

MOSSES ADAMS



**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**JUNE 30, 2008 AND 2007**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Pets Unlimited

We have audited the accompanying statements of financial position of Pets Unlimited as of June 30, 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 Pets Unlimited'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 Pets Unlimited as of June 30, 2008 and 2007, and the changes in its net assets and its cash flow for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
October 15, 2008

## FINANCIAL STATEMENTS

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**PETS UNLIMITED**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,050,412	\$ 1,842,741
Accounts receivable, net of allowance for doubtful accounts	119,624	136,339
Contribution receivable	-	1,000,000
Investments	789,860	-
Bequests receivable	30,139	28,258
Inventory	183,732	235,316
Prepaid expenses	40,564	46,616
Total current assets	<u>2,214,331</u>	<u>3,289,270</u>
LAND, BUILDING AND EQUIPMENT, net of accumulated depreciation	<u>5,890,304</u>	<u>5,971,163</u>
Total assets	<u>\$ 8,104,635</u>	<u>\$ 9,260,433</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 322,380	\$ 233,372
Wages payable	214,648	169,222
Interest payable	1,927	1,927
Accrued and other liabilities	264,371	179,756
Deferred Revenue	54,000	-
Current portion of capital lease obligations	31,680	34,819
Current portion of long-term debt	63,773	59,555
Total current liabilities	<u>952,779</u>	<u>678,651</u>
LONG-TERM LIABILITIES		
Capital lease obligations, less current portion	136,518	108,086
Long-term debt, less current portion	<u>2,868,698</u>	<u>2,932,471</u>
Total long-term liabilities	<u>3,005,216</u>	<u>3,040,557</u>
Total liabilities	<u>3,957,995</u>	<u>3,719,208</u>
NET ASSETS		
Unrestricted	3,125,473	4,509,643
Temporarily restricted	21,167	31,582
Permanently restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>4,146,640</u>	<u>5,541,225</u>
Total liabilities and net assets	<u>\$ 8,104,635</u>	<u>\$ 9,260,433</u>

*See accompanying notes.*

**PETS UNLIMITED**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>								
Contributions	\$ 527,835	\$ 28,954	\$ -	\$ 556,789	\$ 742,392	\$ 105,000	\$ 1,000,000	\$ 1,847,392
Hospital	8,692,563	-	-	8,692,563	8,020,483	-	-	8,020,483
Shelter	37,316	-	-	37,316	30,056	-	-	30,056
Interest income and unrealized gains(losses)	44,144	-	-	44,144	83,407	-	-	83,407
Other income	1,394	-	-	1,394	3,005	-	-	3,005
Net assets released from restrictions	39,369	(39,369)	-	-	162,714	(162,714)	-	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>9,342,621</b>	<b>(10,415)</b>	<b>-</b>	<b>9,332,206</b>	<b>9,042,057</b>	<b>(57,714)</b>	<b>1,000,000</b>	<b>9,984,343</b>
<b>EXPENSES</b>								
Program services								
Hospital	7,443,790	-	-	7,443,790	6,508,959	-	-	6,508,959
Shelter	1,314,033	-	-	1,314,033	1,131,093	-	-	1,131,093
Supporting services								
General and administrative	1,534,854	-	-	1,534,854	1,195,907	-	-	1,195,907
Development	434,114	-	-	434,114	321,456	-	-	321,456
<b>TOTAL EXPENSES</b>	<b>10,726,791</b>	<b>-</b>	<b>-</b>	<b>10,726,791</b>	<b>9,157,415</b>	<b>-</b>	<b>-</b>	<b>9,157,415</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,384,170)</b>	<b>(10,415)</b>	<b>-</b>	<b>(1,394,585)</b>	<b>(115,358)</b>	<b>(57,714)</b>	<b>1,000,000</b>	<b>826,928</b>
<b>NET ASSETS, beginning of year</b>	<b>4,509,643</b>	<b>31,582</b>	<b>1,000,000</b>	<b>5,541,225</b>	<b>4,625,001</b>	<b>89,296</b>	<b>-</b>	<b>4,714,297</b>
<b>NET ASSETS, end of year</b>	<b>\$ 3,125,473</b>	<b>\$ 21,167</b>	<b>\$ 1,000,000</b>	<b>\$ 4,146,640</b>	<b>\$ 4,509,643</b>	<b>\$ 31,582</b>	<b>\$ 1,000,000</b>	<b>\$ 5,541,225</b>

See accompanying notes.

