

**GOOD NEIGHBORS USA**  
**FINANCIAL STATEMENTS**  
DECEMBER 31, 2012 and 2011  
(With Independent Auditors' Report)

**ERNEST E. DOW & CO.**  
AN ACCOUNTANCY CORPORATION  
LOS ANGELES, CALIFORNIA

# GOOD NEIGHBORS USA

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**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of Good Neighbors USA, which comprise the statements of financial position as of December 31, 2012, and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U. S. generally accepted accounting principles; 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.

**Auditors' 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 of 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 auditors' 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 organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

## INDEPENDENT AUDITORS' REPORT, *CONTINUED*

### **Auditors' Responsibility, *Continued***

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Neighbors USA as of December 31, 2012 and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



An Accountancy Corporation  
Los Angeles, California  
August 30, 2013

**GOOD NEIGHBORS USA**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2012 and 2011**

ASSETS		
	2012	2011
Current assets:		
Cash	\$ 121,923	\$ 135,130
Prepaid expenses	3,321	6,320
Unconditional promises to give, net of discount	237,694	199,182
Total current assets	362,938	340,632
Non-current assets:		
Unconditional promises to give, net of discount	393,776	336,833
Property and equipment, net of accumulated depreciation	54,501	51,307
Total non-current assets	448,277	388,140
Other assets:		
Security deposits	4,179	5,300
Intangible asset, net of amortization	-	5,701
Total other assets	4,179	11,001
<b>Total Assets</b>	<b>\$ 815,394</b>	<b>\$ 739,773</b>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued Expenses	\$ 4,437	\$ 10,054
Contracts payable	13,462	7,874
Total current liabilities	17,899	17,928
Long-term liabilities:		
Contracts payable, net of current portion shown above	19,504	22,335
Total long-term liabilities	19,504	22,335
Total liabilities	37,403	40,263
Net Assets:		
Unrestricted	146,521	160,620
Temporarily restricted	631,470	538,890
Total net assets	777,991	699,510
<b>Total Liabilities and Net Assets</b>	<b>\$ 815,394</b>	<b>\$ 739,773</b>

See accompanying notes to financial statements.

**GOOD NEIGHBORS USA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
Contributions	\$ 275,756	\$ 294,637	\$ 570,393
Support from affiliate	1,461,476	-	1,461,476
Interest income	64	-	64
Net assets released from restrictions	202,057	(202,057)	-
<b>Total Support and Revenue</b>	<b><u>1,939,353</u></b>	<b><u>92,580</u></b>	<b><u>2,031,933</u></b>
<b>Expenses:</b>			
Program services:			
Child sponsorship	152,775	-	152,775
Water for life	90,920	-	90,920
Project cook stoves	3,520	-	3,520
Emergency relief	784,680	-	784,680
Other projects	15,671	-	15,671
Indirect program expenses	397,091	-	397,091
<b>Total program services</b>	<b><u>1,444,657</u></b>	<b><u>-</u></b>	<b><u>1,444,657</u></b>
Supporting services:			
Management and general	260,273	-	260,273
Fundraising	248,522	-	248,522
<b>Total supporting services</b>	<b><u>508,795</u></b>	<b><u>-</u></b>	<b><u>508,795</u></b>
<b>Total Expenses</b>	<b><u>1,953,452</u></b>	<b><u>-</u></b>	<b><u>1,953,452</u></b>
<b>Change in Net Assets</b>	<b>(14,099)</b>	<b>92,580</b>	<b>78,481</b>
<b>Net Assets, Beginning of Year</b>	<b><u>160,620</u></b>	<b><u>538,890</u></b>	<b><u>699,510</u></b>
<b>Net Assets, End of Year</b>	<b><u>\$ 146,521</u></b>	<b><u>\$ 631,470</u></b>	<b><u>\$ 777,991</u></b>

See accompanying notes to financial statements.

