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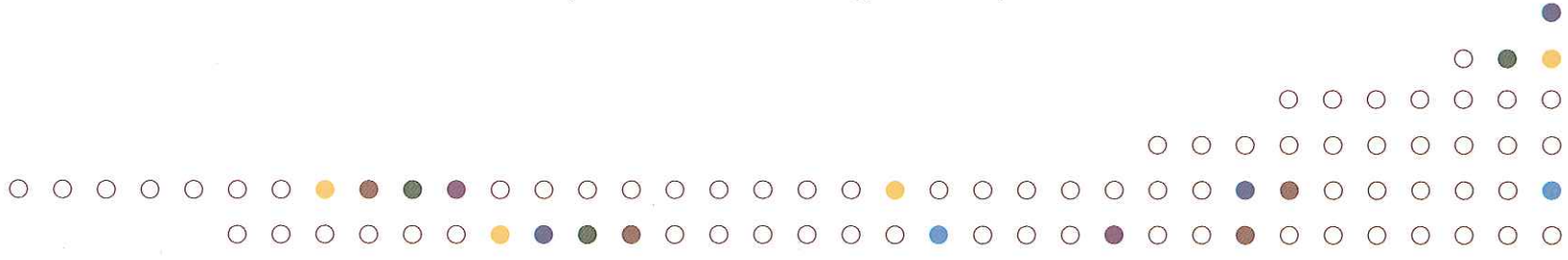
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Canine Assistants, Inc.
(A Not-For-Profit Organization)



Financial Statements

December 31, 2010



BETTER TOGETHER™



Independent Auditors' Report

To the Board of Directors of
Canine Assistants, Inc.

We have audited the accompanying statement of financial position of Canine Assistants, Inc. (the Organization) (a not-for-profit organization) as of December 31, 2010 and the related statements of activities, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canine Assistants, Inc. as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Bennett Thrasher PC

August 12, 2011

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Canine Assistants, Inc.
(A Not-For-Profit Organization)

Statement of Financial Position
December 31, 2010

Assets

Cash and cash equivalents	\$ 125,729
Pledges receivable, net of allowances of \$75,951	412,922
Prepaid expenses	737
Deferred training costs	869,232
Deferred loan costs, net	3,909
Investments restricted for endowment purposes	328,403
Horses, breeding stock and spokesdogs, less accumulated depreciation	143,831
Property and equipment, less accumulated depreciation and amortization	<u>1,295,260</u>
	<u>\$ 3,180,023</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 79,302
Deferred revenue	220,000
Capital leases	20,742
Long-term debt	<u>787,981</u>
Total liabilities	<u>1,108,025</u>

Commitments and contingencies

Net assets:

Unrestricted	745,174
Temporarily restricted	1,006,824
Permanently restricted	<u>320,000</u>
Total net assets	<u>2,071,998</u>
	<u>\$ 3,180,023</u>

See accompanying notes to financial statements.

Canine Assistants, Inc.
(A Not-For-Profit Organization)

Statement of Activities
For the Year Ended December 31, 2010

Changes in unrestricted net assets:

Contributions	\$ 1,442,062
Sponsorship revenue	1,010,000
Net realized and unrealized gains on investments	11,626
Net assets released from restrictions	<u>1,679,332</u>
Total unrestricted support	<u>4,143,020</u>

Expenses:

Animal training and care	434,887
Depreciation and amortization	171,626
Insurance	246,419
Interest expense	59,466
Office expense and other	46,779
Pet and kennel supplies	20,517
Repairs and maintenance	116,643
Professional fees	108,921
Public relations and travel costs	1,499,123
Salaries, compensation and related costs	1,162,527
Utilities and telephone	118,616
Veterinarian and other supplies	<u>185,132</u>
Total expenses	<u>4,170,656</u>

Decrease in unrestricted net assets (27,636)

Changes in temporarily restricted net assets:

Contributions	1,663,595
Net realized and unrealized gains on valuation of investments	21,000
Net assets released from restrictions	<u>(1,679,332)</u>
Increase in temporarily restricted net assets	<u>5,263</u>

Changes in permanently restricted net assets:

Contributions	<u>-</u>
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Changes in net assets \$ (22,373)

See accompanying notes to financial statements.

