HELEN WOODWARD ANIMAL CENTER
FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

HELEN WOODWARD ANIMAL CENTER

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CONSIDINE & CONSIDINE
CERTIFIED PUBLIC ACCOUNTANTS

To The Board of Directors
Helen Woodward Animal Center

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, 2009 and 2008, 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 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 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 Helen Woodward Animal Center, A Nonprofit Organization, as of December 31, 2009 and 2008, 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 4, 2010

CERTIFIED PUBLIC ACCOUNTANTS • MEMBER OF AICPA

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HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 4,669,509	$ 4,458,919
Certificates of Deposit	110,146	220,425
Accounts Receivable	80,600	72,763
Inventory	12,703	11,978
Prepaid Expenses	37,692	36,489
Note Receivable from Related Party (Note 3)	388,570	399,181
Unconditional Promises to Give (Note 4)	3,315,532	4,612,870
Investments (Note 5)	4,244,240	3,375,601
Charitable Remainder Trusts (Note 6)	2,920,388	2,965,856
Life Insurance Premium and Annuity Account (Note 7)	904,563	892,780
Property and Equipment (Note 9)	5,746,533	4,343,646
Investment in San Diego Foundation (Note 10)	12,425	10,752
Investment in Rancho Santa Fe Foundation (Note 11)	13,211	10,772
TOTAL ASSETS	22,456,112	21,412,032
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	422,180	367,986
Accrued Payroll	113,528	98,522
Accrued Compensated Absences	139,393	120,866
Deferred Compensation (Note 12)	110,045	137,589
Security Deposits	4,770	4,770
TOTAL LIABILITIES	789,916	729,733
NET ASSETS (Note 14)		
Unrestricted	7,487,274	4,399,458
Unrestricted - Board Designated (Note 15)	2,440,138	2,616,879
Temporarily Restricted	10,103,832	12,031,010
Permanently Restricted (Note 15)	1,634,952	1,634,952
	21,666,196	20,682,299
TOTAL LIABILITIES AND NET ASSETS	$ 22,456,112	$ 21,412,032

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 3,044,842	$ 2,564,685	$ -	$ 5,609,527
Fees	2,297,412	-	-	2,297,412
Net Realized and Unrealized Gain on Investments	810,677	-	-	810,677
Special Events (Net Expenses of $323,882)	330,163	-	-	330,163
Net Interest and Dividend Incom	218,371	-	-	218,371
Sales	185,605	-	-	185,605
Other Income	85,657	-	-	85,657
Rents	65,988	-	-	65,988
Contributed Goods	48,485	-	-	48,485
Change in the Value of Split-Interest Agreements	(45,468)	-	-	(45,468)
Impairment of Pledge Receivable	(2,240,000)	-	-	(2,240,000)
	4,801,732	2,564,685	-	7,366,417
NET ASSETS RELEASED FROM RESTRICTION	4,491,863	(4,491,863)	-	-
EXPENSES:				
Program	4,606,682	-	-	4,606,682
Management and General	414,345	-	-	414,345
Fundraising	1,262,179	-	-	1,262,179
	6,283,206	-	-	6,283,206
COST OF SALES	99,314	-	-	99,314
TOTAL EXPENSES	6,382,520	-	-	6,382,520
CHANGE IN NET ASSETS	2,911,075	(1,927,178)	-	983,897
NET ASSETS - BEGINNING OF YEAR	7,016,337	12,031,010	1,634,952	20,682,299
NET ASSETS - END OF YEAR	$ 9,927,412	$ 10,103,832	$ 1,634,952	$ 21,666,196

