

THE ANIMAL FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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DECEMBER 31, 2016 AND 2015**

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Independent Auditor's Report

To the Board of Directors
The Animal Foundation

We have audited the accompanying financial statements of The Animal Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Animal Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ellsworth & Stout, LLC

Las Vegas, Nevada
May 31, 2017



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THE ANIMAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 482,356	\$ 221,273
Cash and cash equivalents, restricted	6,046,658	6,475,279
Investments	2,683,023	2,413,052
Unconditional promises to give, net	16,561,881	12,689,930
Accounts and other receivables, net	39,210	23,956
Inventory	27,966	24,884
Prepaid expenses	39,857	22,552
Total current assets	25,880,951	21,870,926
Property and Equipment, net	14,393,831	15,005,612
Construction in Progress	1,336,282	609,012
Other Assets:		
Investments, net	1,187,055	1,340,585
Beneficial interest in perpetual trust held by others, restricted	1,930,317	1,944,218
Unconditional promises to give, net of current portion	2,089,132	2,388,777
Land held for investment	216,940	216,940
Other assets	107,502	121,981
Total other assets	5,530,946	6,012,501
Total Assets	\$ 47,142,010	\$ 43,498,051
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 469,140	\$ 259,708
Accrued expenses	220,517	170,076
Total current liabilities	689,657	429,784
Total Liabilities	689,657	429,784
Net Assets:		
Unrestricted:		
Undesignated	15,667,108	15,628,795
Board designated	4,157,257	3,944,768
Total	19,824,365	19,573,563
Temporarily restricted	24,697,671	21,550,486
Permanently restricted	1,930,317	1,944,218
Total net assets	46,452,353	43,068,267
Total Liabilities and Net Assets	\$ 47,142,010	\$ 43,498,051