Canine Assistants, Inc.
(A Not-For-Profit Organization)

Statement of Changes in Net Assets
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at December 31, 2009	\$ 772,810	\$ 1,001,561	\$ 320,000	\$ 2,094,371
Changes in net assets	<u>(27,636)</u>	<u>5,263</u>	<u>-</u>	<u>(22,373)</u>
Net assets at December 31, 2010	<u>\$ 745,174</u>	<u>\$ 1,006,824</u>	<u>\$ 320,000</u>	<u>\$ 2,071,998</u>

See accompanying notes to financial statements.

Canine Assistants, Inc.
(A Not-For-Profit Organization)

Statement of Cash Flows
For the Year Ended December 31, 2010

Cash flows from operating activities:	
Changes in net assets	\$ (22,373)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(32,626)
Depreciation and amortization	171,626
Changes in assets and liabilities:	
Pledges receivable	56,809
Prepaid expenses	1,308
Deferred training costs	223,610
Accounts payable and accrued liabilities	(115,012)
Deferred revenue	20,000
Net cash provided by operating activities	<u>303,342</u>
Cash flows from investing activities:	
Proceeds from sales of investments	19,130
Purchases of property and equipment	<u>(45,084)</u>
Net cash used in investing activities	<u>(25,954)</u>
Cash flows from financing activities:	
Net payments on line of credit	(190,000)
Principal payments on long-term debt and capital lease obligations	<u>(41,660)</u>
Net cash used in financing activities	<u>(231,660)</u>
Net increase in cash and cash equivalents	45,728
Cash and cash equivalents at beginning of period	<u>80,001</u>
Cash and cash equivalents at end of period	<u>\$ 125,729</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for interest	<u>\$ 64,341</u>
Dogs selected from assistance dog inventory for breeding and other productive purposes	<u>\$ 34,003</u>

See accompanying notes to financial statements.

Canine Assistants, Inc.
(A Not-For-Profit Organization)

Notes to Financial Statements
December 31, 2010

Note 1: Description of Organization and Summary of Significant Accounting Policies

Description of Organization

Canine Assistants, Inc. (the Organization) obtains (through breeding, purchase or donation), raises, trains and places assistance dogs (i.e. service dogs, companion dogs and private-placement dogs) throughout the United States of America with children and adults who have special needs other than blindness. All candidates are required to complete two weeks of intensive training in the proper use and care of the dogs. Services, which include an assistance dog and instruction in its use, travel expenses to and from the Organization's training facility, room and board during the two-week instruction period, a specially designed harness for the dog and follow-up care and veterinarian care when requested, are provided to recipients without charge. The Organization also conducts community outreach through its public awareness campaigns in local communities and provides animal assisted therapy programs (i.e. horses used for therapeutic riding). The Organization is supported primarily through donations provided by individuals, corporations and private foundations. The Organization's administrative and training facilities and kennels are located in Milton, Georgia. The Organization was incorporated under the laws of the state of Georgia on December 31, 1991.

Since inception, the Organization has placed 856 assistance dogs with recipients. During the year ended December 31, 2010, the Organization placed 64 service dogs. The number of applicants on the Organization's assistance dog waiting list totaled approximately 1,450 applicants as of December 31, 2010.

Use of Estimates in Financial Statements

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated.

Accounting Standards Codification

In July 2009, the Financial Accounting Standards Board (FASB) completed a revision of non-governmental U.S. generally accepted accounting principles into a single authoritative source and issued a codification of accounting rules and references. Authoritative standards included in the codification are designated by their Accounting Standards Codification (ASC) topical reference, and revised standards are designated as Accounting Standards Updates, with a year and assigned sequence number. The codification effort, while not creating or changing accounting rules, changed how users would cite accounting regulations. The codification was effective for interim and annual periods ending after September 15, 2009. The Organization is complying with the new codification standards.

Basis of Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the resources are classified for accounting and reporting purposes into categories established according to their nature and purpose. The assets, liabilities and net assets of the Organization are reported in three self-balancing categories as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are those resulting from the nature of the Organization and its purposes.
- Temporarily restricted net assets are resources whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be removed by actions of the Organization (see Note 7).
- Permanently restricted net assets are resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be removed by actions of the Organization. Permanently restricted net assets consist of assets held for endowment purposes of the Organization (see Note 8).

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of ninety days or less when purchased. At times, cash and cash equivalents may exceed federally insured amounts. The Organization believes it mitigates risks by depositing cash and investing in cash equivalents with major financial institutions.

Investments

Investments, including investments restricted for endowment purposes, are carried at fair value.

Investment income and gains and losses on investments carried at fair value are recorded as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the accompanying financial statements.

Donated marketable securities are recognized as contributions at their estimated fair values at the date of donation.

Investments restricted for endowment purposes represent assets that have been donated to provide income for general operating purposes or capital repairs and maintenance of the Organization (See Note 8). The principal amounts of the initial gifts have been presented as permanently restricted net assets in the accompanying statement of financial position. The cumulative amount of the net appreciation on the valuation of the investments since the initial gift dates has been included in unrestricted or temporarily restricted net assets in the accompanying statement of financial position depending on whether such net appreciation has been specifically restricted in the endowment gift documents.

Deferred Training Costs

Deferred training costs consist of puppies, dogs that are being trained as assistance dogs and dogs that have not yet been selected as breeding stock or for other productive purposes. Assistance dogs raised by the Organization generally require a growing and training period of 14 to 16 months. Deferred costs consist of all direct and indirect costs of dogs raised as service dogs, companion dogs or private-placement dogs, including the fair value of donated dogs, until the dogs have completed their training and are ready to be placed with a recipient. Such costs include feed, labor and overhead costs required to raise and train the dogs. Deferred training costs of service dogs, companion dogs and private-placement dogs are charged to animal-related expenses when the dogs are placed with recipients. Deferred training costs related to 100 dogs at December 31, 2010.

Horses, Breeding Stock and Spokedogs

Horses, which are used for therapeutic riding, are recorded at cost when purchased or fair value at the gift date when donated and depreciated on a straight-line basis over the estimated fifteen year useful lives of the horses.

All direct and indirect costs of dogs raised as breeding stock or spokesdogs, including the fair value at the gift date of donated dogs, are deferred until the dogs reach maturity and are selected for breeding or other productive purposes. At the point of maturity, the dogs are depreciated on a straight-line basis over their estimated useful lives, four to eight years. Breeding stock and spokesdogs are charged to animal-related expenses when the dogs are sold or given away.

Method of Depreciation and Amortization

Property and equipment are stated at cost, if purchased or fair value at the gift date, if donated. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the individual assets as follows: three years for software; five to ten years for medical and farm equipment and vehicles; seven to fifteen years for improvements and fencing; and twenty years for the house, kennels and administration building.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Organization evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying business. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no assets were impaired as of December 31, 2010.

Donated Materials, Equipment and Services

A substantial number of volunteer hours have been donated by individuals to the Organization's program services. No amounts have been recorded in the accompanying statement of activities for these donated services as only donations of service that create or enhance nonfinancial assets, or require skills that would otherwise typically be purchased, are recorded as support and expense.

Recorded contributions include amounts related to air travel expenses which were paid by the use of frequent flyer mile awards, which were donated by the patrons of an airline which facilitates and honors such awards for air travel. The associated air travel related to recipients and their families, and for promotional travel by the Organization's development staff.

Recognition of Revenue

Contributions and grants (including unconditional promises to give, i.e., pledges) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions in the accompanying statement of activities when significant. As of December 31, 2010, there were no unconditional pledges greater than a year. Conditional pledges are not included as support until the conditions are substantially met.

The Organization recognizes contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a noncapital donor-imposed temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and presented in the accompanying statement of activities as net assets released from restrictions.

The Organization recognizes contributions of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-term assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-term assets are recognized as restricted support. In the absence of explicit donor stipulations about how long those long-term assets must be maintained, the Organization reports expirations of donor-imposed restrictions when the donated or acquired long-term assets are placed in service.

The Organization has entered into a sponsorship agreement with a corporate sponsor which entitles the Organization to contributions for a three-year period. The agreement contains certain sponsorship rights and other provisions as defined in the agreement which include a requirement by the Organization to place a specified number of dogs annually. Revenue generated from the sponsorship is recorded evenly over the applicable contract period. Deferred revenue related to the agreement totaled \$220,000 as of December 31, 2010.

Endowment Funds

The Organization's endowment funds consist of two funds established for a variety of purposes (Note 8). The endowment funds include only donor-restricted endowments. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law related to Endowment Funds

The Organization's Board of Directors has interpreted Georgia's adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Because of this, the Organization classifies the original value of gifts (initial or subsequent) donated in accordance with the purpose established by the donor as permanently restricted net assets. To the degree that there are gains or other net income generated and potentially available for expenditure, these are classified as temporarily restricted net assets in accordance with the purpose established by the donor or until appropriated by the Board of Directors for endowments whose use is unrestricted.

Major Donors

Approximately 57% of all contributions were received from three donors during the year ended December 31, 2010.

Advertising Costs

Public relations and travel costs, primarily trainer and spokesdog travel expenses and a portion of the cost of training candidates, are considered program service expenses and are expensed as incurred. Public relations and travel costs totaled approximately \$1,499,000 for the year ended December 31, 2010 and are included in public relations and travel costs in the accompanying statement of activities.

Veterinary Care

The Organization has an informal arrangement with all recipients to provide veterinary care for the life of their service dog or companion dog when a recipient is unable to do so. The Organization attempts to provide this care at its facilities in Milton, Georgia; however, when this is not possible, the Organization attempts to obtain donated veterinary services in the recipient's area. These costs are charged to animal training and care expenses as incurred and are included in the accompanying statement of activities.

Deferred Loan Costs

Deferred loan costs relate to the refinancing of the notes payable and are being amortized on a straight-line basis over the life of the note. Amortization expense was \$2,520 for the year ended December 31, 2010 and is included as a component of depreciation and amortization in the accompanying statement of activities.

Income Taxes

The Organization has been granted tax-exempt status under Section 501(a)(3) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. In the opinion of management, the Organization had no significant unrelated business taxable income for the year ended December 31, 2010; accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements.

The Organization has adopted the provisions of FASB ASC for income taxes. This ASC requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of this ASC had no impact on the Organization’s statement of financial position or statement of activities and changes in net assets. The Organization does not believe its financial statements include any material uncertain tax positions.

Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2010 through August 12, 2011, the date of the issuance of the financial statements. During this period, there were no recognized subsequent events requiring recognition in the financial statements, and no non-recognized subsequent events requiring disclosure, other than those noted in Note 6.

Note 2: Investments

Investments were restricted for endowment purposes as of December 31, 2010 and were comprised of mutual funds and other fixed income securities. Investments totaled \$328,403 at December 31, 2010. Net realized and unrealized gains on valuation of investments totaled \$32,626 for the year ended December 31, 2010.

Fair Value Measurement

The Organization defines fair value as the price that would be received from selling an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

The measurements of all of the fair values of the Organization’s investments for the year ended December 31, 2010 are based on quoted market prices which qualify as Level 1 securities pursuant to FASB ASC 820, *Fair Value Measurements*.

Note 3: Horses, Breeding Stock and Spokesdogs

A summary of horses, breeding stock and spokesdogs at December 31, 2010 follows:

Horses	\$ 43,500
Breeding stock and spokesdogs	<u>502,188</u>
	545,688
Less accumulated depreciation	<u>401,857</u>
	<u>\$ 143,831</u>

Depreciation expense associated with horses, breeding stock and spokesdogs totaled \$54,602 for the year ended December 31, 2010.

Note 4: Property and Equipment

A summary of property and equipment at December 31, 2010 follows:

Land	\$ 619,343
House, kennels and administration building	911,283
Improvements and fencing	289,813
Vehicles	284,146
Medical and farm equipment	271,896
Construction in process	149,051
Software	<u>2,984</u>
	2,528,516
Less accumulated depreciation and amortization	<u>1,233,256</u>
	<u>\$ 1,295,260</u>

Depreciation and amortization expense associated with property and equipment totaled \$114,504 for the year ended December 31, 2010.

Note 5: Capital Lease Obligations

The Organization leases certain equipment under agreements that are classified as capital leases. The following is a schedule by year of future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments, as of December 31, 2010:

Year ending December 31,		
	2011	\$ 9,455
	2012	6,764
	2013	<u>6,560</u>
Total minimum lease payments		22,779
Less amount representing interest		<u>2,037</u>
Present value of minimum lease payments		<u>\$ 20,742</u>

The cost of equipment under capital leases is included in the statement of financial position as property and equipment, net and totaled \$42,072 at December 31, 2010. Amortization of assets under capital leases is included in depreciation expense and totaled \$4,564 for the year ended December 31, 2010. At December 31, 2010, accumulated amortization on equipment under capital leases was \$14,762.

Note 6: Debt

Line of Credit

The Organization had a line of credit with a financial institution with borrowings up to \$250,000, which expired on May 15, 2011. The line of credit was extended on a month to month basis through August 31, 2011, at which time the Organization intends to renew. Borrowings under the agreement are restricted for short-term operational needs of the Organization and are secured by certain property. In connection with the line of credit agreement, the Organization is required to adhere to certain financial covenants. At December 31, 2010, the Organization was not in compliance with certain financial covenants; however, the financial institution waived such noncompliance subsequent to December 31, 2010. Borrowings carry interest at the greater of the prime rate plus 0.50% (3.25% at December 31, 2010) or 4.25%. There were no borrowings outstanding under the line of credit at December 31, 2010. The amount available under the agreement totaled \$250,000 as of December 31, 2010.

Debt

A summary of long-term debt at December 31, 2010 follows:

Mortgage note payable to a financial institution; interest at 6.30%; secured by land; monthly installments of \$5,904 including interest; matures in February 2012	\$ 766,631
Note payable to vendor; interest at 5.0%; monthly installments of \$1,979 including interest; matured in July 2011	<u>21,350</u>
	<u>\$ 787,981</u>

Principal maturities on long-term debt at December 31, 2010 were as follows:

Year ending December 31,	
2011	44,727
2012	<u>743,254</u>
	<u>\$ 787,981</u>

On August 1, 2011, the Organization modified the note payable to vendor for the outstanding balance of \$12,838. The revised note bears interest at the rate of 5.0% per annum and includes monthly installments of \$725 including interest. The revised note matures in July 2013.

Note 7: Temporarily Restricted Net Assets

The components of temporarily restricted net assets at December 31, 2010 follow:

Animal-related program expenses	\$ 18,500
Endowments	56,380
Capital improvements	<u>931,944</u>
	<u>\$ 1,006,824</u>

Net assets were released from donor restrictions during the year ended December 31, 2010 by incurring expenses satisfying purposes specified by donors as follows:

Program expenses:	
Animal-related	\$ 317,943
Equipment	15,737
Airline travel	<u>1,345,652</u>
	<u>\$ 1,679,332</u>

Note 8: Permanently Restricted Net Assets

The components of permanently restricted net assets at December 31, 2010 follow:

General operating purposes	\$ 120,000
Capital repairs and maintenance	<u>200,000</u>
	<u>\$ 320,000</u>

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Beginning of year	\$ (11,219)	\$ 46,280	\$ 320,000	\$ 355,061
Investment income (loss)	7,078	(1,815)	-	5,263
Unrealized gains	4,548	22,815	-	27,363
Amounts appropriated for expenditure	<u>(7,078)</u>	<u>(10,900)</u>	<u>-</u>	<u>(17,978)</u>
	<u>\$ (6,671)</u>	<u>\$ 56,380</u>	<u>\$ 320,000</u>	<u>\$ 369,709</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the donor's original gift. In accordance with GAAP, deficiencies of this nature are reported as unrestricted net assets and were \$5,885 as of December 31, 2010. This deficit resulted from recent unfavorable market fluctuations that occurred in conjunction with extreme market turbulence.

The Organization's management has chosen to continue to provide the services that these endowment funds would support by use of unrestricted funds for the year ended December 31, 2010 as well as for 2011. It is anticipated at this time that the Organization will continue this policy until the endowments regain their value and are generating income and gains that are available to offset expenditures for the related programs. However, this is to be determined each year by management in conjunction with the Organization's budgeting process.

Note 9: Functional Expenses

The Organization raises, obtains, trains and places assistance dogs throughout the United States of America with children and adults who have special needs other than blindness. Certain costs have been allocated among those programs and supporting services benefitted. Expenses relating to providing these services are as follows:

Direct program services	\$ 4,000,521
Fundraising expenses	42,534
General and administrative	<u>127,601</u>
	<u>\$ 4,170,656</u>

Note 10: Employee Benefit Plan

The Organization has a salary deferral 401(k) plan which covers substantially all employees with at least one year of service. Contributions to the plan by the Organization totaled \$32,233 for the year ended December 31, 2010.

Note 11: Related Party Transactions

During 2010, certain officers contributed \$204,592 which is presented as unrestricted contributions in the accompanying statement of activities.

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