HELEN WOODWARD ANIMAL CENTER
FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

HELEN WOODWARD ANIMAL CENTER

CONSIDINE & CONSIDINE
CERTIFIED PUBLIC ACCOUNTANTS

To The Board of Directors
Helen Woodward Animal Center
6461 El Apajo Road
Rancho Santa Fe, CA 92067

Independent Auditor's Report

We have audited the accompanying statements of financial position of Helen Woodward Animal Center, A Nonprofit Organization, as of December 31, 2008 and 2007, 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 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 misstatements. 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 audit provides 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 Helen Woodward Animal Center, A Nonprofit Organization, as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Considine & Considine

CONSIDINE & CONSIDINE
An Accountancy Corporation

August 6, 2009

Earning Your Trust Since 1946

1501 FIFTH AVENUE, SUITE 400 · SAN DIEGO, CALIFORNIA 92101-3297
TEL 619-231-1977 · FAX 619-231-8244 · www.cccpa.com

HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 4,458,919	$ 4,985,400
Certificates of Deposit	220,425	108,524
Accounts Receivable	72,763	78,953
Inventory	11,978	10,771
Prepaid Expenses	36,489	52,316
Note Receivable from Related Party (Note 3)	399,181	399,569
Unconditional Promises to Give (Note 4)	4,612,870	4,316,058
Investments (Note 5)	3,375,601	4,696,889
Charitable Remainder Trusts (Note 6)	2,965,856	3,201,112
Property and Equipment (Note 7)	4,343,646	3,588,965
Life Insurance Premium Account (Note 8)	892,780	926,399
Investment in San Diego Foundation (Note 9)	10,752	14,220
Investment in Rancho Santa Fe Foundation (Note 10)	10,772	14,101
TOTAL ASSETS	21,412,032	22,393,277
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	367,986	251,885
Accrued Payroll	98,522	83,717
Accrued Compensated Absences	120,866	105,962
Deferred Compensation (Note 11)	137,589	164,050
Security Deposits	4,770	4,770
TOTAL LIABILITIES	729,733	610,384
NET ASSETS (Note 13)		
Unrestricted	4,399,458	5,451,878
Unrestricted - Board Designated	2,616,879	2,695,227
Temporarily Restricted	12,031,010	12,000,836
Permanently Restricted	1,634,952	1,634,952
	20,682,299	21,782,893
TOTAL LIABILITIES AND NET ASSETS	$ 21,412,032	$ 22,393,277

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 350,544	$ 2,774,910	$ -	$ 3,125,454
Fees	2,488,819	-	-	2,488,819
Interest and Dividend Income	385,263	-	-	385,263
Special Events (Net Expenses of $298,705)	384,358	-	-	384,358
Sales	172,369	-	-	172,369
Other Income	132,591	-	-	132,591
Contributed Goods	73,392	-	-	73,392
Rents	59,009	-	-	59,009
Change in the Value of Split-Interest Agreements	(235,256)	-	-	(235,256)
Net Realized and Unrealized Loss on Investments	(1,343,765)	-	-	(1,343,765)
	2,467,324	2,774,910	-	5,242,234
NET ASSETS RELEASED FROM RESTRICTION	2,744,736	(2,744,736)	-	-
EXPENSES:				
Program	4,670,900	-	-	4,670,900
Management and General	377,681	-	-	377,681
Fundraising	1,188,585	-	-	1,188,585
	6,237,166	-	-	6,237,166
COST OF SALES	105,662	-	-	105,662
TOTAL EXPENSES	6,342,828	-	-	6,342,828
CHANGE IN NET ASSETS	(1,130,768)	30,174	-	(1,100,594)
NET ASSETS - BEGINNING OF YEAR	8,147,105	12,000,836	1,634,952	21,782,893
NET ASSETS - END OF YEAR	$ 7,016,337	$ 12,031,010	$ 1,634,952	$ 20,682,299

