HELEN WOODWARD ANIMAL CENTER
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

HELEN WOODWARD ANIMAL CENTER

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, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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, 2011 and 2010, 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, 2012

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HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 898,417	$ 1,110,720
Accounts Receivable	258,616	47,406
Inventory	13,525	15,120
Prepaid Expenses	67,225	248,272
Note Receivable from Related Party (Note 3)	359,017	374,947
Unconditional Promises to Give (Note 4)	2,315,580	2,611,681
Investments (Note 5)	4,374,490	4,313,566
Charitable Remainder Trusts (Note 6)	3,283,486	2,936,898
Life Insurance Premium and Annuity Account (Note 7)	429,201	916,700
Property and Equipment (Note 9)	12,167,507	11,351,877
Investment in San Diego Foundation (Note 10)	13,174	13,523
Investment in Rancho Santa Fe Foundation (Note 11)	14,420	14,802
TOTAL ASSETS	24,194,658	23,955,512
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	248,174	329,449
Accrued Payroll	136,307	139,647
Accrued Compensated Absences	131,707	147,304
Deferred Compensation (Note 12)	65,152	86,401
Line of Credit (Note 13)	2,642,647	1,990,000
Note Payable (Note 14)	19,898	24,873
Security Deposits	3,520	4,770
TOTAL LIABILITIES	3,247,405	2,722,444
NET ASSETS (Note 16)		
Unrestricted	10,717,184	11,369,141
Unrestricted - Board Designated (Note 17)	2,786,634	2,379,002
Temporarily Restricted	5,808,483	5,849,973
Permanently Restricted (Note 17)	1,634,952	1,634,952
	20,947,253	21,233,068
TOTAL LIABILITIES AND NET ASSETS	$ 24,194,658	$ 23,955,512

See Accompanying Notes

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 1,160,891	$ 1,392,177	$ -	$ 2,553,068
Fees	2,537,513	-	-	2,537,513
Net Realized and Unrealized Loss on Investments	(109,263)	-	-	(109,263)
Special Events (Net Expenses of $390,881)	397,765	-	-	397,765
Net Interest and Dividend Income	148,276	-	-	148,276
Sales	172,493	-	-	172,493
Other Income	141,826	-	-	141,826
Rents	93,147	-	-	93,147
Contributed Goods	138,418	-	-	138,418
Change in the Value of Split-Interest Agreements	-	346,588	-	346,588
	4,681,066	1,738,765	-	6,419,831
NET ASSETS RELEASED FROM RESTRICTION	1,780,255	(1,780,255)	-	-
EXPENSES:				
Program	4,726,368	-	-	4,726,368
Management and General	705,799	-	-	705,799
Fundraising	1,178,495	-	-	1,178,495
	6,610,662	-	-	6,610,662
COST OF SALES	94,984	-	-	94,984
TOTAL EXPENSES	6,705,646	-	-	6,705,646
CHANGE IN NET ASSETS	(244,325)	(41,490)	-	(285,815)
NET ASSETS - BEGINNING OF YEAR	13,748,143	5,849,973	1,634,952	21,233,068
NET ASSETS - END OF YEAR	$ 13,503,818	$ 5,808,483	$ 1,634,952	$ 20,947,253

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	$ 588,656	$ 1,277,522	$ -	$ 1,866,178
Fees	2,229,720	-	-	2,229,720
Net Realized and Unrealized Gain on Investments	404,370	-	-	404,370
Special Events (Net Expenses of $443,726)	457,226	-	-	457,226
Net Interest and Dividend Income	278,880	-	-	278,880
Sales	185,902	-	-	185,902
Other Income	117,438	-	-	117,438
Rents	72,521	-	-	72,521
Contributed Goods	83,590	-	-	83,590
Change in the Value of Split-Interest Agreements	16,509	-	-	16,509
Impairment of Pledge Receivable	(25,000)	-	-	(25,000)
	4,409,812	1,277,522	-	5,687,334
NET ASSETS RELEASED FROM RESTRICTION	5,531,381	(5,531,381)	-	-
EXPENSES:				
Program	4,476,856	-	-	4,476,856
Management and General	447,274	-	-	447,274
Fundraising	1,097,652	-	-	1,097,652
	6,021,782	-	-	6,021,782
COST OF SALES	98,680	-	-	98,680
TOTAL EXPENSES	6,120,462	-	-	6,120,462
CHANGE IN NET ASSETS	3,820,731	(4,253,859)	-	(433,128)
NET ASSETS - BEGINNING OF YEAR	9,927,412	10,103,832	1,634,952	21,666,196
NET ASSETS - END OF YEAR	$ 13,748,143	$ 5,849,973	$ 1,634,952	$ 21,233,068