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
Net 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 Gain 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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	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	$ 517,005	$ 1,025,049	$ 617,486	$ 489,731	$ 274,579	$ 187,860	$ 38,725	$ 3,150,435	$ 260,236	$ 713,499	$ 973,735	$ -	$ 4,124,170
Operating Supplies and Expenses	231,660	230,411	238,523	71,235	46,252	20,145	12,493	850,719	87,417	36,862	124,279	15,831	990,829
Printing, Advertising and Postage	3,175	12,968	1,969	15,498	2,201	2,133	2,676	40,620	1,985	142,989	144,974	115,099	300,693
Outside Services	4,440	48,216	4,352	3,426	78,015	937	103	139,489	103	110,425	110,528	62,063	312,080
Other	26,895	14,564	19,231	10,679	1,514	46	199	73,128	41,727	148,852	190,579	31,087	294,794
Maintenance, Repairs and Equipment Rental	10,454	5,609	4,274	5,269	506	1,872	717	28,701	5,301	1,997	7,298	26,774	62,773
Donated Goods and Services	550	10,584	700	5,212	2,785	3,455	18,995	42,281	186	800	986	72,045	115,312
Office Expenses	547	3,730	2,116	2,159	299	246	39	9,136	4,727	4,483	9,210	983	19,329
Capital Campaign Expenses	-	-	-	-	-	-	-	-	-	99,699	99,699	-	99,699
Katrina Expenses	-	3,137	-	-	-	-	-	3,137	-	-	-	-	3,137
Total Expenses Before Depreciation	794,726	1,354,268	888,651	603,209	406,151	216,694	73,947	4,337,646	401,682	1,259,606	1,661,288	323,882	6,322,816
Depreciation	109,273	11,427	121,242	6,279	12,125	8,559	131	269,036	12,663	2,573	15,236	-	284,272
TOTAL FUNCTIONAL EXPENSES	$ 903,999	$ 1,365,695	$ 1,009,893	$ 609,488	$ 418,276	$ 225,253	$ 74,078	$ 4,606,682	$ 414,345	$ 1,262,179	$ 1,676,524	$ 323,882	$ 6,607,088

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

HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$ 983,897	$ (1,100,594)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	284,272	300,040
Impairment of Pledge Receivable	2,240,000	-
Net Realized and Unrealized (Gain)/Loss on Investments	(810,677)	1,343,765
Donations of Investments Included in Contributions	(548,674)	(506,354)
Change in the Value of Split-Interest Agreements	45,468	235,256
Change in Operating Assets and Liabilities:		
Accounts Receivable	(7,837)	6,190
Inventory	(725)	(1,207)
Prepaid Expenses, Deposits, and Other Assets	(5,315)	15,827
Unconditional Promise to Give	(942,662)	(296,812)
Accounts Payable and Accrued Expenses	54,193	116,101
Accrued Payroll	15,006	14,805
Accrued Compensated Absences	18,527	14,904
Deferred Compensation and Benefits	(27,544)	(26,461)
	314,032	1,216,054
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,297,929	115,460
CASH USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,687,159)	(1,054,722)
Decrease/(Increase) in Certificates of Deposit	110,279	(111,901)
Increase in Life Insurance Premium Account	(11,783)	(24,000)
Proceeds from Sale of Investments	1,133,580	1,282,758
Purchase of Investments	(642,867)	(734,464)
Principal Payments on Note Receivable from Related Party	10,611	388
	(1,087,339)	(641,941)
NET INCREASE/(DECREASE) IN CASH	210,590	(526,481)
CASH, BEGINNING OF YEAR	4,458,919	4,985,400
CASH, END OF YEAR	$ 4,669,509	$ 4,458,919

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 organizations 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 humane 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 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. New standards were issued regarding classification of endowment funds of nonprofits subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhanced disclosures for endowment. The State California adopted UPMIFA in October 2008. The Center adopted the new standards effective January 1, 2009. The adoption had no effect on the classification of net assets for the year ended December 31, 2009, or 2008.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from 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, 2009 and 2008, the Center had $3,867,912 and $4,452,284 of cash that was temporarily restricted by donors for specific uses by the Center (see Note 14).