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets		
Revenue and other support:		
Contract revenue	\$ 4,236,284	\$ 4,189,628
Program revenue, net of discounts of \$771,705 and \$671,888	1,671,980	1,984,351
Contributions	982,714	606,589
In-kind donations	357,521	431,676
Special events, net of expenses of \$84,663 and \$69,457	306,183	161,996
Investment income	103,300	132,893
Miscellaneous	41,081	42,576
Net assets released from donor restrictions	1,480,720	446,251
	<u>9,179,783</u>	<u>7,995,960</u>
Expenses:		
Program services	7,311,155	7,399,044
Supporting services:		
Fundraising	686,632	518,821
Management and general	1,162,427	1,053,609
	<u>9,160,214</u>	<u>8,971,474</u>
Other income (expense):		
Net realized and unrealized gain (loss) on investments	231,233	(167,785)
Increase (decrease) in unrestricted net assets	250,802	(1,143,299)
	<u>231,233</u>	<u>(167,785)</u>
Temporarily Restricted Net Assets		
Contributions	4,627,905	14,757,314
Net assets released from donor restrictions	(1,480,720)	(446,251)
Increase in temporarily restricted net assets	<u>3,147,185</u>	<u>14,311,063</u>
Permanently Restricted Net Assets		
Net realized and unrealized losses on investments	(13,901)	(95,697)
Decrease in permanently restricted net assets	<u>(13,901)</u>	<u>(95,697)</u>
Increase in Net Assets	3,384,086	13,072,067
Net Assets, Beginning of Year	<u>43,068,267</u>	<u>29,996,200</u>
Net Assets, End of Year	<u>\$ 46,452,353</u>	<u>\$ 43,068,267</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services						Total Program	Fundraising	Management and General	Total
	Adoptions	Behavior	Public Clinic	Foster	Rescue	Shelter				
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,053	\$ -	\$ 43,053
Animal care	149,189	2,023	171,556	1,667	55	135,261	459,751	600	610	460,961
Bad debt	210	-	-	-	-	59,369	59,579	-	-	59,579
Building maintenance	11,294	938	950	26	15	37,431	50,654	1,026	1,859	53,539
Clinic expense allocation	96,028	-	-	-	-	652,684	748,712	-	-	748,712
Credit card fees	6,762	-	6,155	-	-	3,024	15,941	11,299	144	27,384
Depreciation	313,394	-	3,381	88	612	286,688	604,163	5,877	9,085	619,125
Direct mail program	-	-	-	-	-	-	-	58,065	-	58,065
Donated facilities	120,817	-	3,752	490	274	99,255	224,588	1,086	3,025	228,699
Donated materials and supplies	79,504	-	-	-	-	18,802	98,306	481	-	98,787
Donated professional services	20,367	-	1,052	-	-	912	22,331	7,534	-	29,865
Dues and subscriptions	2,928	-	1,323	725	161	4,414	9,551	25,597	11,330	46,478
Employee benefits	62,959	6,040	2,847	3,965	8,324	154,640	238,775	5,932	42,202	286,909
Equipment repairs	11,729	15	1,079	-	297	7,615	20,735	5,676	10,966	37,377
Insurance	50,452	11	3,278	157	502	22,253	76,653	1,721	18,888	97,262
Miscellaneous	4,025	111	896	53	217	9,743	15,045	5,136	26,963	47,144
Printing and postage	773	-	670	503	-	9	1,955	28,390	1,191	31,536
Professional services	16,653	453	3,253	3,268	901	132,112	156,640	148,481	80,380	385,501
Recruitment and retention	187	5	189	5	5	483	874	135	19,635	20,644
Rent expenses	25,762	-	354	-	146	5,512	31,774	3,024	1,674	36,472
Safety and security	5,260	-	421	112	94	6,421	12,308	832	1,037	14,177
Salaries and related expenses	1,175,255	78,122	318,133	89,540	74,269	2,316,169	4,051,488	317,933	903,365	5,272,786
Supplies	5,186	1,301	2,750	73	-	9,813	19,123	8,278	16,926	44,327
Telephone and internet	4,498	-	852	214	228	4,476	10,268	3,098	4,806	18,172
Travel and auto expenses	-	-	-	-	803	1,309	2,112	1,558	3,951	7,621
Utilities	151,721	-	3,886	508	284	53,818	210,217	1,820	4,390	216,427
Volunteer expenses	90,824	-	-	-	-	78,788	169,612	-	-	169,612
	<u>\$2,405,777</u>	<u>\$ 89,019</u>	<u>\$ 526,777</u>	<u>\$ 101,394</u>	<u>\$ 87,187</u>	<u>\$4,101,001</u>	<u>\$7,311,155</u>	<u>\$ 686,632</u>	<u>\$1,162,427</u>	<u>\$9,160,214</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services							Fundraising	Management and General	Total
	Adoptions	Behavior	Public Clinic	Foster	Rescue	Shelter	Total Program			
