,200 for cash advances to the Company. The notes are non-interest bearing and are due in full by June 30, 2012.

Note 5. Pension Costs

The Company's employees are not covered by a Company sponsored pension plan.

Note 6. Income Tax Status

No provision for income taxes has been provided in the financial statements as the Company has qualified for exemption from income taxes under Federal and State Revenue Codes. The Company is subject to income taxes on unrelated business income, if any.)

Note 7. Supplementary information on Program Outputs (Measures of Performance)

The Company presents a year – long series of main stage productions that reflect a wide diversity of material drawn from comedies to dramas, cutting edge work to classical musicals, and the season typically includes artistically challenging plays that are not often seen in the San Diego community.

For the year ended June 30, 2011 the Company produced 7 main stage productions: Triology of plays collectively called the *Norman Conquests* by Alan Ayekbourn which included *Table Manners, Living Together and Round and Round the Garden*; the annual holiday classic *It's a Wonderfule Life: A Live Radio Play; following this the Company produced their first world premiere, Tragedy of the Commons;* which was followed by *Cabaret* and *Our Town.*

In addition, the Company produced 7 independent staged readings, including two new plays as part of the Company's Playwright in Process Series. Also a theatrical education program was presented based on California history and classical literature, *Storeytelling on the Green,* where actors performed 19^{th} century-style abridged works of Shakespeare and Dickens to tens of thousands of San Diego students and park visitors. Total attendance for the main-stage season was 39,168.

Note 8. Affiliate Transactions

The capitalized lease obligation reflected in the statement of financial position is guaranteed by an officer of the Company.

The bank note payable of $ 39,999 is guaranteed and partially secured by cash deposits with the lender by directors.

Note 9. Note Payable to Bank

The bank note payable of $39,999 is payable in monthly installments of $ 5,000 plus interest at 5 %..

Note 10 Capitalized Lease Obligations

These obligations are repayable in with monthly payments $ 5,480 through July 2011 and $ 706 monthly thereafter through March 2013.

Note 11 Temporarily Restricted Net Assets

At June 30, 2010 temporarily restricted net assets of $ 119,000 will be expended by June 30, 2012.

CYGNET THEATR
RECONCILIATION TO AUDIT
30-Jun-11

	ASSETS	LIAB /EQUITY	NET INCOME	REVENUE	EXPENSES
PER GENERAL LEDGER BEFORE ADJ BELOW:	1,016,133.14	599,300.32	31,177.25	1,745,782.69	1,703,596.65
OTHER INCOME			17,549.48	17,549.48	
			4,220.00	4,220.00	
OTHER EXPENSE			(1,566.80)		1,566.80
					11,008.79
ADJUST BALANCES			51,379.93	1,767,552.17	1,716,172.24
AUDIT ADJUSTMENTS					
ADJUST DEFERRED INCOME		12,033.07	(12,033.07)	(12,033.07)	
ADJUST FIXED ASSETS	(68,096.16)		(68,096.16)		
			NET →	10,384.04	
ADJUST LEASE OBLIGATIONS		(78,480.20)	78,480.20		
ADJUST ACCRUED VACATION		2,027.10	(2,027.10)		2,027.10
RECORD DEPRECIATION EXPENSE	(67,516.00)		(67,516.00)		67,516.00
ADJUST FUND BAL TO AGREE LAST YEAR AUDIT			(329.54)		329.54
RECORD IN KIND CONTRIB CORKYS				45,000.00	45,000.00
ADJUST BANK DEBT / INT EXPENSE TO ACTUAL		1,114.89	(1,114.89)		1,114.89
AUDIT RPPORT TOTALS	880,520.98	535,995.18	(21,256.63)	1,810,903.14	1,832,159.77
					(1,810,903.14)
					(21,256.63)