**PETS UNLIMITED**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2008

	Hospital	Shelter	Total Program Services	General and Administrative	Development	Total Expenses
Personnel costs						
Salaries	\$ 4,406,454	\$ 516,592	\$ 4,923,046	\$ 582,209	\$ 144,181	\$ 5,649,436
Payroll taxes and benefits	381,581	47,660	429,241	506,372	7,786	943,399
Total personnel expenses	<u>4,788,035</u>	<u>564,252</u>	<u>5,352,287</u>	<u>1,088,581</u>	<u>151,967</u>	<u>6,592,835</u>
Operating costs						
Hospitalization	182,713	-	182,713	-	-	182,713
Lab costs	289,640	6,119	295,759	-	-	295,759
Prescriptions	254,765	1,982	256,747	-	-	256,747
Radiology	5,030	-	5,030	-	-	5,030
Special diet foods	265,483	3,062	268,545	-	-	268,545
Surgery	34,231	-	34,231	-	-	34,231
Cost of other goods sold	547,591	13,168	560,759	639	-	561,398
Advertising	24,662	14,797	39,459	4,932	4,932	49,324
Bad debts	44,342	-	44,342	-	-	44,342
Charity care	269,459	405,209	674,668	-	-	674,668
Credit card discounts	157,117	-	157,117	-	-	157,117
Depreciation	126,161	73,085	199,246	24,362	24,362	247,969
Disposal	30,359	18,215	48,574	6,072	6,072	60,718
Dues and subscriptions	4,547	-	4,547	1,150	150	5,847
Equipment lease	34,598	11,532	46,130	-	-	46,130
Insurance	122,179	48,871	171,050	36,654	36,654	244,357
Interest	1,158	19	1,177	204,237	92	205,506
Janitorial	5,967	4,122	10,089	34,191	-	44,280
Office and program supplies	30,782	12,313	43,095	9,234	9,234	61,564
Postage	1,048	35	1,083	8,485	4,520	14,088
Printing	6,482	6,482	12,964	2,778	2,778	18,520
Professional fees	6,455	6,621	13,076	69,899	112,073	195,048
Promotional and marketing	-	-	-	-	2,382	2,382
Repairs and maintenance	33,607	20,164	53,771	6,721	6,721	67,214
Special events	161	7	168	299	35,557	36,024
Telephone	11,764	4,706	16,470	3,529	3,529	23,528
Utilities	46,989	28,193	75,182	9,398	9,398	93,978
Other expenses	118,465	71,079	189,544	23,693	23,693	236,930
Total operating costs	<u>2,655,755</u>	<u>749,781</u>	<u>3,405,536</u>	<u>446,273</u>	<u>282,147</u>	<u>4,133,956</u>
Total expenses	<u>\$ 7,443,790</u>	<u>\$ 1,314,033</u>	<u>\$ 8,757,823</u>	<u>\$ 1,534,854</u>	<u>\$ 434,114</u>	<u>\$ 10,726,791</u>

See accompanying notes.