Advertising	\$ 66,186	\$ -	\$ 1,200	\$ 313	\$ -	\$ -	\$ 67,699	\$ 14,554	\$ -	\$ 82,253
Animal care	194,318	8,469	168,168	250	140	144,716	516,061	553	3,041	519,655
Bad debt	-	-	-	-	-	74,077	74,077	65	-	74,142
Building maintenance	13,554	57	455	27	15	37,211	51,319	77	918	52,314
Clinic expense allocation	94,059	-	-	-	-	629,871	723,930	-	-	723,930
Credit card fees	7,966	-	6,396	3	-	3,145	17,510	6,556	5	24,071
Depreciation	318,860	-	12,477	92	59	287,929	619,417	7,018	12,075	638,510
Donated car expenses	-	-	-	-	-	-	-	13,697	-	13,697
Donated facilities	75,405	-	1,013	3,093	3,093	128,973	211,577	2,865	15,092	229,534
Donated materials and supplies	77,452	-	1,003	-	-	28,793	107,248	33	-	107,281
Donated professional services	61,468	-	1,496	-	-	2,162	65,126	28,466	291	93,883
Dues and subscriptions	2,690	37	1,195	796	51	3,598	8,367	9,067	15,322	32,756
Employee benefits	67,711	3,561	9,925	2,180	4,336	152,746	240,459	5,662	23,999	270,120
Equipment repairs	16,703	43	813	277	-	8,553	26,389	1,694	10,420	38,503
Insurance	39,796	-	1,681	120	67	20,892	62,556	2,368	16,177	81,101
Miscellaneous	6,193	46	1,420	99	91	9,931	17,780	21,397	10,970	50,147
Printing	1,618	-	3,015	297	-	703	5,633	13,504	592	19,729
Professional services	30,850	339	8,583	1,690	968	173,905	216,335	85,159	108,992	410,486
Promotion fees	-	-	-	-	-	-	-	585	-	585
Recruitment and retention	421	-	103	6	3	721	1,254	458	10,874	12,586
Rent expenses	27,731	-	1,774	135	219	5,602	35,461	241	1,644	37,346
Safety and security	5,422	-	542	110	62	5,788	11,924	279	531	12,734
Salaries and related expenses	1,173,326	49,270	372,061	64,412	53,191	2,182,061	3,894,321	283,963	800,608	4,978,892
Supplies	9,408	16,041	3,329	273	42	24,281	53,374	11,597	8,765	73,736
Telephone and internet	3,856	-	659	115	66	3,132	7,828	1,745	3,679	13,252
Travel and auto expenses	686	47	932	98	8	6,938	8,709	5,233	4,292	18,234
Utilities	165,442	-	5,031	658	367	88,215	259,713	1,985	5,322	267,020
Volunteer expenses	50,914	-	-	-	-	44,063	94,977	-	-	94,977
	<u>\$2,512,035</u>	<u>\$ 77,910</u>	<u>\$ 603,271</u>	<u>\$ 75,044</u>	<u>\$ 62,778</u>	<u>\$4,068,006</u>	<u>\$7,399,044</u>	<u>\$ 518,821</u>	<u>\$1,053,609</u>	<u>\$8,971,474</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,384,086	13,072,067
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of unconditional promise to give	(9,806)	(6,649)
Discount of unconditional promise to give to present value	-	132,042
Bad debt	59,579	74,142
Depreciation	619,125	638,510
Amortization of premium (discount) on investment in bonds	(4,273)	(6,169)
Net realized and unrealized (gain) loss on investments	(217,332)	263,482
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give	(3,562,500)	(8,824,072)
(Increase) decrease in accounts and other receivables	(74,833)	(68,532)
(Increase) decrease in inventory	(3,082)	30,802
(Increase) decrease in prepaid expenses	(17,305)	22,350
(Increase) decrease in other asset	14,479	(11,703)
Increase (decrease) in accounts payable	209,432	104,736
Increase (decrease) in accrued expenses	50,441	15,129
Increase (decrease) in unearned revenue	-	(243)
Net cash provided by operating activities	<u>448,011</u>	<u>5,435,892</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,181,122	1,172,458
Purchase of investments	(1,062,057)	(639,904)
Purchase of property and equipment	(7,344)	(23,153)
Construction in progress expenditures	(727,270)	(186,854)
Net cash provided by (used in) investing activities	<u>(615,549)</u>	<u>322,547</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(167,538)	5,758,439
Cash and Cash Equivalents, Beginning of Year	<u>6,696,552</u>	<u>938,113</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,529,014</u>	<u>\$ 6,696,552</u>
Cash and Cash Equivalents, Unrestricted	\$ 482,356	\$ 221,273
Cash and Cash Equivalents, Restricted	<u>6,046,658</u>	<u>6,475,279</u>
	<u>\$ 6,529,014</u>	<u>\$ 6,696,552</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 – NATURE OF ORGANIZATION