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 358,031	$ 1,626,410	$ -	$ 1,984,441
Fees	2,363,513	-	-	2,363,513
Interest and Dividend Income	559,050	-	-	559,050
Special Events (Net Expenses of $413,369)	247,941	-	-	247,941
Sales	148,307	-	-	148,307
Other Income	89,129	-	-	89,129
Contributed Goods	6,706	-	-	6,706
Rents	53,125	-	-	53,125
Change in the Value of Split-Interest Agreements	(267,810)	-	-	(267,810)
Net Realized and Unrealized Gain on Investments	228,038	-	-	228,038
	3,786,030	1,626,410	-	5,412,440
NET ASSETS RELEASED FROM RESTRICTION	2,276,342	(2,276,342)	-	-
EXPENSES:				
Program	4,507,722	-	-	4,507,722
Management and General	382,364	-	-	382,364
Fundraising	880,733	-	-	880,733
	5,770,819	-	-	5,770,819
COST OF SALES	74,550	-	-	74,550
TOTAL EXPENSES	5,845,369	-	-	5,845,369
CHANGE IN NET ASSETS	217,003	(649,932)	-	(432,929)
NET ASSETS - BEGINNING OF YEAR	7,930,102	12,650,768	1,634,952	22,214,822
NET ASSETS - END OF YEAR	$ 8,147,105	$ 12,000,836	$ 1,634,952	$ 21,782,893

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services								Supporting Services				
	Equine Hospital	Adoptions	Boarding	Education	Therapeutic Riding	Pet Encounter Therapy	Animeals	Total Program Services	Management and General	Fundraising	Total Supporting Services	Special Events	Total
EXPENSES													
Salaries, Wages and Related Benefits	$ 514,499	$ 949,189	$ 654,647	$ 433,926	$ 300,190	$ 186,336	$ 46,919	$ 3,085,706	$ 214,666	$ 638,561	$ 853,227	$ -	$ 3,938,933
Operating Supplies and Expenses	312,757	232,065	267,973	78,035	71,284	24,027	13,391	999,532	99,867	44,546	144,413	11,796	1,155,741
Printing, Advertising and Postage	1,766	5,875	6,748	10,182	1,251	849	887	27,558	723	165,111	165,834	146,893	340,285
Outside Services	8,219	45,920	3,542	3,004	22,943	215	55	83,898	110	31,640	31,750	57,906	173,554
Other	33,483	13,299	20,624	10,037	473	65	-	77,981	39,946	67,396	107,342	51,774	237,097
Maintenance, Repairs and Equipment Rental	16,357	4,934	3,515	5,022	961	2,239	593	33,621	6,722	2,172	8,894	22,825	65,340
Donated Goods and Services	-	27,318	-	8,695	5,685	445	24,744	66,887	-	870	870	6,556	74,313
Office Expenses	980	3,702	2,265	3,158	527	288	33	10,953	55	4,337	4,392	955	16,300
Capital Campaign Expenses	-	-	-	-	-	-	-	-	-	231,235	231,235	-	231,235
Katrina Expenses	-	3,033	-	-	-	-	-	3,033	-	-	-	-	3,033
Total Expenses Before Depreciation	888,061	1,285,335	959,314	552,059	403,314	214,464	86,622	4,389,169	362,089	1,185,868	1,547,957	298,705	6,235,831
Depreciation	112,249	17,332	124,875	6,499	12,125	8,521	130	281,731	15,592	2,717	18,309	-	300,040
TOTAL FUNCTIONAL EXPENSES	$ 1,000,310	$ 1,302,667	$ 1,084,189	$ 558,558	$ 415,439	$ 222,985	$ 86,752	$ 4,670,900	$ 377,681	$ 1,188,585	$ 1,566,266	$ 298,705	$ 6,535,871