**PETS UNLIMITED**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2007

	Hospital	Shelter	Total Program Services	General and Administrative	Development	Total Expenses
Personnel costs						
Salaries	\$ 3,710,601	\$ 479,188	\$ 4,189,789	\$ 486,964	\$ 153,338	\$ 4,830,091
Payroll taxes and benefits	382,075	47,136	429,211	321,764	16,187	767,162
Total Personnel costs	<u>4,092,676</u>	<u>526,324</u>	<u>4,619,000</u>	<u>808,728</u>	<u>169,525</u>	<u>5,597,253</u>
Operating costs						
Hospitalization	209,751	10,580	220,331	-	-	220,331
Lab Costs	273,132	8,239	281,371	-	-	281,371
Prescriptions	260,147	3,274	263,421	-	-	263,421
Radiology	13,823	-	13,823	-	-	13,823
Special diet foods	207,587	2,409	209,996	-	-	209,996
Surgery	23,084	-	23,084	-	-	23,084
Cost of other goods sold	481,357	10,516	491,873	213	-	492,086
Advertising	24,641	14,785	39,426	4,928	4,928	49,282
Bad debt	20,416	-	20,416	-	-	20,416
Charity care	250,175	282,117	532,292	-	132	532,424
Credit card discounts	137,574	-	137,574	126	-	137,700
Depreciation	131,146	78,687	209,833	26,229	26,229	262,291
Disposal	25,763	15,457	41,220	5,153	5,152	51,525
Dues and subscriptions	3,981	25	4,006	1,792	119	5,917
Equipment lease	43,373	14,457	57,830	-	-	57,830
Insurance	84,603	33,841	118,444	25,380	25,381	169,205
Interest	102	31	133	184,712	44	184,889
Janitorial	1,966	1,484	3,450	27,318	-	30,768
Office and program supplies	24,379	9,751	34,130	7,314	7,314	48,758
Postage	1,551	-	1,551	5,618	11,947	19,116
Printing	21,184	21,184	42,368	9,079	9,079	60,526
Professional fees	22,375	7,368	29,743	57,147	14,000	100,890
Promotional and marketing	-	-	-	-	10,354	10,354
Repairs and maintenance	33,627	20,176	53,803	6,725	6,725	67,253
Special events	-	-	-	367	5,449	5,816
Telephone	9,685	3,874	13,559	2,906	2,906	19,371
Utilities	44,124	26,474	70,598	8,825	8,825	88,248
Other Expenses	66,737	40,040	106,777	13,347	13,347	133,471
Total Operating costs	<u>2,416,283</u>	<u>604,769</u>	<u>3,021,052</u>	<u>387,179</u>	<u>151,931</u>	<u>3,560,162</u>
Total expenses	<u>\$ 6,508,959</u>	<u>\$ 1,131,093</u>	<u>\$ 7,640,052</u>	<u>\$ 1,195,907</u>	<u>\$ 321,456</u>	<u>\$ 9,157,415</u>

See accompanying notes.

**PETS UNLIMITED**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2008 And 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,394,585)	\$ 826,928
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Allowance for doubtful accounts	(9,737)	15,827
Depreciation	247,969	262,291
Amortization	-	3,055
Loss on sale of property and equipment	8,667	4,268
Contributions restricted for long-term purposes	-	(1,000,000)
Unrealized Loss on Investments	150,373	-
Changes in assets and liabilities		
Accounts receivable	26,452	(109,274)
Bequest receivable	(1,881)	1,356,212
Contribution receivable	1,000,000	-
Inventory	51,584	(24,944)
Prepaid expenses	6,052	24,845
Accounts payable	89,008	(39,716)
Wages payable	45,426	52,592
Interest payable	-	(571)
Accrued and other liabilities	84,616	9,415
Deferred Revenue	54,000	-
Net cash from operating activities	<u>357,944</u>	<u>1,380,928</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(940,233)	-
Purchases of property and equipment	(175,779)	(314,369)
	<u>(1,116,012)</u>	<u>(314,369)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments made under capital lease obligations	(45,246)	(15,538)
Borrowings on capital lease obligations	70,540	-
Payments made on bank loan	(59,555)	(56,524)
Net cash from financing activities	<u>(34,261)</u>	<u>(72,062)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(792,329)</b>	<b>994,497</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>1,842,741</b>	<b>848,244</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 1,050,412</b>	<b>\$ 1,842,741</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid during the year	<u>\$ 180,568</u>	<u>\$ 165,041</u>
Equipment under capital lease obligation	<u>\$ 202,281</u>	<u>\$ 149,335</u>

*See accompanying notes.*

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** – Pets Unlimited (“Pets”) is a California nonprofit corporation founded to provide shelter and adoption services, quality medical care and community education programs to encourage humane treatment and responsible ownership of companion animals. Pets provides its services for a fee to the general public. It also provides its services free or at a discounted rate to members of certain organizations and to those that adopt pets from animal care and control.