CYGNET THEATRE
AUDIT ADJUSTMENTS
30-Jun-11

A/C #	DESCRIPTION	DR	CR
1615	TENANT IMPROVEMENTS		68,096.16
1700	ACC DEPREC		67,516.00
	DEPRECIATION EXPENSE	67,516.00	
2112	ACCRUED VACATION		2,027.10
2510	SINGLE TICKETS	1,783.90	
2520	SEASON TICKETS		13,816.97
2819	CAPT LEASE OBLIG	9,587.36	
2850	CAPT LEASE OBLIG	69,780.53	20,299.29
2851	CAPT LEASE OBLIG	19,411.60	
2650	US BANK LOAN		1,114.89
87D0	INTEREST EXPENSE	1,114.89	
	PAYROLL EXPENSE	2,027.10	
	IN KIND CONTRIB		45,000.00
	ADVERTISING COSTS - PRINTING	45,000.00	
	OTHER MISC INCOME		10,384.04
	MISC EXPENSE	329.54	
5120	TICKET SALES	12,033.07	
3100	PRIOR YEAR AJE		521.66
3400	FUND BALANCE		329.54
3999	NET ASSETS	521.66	
		229,105.65	229,105.65

CYGNET THEATRE COMPANY

NOTE PLS SIGN AND RETURN TO THE AUDITOR

REPRESENTATION LETTER

To : RONALD E. GRUND, C.P.A., INC.

We are providing this letter in connection with your audit of the statement of financial position as of June 30,2011 and the statements of activities and cash flows for the year then ended of the Company for the purpose of expressing an opinion as to whether the financial statements referred to present fairly, in all material respects, the financial position, changes in net assets, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are presented in conformity with generally accepted accounting principles.
2. We have made available to you all
   a. Financial records and related data.
   b. Minutes of the meetings of the board of trustees and committees of the board of trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
5. The following have been properly recorded or disclosed in the financial statements:
   a. Related-party transactions and related receivables or payables, including sales, support, or other revenue, purchases, loans, transfers, leasing arrangements, and guarantees.
   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

....II

c. Guarantees, whether oral or written, under which the organization is contingently liable.
d. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6 (Disclosures of Certain Significant Risks and Uncertainties).
e. Agreements to repurchase assets previously sold.

6. There are no:
   a. Violations or possible violations of laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
   b. There are no unasserted claims or assessments that must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and we have not consulted with an attorney regarding unasserted claims or assessments. .
   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
7. There has been no:
   a. Fraud involving management or employees who have significant roles in internal control (except as disclosed re payroll diversion of funds)
   b. Fraud involving others that could have a material effect on the financial statements.
8. There are no material transactions that have not been properly recorded in the financial statements.
9. Provision, when material, has been made to reduce excess or obsolete inventories to their net realizable value.
10. The organization has satisfactory title to all owned assets, and there have been no liens or encumbrances on such assets nor has any asset been pledged.
11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
12. We acknowledge that:
    a. Management is responsible for Cygnet's compliance with laws and Regulations applicable to it
    b. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
13. We believe that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. (NONE FOR THE YEAR 2011)
14. No events have occurred subsequent to the date of the statement of financial position that would require adjustment to, or disclosure in, the financial statements.

Dated: July 30, 2011

WILLIAM SCHMIDT TREASURER

RONALD E. GRUND, C.P.A. INC.
P.O. BOX 420163
SAN DIEGO, CA 92142

CYGNET THEATRE COMPANY

AUDITOR'S REPORT COMMUNICATION OF INTERNAL CONTROL MATTERS IDENTIFIED IN MY AUDIT – NO MATERIAL WEAKNESSES IDENTIFIED

In planning and performing my audit of the financial statements of Cygnet Theatre Company as of and for the year ended June 30, 2011 in accordance with auditing standards generally accepted in the United States of America, I considered the Company's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I do not express an opinion on the effectiveness of the Company's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses , as defined above.

This communication is intended solely for the management and use of management and the board of directors, and others within the entity and is not intended to be used by anyone other than these specified parties.

RONALD E .GRUND, C.P.A., INC.

July 30, 2011