The Animal Foundation (the Foundation) was incorporated in March 1978. The Foundation is a public, nonprofit, multi-service agency whose mission is to save the lives of all healthy and treatable animals in the Las Vegas valley. The vision is to promote a humane and compassionate community for all animals. The Foundation operates the Valley's largest open-admission shelter, lost and found services, rabies observation, foster home and adoption services, affordable vaccination clinic, low-cost spaying and neutering services, community education, and humane and sensitive euthanasia.

The Foundation receives most of its revenues and support from the Southern Nevada region. During 2016 and 2015, 46% and 52%, respectively, of operating support was collectively generated from contracts with the City of Las Vegas, the City of North Las Vegas and Clark County. When non-recurring net pledges received as part of the building expansion project are included, the percentage of total support from municipalities totals 34% and 83% during 2016 and 2015, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Foundation is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

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

The accompanying financial statements have been presented in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations, principally Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Foundation is required to report information regarding its financial position and changes in financial position according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Accordingly, actual results could differ from those estimates.

Reclassification and Correction

Certain amounts in the prior financial statements have been reclassified for comparative purposes to conform to the presentation in the current period financial statements. In addition, management has adjusted the 2015 revenues to correct a duplicate entry that was discovered during 2016. The accompanying financial statements reflect the restated balances.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

The Foundation has concentrated its credit risk for cash by maintaining deposits in financial institutions, which at times may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Accounts Receivable

Accounts receivable consist primarily of fees due from program services and are non-interest bearing. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on accounts receivable using the allowance method. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of December 31, 2016, and 2015, the estimated allowance for uncollectible accounts to accounts receivable was \$34,000 and \$34,000, respectively.

Inventory

Inventories primarily consist of medical supplies and equipment, as well as animal microchips. Inventory costs are measured using the first in, first out (FIFO) inventory method, and valued based on the lower of cost or market.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all Level 1 measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the accompanying Statement of Activities. The Foundation initially records its real estate investments at the fair value as of the dates the investments are donated to the Foundation and thereafter carries such investments primarily at current appraised values (Level 2 measurements). The Foundation considers the measurement of its beneficial interest in the trust to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the fair values of the trust assets reported by the trustee, the Foundation will never receive those assets or have the ability to direct the trustee to redeem them. Investments in bonds are reported net of premium amortization of \$18,642 and \$22,915 for the years ended December 31, 2016 and 2015, respectively.

Property and Equipment

The Foundation capitalizes significant expenditures for property and equipment at cost, generally those that exceed \$1,000. Property and equipment that are contributed to the Foundation are recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range between three to thirty-nine years.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Materials, Services and Facilities

Generally, donated materials and facilities, if significant in amount, are recorded at their fair market value, provided the Foundation has a clearly measurable and objective basis for determining the value. In the case of materials where such values cannot reasonably be determined, the donation is not recorded. Donated professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Foundation recognized the following in-kind donations in the following years:

	<u>2016</u>	<u>2015</u>
Donated use of facilities	\$ 228,699	\$ 229,534
Materials and supplies	98,957	107,281
Professional services	29,865	94,861
	<u>\$ 357,521</u>	<u>\$ 431,676</u>

Unpaid volunteers have donated their time to the Foundation's programs. The value of such services has not been reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition as contributed services.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires by a stipulated time restriction lapsing or by the purpose of the restriction having been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same period received are reported as unrestricted support.

Program revenues are earned at the time services are rendered. At times, discounts are offered against program fees. These discounts are recognized as a reduction in the Statement of Activities in accordance with FASB ASC 958-605-45-2, *Revenue Recognition*. For the years ended December 31, 2016 and 2015, program revenues were recorded net of discounts of \$771,705 and \$671,888, respectively.

Income Taxes

In February 1979, the Foundation received notification from the Internal Revenue Service that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as a public charity under Section 509(a)(2). Therefore, no provision for income taxes is made in the accompanying financial statements.

Management has evaluated the tax positions taken within their tax returns and does not believe there are any significant uncertain positions taken on the returns. Therefore, no provision or liability for uncertain tax positions has been included in these financial statements.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Foundation is no longer subject to potential income tax examinations by tax authorities for years before 2013.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on management's estimates.