See Accompanying Notes

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Services								Supporting Services				
	Equine Hospital	Adoptions	Boarding	Education	Therapeutic Riding	Pet Encounter Therapy	Animeals	Total Program Services	Management and General	Fundraising	Total Supporting Services	Special Events	Total
EXPENSES													
Salaries, Wages and Related Benefits	$ 541,343	$ 903,082	$ 598,294	$ 439,784	$ 319,434	$ 186,159	$ 49,383	$ 3,037,479	$ 223,827	$ 430,923	$ 654,750	$ 135,402	$ 3,827,631
Operating Supplies and Expenses	315,785	207,439	243,195	81,558	72,083	23,012	14,770	957,842	86,469	33,877	120,346	3,987	1,082,175
Printing, Advertising and Postage	2,330	7,720	5,037	13,810	738	437	644	30,716	378	163,705	164,083	133,134	327,933
Outside Services	10,014	34,616	759	3,761	10,693	1,091	-	60,934	(479)	14,444	13,965	50,715	125,614
Other	38,567	11,505	18,059	11,482	1,354	504	22	81,493	41,131	79,490	120,621	29,358	231,472
Maintenance, Repairs and Equipment Rental	11,003	8,640	3,793	3,082	759	1,238	495	29,010	11,698	5,592	17,290	26,174	72,474
Donated Goods and Services	-	2,200	-	262	410	-	2,334	5,206	-	-	-	32,602	37,808
Office Expenses	2,010	2,834	2,141	3,583	498	189	92	11,347	5,072	5,458	10,530	1,997	23,874
Capital Campaign Expenses	-	-	-	-	-	-	-	-	-	144,813	144,813	-	144,813
Katrina Expenses	-	5,503	-	-	-	-	-	5,503	-	-	-	-	5,503
Total Expenses Before Depreciation	921,052	1,183,539	871,278	557,322	405,969	212,630	67,740	4,219,530	368,096	878,302	1,246,398	413,369	5,879,297
Depreciation	123,031	17,753	124,811	1,686	12,125	8,654	132	288,192	14,268	2,431	16,699	-	304,891
TOTAL FUNCTIONAL EXPENSES	$ 1,044,083	$ 1,201,292	$ 996,089	$ 559,008	$ 418,094	$ 221,284	$ 67,872	$ 4,507,722	$ 382,364	$ 880,733	$ 1,263,097	$ 413,369	$ 6,184,188

HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$ (1,100,594)	$ (432,929)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	300,041	304,891
Net Realized and Unrealized Loss/(Gain) on Investments	1,343,765	(228,038)
Donations of Investments Included in Contributions	(506,354)	(594,007)
Change in the Value of Split-Interest Agreements	235,256	267,810
Decrease in Accounts Receivable	6,190	1,187
(Increase)/Decrease in Inventory	(1,207)	1,699
Decrease in Prepaid Expenses, Deposits, and Other Assets	15,827	8,088
(Increase)/Decrease in Unconditional Promise to Give	(296,812)	2,072,671
Increase/(Decrease) in Accounts Payable and Accrued Expenses	116,101	(222,663)
Increase in Accrued Payroll	14,805	9,531
Increase in Accrued Compensated Absences	14,904	9,829
Decrease in Deferred Compensation and Benefits	(26,461)	(20,741)
	1,216,055	1,610,257
NET CASH PROVIDED BY OPERATING ACTIVITIES	115,461	1,177,328
CASH USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,054,722)	(308,364)
Increase in Certificates of Deposit	(111,901)	(108,524)
Increase in Life Insurance Premium Account	(24,000)	(24,000)
Proceeds from Sale of Investments	1,282,758	2,322,851
Purchase of Investments	(734,465)	(1,809,534)
Principal Payments on Note Receivable from Related Party	388	371
	(641,942)	72,800
NET (DECREASE)/INCREASE IN CASH	(526,481)	1,250,128
CASH, BEGINNING OF YEAR	4,985,400	3,735,272
CASH, END OF YEAR	$ 4,458,919	$ 4,985,400

NOTE 1 THE ORGANIZATION

Helen Woodward Animal Center (the "Center") is a Nonprofit Corporation formed in California in June 1972. The Center was renamed in 1987 for Helen Woodward, the Center's founder and benefactor. The Center serves primarily San Diego County, California.

The Center conducts a variety of programs which benefit the community. The Center's pet placement service finds new homes for cats and dogs surrendered by their owners or rescued from area shelters and cares for these animals prior to adoption. The Therapeutic Riding program benefits disabled children and adults, both physically and emotionally. The Pet Encounter Therapy program brings the joy of animals to persons confined in such facilities as homes for abused or homeless children, hospitals, and senior centers, and provides the same experience for groups that choose to visit the Center.

The Center also provides educational programs for children and adults on a variety of topics, including proper animal care and animal behavior, in hopes that participants gain greater respect and appreciation for all living things. The Center's auxiliary services include AniMeals pet food supplements for the pets of homebound adults and tours for children and seniors.

The Center maintains a community equine hospital, and animal boarding facilities. The hospital serves as a surgical and diagnostic facility for horses and other large exotic animals. The Center grants hospital privileges to large animal veterinarians in the County. The Center's pet boarding facility provides care and individual attention for small animals, primarily cats and dogs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Center have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation - The financial statements are presented in accordance with Statement of Financial Accounting Standards No.117, Financial Statements of Not-For-Profit Organizations, which requires the Center 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

Cash and Cash Equivalents - The Center considers all investment instruments purchased with a maturity of three months or less to be cash equivalents. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk on cash and cash equivalents. At December 31, 2008 and 2007, the Center had $4,452,284 and $4,483,666 of cash that was temporarily restricted by donors for specific uses by the Center (see Note 13).

