



Financial Statements and
Report of Independent Certified Public Accountants

Covenant House Alaska

June 30, 2008

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Report of Independent Certified Public Accountants

Board of Directors
Covenant House Alaska

We have audited the accompanying statement of financial position of Covenant House Alaska (the "Agency") as of June 30, 2008 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. 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 as established by the American Institute of Certified Public Accountants. 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 Agency'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 Covenant House Alaska as of June 30, 2008, and the change 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.

As described in Note 3, the Agency has restated net assets as of July 1, 2007.

Grant Thornton LLP

San Francisco, California
April 14, 2009

Covenant House Alaska

STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 681,860
Food inventory, at cost	13,369
Due from affiliates	3,574
Grants receivable	762,755
Other receivables	116,064
Prepaid expenses	10,397
Property, equipment, and building improvements, net	5,010,421
Construction in progress	<u>76,629</u>

Total assets	<u><u>\$ 6,675,069</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 308,809
Accrued payroll and related liabilities	51,315
Deferred revenue	<u>9,412</u>

Total liabilities	<u>369,536</u>
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NET ASSETS

Unrestricted	
Undesignated	1,112,819
Investment in fixed assets	<u>5,087,050</u>
Total unrestricted	6,199,869
Temporarily restricted	<u>105,664</u>
Total net assets	<u>6,305,533</u>

Total liabilities and net assets	<u><u>\$ 6,675,069</u></u>
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The accompanying notes are an integral part of these financial statements.

Covenant House Alaska

STATEMENT OF ACTIVITIES

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Public support:			
Support from Covenant House	\$ 854,519	\$ -	\$ 854,519
Contributions	753,476	105,664	859,140
Special events revenue	745,369	-	745,369
Less direct benefits to donors	<u>(298,289)</u>	<u>-</u>	<u>(298,289)</u>
	447,080	-	447,080
Total public support	<u>2,055,075</u>	<u>105,664</u>	<u>2,160,739</u>
Revenue:			
Grant income	1,242,508	109,616	1,352,124
Interest income	28,027	-	28,027
Other income	<u>14,108</u>	<u>-</u>	<u>14,108</u>
Total revenue	1,284,643	109,616	1,394,259
Net assets released from restrictions	<u>217,434</u>	<u>(217,434)</u>	<u>-</u>
Total public support and revenue	3,557,152	(2,154)	3,554,998
Expenses:			
Program services:			
Shelter and crisis care	1,522,495	-	1,522,495
Mother / child	240,247	-	240,247
Medical	81,197	-	81,197
Outreach	63,855	-	63,855
Youth resource center and job development	403,708	-	403,708
Rights of passage	<u>557,519</u>	<u>-</u>	<u>557,519</u>
Total program services	2,869,021	-	2,869,021
Supporting services			
Management and general	285,981	-	285,981
Fund raising	<u>348,493</u>	<u>-</u>	<u>348,493</u>
Total supporting services	634,474	-	634,474
Total expenses	<u>3,503,495</u>	<u>-</u>	<u>3,503,495</u>
Change in net assets	53,657	(2,154)	51,503
Net assets at beginning of year, as restated	<u>6,146,212</u>	<u>107,818</u>	<u>6,254,030</u>
Net assets at end of year	<u>\$ 6,199,869</u>	<u>\$ 105,664</u>	<u>\$ 6,305,533</u>

The accompanying notes are an integral part of these financial statements.