Advertising

Advertising costs are expensed as incurred.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 (Topic 606) pertaining to revenue from contracts with customers, including a number of subsequent updating pronouncements. This pronouncement is effective for non-public companies for annual periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016. Although a final determination of the potential impact of this new accounting pronouncement has not yet been completed, it appears that the substance of the new accounting principle, which is to change current revenue recognition guidance to a single, principle-based model that requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to its customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, is consistent with the position of the Foundation's existing revenue recognition practices. Management is still evaluating the effects of this standard on the Foundation's financial statements.

In July 2015, the FASB issued ASU 2015-11 pertaining to simplifying the measurement of inventory. This pronouncement was effective for non-public companies for annual periods beginning after December 15, 2016, with early adoption permitted. Management has not yet evaluated the effects of this standard on the Foundation's financial statements.

In August 2016, the FASB issued ASU 2016-14 pertaining to Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This pronouncement is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management has not yet evaluated the effects of this standard on the Foundation's financial statements.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 3 – FAIR VALUE MEASUREMENTS

The following table provides information by level on the fair value of the investments as of December 31, 2016:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring fair value measurements:</u>				
Beneficial interest in perpetual trust	\$ 1,930,317	\$ -	\$ -	\$ 1,930,317
Bonds	1,187,055	1,187,055	-	-
Mutual funds	119,055	119,055	-	-
Stocks	2,563,968	2,563,968	-	-
Land held for investment	216,940	-	216,940	-
	<u>\$ 6,017,335</u>	<u>\$ 3,870,078</u>	<u>\$ 216,940</u>	<u>\$ 1,930,317</u>

The following table provides information by level on the fair value of the investments as of December 31, 2015:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring fair value measurements:</u>				
Beneficial interest in perpetual trust	\$ 1,944,218	\$ -	\$ -	\$ 1,944,218
Bonds	1,340,585	1,340,585	-	-
Land held for investment	216,940	-	216,940	-
Mutual funds	118,485	118,485	-	-
Stocks	2,294,567	2,294,567	-	-
	<u>\$ 5,914,795</u>	<u>\$ 3,753,637</u>	<u>\$ 216,940</u>	<u>\$ 1,944,218</u>

Fair value for the beneficial interest in perpetual trust is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2016 (see Note 7). The Foundation considers the measurement of its beneficial interest in the trust to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the fair values of the trust assets reported by the trustee, the Foundation will never receive those assets or have the ability to direct the trustee to redeem them.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about fair value measurements that use significant unobservable inputs (Level 3):

Beneficial interest in perpetual trust

Balance - January 1, 2016	\$ 1,944,218
Total gains or losses recognized in the change in permanently restricted net assets:	
Change in value of perpetual trust	(13,901)
Balance - December 31, 2016	<u>\$ 1,930,317</u>

The Board of Directors reviews and approves the Foundation's fair value measurement policies and procedures annually. At least annually, the finance committee and the Board determine if the valuation techniques used in fair value measurements are still appropriate.

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recorded as receivables and revenue when received. As of December 31, 2016 and 2015, unconditional promises to give are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 16,582,236	\$ 12,699,736
Receivable in one to five years	1,380,000	1,490,000
Receivable in more than five years	1,330,000	1,540,000
Total unconditional promises to give	<u>19,292,236</u>	<u>15,729,736</u>
Less discounts to net present value	<u>(641,223)</u>	<u>(651,029)</u>
Net unconditional promises to give	<u>\$ 18,651,013</u>	<u>\$ 15,078,707</u>

The following table presents unconditional promises to give at December 31, 2016 and 2015, as shown on the statement of financial position:

	<u>2016</u>	<u>2015</u>
Current unconditional promises to give	\$ 16,561,881	\$ 12,689,930
Present value of noncurrent unconditional promises to give	<u>2,089,132</u>	<u>2,388,777</u>
Total unconditional promises to give, net of present value	<u>\$ 18,651,013</u>	<u>\$ 15,078,707</u>

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 5 – PROPERTY AND EQUIPMENT

As of December 31, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Buildings	\$ 20,345,347	\$ 20,345,347
Computers and software	137,110	131,220
Furniture and equipment	727,339	725,884
Leasehold improvements	20,371	20,371
	21,230,167	21,222,822
Less: accumulated depreciation	(6,836,336)	(6,217,210)
	\$ 14,393,831	\$ 15,005,612

Depreciation expense for the years ended December 31, 2016 and 2015 was \$619,126 and \$638,510, respectively.