Certificates of Deposit - The Center purchased certificates of deposit at multiple financial institutions totaling $110,146 and $220,425 as of December 31, 2009 and 2008, respectively. The certificates bear interest ranging from 1.10% to 3.93% and have maturities ranging from six to seven 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 record accrued interest on the certificates of deposits due to it's immateriality.

Accounts Receivable - Accounts receivable totaling $104,339 and $104,971 net of an allowance for uncollectible accounts of $23,739 and $32,208 for the years ended December 31, 2009 and 2008, 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 reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

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 assets until they are placed in service. The amount of the construction in progress costs totaled $4,448,779 and $2,777,572 as of December 31, 2009 and 2008, respectively.

Depreciation expense totaled $284,272 and $300,040 for the years ended December 31, 2009 and 2008, 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)

Fair Value Measurement - The Company has adopted accounting standards consistent with the FASB codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities. The adoption of fair value measurements had no material financial effects on the Company's financial statements.

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 to assure adequate financing of such items.

At December 31, 2009 and 2008, unrestricted net assets totaling $2,440,138 and $2,616,879, 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 $48,485 and $73,392 for the years ended December 31, 2009 and 2008, 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 2009 and 2008. 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.

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 $41,995 and $13,882 of joint costs for the years ended December 31, 2009 and 2008, 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:

	2009	2008
Equine Hospital	$ 2,062	$ 694
Adoptions	9,843	1,389
Boarding	2,062	694
Education	2,062	694
Therapeutic Riding	2,062	694
Pet Encounter Therapy	2,062	694
AniMeals	2,062	694
Management and General	2,062	694
Fundraising	17,718	7,635
	$ 41,995	$ 13,882

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 payments of $1,575 with interest at 1.65%. The note is due by October, 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 in 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.

NOTE 4 UNCONDITIONAL PROMISES TO GIVE (continued)

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

	2009	2008
* Bequests	$ 674,374	$ 993,591
Temporarily Restricted Pledges for Capital Campaign	2,798,028	3,691,528
	3,472,402	4,685,119
Less: Discount	(156,870)	(72,249)
	$ 3,315,532	$ 4,612,870

Unconditional promises to give due in one to five years are discounted at 6%. During 2009, a pledge receivable for $2,240,000 was impaired due to management's estimate of uncollectibility.

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

2010	$ 1,303,528
2011	579,500
2012	455,000
2013	455,000
2014	5,000
	$ 2,798,028

* 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:

	2009	2008
Corporate Stocks	$ 2,266,890	$ 1,554,113
Corporate Bonds and Notes	816,636	727,136
U.S. Government Obligations	476,627	488,939
Mutual Funds	465,776	423,136
Managed Funds	218,311	156,788
Municipal Bonds	-	25,489
	$ 4,244,240	$ 3,375,601

NOTE 5 INVESTMENTS (continued)

The following schedule summarizes the investment return of the assets held at The Whittier Trust Company and its classification in the statement of activities for the years ended December 31:

	2009	2008
Interest and Dividend Income	$ 90,703	$ 107,168
Net Realized and Unrealized Gain/(Loss) on Investments	828,818	(1,286,146)
	$ 919,521	$ (1,178,978)

NOTE 6 CHARITABLE REMAINDER TRUSTS

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 unrestricted use. The trust's assets consist of cash and investments and were valued using a discount rate of 3.4% for the year ended December 31, 2009. At December 31, 2009, the total unconditional promise to give of $304,560, is shown net of a discount of $232,072. This charitable remainder trust was recorded in 2009.

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 3.4% and 2.4% for the years ended December 31, 2009 and 2008, respectively. At December 31, 2009, the total unconditional promise to give of $3,693,170, is shown net of a discount of $879,011. At December 31, 2008, the total unconditional promise to give of $3,925,502, is shown net of a discount of $995,350.