**GOOD NEIGHBORS USA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
Contributions	\$ 308,084	\$ 344,110	\$ 652,193
Support from affiliate	796,006	-	796,006
Interest income	429	-	429
Net assets released from restrictions	103,194	(103,194)	-
<b>Total Support and Revenue</b>	<b><u>1,207,713</u></b>	<b><u>240,916</u></b>	<b><u>1,448,629</u></b>
<b>Expenses:</b>			
Program services:			
Child sponsorship	147,856	-	147,856
Water for life	96,200	-	96,200
Project cook stoves	4,160	-	4,160
Emergency relief	143,528	-	143,528
Other projects	32,156	-	32,156
Indirect program expenses	347,783	-	347,783
<b>Total program services</b>	<b><u>771,683</u></b>	<b><u>-</u></b>	<b><u>771,683</u></b>
Supporting services:			
Management and general	196,203	-	196,203
Fundraising	219,719	-	219,719
<b>Total supporting services</b>	<b><u>415,922</u></b>	<b><u>-</u></b>	<b><u>415,922</u></b>
<b>Total Expenses</b>	<b><u>1,187,605</u></b>	<b><u>-</u></b>	<b><u>1,187,605</u></b>
<b>Change in Net Assets</b>	<b>20,108</b>	<b>240,916</b>	<b>261,024</b>
<b>Net Assets, Beginning of Year</b>	<b><u>140,512</u></b>	<b><u>297,974</u></b>	<b><u>438,486</u></b>
<b>Net Assets, End of Year</b>	<b><u>\$ 160,620</u></b>	<b><u>\$ 538,890</u></b>	<b><u>\$ 699,510</u></b>

See accompanying notes to financial statements.

**GOOD NEIGHBORS USA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Services	Supporting Services			Total Expenses
	Program Services	Management and General	Fund Raising	Total Supporting	
Child sponsorship	\$ 152,775	\$ -	\$ -	\$ -	\$ 152,775
Water for life	90,920	-	-	-	90,920
Project cook stoves	3,520	-	-	-	3,520
Emergency relief	784,680	-	-	-	784,680
Other projects	15,671	-	-	-	15,671
Automobile expenses	5,393	2,943	3,222	6,165	11,558
Advertising	3,953	276	7,250	7,526	11,479
Administration fees	-	6,232	-	6,232	6,232
Amortization and depreciation	11,550	7,028	5,996	13,025	24,575
Bank and credit card charges	-	11,961	-	11,961	11,961
Consulting	40,250	1,250	33,000	34,250	74,500
Dues and subscriptions	-	154	-	154	154
Employee education	600	1,500	-	1,500	2,100
Insurance	7,448	18,819	2,136	20,954	28,402
Interest	343	459	137	596	940
Loss on disposition of equipment	-	590	-	590	590
Meeting and convention	5,533	1,715	1,283	2,997	8,531
Miscellaneous	1,959	-	419	419	2,378
Occupancy	50,578	17,440	24,308	41,748	92,326
Office expenses	15,519	9,162	4,782	13,944	29,463
Postage and shipping	5,716	3,011	888	3,899	9,615
Professional services	-	28,295	750	29,045	29,045
Repairs and maintenance	-	4,556	595	5,151	5,151
Salaries and related taxes	216,865	131,965	112,585	244,550	461,415
Special events	2,963	-	1,480	1,480	4,443
Supplies	8,513	4,893	4,506	9,399	17,912
Travel	53,409	3,157	2,154	5,312	58,721
Telephone and communication	4,748	2,728	1,889	4,616	9,364
Utilities	1,999	2,193	840	3,033	5,033
<b>Total</b>	<b>\$ 1,484,907</b>	<b>\$ 260,326</b>	<b>\$ 208,219</b>	<b>\$ 468,545</b>	<b>\$ 1,953,452</b>

See accompanying notes to financial statements.