Certificates of Deposit - The Center purchased certificates of deposit at multiple financial institutions totaling $220,425 and $108,524 as of December 31, 2008 and 2007, respectively. The certificates bear interest ranging from 2.65% to 3.93% and have maturities ranging from four to nine months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. Management has elected not to show accrued interest on the certificates of deposits due to it's materiality on the financial statements.

Accounts Receivable - Accounts receivable totaling $104,971 and $109,393 net of an allowance for uncollectible accounts of $32,208 and $30,440 for the years ended December 31, 2008 and 2007, respectively, consist primarily of accounts receivable related to services performed at the equine hospital. Bad debts are accounted for using the specific identification method and are written-off after all collection attempts have been exhausted. Accordingly, bad debt expense is charged to operations in the year in which an account is determined uncollectible.

Inventory - Inventory consisting of merchandise held for the purpose of resale is stated at the lower of cost or market. Cost is determined by the specific identification method.

Contributions - Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - The Center follows SFAS No.124 "Accounting for Certain Investments Held by Not-For-Profit Organizations" whereby investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values, based on quoted market prices, in the statement of financial position.

Property and Equipment - Land, building and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restriction regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Land Improvements	7 - 25 years
Building and Improvements	3 - 25 years
Equipment	3 - 18 years
Furniture and Fixtures	3 - 20 years
Vehicles	5 years

The Center is currently raising funds for a capital campaign to renovate the Center. The Center has capitalized the costs related to the construction and will not begin depreciating the asset until it's complete and placed in service. The amount of the construction in progress costs totaled $2,777,572 and $1,761,874 for the years ended December 31, 2008 and 2007, respectively.

Depreciation expense totaled $300,040 and $304,891 for the years ended December 31, 2008 and 2007, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences - Accumulated unpaid vacation and other employee benefit amounts are accrued when incurred and included in accrued compensated absences.

Unrestricted Net Assets - It is policy of the Board of Directors of the Center to review its plans for future operating funds, equipment acquisitions and other reserves from time to time and to designate appropriate sums of assure adequate financing of such items.

At December 31, 2008 and 2007, unrestricted net assets totaling $2,616,879, and $2,695,227, respectively, have been designated by the Board of Directors as an endowment to provide for the continuing operation of the Center.

Contributed Services, Materials, Equipment, and Food - The Center has received substantial donations of materials, equipment, food, and professional services. The donations of materials, food and other assets are recorded at their fair market value. The value of the donations received not relating to special events totaled $73,792 and $6,706 for the years ended December 31, 2008 and 2007, respectively.

The nature and extent of donated and contributed services received by the Center ranges from the limited participation of many individuals in fundraising activities to active participation in the Center's management and service programs during 2008 and 2007. The value of contributed time is not reflected in these statements since they do not require specialized skills.

Functional Allocation of Expenses - The Center allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Center's management.

Reclassifications - Certain reclassifications have been made to the 2007 financial statement presentation to correspond to the current year’s format. Total equity and net income are unchanged due to these reclassifications.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center achieves some of its programmatic, management, and general goals in direct mail campaigns that consist of a newsletter that includes a request for contributions. The costs of conducting these campaigns include a total of $13,882 and $18,570 of joint costs for the years ended December 31, 2008 and 2007, respectively, not directly attributable to either program or management and general components or the fundraising component of the activities. These joint cost were allocated as follows:

	2008	2007
Equine Hospital	$ 694	$ 371
Adoptions	1,389	3,530
Boarding	694	371
Education	694	371
Therapeutic Riding	694	371
Pet Encounter Therapy	694	371
AniMeals	694	371
Management and General	694	371
Fundraising	7,635	12,443
	$ 13,882	$ 18,570

Income Taxes - The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Center is not a private foundation.

NOTE 3 NOTE RECEIVABLE FROM RELATED PARTY

The Organization has a note receivable from the president of the Center. The note requires monthly interest only payments of $1,575 with interest at 4.71%. The note is due by October 12, 2015 and is secured by a deed of trust in residential real estate.