Covenant House Alaska

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2008

	Program Expenses							Supporting Services				
	Shelter and Crisis Care	Mother/Child	Medical	Outreach	Youth Resource Center and Job Development	Rights of Passage	Program Total	Management and General	Fund Raising	Direct Benefit to Donors	Supporting Services Total	Total
Salaries and wages	\$ 815,693	\$ 150,591	\$ 55,124	\$ 41,298	\$ 199,203	\$ 319,154	\$ 1,581,063	\$ 140,425	\$ 115,426	\$ -	\$ 255,851	\$ 1,836,914
Payroll taxes	74,402	13,955	4,836	3,999	18,271	29,643	145,106	12,141	10,062	-	22,203	167,309
Employee Benefits	198,479	30,575	6,521	11,518	44,481	80,669	372,243	30,693	26,028	-	56,721	428,964
Total salaries and related expenses	1,088,574	195,121	66,481	56,815	261,955	429,466	2,098,412	183,259	151,516	-	334,775	2,433,187
Faith community costs	12,101	-	-	-	12,518	-	24,619	-	-	-	-	24,619
Accounting fees	-	-	-	-	-	-	-	42,190	-	-	42,190	42,190
Legal fees	-	-	-	-	-	-	-	848	-	-	848	848
Supplies	27,234	5,044	218	533	9,915	2,542	45,486	2,330	17,290	271,845	291,465	336,951
Telephone	12,001	4,355	(27)	381	6,920	6,874	30,504	1,745	1,178	-	2,923	33,427
Postage & printing	7,332	112	-	550	665	99	8,758	3,455	107,521	-	110,976	119,734
Occupancy:												
Fuel and utilities	34,306	6,010	-	-	10,871	16,087	67,274	-	-	-	-	67,274
Repairs and maintenance	12,952	1,419	-	-	4,093	7,349	25,813	-	-	-	-	25,813
Equipment	15,877	239	-	-	2,207	4,241	22,564	1,940	6,797	-	8,737	31,301
Transportation	8,841	5,013	1,775	3,804	285	10,910	30,628	20,081	958	-	21,039	51,667
Specific assistance to individuals:												
Food	69,163	4,740	-	1,594	2,235	13,710	91,442	-	3,706	26,444	30,150	121,592
Medical	9,055	3,210	9,851	-	5,164	14,897	42,177	-	-	-	-	42,177
Clothing, allowance and other	23,731	3,396	-	178	15,255	2,960	45,520	-	-	-	-	45,520
Contributed clothing and merchandise	15,403	-	-	-	-	-	15,403	-	-	-	-	15,403
Other purchased services	51,110	-	-	-	-	-	51,110	8,868	23,524	-	32,392	83,502
Dues, licenses and permits	300	-	2,266	-	15	415	2,996	2,843	1,234	-	4,077	7,073
Subscriptions and publications	-	188	135	-	-	176	499	193	200	-	393	892
Staff recruitment	2,881	316	-	-	491	500	4,188	104	813	-	917	5,105
Insurance	20,202	1,128	498	-	4,827	6,672	33,327	6,711	930	-	7,641	40,968
Contributed services	10,716	-	-	-	-	-	10,716	-	-	-	-	10,716
Miscellaneous	35,043	1,541	-	-	319	437	37,340	5,828	21,387	-	27,215	64,555
Bank charges and fees	-	-	-	-	-	-	-	-	9,450	-	9,450	9,450
Total functional expenses before depreciation and amortization	1,456,822	231,832	81,197	63,855	337,735	517,335	2,688,776	280,395	346,504	298,289	925,188	3,613,964
Depreciation and amortization	65,673	8,415	-	-	65,973	40,184	180,245	5,586	1,989	-	7,575	187,820
Less cost of direct benefit of special events	-	-	-	-	-	-	-	-	-	298,289	298,289	298,289
Total expenses reported by function on the statement of activities	\$ 1,522,495	\$ 240,247	\$ 81,197	\$ 63,855	\$ 403,708	\$ 557,519	\$ 2,869,021	\$ 285,981	\$ 348,493	\$ -	\$ 634,474	\$ 3,503,495

The accompanying notes are an integral part of these financial statements.

Covenant House Alaska
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

Cash flows from operating activities:	
Change in net assets	\$ 51,503
Adjustments to reconcile change in net assets to net cash used in by operating activities:	
Depreciation and amortization	187,820
Change in operating assets and liabilities that provided (used) cash:	
Food inventory	1,172
Due from affiliate	12,002
Grants receivable	(446,796)
Other receivables	(8,246)
Prepaid expenses	11,418
Accounts payable and accrued expenses	(22,489)
Accrued payroll and related liabilities	52,915
Deferred revenue	9,375
Net cash used in operating activities	<u>(151,326)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(124,336)
Payment for construction in progress	<u>(76,629)</u>
Net cash used in investing activities	(200,965)
Net decrease in cash and cash equivalents	(352,291)
Cash and cash equivalents, beginning of year	<u>1,034,151</u>
Cash and cash equivalents, end of year	<u>\$ 681,860</u>

The accompanying notes are an integral part of these financial statements.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 – ORGANIZATION

Covenant House Alaska (the “Agency”), a not for profit organization incorporated in 1988, operates a facility to provide shelter and support services to homeless and runaway youth, ages thirteen to twenty. The facility opened for service in November 1988.