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services								Supporting Services				
EXPENSES	Medical Services	Adoptions	Boarding	Education	Therapeutic Riding	Pet Encounter Therapy	AniMeals	Total Program Services	Management and General	Fundraising	Total Supporting Services	Special Events	Total
Salaries, Wages and Related Benefits	$ 438,291	$ 965,218	$ 567,113	$ 561,383	$ 265,677	$ 166,550	$ 39,931	$ 3,004,163	$ 386,946	$ 635,332	$ 1,022,278	$ 2,400	$ 4,028,841
Operating Supplies and Expenses	255,718	222,810	201,345	102,894	50,163	14,931	8,829	856,690	129,954	109,080	239,034	8,171	1,103,895
Printing, Advertising and Postage	1,813	12,935	1,565	21,923	660	640	1,191	40,727	393	95,468	95,861	122,472	259,060
Outside Services	10,931	118,660	48,285	9,162	11,229	640	-	198,907	481	60,262	60,743	106,082	365,732
Other	30,673	13,835	23,479	8,551	1,539	664	105	78,846	4,002	67,074	71,076	18,140	168,062
Maintenance, Repairs and Equipment Rental	17,699	4,489	5,826	4,965	1,321	1,924	283	36,507	225	6,045	6,270	37,719	80,496
Donated Goods and Services	2,295	41,005	325	9,508	50,149	1,293	17,041	121,616	10,498	6,304	16,802	95,560	233,978
Office Expenses	716	3,451	2,513	2,231	105	169	20	9,205	79	3,077	3,156	337	12,698
Capital Campaign Expenses	-	-	-	-	-	-	-	-	-	132,077	132,077	-	132,077
Total Expenses Before Depreciation	758,136	1,382,403	850,451	720,617	380,843	186,811	67,400	4,346,661	532,578	1,114,719	1,647,297	390,881	6,384,839
Depreciation	251,826	9,141	91,831	5,916	12,846	8,084	63	379,707	173,221	63,776	236,997	-	616,704
TOTAL FUNCTIONAL EXPENSES	$ 1,009,962	$ 1,391,544	$ 942,282	$ 726,533	$ 393,689	$ 194,895	$ 67,463	$ 4,726,368	$ 705,799	$ 1,178,495	$ 1,884,294	$ 390,881	$ 7,001,543

HELEN WOODWARD ANIMAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services								Supporting Services				
EXPENSES	Medical Services	Adoptions	Boarding	Education	Therapeutic Riding	Pet Encounter Therapy	AniMeals	Total Program Services	Management and General	Fundraising	Total Supporting Services	Special Events	Total
Salaries, Wages and Related Benefits	$ 486,344	$ 1,023,598	$ 576,987	$ 538,340	$ 287,682	$ 162,255	$ 36,757	$ 3,111,963	$ 311,311	$ 708,304	$ 1,019,615	$ -	$ 4,131,578
Operating Supplies and Expenses	207,255	200,378	220,789	70,006	117,499	14,458	11,508	841,893	75,375	37,572	112,947	13,893	968,733
Printing, Advertising and Postage	1,066	9,999	2,028	15,923	354	307	883	30,560	28	90,340	90,368	126,251	247,179
Outside Services	2,856	55,023	10,167	4,833	10,321	181	93	83,474	29	50,170	50,199	107,197	240,870
Other	24,685	16,443	19,371	8,729	1,381	284	118	71,011	40,192	82,383	122,575	21,564	215,150
Maintenance, Repairs and Equipment Rental	6,852	6,339	3,060	7,177	1,084	753	1,265	26,530	5,301	2,056	7,357	35,631	69,518
Donated Goods and Services	1,311	8,236	280	3,184	3,421	1,138	17,543	35,113	41	39,996	40,037	138,225	213,375
Office Expenses	802	3,805	2,283	2,767	324	123	58	10,162	70	4,423	4,493	965	15,620
Capital Campaign Expenses	-	-	-	-	-	-	-	-	-	79,800	79,800	-	79,800
Katrina Expenses	-	2,717	-	-	-	-	-	2,717	-	-	-	-	2,717
Total Expenses Before Depreciation	731,171	1,326,538	834,965	650,959	422,066	179,499	68,225	4,213,423	432,347	1,095,044	1,527,391	443,726	6,184,540
Depreciation	106,574	9,704	120,730	6,192	11,795	8,353	85	263,433	14,927	2,608	17,535	-	280,968
TOTAL FUNCTIONAL EXPENSES	$ 837,745	$ 1,336,242	$ 955,695	$ 657,151	$ 433,861	$ 187,852	$ 68,310	$ 4,476,856	$ 447,274	$ 1,097,652	$ 1,544,926	$ 443,726	$ 6,465,508

