

THE ANIMAL FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

**THE ANIMAL FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to the Financial Statements	7-15

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 statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ellsworth & Stout, LLC

Las Vegas, Nevada
May 26, 2016



The CPA. Never Underestimate The Value.®

Acuity Financial Center
7881 W. Charleston Blvd., Ste. 155 • Las Vegas, NV 89117
p 702-871-2727 f 702-876-0040

lvcpas.com

Members of the American Institute of Certified Public Accountants & Nevada Society of Certified Public Accountants

THE ANIMAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 221,273	\$ 56,963
Cash and cash equivalents, restricted	6,475,279	881,150
Investments	2,413,052	2,851,102
Unconditional promises to give, net	13,777,700	5,111,713
Accounts and other receivables, net	23,956	29,566
Inventory	24,884	55,686
Prepaid expenses	22,552	44,902
Total current assets	22,958,696	9,031,082
Property and Equipment, net	15,005,612	15,620,971
Construction in Progress	609,012	422,158
Other Assets:		
Investments, net	1,340,585	1,596,703
Beneficial interest in perpetual trust held by others, restricted	1,944,218	2,039,915
Unconditional promises to give, net of current portion	2,388,777	1,268,315
Land held for investment	216,940	216,940
Other	121,981	110,278
Total assets	6,012,501	5,232,151
Total Assets	\$ 44,585,821	\$ 30,306,362
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 259,708	\$ 154,972
Accrued expenses	170,076	154,947
Unearned revenue	-	243
Total current liabilities	429,784	310,162
Total Liabilities	429,784	310,162
Net Assets:		
Unrestricted:		
Undesignated	15,628,795	16,197,372
Board designated	3,944,768	4,519,490
	19,573,563	20,716,862
Temporarily restricted	22,638,256	7,239,423
Permanently restricted	1,944,218	2,039,915
Total net assets	44,156,037	29,996,200
Total Liabilities and Net Assets	\$ 44,585,821	\$ 30,306,362

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets		
Revenue and other support:		
Contract revenue	\$ 4,189,628	\$ 4,109,008
Program revenue, net	1,984,351	2,222,636
Contributions	606,589	494,360
In-kind donations	431,676	409,287
Special events, net of expenses of \$69,457 and \$44,495	161,996	223,374
Investment income	132,893	97,567
Miscellaneous	42,576	52,075
Net assets released from donor restrictions	446,251	381,899
	<u>7,995,960</u>	<u>7,990,206</u>
Expenses:		
Program services:		
Adoptions	2,512,035	2,271,851
Behavior	77,910	-
Public Clinic	603,271	627,394
Foster	75,044	69,488
Rescue	62,778	64,081
Shelter	4,068,006	4,404,870
	<u>7,399,044</u>	<u>7,437,684</u>
Supporting services:		
Fundraising	518,821	641,217
Management and general	1,053,609	1,069,904
	<u>1,572,430</u>	<u>1,711,121</u>
	<u>8,971,474</u>	<u>9,148,805</u>
Other income (expense):		
Net realized and unrealized gain (loss) on investments	(167,785)	134,756
	<u>(167,785)</u>	<u>134,756</u>
Decrease in unrestricted net assets	<u>(1,143,299)</u>	<u>(1,023,843)</u>
Temporarily Restricted Net Assets		
Contributions	15,845,084	5,323,542
Net assets released from donor restrictions	(446,251)	(381,899)
Increase in temporarily restricted net assets	<u>15,398,833</u>	<u>4,941,643</u>
Permanently Restricted Net Assets		
Net realized and unrealized gain (loss) on investments	(95,697)	4,529
Increase (decrease) in permanently restricted net assets	<u>(95,697)</u>	<u>4,529</u>
Increase in net assets	14,159,837	3,922,329
Net Assets, Beginning of Year	<u>29,996,200</u>	<u>26,073,871</u>
Net Assets, End of Year	<u>\$ 44,156,037</u>	<u>\$ 29,996,200</u>

See accompanying notes to the financial statements.