NOTE 4 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases if liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give consist of the following at December 31:

	2008	2007
* Bequests	$ 993,591	$ 606,877
Temporarily Restricted Pledges for Capital Campaign	3,691,528	3,882,027
	4,685,119	4,488,904
Less: Discount	(72,249)	(172,846)
	$ 4,612,870	$ 4,316,058

Unconditional promises to give due in one to four years are discounted at 6%.

The following is a schedule by years of future receipts for capital campaign pledges together with their present value as of December 31:

2009	$ 2,748,028
2010	681,500
2011	174,500
2012	87,500
	$ 3,691,528

* Bequests are usually received within a two year period following the death of donor, and are typically subject to court proceedings and the probate process.

NOTE 5 INVESTMENTS

Investments are stated at fair value and consist of the following at December 31:

	2008	2007
Corporate Stocks	$ 1,554,113	$ 2,256,084
Corporate Bonds and Notes	727,136	737,239
U.S. Government Obligations	488,939	567,125
Mutual Funds	423,136	759,969
Managed Funds	156,788	300,361
Municipal Bonds	25,489	76,111
	$ 3,375,601	$ 4,696,889

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31:

	2008	2007
Interest and Dividend Income	$ 107,168	$ 112,769
Net Realized and Unrealized (Loss)/Gain on Investments	(1,286,146)	228,038
	$ (1,178,978)	$ 340,807

NOTE 6 CHARITABLE REMAINDER TRUST

The Center is the beneficiary of a charitable remainder trust administered by an outside trustee. The trust provides for the payment of distributions to a beneficiary over the term of the trust. At the end of the trust's term, the remaining assets are available for the Center's Equine hospital. The trust's assets consist of cash, investments and real property and were valued using discount rates of 2.4% and 4.2% for the years ended December 31, 2008 and 2007. At December 31, 2008 the total unconditional promise to give of $3,925,502, is shown net of a discount of $995,350. At December 31, 2007, the total unconditional promise to give of $4,392,008, is shown net of a discount of $1,226,600.

In 2001, the Center became the beneficiary of another charitable remainder trust administered by an outside trustee. The trust provides for the payment of distributions to a beneficiary over the term of the trust. At the end of the trust's term, the remaining assets are available for the Center's unrestricted use. The trust's assets consist of cash and investments and were valued using a discount rate of 5%. The unconditional promise to give of $88,023, had a related discount of $52,319, at December 31, 2008 and 2007.

NOTE 7 PROPERTY AND EQUIPMENT

Property and Equipment consist of the following at December 31:

	2008	2007
Building and Improvements	$ 5,551,755	$ 5,547,224
Construction in Progress	2,777,572	1,761,874
Equipment	1,518,853	1,512,563
Land and Improvements	666,212	666,212
Vehicles	247,157	218,954
Furniture and Fixtures	91,087	91,087
	10,852,636	9,797,914
Accumulated Depreciation	(6,508,990)	(6,208,949)
	$ 4,343,646	$ 3,588,965

NOTE 8 LIFE INSURANCE PREMIUM AND ANNUITY ACCOUNT

The Center maintains a life insurance policy with a face value of $469,000 on a former key employee under a split-dollar insurance agreement with the insured. In accordance with the agreement, the Center was to be repaid an amount equal to the cumulative total of its share of premiums on the policy. The Center has paid premiums of $450,399 and 426,399 as of December 31, 2008 and 2007, respectively. During 2006, the agreement was amended and the Center agreed to pay all premiums for the remainder of the policy, and in exchange, the former employee assigned his beneficiary interest in the policy to the Center. The Center carries the value of the policy at the amount of the premiums paid, not to exceed the net realizable value of the policy. During 2008, the face value of the policy was discounted based on the life expectancy of the insured and a 3% discount rate.

During 2003, the Center simultaneously entered into contracts for a single premium immediate annuity and a guaranteed death benefit universal life insurance policy on a donor. The annuity is a life income annuity and payments will be made as long as the annuitant is alive. No payments will be made after the annuitant's death. The life insurance policy is a flexible premium adjustable life insurance policy, with a face value of $500,000. The Center chose to pay fixed periodic premium payments. The Center also receives a guaranteed interest of 4% annually on the accumulated value of the policy. The income generated by the annuity is used to pay the premiums on the life insurance policy and support the general operations of the center. Once the annuity ends the Center will receive the death benefit from the universal life insurance policy and recover the funds it paid for the annuity contract.