HELEN WOODWARD ANIMAL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS USED BY OPERATING ACTIVITIES		
Change in Net Assets	$ (285,815)	$ (433,128)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation	616,704	280,968
Impairment of Pledge Receivable	-	25,000
Net Realized and Unrealized Loss/(Gain) on Investments	109,263	(404,370)
Donations of Investments Included in Contributions	(329,637)	(28,664)
Change in the Value of Split-Interest Agreements	(346,588)	(16,509)
Change in Operating Assets and Liabilities:		
Accounts Receivable	(211,210)	33,194
Inventory	1,595	(2,417)
Prepaid Expenses, Deposits, and Other Assets	181,778	(213,269)
Unconditional Promises to Give	296,101	678,851
Accounts Payable and Accrued Expenses	(81,275)	(92,731)
Accrued Payroll	(3,340)	26,119
Accrued Compensated Absences	(15,597)	7,910
Deferred Compensation and Benefits	(21,249)	(23,644)
Security Deposits	(1,250)	-
	196,545	270,438
NET CASH USED BY OPERATING ACTIVITIES	(89,270)	(162,690)
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,448,784)	(5,886,312)
Decrease in Certificates of Deposit	-	110,146
Increase in Life Insurance Premium Account	(12,501)	(12,137)
Proceeds from Life Insurance Policy	500,000	-
Proceeds from Sale of Investments	1,508,298	1,581,547
Purchase of Investments	(1,333,648)	(1,217,839)
Principal Payments on Note Receivable from Related Party	15,930	13,623
	(770,705)	(5,410,972)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net Borrowings on Line of Credit	652,647	1,990,000
Principal Borrowings on Note Payable	-	27,552
Principal Payments on Note Payable	(4,975)	(2,679)
	647,672	2,014,873
NET DECREASE IN CASH	(212,303)	(3,558,789)
CASH, BEGINNING OF YEAR	1,110,720	4,669,509
CASH, END OF YEAR	$ 898,417	$ 1,110,720
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 138,476	$ -
Income Taxes Paid	$ -	$ -

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 in conformity with generally accepted accounting principles.

Basis of Presentation - The Center 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 of California adopted UPMIFA in October 2008. The Center adopted the new standards effective January 1, 2009.

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, 2011 and 2010, the Center had $176,397 and $301,396, respectively, of cash that was temporarily restricted by donors for specific uses by the Center (see Note 16).

Accounts Receivable - Accounts receivable totaling $280,184 and $69,004 net of an allowance for uncollectible accounts of $21,568 and $21,598 for the years ended December 31, 2011 and 2010, respectively, consist primarily of accounts receivable related to services performed at the equine hospital and sponsorships for special events that have occurred in the past year. 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 consists of mostly pet supplies held for resale and 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.

Fair Value Measurement - The Center 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.

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. During 2011, the first of four construction phases was completed and placed in service. The Center has capitalized the costs related to the construction of the unfinished phases and will not begin depreciating those assets until they are placed in service. Construction in progress costs totaled $233,311 and $10,116,459 as of December 31, 2011 and 2010, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 relieved of any depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

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, 2011 and 2010, unrestricted net assets totaling $2,786,634 and $2,379,002 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 $138,418 and $83,590 for the years ended December 31, 2011 and 2010, 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 2011 and 2010. 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 $22,200 and $21,216 of joint costs for the years ended December 31, 2011 and 2010, 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:

	2011	2010
Equine Hospital	$ 555	$ 189
Adoptions	7,770	7,292
Boarding	555	189
Education	555	189
Therapeutic Riding	555	189
Pet Encounter Therapy	555	189
AniMeals	555	189
Management and General	555	189
Fundraising	10,545	12,601
	$ 22,200	$ 21,216

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 adopted accounting standards which provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination. As of December 31, 2011 and 2010, the Center has not accrued interest or penalties related to uncertain tax positions. The Center files tax returns in the U.S. Federal jurisdiction and the State of California. The Center is no longer subject to U.S. and California examination by tax authorities for years before 2008 and 2007, respectively.