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 3.4% and 5% for the years ended December 31, 2009 and 2008, respectively. At December 31, 2009, the total unconditional promise to give of $59,206, is shown net of a discount of $25,465. At December 31, 2008, the total unconditional promise to give of $88,023, is shown net of a discount of $52,319.

NOTE 7 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. The policy was originated 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. 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 records the policy at an estimated fair value using a discounted cash flow method. The face value of the policy is 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. The Center records these contracts at fair value using a discounted cash flow method.

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 8 FAIR VALUE MEASUREMENT

The Company adopted the methods of fair value measurement to value its financial assets. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

NOTE 8 FAIR VALUE MEASUREMENT (continued)

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial assets and liabilities carried at fair value at December 31, 2009 and 2008 are classified below in one of three categories described above. The table below presents the balances of assets measured at fair value on a recurring basis.

Assets	2009 Level 1	2009 Level 2	2009 Level 3	2009 Total
Investments	$ 2,950,977	$ 1,293,263	$ -	$ 4,244,240
Charitable Remainder Trusts	-	2,920,388	-	2,920,388
Life Insurance Premium and Annuity Account	-	904,563	-	904,563
	$ 2,950,977	$ 5,118,214	$ -	$ 8,069,191

Assets	2008 Level 1	2008 Level 2	2008 Level 3	2008 Total
Investments	$ 2,134,036	$ 1,241,565	$ -	$ 3,375,601
Charitable Remainder Trusts	-	2,965,856	-	2,965,856
Life Insurance Premium and Annuity Account	-	892,780	-	892,780
	$ 2,134,036	$ 5,100,201	$ -	$ 7,234,237

The note receivable is valued by using a discounted cash flow model to estimate the fair value. The Center's note receivable is secured by a deed of trust in residential real estate and is classified as a Level 2.

The investments in marketable securities are valued at market prices in active markets and are classified as Level 1. The investments in fixed income securities and government obligations are valued at market prices in inactive markets and are classified as Level 2.

NOTE 8 FAIR VALUE MEASUREMENT (continued)

The charitable remainder trusts assets are valued using a valuation model that calculates the net present value of estimated future cash flows and are classified as Level 2. (See Note 6)

The life insurance premium and annuity account is discounted based on life expectancy tables and is classified as Level 2. (See Note 7)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis - The Center may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value usually result from application of lower-of-cost-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis in 2009 and 2008 that were still held in the balance sheet at each respective year end, the following table provides the fair value hierarchy and the carrying value of the related individual assets or portfolios at year end.

Assets	2009 Level 1	2009 Level 2	2009 Level 3	2009 Total
Note Receivable from Related Party	$ -	$ 388,570	$ -	$ 388,570
Unconditional Promises to Give	-	-	3,315,532	3,315,532
	$ -	$ 388,570	$ 3,315,532	$ 3,704,102

Assets	2008 Level 1	2008 Level 2	2008 Level 3	2008 Total
Note Receivable from Related Party	$ -	$ 399,181	$ -	$ 399,181
Unconditional Promises to Give	-	-	4,612,870	4,612,870
	$ -	$ 399,181	$ 4,612,870	$ 5,012,051

The unconditional promises to give is valued using a discounted cash flow model and is classified as a Level 3.

NOTE 8 FAIR VALUE MEASUREMENT (continued)

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2009:

	Unconditional Promises to Give
Balance at January 1, 2009	$ 4,612,870
New Pledges Received	3,933,733
Collections	(2,834,201)
Impairment of Pledge Receivable	(2,240,000)
Discount on Pledges	(156,870)
Balance at December 31, 2009	$ 3,315,532

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2008:

	Unconditional Promises to Give
Balance at January 1, 2008	$ 4,316,058
New Pledges Received	2,031,463
Collections	(1,662,402)
Discount on Pledges	(72,249)
Balance at December 31, 2008	$ 4,612,870

NOTE 9 PROPERTY AND EQUIPMENT

Property and Equipment consist of the following at December 31:

	2009	2008
Building and Improvements	$ 5,554,948	$ 5,551,755
Construction in Progress	4,448,779	2,777,572
Equipment	1,531,612	1,518,853
Land and Improvements	666,212	666,212
Vehicles	212,769	247,157
Furniture and Fixtures	91,087	91,087
	12,505,407	10,852,636
Accumulated Depreciation	(6,758,874)	(6,508,990)
	$ 5,746,533	$ 4,343,646

NOTE 10 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 $12,425 and $10,752 at December 31, 2009 and 2008, respectively.