**GOOD NEIGHBORS USA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Services	Supporting Services			Total Expenses
	Program Services	Management and General	Fund Raising	Total Supporting	
Child sponsorship	\$ 147,856	\$ -	\$ -	\$ -	\$ 147,856
Water for life	96,200	-	-	-	96,200
Project cook stoves	4,160	-	-	-	4,160
Emergency relief	143,528	-	-	-	143,528
Other projects	32,156	-	-	-	32,156
Automobile expenses	5,564	3,445	3,143	6,588	12,152
Advertising	33,688	120	4,554	4,674	38,362
Administration fees	4,056	-	1,500	1,500	5,556
Amortization and depreciation	12,549	11,807	15,670	27,477	40,026
Bank and credit card charges	495	2,066	5,807	7,873	8,368
Consulting	12,000	-	12,000	12,000	24,000
Dues and subscriptions	1,864	427	2,552	2,979	4,843
Insurance	3,328	14,476	703	15,179	18,507
Interest	199	227	199	425	624
Occupancy	45,733	16,192	20,144	36,336	82,068
Office expenses	14,719	8,329	5,482	13,811	28,530
Postage and shipping	4,590	2,467	4,961	7,428	12,018
Professional services	3,141	31,937	670	32,607	35,748
Repairs and maintenance	3,001	4,083	4,663	8,746	11,747
Salaries and related taxes	155,159	94,597	80,659	175,257	330,415
Special events	-	-	44,258	44,258	44,258
Supplies	7,829	1,392	1,443	2,835	10,664
Travel	33,148	2,666	9,419	12,085	45,232
Telephone and communication	3,870	811	1,153	1,964	5,834
Utilities	2,852	1,161	740	1,901	4,753
<b>Total</b>	<b>\$ 771,683</b>	<b>\$ 196,203</b>	<b>\$ 219,719</b>	<b>\$ 415,922</b>	<b>\$ 1,187,605</b>

See accompanying notes to financial statements.

**GOOD NEIGHBORS USA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 78,481	\$ 261,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization and depreciation	24,575	40,026
Loss on disposition of equipment	590	-
Changes in assets and liabilities:		
Increase in unconditional promises to give	(95,456)	(238,041)
Decrease in prepaid expenses and other assets	4,120	1,885
Increase in accrued expenses and other current liabilities	(5,617)	(4,273)
<b>Net cash provided by operating activities</b>	<b>6,693</b>	<b>60,621</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(8,210)	(2,612)
<b>Net cash used in investing activities</b>	<b>(8,210)</b>	<b>(2,612)</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment on contracts payable	(11,690)	(7,739)
<b>Net cash used in financing activities</b>	<b>(11,690)</b>	<b>(7,739)</b>
<b>Net increase(decrease) in cash</b>	<b>(13,207)</b>	<b>50,270</b>
 <b>Cash, Beginning of Year</b>	<b>135,130</b>	<b>84,860</b>
<b>Cash, End of Year</b>	<b>\$ 121,923</b>	<b>\$ 135,130</b>
<b>Supplemental cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ 940	\$ 624
<b>Noncash investing and financing activities:</b>		
Increase in contracts payable for acquisition of property and equipment	\$ 14,449	\$ 20,354

See accompanying notes to financial statements.

**GOOD NEIGHBORS USA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 and 2011**

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**NOTE 1 – ORGANIZATION AND OPERATIONS**

Good Neighbors USA(GNUSA) is an international humanitarian and community development organization incorporated under the laws of the State of California. GNUSA is committed to build a global community where people live together in health, harmony, and dignity.

GNUSA is an affiliate of Good Neighbors International(GNI), a global network of humanitarian organization with its affiliates in 30 countries and 195 field offices in five continents. As a significant partner of GNI, these organizations share information and work together for child education, community development, health, sanitation, and disaster relief aid projects.

GNUSA is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Donors of cash and/or property are entitled to the maximum charitable contribution deduction allowed by law.