**Basis of Presentation** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Pets and changes therein are classified and reported as follows:

*Unrestricted* – Unconditional promises to give by donors without any use or time restrictions. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds and for certain endowment funds in accordance with donor stipulations.

*Temporarily restricted* – Unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted* – Unconditional promises to give by donors that specify that the assets donated be maintained to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the organization may determine the income’s availability to the organization’s operations. At both June 30, 2008 and 2007, Pets had \$1,000,000 permanently restricted net assets.

**Tax Exempt Status** – Pets is exempt from Federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. As such, there is no provision for income taxes.

**Cash and Cash Equivalents** – For the purposes of the statements of cash flows, cash and cash equivalents include demand deposits, savings accounts, money-market funds and certificates of deposit with original maturities of three months or less.

**Accounts Receivable** – An allowance for bad debts has been established at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon review of individual credit, recent loss experience, current economic conditions, and other pertinent factors. The allowance for bad debts was \$33,994 and \$43,731 at June 30, 2008 and 2007. Pets does extend credit to some customers. A down-payment for services is generally required; however, there is no requirement for collateral.

**Contribution Receivable** – During the year ended June 30, 2007, Pets received \$1 million as a contribution receivable in permanently restricted contributions from one donor. Pets can use 5% of the income annually which will be distributed on a quarterly basis to be used for various temporarily restricted purposes. The entire receivable balance was collected in July 2007.

**Bequests Receivable** – Revenue from bequests is recognized as a receivable when Pets is reasonably assured that it will receive an amount from an estate and that amount can be estimated. Bequest amounts estimated to be received in excess of one year are subject to discounting.

**Investments** – All debt securities and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices as of the last trading date of the Organization’s fiscal year. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from the sales or maturities are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

**Inventory** – Inventory is stated at the lower of cost or market, determined by the last-in, first-out method.

**Land, Building and Equipment** – Land, building and equipment are recorded at cost or at estimated fair value, if donated, for items exceeding \$500. Depreciation of the building and equipment is provided over the estimated useful lives of assets on the straight-line method over 3 to 39 years.

**PETS UNLIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**Deferred Revenue** - Deferred revenue consists of ticket sales received in advance for Pets' annual event.

**Revenue Recognition** – Pets recognizes hospital and shelter revenue at the time the service is rendered. Donations are recognized upon the donor's unconditional promise to give.

**Donated Services** – Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received. Many individuals volunteer their time and perform a variety of tasks that assist Pets with program and fundraising activities; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

**Credit Risk** – Financial instruments, which potentially subject Pets Unlimited to concentration of credit risk, consist principally of temporary cash investments and marketable securities. Pets Unlimited places its temporary cash and other investments with high-credit, quality financial institutions and securities dealers, which may at times exceed federally and privately insured amounts. Management does not believe that it is exposed to any significant credit risk on uninsured amounts.

**Advertising Expense** – The cost of advertising is expensed as incurred. Advertising expense for the year ended June 30, 2008 and 2007 totaled \$49,323 and \$49,282, respectively.

**Accounting Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The fair value of investments is a significant estimate and can change dramatically. This could have a significant effect on these financial statements.

**Expense Allocation** – Expenses which apply to more than one functional category have been allocated between program, management and general, and fund-raising based on the time spent on these functions by specific employees as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

**Reclassifications** – Certain reclassifications were made to the 2007 financial statement presentation in order to conform to the 2008 financial statement presentation.