NOTE 3 NOTE RECEIVABLE FROM RELATED PARTY

The Center 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 November, 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.

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

	2011	2010
* Bequests	$ 938,164	$ 551,365
Temporarily Restricted Pledges for Capital Campaign	1,396,351	2,141,028
	2,334,515	2,692,393
Less: Discount	(18,935)	(80,712)
	$ 2,315,580	$ 2,611,681

Unconditional promises to give due in one to five years are discounted at 4% and 6% for the years ended December 31, 2011 and 2010 respectively. Pledges receivable for $0 and $25,000 were impaired due to management's estimate of uncollectibility during 2011 and 2010, respectively.

The following is a schedule by years of future receipts for capital campaign pledges as of December 31:

2012	$ 908,851
2013	482,500
2014	5,000
	$ 1,396,351

* 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:

	2011	2010
Corporate Stocks	$ 2,259,866	$ 2,130,065
Mutual Funds	972,338	637,032
Managed Funds	618,789	652,339
Municipal Funds	380,079	52,212
Corporate Bonds and Notes	143,418	358,534
U.S. Government Obligations	-	483,384
	$ 4,374,490	$ 4,313,566

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

	2011	2010
Interest and Dividend Income	$ 78,346	$ 88,120
Net Realized and Unrealized (Loss)/Gain on Investments	(33,692)	394,176
	$ 44,654	$ 482,296

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, investments and real property and were valued using a discount rate of 1.4% and 3% for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the trust had a value of $294,000, and was shown net of a discount of $136,046. At December 31, 2010, the trust had a value of $310,500, and was shown net of a discount of $147,546.

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 1.4% and 3% for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the trust had a value of $285,952, and was shown net of a discount of $51,633. At December 31, 2010, the trust had a value of $311,959, and was shown net of a discount of $59,247.

NOTE 6 CHARITABLE REMAINDER TRUSTS (continued)

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 restricted for the Center's Equine services. The trust's assets consist of cash, investments and real property and were valued using discount rates of 1.4% and 3% for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the trust had a value of $3,535,063, and was shown net of a discount of $677,035. At December 31, 2010, the trust had a value $3,115,467, and was shown net of a discount of $627,362.

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 1.4% and 3% for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the trust had a value of $56,527, and was shown net of a discount of $23,342. At December 31, 2010, the trust had a value of $57,853, and was shown net of a discount of $24,726.

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.

The life insurance policy carries 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 policy to lapse.

NOTE 7 LIFE INSURANCE PREMIUM AND ANNUITY ACCOUNT (continued)

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, 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 was used to pay the premiums on the life insurance policy and support the general operations of the Center. The Center recorded these contracts at fair value using a discounted cash flow method. The annuity contract was terminated in December 2010 and the Center received the full death benefit of $500,000 in February 2011.

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.

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.

NOTE 8 FAIR VALUE MEASUREMENT (continued)

Financial assets and liabilities carried at fair value at December 31, 2011 and 2010 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	2011 Level 1	2011 Level 2	2011 Level 3	2011 Total
Investments	$ 3,232,204	$ 1,142,286	$ -	$ 4,374,490
Charitable Remainder Trusts	-	3,283,486	-	3,283,486
Life Insurance Premium and Annuity Account	-	429,201	-	429,201
	$ 3,232,204	$ 4,854,973	$ -	$ 8,087,177

Assets	2010 Level 1	2010 Level 2	2010 Level 3	2010 Total
Investments	$ 2,767,097	$ 1,546,469	$ -	$ 4,313,566
Charitable Remainder Trusts	-	2,936,898	-	2,936,898
Life Insurance Premium and Annuity Account	-	916,700	-	916,700
	$ 2,767,097	$ 5,400,067	$ -	$ 8,167,164

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, managed funds and government obligations are valued using a bid-evaluation method which compares the corroborated indicative quotes and other observable market-based data. These investments are classified as Level 2.

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 are discounted based on life expectancy of the insured and are classified as Level 2 (See Note 7).