NOTE 6 – BUILDING EXPANSION PROJECT

In 2011, the Foundation resumed plans to expand its facilities. It started a capital campaign to underwrite a campus-wide renovation and the development of a new structure to house cats and exotic animal adoption areas, public education facilities, and administrative offices. This campaign has continued through 2016 and beyond to raise funds to complete the project.

As of December 31, 2016 and 2015, costs of \$727,270 and \$609,012 respectively have been capitalized to the construction in progress account. There was no construction interest capitalized during 2016 or 2015.

The expansion plans, deemed the Campus Completion Project, have a total budget of \$31,484,721. Currently, the Foundation has secured \$13,184,006 in municipal appropriations plus \$132,997 to be paid in bond issuance costs, and approximately \$16,416,800 in private donations, of which \$6,035,275 was pledged subsequent to year end. The Foundation is in the process to secure funding through tax-exempt private placement bonds, currently estimated to be \$16,000,000. As of May 31, 2017, the date the financial statements were available to be issued, these terms had not been finalized.

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUST HELD BY OTHERS

During 2013, the Foundation received 33% beneficial interest in a perpetual trust which is held by others. As of December 31, 2016, the fair market value of the Foundation's share is \$1,930,317. Changes in the value of the trust have been reported in the statement of activities as increases in permanently restricted net assets. The entire fair value of the underlying assets is included in permanently restricted net assets. The Foundation receives quarterly disbursements of 33% of the income generated by the investments held by the trust.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 8 – LAND HELD FOR INVESTMENT

In August 2009, the Foundation had various parcels of land bequeathed to it with the Foundation's ownership of each parcel ranging from 20% to 100%. The various parcels are located in the Pahrump, Nevada area and are held as an investment. The estimated fair value of the real estate based on county assessments was approximately \$216,940 as of December 31, 2016 and 2015.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are held for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Adoptions	\$ -	\$ 194,076
Building	23,361,100	21,356,410
Lifesaving Programs	1,300,728	-
Other programs	35,843	-
	<u>\$ 24,697,671</u>	<u>\$ 21,550,486</u>

Temporarily restricted net assets consist of cash and cash equivalents of \$6,046,658 and \$6,475,279, and net unconditional promises to give of \$18,651,013 and \$15,075,207 as of December 31, 2016 and 2015, respectively.

NOTE 10 – ENDOWMENT

During 2013, the Board of Directors established an endowment fund for the long-term financial security of the Foundation. As of December 31, 2016, the Board of Directors had designated \$4,157,257 of unrestricted net assets as a general endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Foundation has a spending policy in which the principal is not to be spent unless it is absolutely necessary for mission critical expenditures. To achieve that objective, the Foundation has adopted an investment policy and its primary investment goal is to minimize the risk of loss of principal while providing a reasonable level of current and future income, as well as provide for a modest appreciation of principal over time. The investment revenue earned during the year is considered unrestricted and can be used for the Foundation's operations.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions if needed, while growing the fund if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 10 – ENDOWMENT (Continued)

Composition of and changes in endowment net assets for the year ended December 31, 2016 were as follows:

Board-designated endowment net assets, beginning of year	\$ 3,944,767
Investment income	99,024
Net appreciation (depreciation)	217,332
Amounts appropriated for expenditure	<u>(103,866)</u>
Board-designated endowment net assets, end of year	<u>\$ 4,157,257</u>

NOTE 11 – LEASE AGREEMENTS

The Foundation leases office equipment and land under non-cancelable operating lease agreements expiring through 2021. Total lease expense under these agreements for the years ended December 31, 2016 and 2015 were \$38,967 and \$12,587, respectively.