NOTE 11 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 $13,211 and $10,772 at December 31, 2009 and 2008, respectively.

NOTE 12 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 represents the present value of the benefits expected to be paid and totaled $110,045 and $137,589 at December 31, 2009 and 2008, 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 $5,374 and $6,573 for the years December 31, 2009 and 2008, respectively.
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NOTE 13 RETIREMENT PLAN

The Center maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Eligible employees may 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, 2009 and 2008 totaled $66,008 and $63,832, respectively.

NOTE 13 RETIREMENT PLAN (continued)

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 14 NET ASSETS

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

	2009	2008
Capital Campaign	$ 3,782,734	$ 4,300,453
Charitable Remainder Trusts	2,920,388	2,965,856
Equine Hospital Equipment	38,803	50,796
General Obligations	11,689	14,444
Adoptions Training	9,045	9,365
Pet Encounter Therapy Operations	5,464	4,725
Equine Memorial Fund	4,552	4,326
Equine Hospital Emergency Services	4,386	4,386
Education Operations and Programs	3,250	10,732
AniMeals Operations	1,915	-
Adoptions Emergency Medical Fund	1,451	22,016
Therapeutic Riding Equipment and Building	1,577	1,577
Therapeutic Riding Operations	1,516	-
Adoptions Equipment	1,450	1,450
Adoptions Operations and Supplies	80	25,005
Therapeutic Riding Scholarships	-	1,539
Hurricane Katrina	-	859
Club Pet	-	556
Critter Camp Scholarships	-	55
Unconditional Promises to Give in Future Years:		
Capital Campaign	2,641,158	3,619,279
General Operations	674,374	993,591
	$ 10,103,832	$ 12,031,010

NOTE 14 NET ASSETS (continued)

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

	2009	2008
Capital Campaign	$ 1,770,906	$ 1,249,914
Adoptions Operations and Supplies	408,789	327,528
General Obligations	395,759	360,239
Charitable Remainder Trusts	350,028	235,256
Therapeutic Riding Operations	147,900	134,854
Pet Encounter Therapy Operations	63,636	49,702
Foster a Horse Program	54,900	64,550
Adoptions Emergency Medical Fund	46,365	13,386
Education Operations and Programs	17,701	43,006
AniMeals Operations	14,585	24,331
Equine Hospital Equipment	11,993	4,547
Therapeutic Riding Scholarships	1,539	13,861
Hurricane Katrina	860	19,191
Club Pet	575	344
Equine Hospital Operations	400	-
Adoptions Spay/Neuter	200	170
Adoptions Equipment	-	2,709
Therapeutic Riding Equipment and Building	-	702
Pet Encounter Therapy Emergency Medical Services	-	616
Volunteer Operations	-	193
Pet Encounter Therapy Equipment	-	100
Unconditional Promises to Give in Future Years:		
General Operations	1,205,727	199,537
	$ 4,491,863	$ 2,744,736

At December 31, 2009 and 2008, 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.

NOTE 15 ENDOWMENT FUND

Included in Investments on the Statement of Financial Position are permanently restricted and board designated long-term investments held in an endowment fund. The objective of the endowment fund is to support the continuing operations of the Center. The Center's Board of Directors have delegated authority over the investment of the Endowment Fund to the Investment Committee (the "Committee"). The Committee is responsible for the oversight of the investments of the Endowment Fund and for reporting on the Fund's performance to the Board. The Committee is authorized to retain an investment manager to make investment decisions.