NOTE 8 FAIR VALUE MEASUREMENT (continued)

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 the discounting of pledges to present value or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis in 2011 and 2010 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	2011 Level 1	2011 Level 2	2011 Level 3	2011 Total
Unconditional Promises to Give	$ -	$ -	$ 2,315,580	$ 2,315,580

Assets	2010 Level 1	2010 Level 2	2010 Level 3	2010 Total
Unconditional Promises to Give	$ -	$ -	$ 2,611,681	$ 2,611,681

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

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2011:

	Unconditional Promises to Give
Balance at January 1, 2011	$ 2,611,681
New Pledges Received	492,649
Collections	(769,815)
Discount on Pledges	(18,935)
Balance at December 31, 2011	$ 2,315,580

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, 2010:

	Unconditional Promises to Give
Balance at January 1, 2010	$ 3,315,532
New Pledges Received	360,039
Collections	(958,178)
Impairment of Pledge Receivable	(25,000)
Discount on Pledges	(80,712)
Balance at December 31, 2010	$ 2,611,681

NOTE 9 PROPERTY AND EQUIPMENT

Property and Equipment consist of the following at December 31:

	2011	2010
Building and Improvements	$ 15,824,030	$ 5,554,948
Equipment	1,943,679	1,718,850
Furniture and Fixtures	817,732	91,087
Land and Improvements	764,982	670,055
Construction in Progress	233,311	10,116,459
Vehicles	204,945	204,945
	19,788,679	18,356,344
Accumulated Depreciation	(7,621,172)	(7,004,467)
	$ 12,167,507	$ 11,351,877

Depreciation expense was $616,704 and $280,968 for the years ended December 31, 2011 and 2010, respectively.

Capitalized interest totaled $26,256 and $5,740 for the years ended December 31, 2011 and 2010, respectively.

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 $13,174 and $13,523 at December 31, 2011 and 2010, 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 $14,420 and $14,802 at December 31, 2011 and 2010, 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 $65,152 and $86,401 at December 31, 2011 and 2010, 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 $2,790 and $4,114 for the years December 31, 2011 and 2010, respectively.

NOTE 13 LINE OF CREDIT

During 2010, the Center executed a $3,000,000 line of credit with California Bank & Trust which expires on February 1, 2016. The Center has drawn a total of $2,642,647 and $1,990,000 against the line of credit as of December 31, 2011 and 2010, respectively. The line of credit bears a variable interest rate of 5% at December 31, 2011 and 2010, and is collateralized by substantially all business assets.

As of December 31, 2011, the Center was in compliance with their banking covenants set forth in the line of credit agreement. The credit agreement states the Center is required to maintain a minimum liquid asset balance of at least $4,500,000.

NOTE 14 NOTE PAYABLE

The Center has a note payable for an auto loan. The note bears no interest and calls for monthly principal payments of $383. The note matures in May, 2016 and is secured by the underlying vehicle.

NOTE 14 NOTE PAYABLE (continued)

The following is a summary of principal maturities of long-term debt for the next five years:

2012	$ 4,592
2013	4,592
2014	4,592
2015	4,592
Thereafter	1,530
	$ 19,898

NOTE 15 RETIREMENT PLAN

The Center maintains a tax deferred qualified plan 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 for all eligible employees hired before January 1, 2009. The Center also pays all of the administrative and investment fees for the plan. The total expenses related to the plan for the years ended December 31, 2011 and 2010 were approximately $72,500 and $77,000, 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 16 NET ASSETS

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

	2011	2010
Charitable Remainder Trusts	$ 3,283,486	$ 2,936,898
Equine Hospital Equipment	55,314	38,803
Pet Encounter Therapy Operations	48,842	-
General Obligations	32,770	28,438
Adoptions Training	19,780	14,710
Therapeutic Riding Scholarships	11,804	-
AniMeals Operations	10,871	2,607
Education Operations and Programs	10,544	23,586
Equine Hospital Funds	7,281	5,351
Equine Hospital Emergency Services	4,686	4,386
Adoptions Operations and Supplies	3,652	382

NOTE 16 NET ASSETS (continued)

Adoptions Equipment	1,450	1,450
Therapeutic Riding Equipment	1,224	1,224
Adoptions Emergency Medical Fund	1,201	1,451
Capital Campaign	-	179,008
Unconditional Promises to Give in Future Years:		
Capital Campaign (Net of Discount)	1,377,415	2,060,314
General Operations	938,163	551,365
	$ 5,808,483	$ 5,849,973

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

	2011	2010
Capital Campaign	$ 579,535	$ 4,170,766
General Obligations	454,077	384,510
Adoptions Operations and Supplies	423,331	366,511
Therapeutic Riding Operations	98,627	152,096
Pet Encounter Therapy Operations	97,971	74,187
Adoptions Emergency Medical Fund	68,545	59,715
Aces Sponsorship	20,097	-
Education Operations and Programs	16,164	21,538
AniMeals Operations	13,545	18,250
Equine Hospital Operations	3,510	1,275
Therapeutic Riding Scholarships	2,696	10,650
Foster a Horse Program	1,722	300
Adoptions Spay/Neuter	395	775
Club Pet	40	1,001
Charitable Remainder Trusts	-	146,444
Therapeutic Riding Equipment and Building	-	354
Unconditional Promises to Give in Future Years:		
General Operations	-	123,009
	$ 1,780,255	$ 5,531,381