Good Neighbors USA's fundraising, management, and general expenses are fully supported by Good Neighbors International, so contributions from individual donors are only used for Good Neighbors USA's direct programs.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of GNUSA have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles(GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP includes the use of estimates that affect the financial statements. Significant estimates made in the preparation of the financial statements include net present value of unconditional promises to give, depreciation, and functional expense allocations. Accordingly, actual results could differ from those estimates.

Unconditional promises to give

Unconditional promises to give are expected contributions in the future five years. GNUSA uses the number of sponsored children at the last date of the fiscal year and the past five years' historical response rates for the estimates. Unconditional promises to give are discounted to the present value using a risk-adjusted discount rate.

Property and Equipment

GNUSA capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are stated primarily at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets, generally three to seven years.

The costs of repairs and maintenance and amortization and depreciation are charged to expense. Upon the sale or retirement of the property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statements of activities.

**GOOD NEIGHBORS USA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 and 2011**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *CONTINUED*

Contributions

Contributions are recorded as revenue when received, or when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donor intent. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

Net Assets

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958, financial statements of Not-for-Profit Organizations. Under those provisions, net assets are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that can be fulfilled by actions of GNUSA pursuant to those restrictions or that expire by the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that maintained permanently by the GNUSA. Generally, the donors of such assets permit GNUSA to use all or part of the income earned on the assets.

As of December 31, 2012 and 2011, GNUSA only has unrestricted and temporarily restricted net assets.

Income Taxes

GNUSA is a nonprofit organization that is exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

Donated Services

In 2012, approximately 82 volunteers participated in GNUSA's domestic and international programs. The hours of donated services were approximately 1,871 and 1,046 for the years ended December 31, 2012 and 2011, respectively. However, these services were not reflected in the accompanying financial statements because they did not meet the criteria for recognition under GAAP. Under Statement of Financial Accounting Standards (SFAS) 116, the donated services must create or enhance nonfinancial assets, or require specialized skills to be recognized as revenue. Also, donated services would typically need to be purchased if not provided by donation.

Advertising Expenses

The costs of advertising are expensed as incurred or expensed. Total advertising expenses were \$11,479 and \$ 38,362 for the years ended December 31, 2012 and 2011, respectively.

Functional Expenses

GNUSA allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly. Accordingly, certain costs of joint activities related to fundraising, management and general, child sponsorship, and other projects have been allocated as indicated among the programs and supporting services benefited.

**GOOD NEIGHBORS USA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 and 2011**

**NOTE 3 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at December 31, 2012 and 2011, consisted of the following:  
 Unconditional promises to give expected to be collected in:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 249,579	\$ 199,182
Within two to five years	460,784	354,560
	<u>710,363</u>	<u>553,742</u>
Less: Discount on uncollectible promises to give	(78,893)	(17,727)
Net unconditional promises to give	<u>\$ 631,470</u>	<u>\$ 536,015</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment were comprised of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Automobiles	\$65,198	\$ 53,549
Computers	10,754	8,788
Office equipment	18,145	13,075
Furniture and fixture	5,314	4,141
	<u>99,411</u>	<u>79,553</u>
Less: Accumulated depreciation	(44,910)	(28,246)
Property and equipment, net of depreciation	<u>\$ 54,501</u>	<u>\$ 51,307</u>

Depreciation expenses for the years ended December 31, 2012 and 2011 were \$18,874 and \$ 14,476, respectively.

**NOTE 5 – INTANGIBLE ASSET**

GNUSA amortizes its website over the estimated useful life of three years. Amortizable intangible asset is tested for impairment when impairment indicators are present, and if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of website costs has been identified during the period presented.

The carrying amount and accumulated amortization related to the website costs are as follows as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross balance	\$ 76,650	\$ 76,650
Less: Accumulated amortization	(76,650)	(70,949)
Net intangible asset balance	<u>\$ -</u>	<u>\$ 5,701</u>

Amortization expense for the years ended December 31, 2012 and 2011 were \$5,701 and \$ 25,550.