Covenant House (the “Parent”), a New York Corporation, is the national organization with which Covenant House Alaska is affiliated. Covenant House provides financial support as well as management and organizational support for its affiliated organizations. Covenant House conducts fund-raising activities for its own programs and the programs of its affiliates for which a fee is charged. The amount of financial support provided, the amount of the funds raised, and the amount of fund-raising expenses allocated to the affiliates are based on terms mutually agreed upon by the parties involved. In fiscal 2008, Covenant House allocated fund-raising expenses to its affiliates for a total of approximately \$8.8 million for fund-raising activities conducted by Covenant House on their behalf. In fiscal 2008, Covenant House allocated fund-raising expenses to Covenant House Alaska totaling approximately \$86,000.

Contributions received by Covenant House are generally not specifically restricted by donors to specific affiliates. Contributions received by Covenant House are allocated to affiliates, based on Covenant House’s policy, and approximated \$22.2 million in fiscal 2008.

Covenant House provided certain of its affiliates with support contributions, used principally for programs operations, totaling approximately \$16 million in fiscal 2008. Of these amounts, Covenant House Alaska received approximately \$855,000 in fiscal 2008.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

Basis of Presentation

The financial statements are presented on an accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are reported as follows:

Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to the Agency, the Agency’s accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into two net asset categories: temporarily restricted and unrestricted. There are no permanently restricted net assets.

- Temporarily restricted net assets contain time and donor-imposed restrictions that permit the Agency to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Agency.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting and Net Asset Classification (continued)

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Revenue Recognition

The Agency records earned revenues on an accrual basis. In addition, the Agency records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants, certain contributed services and gifts of other assets. Multi-year pledges receivable are recorded at present value based on the expected collection date using an estimated discount rate. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. The Agency also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

Funds received under grants and contracts are recorded as revenue when the related services have been performed.

Temporarily Restricted Contributions

The Agency records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. It is the Agency's policy to record temporarily restricted contributions received for which the related restrictions are met in the same accounting period in the unrestricted net asset class activity.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Absent explicit donor restrictions on how long those long-lived assets must be maintained, the Agency reflects the expiration of the donor-imposed restriction when the donated or acquired long-lived assets have been placed in service, at which time temporarily restricted net assets are released from restrictions.

Contributed Services and Merchandise

Contributed services are recognized as revenue if the services received, create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Services and Merchandise (continued)

Contributions of clothing and merchandise are valued at their estimated fair value at the date of receipt and recognized as revenue when received and expensed from inventory when used.

Allowance for Doubtful Accounts

The Agency maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the donor. As of June 30, 2008, management considers all amounts to be collectible.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Agency considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Agency maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. The Agency has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses, by function, have been allocated among program and supporting services classifications on the basis of square footage of office space occupied, salaries, and other bases determined by the management of the Agency.

Property, Equipment and Building Improvements

Property, equipment and building improvements are recorded at cost or, if acquired by donation, at fair value at the date of acquisition. Depreciation of property, equipment and building improvements are provided over the estimated useful lives of the assets using the straight-line method.

Income Taxes

Covenant House Alaska is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as determined by the Internal Revenue Service in a letter dated November 20, 1991. Therefore, it is exempt from income tax except for the tax on unrelated business taxable income, if any.

Food Inventories

Purchased inventories are stated at cost and donated inventories are stated at fair value.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The following methods and assumptions were used by the Agency in estimating the fair value of its financial instruments:

Cash and Cash Equivalents, Receivables, Accounts Payable and Accrued Expenses

The carrying amount reported in the accompanying statement of financial position for cash and cash equivalents, contributions, pledges and grants receivable, accounts payable, deferred revenue and accrued expenses approximates fair value as they will be converted to cash of similar amounts in the short term.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect additions to, and deductions from, net assets. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”). FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes. Under FIN 48, an entity would recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how an entity would measure the income tax benefits from the tax position that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits, and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when an entity should record interest and penalties related to tax positions and how the interest and penalties may be classified within the statement of activities and presented in the statement of financial position. FIN 48 is effective for fiscal years beginning after December 15, 2008. Differences between the amounts recognized in the statement of activities prior to and after the adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of net assets. The Agency is currently evaluating FIN 48 and its possible impact on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) Statement No. 157 (“SFAS 157”), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Agency is currently evaluating whether or not the adoption of SFAS 157 will have an impact on its financial statements.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In February 2007, the FASB issued Statement 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Agency is currently evaluating whether or not the adoption of SFAS 159 will have an impact on its financial statements.