NOTE 8 LIFE INSURANCE PREMIUM AND ANNUITY ACCOUNT (continued)

Both life insurance policies carry a cash surrender value that is significantly less than the face amount of the policy. However, the Center does not intend to terminate or allow the policies to lapse.

NOTE 9 INVESTMENT IN SAN DIEGO FOUNDATION

The Center has investments held by the San Diego Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The income from these investments is kept inside the account as part of an endowment. The investments are carried at fair value and totaled $10,752 and $14,220 at December 31, 2008 and 2007, respectively.

NOTE 10 INVESTMENT IN RANCHO SANTA FE FOUNDATION

The Center has investments held by the Rancho Santa Fe Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The income from these investments is kept inside the account as part of an endowment. The investments are carried at fair value and totaled $10,772 and $14,101 at December 31, 2008 and 2007, respectively.

NOTE 11 DEFERRED COMPENSATION

In April 1987, the Center entered into an employment agreement with a former key employee, which included the establishment of an unfunded nonqualified deferred compensation arrangement that included health insurance premiums. Generally accepted accounting principles require that the Center recognize a liability for the cost of unfunded deferred compensation arrangements and post employment health insurance benefits. The liability at the end of each year is the present value of the benefits expected to be paid and totaled $137,589 and $164,050 at December 31, 2008 and 2007, respectively. Each year the Center recognizes an expense equal to the change in the liability based on a 5% discount factor. Total expenses related to this agreement were $6,573 and $7,713 for the years December 31, 2008 and 2007, respectively.

NOTE 12 RETIREMENT PLAN

The Center maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Eligible employees my contribute a percentage of their compensation to the Plan. The Center matches a portion of the employee's contribution. Employer contributions for the years ended December 31, 2008 and 2007 totaled $63,832 and $62,852, respectively.

While the Center expects to continue the plan indefinitely, it has reserved the right to modify, amend, or terminate the plan. In the event of termination, the entire amount contributed under the plan must be applied to the payment of benefits to the participants or their beneficiaries.

NOTE 13 NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

	2008	2007
Capital Campaign	$ 4,300,453	$ 4,364,656
Charitable Remainder Trusts	2,965,856	3,201,112
Equine Hospital Equipment	50,796	30,328
Adoption Operations	25,005	-
Adoptions Emergency Medical Fund	22,016	35,252
General Obligation	14,444	5,514
Education Operations and Programs	10,732	6,283
Adoptions Training	9,365	2,790
Pet Encounter Therapy Operations	4,725	3,558
Equine Hospital Emergency Services	4,386	4,386
Equine Memorial Fund	4,326	2,626
Therapeutic Riding Equipment and Building	1,577	2,279
Therapeutic Riding Scholarship	1,539	-
Adoptions Equipment	1,450	4,159
Hurricane Katrina	859	20,000
Club Pet	556	400
Critter Camp Scholarships	55	720
Pet Encounter Emergency Medical Services	-	616
Pet Equipment	-	100
Unconditional Promises to Give in Future Years:		
Capital Campaign	3,619,279	3,735,280
General Operations	993,591	580,778
	$ 12,031,010	$ 12,000,836

NOTE 13 NET ASSETS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows:

	2008	2007
Capital Campaign	$ 1,249,914	$ 547,268
General Obligations	360,239	701,382
Adoptions Operations and Supplies	327,528	307,544
Charitable Remainder Trust	235,256	231,349
Therapeutic Riding Operations	134,854	145,439
Foster a Horse Program	64,550	45,397
Pet Encounter Therapy Operations	49,702	136,031
Education Operations and Programs	43,006	27,509
AniMeals Operations	24,331	27,525
Hurricane Katrina	19,191	46,740
Therapeutic Riding Scholarships	13,861	10,460
Adoptions Emergency Medical Fund	13,386	34,571
Equine Hospital Equipment	4,547	4,594
Adoptions Equipment	2,709	7,557
Therapeutic Riding Equipment and Building	702	1,069
Pet Encounter Emergency Medical Services	616	1,408
Club Pet	344	500
Volunteer Operations	193	-
Adoptions Spay/Neuter	170	-
Pet Encounter Therapy Equipment	100	-
Unconditional Promises to Give in Future Years:		
General Operations	199,537	-
	$ 2,744,736	$ 2,276,342

At December 31, 2008 and 2007, permanently restricted net assets totaling $1,634,952 resulted from donations received with the stipulation that they be invested to provide a permanent source of income.