**GOOD NEIGHBORS USA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 and 2011**

**NOTE 6 – PREPAID EXPENSES**

As of December 31, 2012 and 2011, GNUSA's prepaid expenses consist of the following:

	2012	2011
Occupancy expense	\$ -	\$ 1,691
Insurance expenses	3,321	4,629
Total prepaid expenses	<u>\$ 3,321</u>	<u>\$ 6,320</u>

**NOTE 7 - ACCRUED EXPENSES**

GNUSA's accrued expenses at December 31, 2012 and 2011 consist of the following:

	2012	2011
Web maintenance fees	\$ -	\$ 4,035
Consulting expense	-	6,000
Credit card payable	4,397	-
Automobile expense	40	19
Total accrued expenses	<u>\$ 4,437</u>	<u>\$ 10,054</u>

**NOTE 8 - CONTRACTS PAYABLE**

As of December 31, 2012 and 2011, GNUSA has contracts payable as following:

	2012	2011
Contract payable on automobile, 2.90% note, 60 months term, interest and principal due monthly, due 2015	\$ 9,338	\$ 13,182
Contract payable on automobile, 0.90% note, 60 months term, interest and principal due monthly, due 2016	12,997	17,027
Contract payable on automobile, 3.90% note, 36 months term, interest and principal due monthly, due 2015	10,631	-
Total contracts payable	<u>32,966</u>	<u>30,209</u>
Less: Current portion	<u>(13,462)</u>	<u>(7,874)</u>
Contracts payable, net of current portion	<u>\$ 19,504</u>	<u>\$ 22,335</u>

Maturities of contracts payable for future years ending December 31, 2012 are as follows:

2013	\$ 12,814
2014	13,158
2015	5,873
2016	690
	<u>\$ 32,535</u>

Interest paid and expensed under these contracts payable was \$940 and \$ 624 for the years ended December 31, 2012 and 2011, respectively.

**GOOD NEIGHBORS USA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 and 2011**

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**NOTE 9 – OPERATING LEASES**

GNUSA has commitments related to operating leases for building facilities at December 31, 2012 and 2011. Future minimum lease payments under these operating leases at December 31, 2012 are as follows:

2013	\$ 30,000
2014	30,000
2015	30,000
2016	30,000
2017	25,000
	<u>\$ 145,000</u>

Rent expenses under these leases were \$88,471 and \$ 77,460 for the years ended December 31, 2012 and 2011, respectively.

**NOTE 10 – NET ASSETS**

GNUSA's net assets are classified based on the absence or existence and nature of donor-imposed restrictions. As of December 31, 2012 and 2011, GNUSA only has unrestricted and temporarily restricted net assets. Temporarily restricted net assets are restricted for the child sponsorship purpose. As of December 21, 2012 and 2011, temporarily restricted net assets were \$631,470 and \$ 538,890, respectively.

**NOTE 11 - RELATED PARTY TRANSACTIONS AND CONCENTRATION OF REVENUE**

During 2012, and 2011, GNUSA received \$1,461,476 and \$ 796,006 respectively from its affiliate, GNI. The amounts were included in the support and revenue of the statement of activities, and recorded as support from affiliate. Those amounts were respectively seventy two and fifty five percentages of GNUSA's total support and revenue for the years ended December 31, 2012 and 2011.

**NOTE 12 – CONTINGENCIES**

During the year ended December 31, 2012, GNUSA was not involved any legal proceedings and claims to have a material adverse effect on the Organization's financial position, changes in net assets, or cash flows.

**NOTE 13 – SUBSEQUENT EVENTS**

ASC 855, *Subsequent Events*, is intended to establish general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. GNUSA has evaluated subsequent events through August 30, 2013, the date the financial statements were available to be issued, and there were none to be reported.