Future minimum lease payments are as follows for the years ending December 31:

2017	\$ 22,180
2018	\$ 55,416
2019	\$ 48,362
2020	\$ 14,899
2021	\$ 2,541

NOTE 12 – RETIREMENT PLAN

The Foundation established a retirements savings plan pursuant to Section 403(b) of the Internal Revenue Code, which was adopted August 15, 2013 and covers employees who perform services for the Foundation and receive compensation for such services. The Plan is funded solely by employee participant contributions to the plan, pursuant to a salary reduction agreement. The employees could elect to defer amounts according to the maximum allowed under Federal guidelines.

NOTE 13 – SHELTER SERVICES AGREEMENTS

The Animal Foundation is the contract provider of care and shelter for animals received from the City of North Las Vegas Animal Control, City of Las Vegas Animal Control and Clark County Animal Control. The Shelter Service Agreements were renegotiated and commenced in 2015. Collectively, the three jurisdictions agreed to fund the Foundation for original animal care and shelter expenses based on the aggregate funding amount determined in the agreements. The contract is subject to an annual rate adjustment on January 1 of each year, based on the lower of five percent or the Consumer Price Index (CPI) on an October-to-October basis. The Shelter Service Agreement entered into with the various agencies is as follows:

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 13 – SHELTER SERVICES AGREEMENTS (Continued)

The agreement with the City of North Las Vegas Animal Control (NLVAC) called for yearly payments to the Foundation of \$643,163 and \$628,863 for the years ended December 31, 2016 and 2015, respectively. The original agreement dated May 21, 2008, had an option to renew for up to 2 five-year terms. In May 2015, NLVAC exercised the option to implement its first five-year renewal option. The renewal authorized performance of the contract from July 1, 2015 to July 1, 2020.

The agreement with the City of Las Vegas Animal Control (CLVAC) called for yearly payments of \$1,651,399 and \$1,614,683 for the years ended December 31, 2016 and 2015, respectively. This agreement will terminate on the day before the tenth anniversary of the effective date, February 18, 2015, with an option to extend for up to 2 five-year periods.

The agreement with Clark County Animal Control (CCAC) called for yearly payments to the Foundation of \$1,990,334 and \$1,946,082 for the years ended December 31, 2016 and 2015, respectively. This agreement will terminate on the day before the fifth anniversary of the effective date, March 17, 2015, with an option to extend for up to 3 five-year periods.

NOTE 14 – CONTINGENCIES

The Foundation has implemented a self-insurance or reimbursement program for state unemployment which covers contingencies for future unemployment claims. The program is subject to Nevada Unemployment Compensation Laws and the Foundation registers with the Nevada Employment Security Division, who administers all claims under this program. A contingent liability of \$1,739 and \$0 were recorded and included in accrued expenses on the statement of activities for the years ended December 31, 2016 and 2015, respectively. The liability recorded is an estimate of potential future liabilities and expenditures for actual future claims under this program may vary from this estimate.

The Foundation is involved, from time to time, in some legal disputes incidental to the conduct of its business. Except as noted below and based on consultation with legal counsel, the Foundation does not believe that any disputes, either individually or in the aggregate, to which the Foundation is a party will have a material adverse effect on the Foundation's financial position or operating activities.

The Foundation is currently involved in a legal case regarding an injury occurring on the Foundation's property, which has not yet been resolved. Based on consultation with legal counsel, management does not believe that a negative outcome against the Foundation is probable; however, the maximum possible liability is estimated to be \$300,000.

NOTE 15 – RELATED PARTY SERVICES

The Foundation received marketing services from a family member of an individual within management. The total payments made to this related party were approximately \$16,000 for the year ended December 31, 2016.

NOTE 16 – SUBSEQUENT EVENTS

Management of the Foundation has evaluated subsequent events through May 31, 2017, the date on which the financial statements were available to be issued. No additional events were identified that would require additional disclosure.