NOTE 3 – RESTATEMENTS

The Agency has restated net assets at July 1, 2007 to correct the accounting for adoption of recognition provisions of FASB issued Summary of Statement No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, which was incorrectly pushed down to the Agency level in the prior year and to remove leasehold improvements related to a building that was leased prior to being donated to the Agency. The impact of these restatements was as follows:

	As Originally <u>Reported</u>	Restatement <u>Adjustments</u>	<u>As Restated</u>
Prepaid expenses at July 1, 2007	\$ 96,140	\$ (74,325)	\$ 21,815
Property, equipment, and building improvements, net at July 1, 2007	\$ 5,203,927	\$ (130,022)	\$ 5,073,905
Accounts payable and accrued expenses at July 1, 2007	\$ 331,298	\$ (38,632)	\$ 292,666
Liability for pension benefits at July 1, 2007	\$ 174,301	\$ (174,301)	\$ -
Unrestricted net assets at July 1, 2007	\$ 6,137,626	\$ 8,586	\$ 6,146,212

NOTE 4 – CONTRIBUTIONS

Contributed Services

Volunteers in the community provided approximately 4,500 hours of contributed services to the Agency. The value of these services performed and the expenses associated with these volunteers were approximately \$91,000 for the year ended June 30, 2008. The value of these services is not recorded in the accompanying financial statements.

Contributed Goods

The Agency received goods and services from unrelated organizations with fair values of \$289,860 for the year ended June 30, 2008. These items are recorded in the accompanying financial statements at their fair value.

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 5 – PROPERTY, EQUIPMENT AND BUILDING IMPROVEMENTS

A summary of property, equipment and building improvements at June 30, 2008:

Property and equipment	\$ 3,720,000
Equipment	979,162
Building improvements	<u>415,952</u>
Total	5,115,114
Less accumulated depreciation	<u>1,504,693</u>
Net depreciable assets	3,610,421
Land	<u>1,400,000</u>
Property, equipment and building improvements, net	<u>\$ 5,010,421</u>

NOTE 6 – DEBT OBLIGATIONS

Covenant House Alaska has an unsecured line of credit with Wells Fargo to borrow up to \$80,000. Interest is payable at the prime rate plus 2%. The interest rate as of June 30, 2008 was 10.25%. The line was not accessed during fiscal 2008.

NOTE 7 – LEASES

The Agency has operating leases for several vehicles and office equipment. The future minimum lease payments for these are as follows:

<u>Year ending June 30.</u>	
2009	\$ 25,197
2010	15,949
2011	<u>6,396</u>
	<u>\$ 47,542</u>

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

Time restrictions expired by passage of specified time	\$ 107,818
Restricted for capital use	<u>109,616</u>
	<u>\$ 217,434</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Restricted assets at June 30, 2008 consist of the following:

Shelter and crisis care:	
United Way contributions for following year	\$ 105,664
	<u>\$ 105,664</u>

Covenant House Alaska

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE 10 – PENSION PLAN

The Agency participates in a defined benefit pension plan (the “Plan”) sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. The Agency’s contribution to the Plan for fiscal 2008 was \$0. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases will continue to apply within the Plan structure for those participants who have at least 45 points (age plus years of service).

In addition, Covenant House adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. Covenant House will match 50 cents for every dollar contributed up to 6% of compensation. All full-time and part-time employees with benefits employed with Covenant House as of December 31, 2006 will immediately receive the employer match. Per diem employees who worked more than 1,000 hours are also immediately eligible for the match. In addition, Covenant House will add significant employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. Points equal the sum of age and years of service. The employer contribution percentage ranges are from 1% to 9% based on points. Employer contributions for the savings and retirement account will be 100% vested after three years of service. Total expense related to the 403(b) plan was \$81,945 for the year ended June 30, 2008.

NOTE 11 – SUBSEQUENT EVENT

In October 2008, the Agency purchased land in Anchorage for total consideration of \$1,500,000.