To achieve the desired objective, the Center has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to meet the annual distribution policy rules while growing the fund if possible. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The distribution policy of the Endowment Fund, allows the Center to spend up to 7% of the fair market value of the permanently restricted portion of the Endowment Fund based on a three-year rolling average. The portion of the Endowment Fund comprised of board designated assets are not subject to similar restrictions and may be spent as the Center determines appropriate.

The portion of the Endowment Fund that is classified as permanently restricted is not reduced by losses on the investments of the fund. Losses on the investments of permanently restricted funds reduce the temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets.

NOTE 15 ENDOWMENT FUND (continued)

During 2009, the Center had the following endowment related activities:

	Permanently Restricted Funds	Board Designated Funds	Total
Investment Income	$ 4,973	$ 37,343	$ 42,316
Contributions	-	18,942	18,942
Amounts Appropriated for Expenditure	(42,131)	(159,023)	(201,154)
Investment and Trustee Fees	(7,927)	(28,918)	(36,845)
Total Change in Endowment Funds	$ (45,085)	$ (131,656)	$ (176,741)

During 2008, the Center had the following endowment related activities:

	Permanently Restricted Funds	Board Designated Funds	Total
Investment Income	$ 13,983	$ 69,518	$ 83,501
Contributions	-	148,117	148,117
Amounts Appropriated for Expenditure	(54,512)	(211,664)	(266,176)
Investment and Trustee Fees	(9,490)	(34,301)	(43,791)
Total Change in Endowment Funds	$ (50,019)	$ (28,330)	$ (78,349)

From time to time, the fair value of assets associated with permanently restricted funds may fall below the level that the donor requires the Center to retain permanently. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $114,667 and $69,582 as of December 31, 2009 and 2008 respectively. These deficiencies resulted from unfavorable market fluctuations that have occurred after the investment of permanently restricted funds and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

NOTE 15 ENDOWMENT FUND (continued)

Endowment net asset composition by type of fund as of December 31, 2009.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-Restricted Endowment Funds	$ -	$ -	$ 1,634,952	$ 1,634,952
Board-Designated Endowment Funds	2,440,138	-	-	2,440,138
Total Funds	$ 2,440,138	$ -	$ 1,634,952	$ 4,075,090

Changes in endowment net assets as of December 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment Net Assets, Beginning of Year	$ 2,616,879	$ -	$ 1,634,952	$ 4,251,831
Investment Income	42,316	-	-	42,316
Contributions	18,942	-	-	18,942
Amounts Appropriated For Expenditure	(201,154)	-	-	(201,154)
Investment and Trustee Fees	(36,845)	-	-	(36,845)
Endowment Net Assets, End of Year	$ 2,440,138	$ -	$ 1,634,952	$ 4,075,090

Endowment net asset composition by type of fund as of December 31, 2008.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-Restricted Endowment Funds	$ -	$ -	$ 1,634,952	$ 1,634,952
Board-Designated Endowment Funds	2,616,879	-	-	2,616,879
Total Funds	$ 2,616,879	$ -	$ 1,634,952	$ 4,251,831

NOTE 15 ENDOWMENT FUND (continued)

Changes in endowment net assets as of December 31, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment Net Assets, Beginning of Year	$ 2,695,228	$ -	$ 1,634,952	$ 4,330,180
Investment Income	83,501	-	-	83,501
Contributions	148,117	-	-	148,117
Amounts Appropriated For Expenditure	(266,176)	-	-	(266,176)
Investment and Trustee Fees	(43,791)	-	-	(43,791)
Endowment Net Assets, End of Year	$ 2,616,879	$ -	$ 1,634,952	$ 4,251,831

NOTE 16 SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 4, 2010, the date which the financial statements were available to be issued.