At December 31, 2011 and 2010, 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 17 ENDOWMENT FUND

The Center is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Center's Board of Directors has interpreted the UPMIFA as permitting the expenditure or accumulation of as much of permanent endowment funds as the Center determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund was established, even if this results in the occasional invasion of the endowments historical gift value. Thus, at times, the value of donor-restricted assets may fall below the level that a donor requires the Center to maintain as permanently restricted net assets. At December 31, 2011 and 2010 the aggregate deficit of such "underwater" funds was $96,941 and $78,629 respectively. This deficit resulted from unfavorable market fluctuations that have occurred from 2008 to 2011.

The Center classifies as permanently restricted endowment net assets (a) the original value of gifts used to establish permanent endowments and (b) the original value of subsequent gifts to permanent endowments: collectively known as "historical gift value". Board designated endowment funds are classified as unrestricted net assets, available to be appropriated for expenditure by the Center.

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.

Endowment payout is defined as a fixed percentage currently set at 5% of the market value of the Endowment Funds. This amount will be available for center wide operating purposes, including investment management fees for the Endowment Fund.

NOTE 17 ENDOWMENT FUND (continued)

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.

During 2011, the Center had the following endowment related activities:

	Permanently Restricted Funds	Board Designated Funds	Total
Investment Income	$ 44,416	$ 163,761	$ 208,177
Principal Payments on Notes Receivable	-	69,664	69,664
Life Insurance Proceeds Designated by Board	-	500,000	500,000
Amounts Appropriated for Expenditure	(53,117)	(271,709)	(324,826)
Investment and Trustee Fees	(9,971)	(35,412)	(45,383)
Total Change in Endowment Funds	$ (18,672)	$ 426,304	$ 407,632

During 2010, the Center had the following endowment related activities:

	Permanently Restricted Funds	Board Designated Funds	Total
Investment Income	$ 92,673	$ 337,238	$ 429,911
Principal Payments on Notes Receivable	-	13,623	13,623
Amounts Appropriated for Expenditure	(47,476)	(416,677)	(464,153)
Investment and Trustee Fees	(8,799)	(31,718)	(40,517)
Total Change in Endowment Funds	$ 36,398	$ (97,534)	$ (61,136)

NOTE 17 ENDOWMENT FUND (continued)

Endowment net asset composition by type of fund as of December 31, 2011.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-Restricted Endowment Funds	$ -	$ -	$ 1,634,952	$ 1,634,952
Board-Designated Endowment Funds	2,786,634	-	-	2,786,634
Total Funds	$ 2,786,634	$ -	$ 1,634,952	$ 4,421,586

Changes in endowment net assets as of December 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment Net Assets, Beginning of Year	$ 2,379,002	$ -	$ 1,634,952	$ 4,013,954
Investment Income	208,177	-	-	208,177
Principal Payments on Notes Receivable	69,664	-	-	69,664
Life Insurance Proceeds Designated by Board	500,000	-	-	500,000
Amounts Appropriated For Expenditure	(324,826)	-	-	(324,826)
Investment and Trustee Fees	(45,383)	-	-	(45,383)
Endowment Net Assets, End of Year	$ 2,786,634	$ -	$ 1,634,952	$ 4,421,586

Endowment net asset composition by type of fund as of December 31, 2010.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-Restricted Endowment Funds	$ -	$ -	$ 1,634,952	$ 1,634,952
Board-Designated Endowment Funds	2,379,002	-	-	2,379,002
Total Funds	$ 2,379,002	$ -	$ 1,634,952	$ 4,013,954

NOTE 17 ENDOWMENT FUND (continued)

Changes in endowment net assets as of December 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment Net Assets, Beginning of Year	$ 2,440,138	$ -	$ 1,634,952	$ 4,075,090
Investment Income	429,911	-	-	429,911
Principal Payments on Notes Receivable	13,623			13,623
Amounts Appropriated For Expenditure	(464,153)	-	-	(464,153)
Investment and Trustee Fees	(40,517)	-	-	(40,517)
Endowment Net Assets, End of Year	$ 2,379,002	$ -	$ 1,634,952	$ 4,013,954

NOTE 18 SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 6, 2012, the date which the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements.