

WHIDBEY ANIMALS'
IMPROVEMENT FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

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DECEMBER 31, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Whidbey Animals' Improvement Foundation:

We have audited the accompanying statements of financial position of Whidbey Animals' Improvement Foundation (a nonprofit corporation) as of December 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the foundation'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 Whidbey Animals' Improvement Foundation as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 11, 2008

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:			
Cash		\$ 240,723	\$ 261,494
Accounts receivable and other receivable		9,583	9,931
Inventories on consignment, net of an allowance for for consignment fees of \$4,400			1,505
Inventories, other		19,038	16,783
Prepaid expenses		7,830	5,768
Total current assets		<u>277,174</u>	<u>295,481</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land		82,494	82,494
Equipment and fixtures		94,616	88,759
Subtotal		<u>177,110</u>	<u>171,253</u>
Less accumulated depreciation		<u>(71,628)</u>	<u>(64,242)</u>
Subtotal		105,482	107,011
Construction in progress		64,270	18,330
Net property, plant and equipment		<u>169,752</u>	<u>125,341</u>
TOTAL ASSETS		<u>\$ 446,926</u>	<u>\$ 420,822</u>
	<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:			
Accounts payable		\$ 34,180	\$ 18,735
Accrued payroll, payroll taxes and sales tax		33,856	30,977
Total liabilities		<u>68,036</u>	<u>49,712</u>
NET ASSETS:			
Unrestricted:			
General operations		224,118	216,338
Board designated		75,000	75,000
Temporarily restricted		79,772	79,772
Total net assets		<u>378,890</u>	<u>371,110</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 446,926</u>	<u>\$ 420,822</u>

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS:		
Support:		
Donations:		
Cash	\$ 139,205	\$ 150,941
Noncash	<u>332,066</u>	<u>290,365</u>
Total donations	471,271	441,306
Thrift shop sales	277,664	251,209
Less value of donated goods sold included in noncash donations above	(277,385)	(251,209)
Merchandise sales and other fundraising revenue	75,572	66,156
Less cost of goods sold	(3,073)	(5,095)
Shelter program revenue	172,319	132,449
Miscellaneous income	849	526
Interest	<u>6,815</u>	<u>3,959</u>
Total unrestricted support	<u>724,032</u>	<u>639,301</u>
Net assets released from restrictions - satisfaction of program restrictions	<u>63,695</u>	<u>94,601</u>
TOTAL UNRESTRICTED SUPPORT AND RECLASSIFICATIONS	<u>787,727</u>	<u>733,902</u>
Expenses:		
Program services:		
Outreach	36,134	29,879
Cat adoption	20,214	14,489
Animal shelter	365,163	298,188
Spay/neuter suite	<u>21,218</u>	<u>18,510</u>
Total program service expenses	<u>442,729</u>	<u>361,066</u>
Supporting services:		
Management and general	92,848	52,938
Thrift store operations	180,443	179,987
Fundraising	<u>115,534</u>	<u>100,396</u>
Total supporting services expenses	<u>388,825</u>	<u>333,321</u>
TOTAL EXPENSES	<u>831,554</u>	<u>694,387</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	<u>(43,827)</u>	<u>39,515</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Support for miscellaneous programs	115,302	86,219
Satisfaction of program restrictions	<u>(63,695)</u>	<u>(94,601)</u>
Increase (decrease) in temporarily restricted net assets	<u>51,607</u>	<u>(8,382)</u>
NET INCREASE IN NET ASSETS	<u>7,780</u>	<u>31,133</u>
NET ASSETS, beginning of year	<u>371,110</u>	<u>339,977</u>
NET ASSETS, end of year	<u>\$ 378,890</u>	<u>\$ 371,110</u>

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Services				Supporting Services					Total Expenses
	Outreach	Cat Adoption Center	Animal Shelter	Spay/ Neuter Suite	Total Program Services	Management and General	Thrift Store Operations	Fund - Raising	Total Supporting Services	
Salaries and wages	\$ 12,492	\$ 7,387	\$ 185,755	\$ 3,726	\$ 209,360	\$ 45,595	\$ 85,588	\$ 31,927	\$ 163,110	\$ 372,470
Payroll taxes	4,408	1,392	30,631	684	37,115	8,063	16,143	3,879	28,085	65,200
Total salaries, wages and related expenses	16,900	8,779	216,386	4,410	246,475	53,658	101,731	35,806	191,195	437,670
Accounting fees			3,034		3,034	25,104	1,583	1,865	28,552	31,586
Advertising	2,662	215	1,201		4,078	361	117	2,133	2,611	6,689
Automobile expense	105		1,687		1,792		433		433	2,225
B & O taxes		9	2,405	191	2,605	(4)	1,315	1	1,312	3,917
Bank charges and bad debts		4	399		403	738	2,558	2,020	5,316	5,719
Depreciation	587		1,671	2,004	4,262	844	1,130	1,148	3,122	7,384
Development and events expense	1,484				1,484			19,182	19,182	20,666
Insurance		77	5,203		5,280	(858)	1,419	74	635	5,915
In-kind expense	4,320	673	11,742		16,735		200	37,466	37,666	54,401
Licenses and permits				65	65	20	25		45	110
Meetings, dues and education	415	30	1,923		2,368	593	451	416	1,460	3,828
Miscellaneous		428	3,519		3,947	121		80	201	4,148
Occupancy and storage		5,344	1,290		6,634	1,648	51,142	622	53,412	60,046
Outside services					-	1,506	125	1,660	3,291	3,291
Postage	1,355		140		1,495	523		4,454	4,977	6,472
Printing and publications	5,950	51	1,055	36	7,092	1,289	471	5,451	7,211	14,303
Repair and maintenance		61	1,007		1,068	24	637		661	1,729
Small equipment		144	2,623		2,767	455	216	120	791	3,558
Supplies	1,020	2,370	78,084	6,544	88,018	1,091	3,119	1,462	5,672	93,690
Telephone	935	813	6,669		8,417	3,543	2,843	565	6,951	15,368
Travel	401	20	1,281	45	1,747	1,867	107	1,009	2,983	4,730
Utilities		1,196	2,785		3,981	325	10,821		11,146	15,127
Veterinary fees			21,059	7,923	28,982				-	28,982
Total expenses	\$ 36,134	\$ 20,214	\$ 365,163	\$ 21,218	\$ 442,729	\$ 92,848	\$ 180,443	\$ 115,534	\$ 388,825	\$ 831,554

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Services				Supporting Services					Total Expenses
	Outreach	Cat Adoption Center	Animal Shelter	Spay/ Neuter Suite	Total Program Services	Management and General	Thrift Store Operations	Fund - Raising	Total Supporting Services	
Salaries and wages	\$ 12,956	\$ 3,838	\$ 157,185	\$ 2,782	\$ 176,761	\$ 33,013	\$ 83,493	\$ 20,212	\$ 136,718	\$ 313,479
Payroll taxes	1,880	747	25,182	480	28,289	2,863	14,577	3,310	20,750	49,039
Total salaries, wages and related expenses	14,836	4,585	182,367	3,262	205,050	35,876	98,070	23,522	157,468	362,518
Accounting fees			2,594		2,594	169	1,354	1,410	2,933	5,527
Advertising	1,251	403	3,455		5,109		903	1,134	2,037	7,146
Automobile expense			963		963		234		234	1,197
B & O taxes	2	20	1,777	198	1,997		1,172	8	1,180	3,177
Bank charges and bad debts		5	398		403	162	1,970	1,191	3,323	3,726
Depreciation	454		1,909	2,004	4,367	832	1,216	286	2,334	6,701
Development and events expense	1,666				1,666			16,909	16,909	18,575
Insurance		66	4,622		4,688	3,222	1,747	61	5,030	9,718
In-kind expense	790	71	3,939		4,800		110	34,246	34,356	39,156
Licenses and permits	5		54	65	124	20	25		45	169
Meetings, dues and education	193		1,143		1,336	1,058	362	1,422	2,842	4,178
Miscellaneous	54		137		191	49		105	154	345
Occupancy and storage	602	5,000	1,369		6,971	833	49,044	833	50,710	57,681
Outside services	239		9,274		9,513		4,459	5,362	9,821	19,334
Postage	1,533		115		1,648	1,454	1	3,705	5,160	6,808
Printing and publications	6,476		655		7,131	105	497	6,985	7,587	14,718
Repair and maintenance		2	2,694		2,696	6	1,868		1,874	4,570
Small equipment	276	143	3,384	32	3,835	11	183	249	443	4,278
Supplies	464	2,150	46,670	4,027	53,311	1,847	3,133	2,106	7,086	60,397
Telephone	979	929	6,315		8,223	3,522	2,618	219	6,359	14,582
Travel	59		310		369	3,397	219	643	4,259	4,628
Utilities		1,115	3,043		4,158	375	10,802		11,177	15,335
Veterinary fees			21,001	8,922	29,923					29,923
Total expenses	\$ 29,879	\$ 14,489	\$ 298,188	\$ 18,510	\$ 361,066	\$ 52,938	\$ 179,987	\$ 100,396	\$ 333,321	\$ 694,387

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 7,780	\$ 31,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,386	6,701
Changes in operating assets and liabilities:		
Accounts receivable	2,848	58,314
Employee receivable	(2,500)	
Inventories	(750)	617
Prepaid expenses	(2,062)	2,300
Accounts payable	15,445	2,827
Accrued liabilities	2,879	4,895
Net cash provided by operating activities	<u>31,026</u>	<u>106,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land		(82,494)
Construction in progress	(45,940)	(3,164)
Acquisitions of equipment	(5,857)	(5,152)
Net cash used in investing activities	<u>(51,797)</u>	<u>(90,810)</u>
NET (DECREASE) INCREASE IN CASH	<u>(20,771)</u>	<u>15,977</u>
CASH, beginning of year	<u>261,494</u>	<u>245,517</u>
CASH, end of year	<u>\$ 240,723</u>	<u>\$ 261,494</u>

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION

Whidbey Animals' Improvement Foundation (the Foundation), a nonprofit Washington corporation, is dedicated to provide support for interim care given by animal shelters and foster care personnel to stray, lost, abandoned, feral or surrendered companion animals on Whidbey Island, Washington.

The Foundation has four major programs:

Animal Shelter - The Foundation works to improve the quality of lives of animals at the shelter by providing food, heat, medication, veterinary services and general animal care. They maintain a minimum kill facility in Coupeville and Oak Harbor, Island County by facilitating adoptions of shelter animals by advertising the availability of animals in publications and placing posters in local businesses.

Cat Adoption Center - The Foundation maintains a location at Oak Harbor, Island County for the adoption of cats. This location provides adoption opportunities for cats that may not be adopted at the Animal Shelter because of space limitations at the facility.

Community Outreach - The Foundation provides educational materials to be distributed to the public on the benefits of spaying and neutering and responsible pet care. They distributed coupons to needy pet owners to defray the cost of spaying and neutering their pets.

Spay/Neuter Suite - The Foundation provides spay and neuter services to the homeless animals in the shelter in their own surgery suite. Local veterinarians provide these services through contracts and donations of their time. The goal of this program is that all animals adopted through the Foundation will be altered.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for Profit Organizations." Under SFAS No. 117, the Foundation 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. The Foundation has no permanently restricted net assets.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash - Cash consists of cash in various types of bank accounts including checking, money market and certificates of deposits. The Foundation maintains cash balances with various financial institutions that may at times exceed insured limits.

Accounts receivable - The Foundation extends credit to its customers in the normal course of business and performs ongoing credit evaluations of its customers. Management maintains an allowance for potential credit losses based on its assessment of the current status of individual accounts. Accounts 30 days or more past due are not assessed finance charges.

Inventories on consignment - The Foundation records inventories on consignment at the lower of donated value or market.

Inventories, other - The Foundation records other inventory at the lower of cost or market on a first-in, first-out basis (FIFO).

Contributions received and made - The Foundation also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Under SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions in the period that the promise is made.

Depreciation and capitalization policy - The cost of purchased fixtures and equipment or fair market values of donated assets are being depreciated using the straight-line method over a period of five to thirty-nine years. The Foundation capitalizes fixtures and equipment with a cost greater than \$500 and a useful life of one year or greater. Depreciation expense totaled \$7,384 and \$6,701 for 2006 and 2005, respectively.

Designation of unrestricted net assets - It is the policy of the Board of Directors of the Foundation to review its operating needs from time to time and to designate appropriate sums of unrestricted net assets to assure adequate cash reserves. At December 31, 2006 and 2005, the Board of Directors had designated \$75,000 for such purposes.

Federal income tax - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for income, if any, derived from unrelated business income.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 estimates.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint fundraising costs - The Foundation sends out newsletters that contain donation requests. A portion of the costs of these newsletters has been allocated to fundraising. The functional expense categories that include allocated costs to fundraising are printing and publications, supplies and postage.

Advertising - The Foundation uses advertising to promote its programs among the audiences it services. The costs of advertising are expensed as incurred. During 2006 and 2005, advertising costs totaled \$6,689 and \$7,146, respectively.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consists of current billings to the City of Oak Harbor under contracts to provide care and housing for impounded animals. Management believes that all accounts receivable are fully collectible, therefore no allowance is deemed necessary for the years ended December 31, 2006 and 2005.

NOTE 3. INVENTORIES ON CONSIGNMENT

Donations of jewelry from a bequest were put on consignment with a local jeweler during 2004. During 2006, management believed that no further monies would be realized from the jewelry left on consignment and accordingly wrote off the balance owing. The estimated market value of the jewelry, including consignment fees as of December 31, 2005, was \$1,505.

NOTE 4. INVENTORY

People in the community donate used clothing and household items to the thrift shop for the Foundation's fundraising efforts. These items are sold in the thrift shops, located in Freeland and in Oak Harbor, Washington. Fair market value of the donated items is equal to what the Foundation can sell them for. Therefore, the value of the donated items is subtracted from the sales and reclassified as donations. Items donated to the thrift shops are recorded at the estimated resale value of \$277,385 and \$251,209 in 2006 and 2005, respectively, and is included with noncash donations on the above statement of activities. The used inventory held for resale has been consistently valued at approximately 1% of sales.

The Foundation also purchases sweatshirts and other small items with the Foundation's logo and sells them at the Animal Shelter. In addition to inventory for resale, the Foundation maintains an inventory of supplies and medications for use at the shelter. The inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventory at December 31, 2006 and 2005, consisted of the following:

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. INVENTORY (Continued)

	<u>2006</u>	<u>2005</u>
Used inventory held for resale	\$ 2,777	\$ 2,498
Purchased inventory for resale	2,475	3,689
Supplies	<u>13,786</u>	<u>10,596</u>
Total inventory	<u>\$ 19,038</u>	<u>\$ 16,783</u>

NOTE 5. DONATED PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily or permanently restricted contributions depending on the restriction. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor temporarily restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. There were no donations of property and equipment during 2006 and 2005.

NOTE 6. DONATED SERVICES AND FACILITIES

A substantial number of volunteers have made significant contributions of their time to the activities of the Foundation. The value of this time is not reflected in these statements.

Donated services are recorded as donations with a corresponding charge to expenses when the services require specialized skills, such as donated veterinary services. The Foundation also recognizes the donation of other noncash items of expense that the Foundation would have to purchase in the open market. The following donated services and facilities are reflected in the financial statements at the amount that the Foundation would have had to purchase them on the open market.

- Internet web site services in the amount of \$1,800 in 2005. There were none for 2006.
- Advertising services in the amount of \$13,452 in 2006 and \$1,944 in 2005.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
New shelter - pre-construction seed phase	\$ 64,386	\$ 64,386
Coupeville shelter renovation	10,000	10,000
Special needs program	4,386	4,386
Insurance liability fund	<u>1,000</u>	<u>1,000</u>
Total	<u>\$ 79,772</u>	<u>\$ 79,772</u>

NOTE 8. SHELTER PROGRAM REVENUE

The Foundation manages the Whidbey Island Animal Shelter under a contract for a minimum monthly fee of \$4,375. Beginning April 2005, the Foundation entered into a contract with the City of Oak Harbor to manage their animal shelter for a minimum monthly fee of \$5,208, which was increased to a minimum monthly fee of \$7,083 in June 2006. In addition, medical and other fees are charged to individuals who use the shelter facilities to adopt or surrender animals. Program revenue is summarized as follows:

	<u>2006</u>	<u>2005</u>
County management contract	\$ 52,500	\$ 42,750
City of Oak Harbor management contract	75,625	46,875
Medical and miscellaneous fees	<u>44,194</u>	<u>42,824</u>
Total program revenue	<u>\$ 172,319</u>	<u>\$ 132,449</u>

NOTE 9. OPERATING LEASES

The Foundation leases two buildings for the Thrift Shops located in Freeland and Oak Harbor, Washington. The Oak Harbor building also serves as the administration office and cat adoption center. The Freeland thrift shop lease expires March 11, 2008, and the Oak Harbor lease expires November 30, 2009. Both leases require the lessee to pay all utility costs and the Oak Harbor lease rent escalates annually, equal to the change in the consumer price index. These operating leases call for aggregate monthly payments of \$4,734 and \$4,640 for 2006 and 2005, respectively. Minimum future payments under these operating lease agreements excluding the escalation clause at December 31, 2006, for the remaining terms of the leases are as follows:

<u>For the years ending December 31,</u>	
2007	\$ 55,680
2008	38,805
2009	<u>30,415</u>
Total minimum lease rental	<u>\$ 124,900</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9. OPERATING LEASES (Continued)

Rental expense under operating leases, including consumer price index increase, was \$58,134 and \$55,680 for 2006 and 2005, respectively.

NOTE 10. RETIREMENT PLAN

The Foundation adopted a 401(k) retirement plan effective September 1, 1999, for all employees who have been employed for at least three months. The plan allows employees to have the maximum of the amount allowed under ERISA of their salaries withheld and placed into their retirement account. The plan allows for the employer to make discretionary matching contributions to participants and other discretionary contributions to all eligible participants. No employer contributions were made in 2006 and 2005.

NOTE 11. FUNDRAISING EXPENSES

Fundraising expense rose from \$100,396 in 2005 to \$115,534 in 2006. This increase can be attributed to the Foundations efforts to increase its donation and event fundraising revenue; specifically by investing in sufficient fundraising staff infrastructure to support both current and future operations. The fundraising events include the Foundations Spring Fling Auction. Management and the Board of Directors believe the fundraising expense to revenue ratio will decrease over time as fundraising and cultivation on efforts continue and revenue grows.