**NOTE 2 - INVESTMENTS**

The Organization's investments consist of the following at June 30, 2008:

Corporate stocks	\$ 441,598
Corporate notes and bonds	140,508
U.S. Treasury notes and bonds	<u>207,754</u>
Total investments	<u><u>\$ 789,860</u></u>

The following schedule summarizes the investment returns for the year ended June 30, 2008:

Interest income	\$ 194,517
Realized/Unrealized gains (losses)	<u>(150,373)</u>
	<u><u>\$ 44,144</u></u>

Pets is aware there are global pressures on the current financial markets. Based on the best information available at this time, Pets is vigilantly monitoring the developments in the markets and believes that it is positioned to deal with these developments should the market conditions persist.

**NOTE 3 – LAND, BUILDING AND EQUIPMENT**

Land, building and equipment at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Land	\$ 189,317	\$ 189,317
Building	6,841,960	6,816,562
Furniture and fixtures	229,475	203,501
Medical equipment	120,693	113,845
Computer equipment	247,967	203,023
Leased equipment	202,281	149,335
Automobile	11,000	-
	7,842,693	7,675,583
Accumulated depreciation	(1,952,389)	(1,704,420)
Total	\$ 5,890,304	\$ 5,971,163

Depreciation expense totaled \$247,969 and \$262,291 for the years ended June 30, 2008 and 2007, respectively.

**NOTE 4 – OPERATING LEASES**

Pets has entered into non-cancelable lease agreements for equipment and office space extending through the fiscal year ending June 30, 2012. The office sublease commenced August 2006 and expired on February 28, 2007. Upon expiration, the sublease reverted to a month to month agreement. The lease expense under these leases was \$46,130 and \$57,831 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments under these leases are as follows:

Year Ending June 30,	Equipment
2009	\$ 84,129
2010	85,052
2011	30,004
2012	1,334

**PETS UNLIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 – CAPITAL LEASES**

Pets Unlimited leases computer and medical equipment. Future annual minimum lease payments are as follows:

2009	\$	44,811
2010		43,949
2011		43,949
2012		43,949
2013		25,937
Thereafter		<u>-</u>
Minimum lease payments		202,595
Less amount representing interest		34,397
Present value of payments		168,198
Less current maturities		<u>31,680</u>
	<u>\$</u>	<u>136,518</u>

Total accumulated amortization included in accumulated depreciation amounted to \$34,219 and \$29,867 as of June 30, 2008 and 2007, respectively.

**NOTE 6 – LONG-TERM DEBT**

	<u>2008</u>	<u>2007</u>
Note payable to a commercial bank; interest at 5.99% and 6.11% at June 30, 2008 and 2007; secured by the building and due in monthly installments of principal and interest through October 2012.	\$ 2,932,471	\$ 2,992,026
Less current portion	<u>63,773</u>	<u>59,555</u>
	<u>\$ 2,868,698</u>	<u>\$ 2,932,471</u>

Scheduled maturities of long-term debt for succeeding years are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 63,773
2010	67,756
2011	71,987
2012	76,030
2013	<u>2,652,925</u>
	<u>\$ 2,932,471</u>

The loan has certain financial covenants with which Pets was not in compliance with as of June 30, 2008. Pets received a one time waiver from the commercial bank for the financial covenant for June 30, 2008.

**NOTE 7 – EMPLOYEE BENEFIT PLAN**

Pets has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code for its employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. No contributions were made to the plan by Pets during the year ended June 30, 2008 or 2007.

**NOTE 8 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of:

	<u>2008</u>	<u>2007</u>
CEO search	\$ 5,967	\$ 5,967
Berrigan fund	10,000	10,615
Shelter exam room equipment	5,000	5,000
Tsujimoto Fund	200	-
Volunteer program	-	10,000
Total	<u>\$ 21,167</u>	<u>\$ 31,582</u>

Temporarily restricted net assets were released from the following restrictions:

	<u>2008</u>	<u>2007</u>
Tsujimoto Fund	\$ 18,754	\$ -
Berrigan fund	10,615	46,835
Volunteer program	10,000	-
Holistic medicine	-	115,879
Total	<u>\$ 39,369</u>	<u>\$ 162,714</u>

Permanently restricted net assets consist of:

	<u>2008</u>	<u>2007</u>
Endowment Fund	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>