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

Program Services

	Adoptions	Behavior	Public Clinic	Foster	Rescue	Shelter	Total Program	Fundraising	Management and General	Total
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
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services					Total Program	Fundraising	Management and General	Total
	Adoptions	Public Clinic	Foster	Rescue	Shelter				
Advertising	\$ 47,227	\$ 5,960	\$ 4,269	\$ -	\$ 3,371	\$ 60,827	\$ 12,160	\$ -	\$ 72,987
Animal care	103,552	168,088	1,268	1,268	264,648	538,824	1,121	7,131	547,076
Bad debt	-	-	-	-	27,111	27,111	200	-	27,311
Building maintenance	14,829	199	165	165	30,469	45,827	195	3,266	49,288
Clinic expense allocation	89,216	-	-	-	593,417	682,633	-	-	682,633
Credit card fees	9,819	6,309	-	-	3,163	19,291	8,964	-	28,255
Depreciation	315,176	37,247	-	-	286,206	638,629	5,165	8,507	652,301
Donated car expenses	-	-	-	-	-	-	60,009	-	60,009
Donated facilities	74,480	526	2,367	2,367	132,740	212,480	1,758	14,622	228,860
Donated materials and supplies	52,628	2,137	-	-	52,183	106,948	11,496	-	118,444
Donated professional services	3,600	250	-	-	-	3,850	58,133	-	61,983
Dues and subscriptions	5,624	2,967	590	91	6,578	15,850	5,602	6,630	28,082
Employee benefits	62,487	11,453	3,387	3,387	180,022	260,736	6,150	34,114	301,000
Equipment repairs	9,934	392	10	10	13,581	23,927	695	6,262	30,884
Insurance	27,255	783	605	605	23,790	53,038	1,475	22,021	76,534
Miscellaneous	8,994	1,098	34	34	9,455	19,615	15,644	13,212	48,471
Printing	5,709	3,235	680	113	16,052	25,789	30,899	409	57,097
Professional services	83,504	8,987	1,049	945	180,734	275,219	62,594	52,935	390,748
Promotion fees	1,195	9,377	-	-	-	10,572	2,032	-	12,604
Recruitment and retention	2,352	502	143	109	5,069	8,175	731	11,870	20,776
Rent expenses	26,783	488	45	-	5,646	32,962	2,235	1,255	36,452
Safety and security	3,241	355	47	47	5,570	9,260	218	623	10,101
Salaries and related expenses	1,167,074	363,678	51,363	51,474	2,389,640	4,023,229	305,657	843,401	5,172,287
Supplies	12,163	3,352	165	165	18,608	34,453	30,696	17,780	82,929
Telephone and internet	3,245	11	-	-	1,334	4,590	2,350	2,252	9,192
Travel and auto expenses	4,888	-	-	-	4,828	9,716	10,193	3,938	23,847
Utilities	105,259	-	3,301	3,301	125,948	237,809	4,845	19,676	262,330
Volunteer expenses	31,617	-	-	-	24,707	56,324	-	-	56,324
	<u>\$2,271,851</u>	<u>\$ 627,394</u>	<u>\$ 69,488</u>	<u>\$ 64,081</u>	<u>\$4,404,870</u>	<u>\$7,437,684</u>	<u>\$ 641,217</u>	<u>\$1,069,904</u>	<u>\$9,148,805</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 14,159,837	\$ 3,922,329
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Amortization of unconditional promise to give	(6,649)	(3,382)
Discount of unconditional promise to give to present value	132,042	-
Bad debt	74,142	27,311
Depreciation	638,510	652,301
Amortization of premium (discount) on investment in bonds	(6,169)	13,562
Net realized and unrealized (gain) loss on investments	263,482	(139,285)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give	(9,911,842)	(4,421,546)
(Increase) decrease in accounts and other receivables	(68,532)	(17,043)
(Increase) decrease in inventory	30,802	(4,448)
(Increase) decrease in prepaid expenses	22,350	(32,106)
(Increase) decrease in other asset	(11,703)	(50,556)
Increase (decrease) in accounts payable	104,736	(44,531)
Increase (decrease) in accrued expenses	15,129	(190,007)
Increase (decrease) in unearned revenue	(243)	(146,047)
Net cash provided by (used in) operating activities	<u>5,435,892</u>	<u>(433,448)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,172,458	723,128
Purchase of investments	(639,904)	(854,924)
Purchase of property and equipment	(23,153)	(88,900)
Construction in progress expenditures	(186,854)	(17,304)
Net cash provided by (used in) investing activities	<u>322,547</u>	<u>(238,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,758,439	(671,448)
Cash and Cash Equivalents, Beginning of Year	<u>938,113</u>	<u>1,609,561</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,696,552</u>	<u>\$ 938,113</u>
Cash and Cash Equivalents, Unrestricted	\$ 221,273	\$ 56,963
Cash and Cash Equivalents, Restricted	<u>6,475,279</u>	<u>881,150</u>
	<u>\$ 6,696,552</u>	<u>\$ 938,113</u>

See accompanying notes to the financial statements.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2015 and 2014, 52% and 51%, 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 85% and 31% during 2015 and 2014, 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.

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 ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

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, 2015 and 2014, the estimated allowance for uncollectible accounts to accounts receivable was \$34,000 and \$24,360, 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.

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 \$22,915 and \$29,084 for the years ended December 31, 2015 and 2014, 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.

Contributed Materials and Services

Generally, donated materials, 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 ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Materials and Services (Continued)

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

	<u>2015</u>	<u>2014</u>
Free use of facilities	\$ 229,536	\$ 228,860
Materials and supplies	108,257	118,444
Professional services	<u>93,883</u>	<u>61,983</u>
	<u>\$ 431,676</u>	<u>\$ 409,287</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, 2015 and 2014, program revenues were recorded net of discounts of \$671,888 and \$743,504, 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 Sections 509(a)(1) and 170(b)(1)(A)(vi). As such, the Foundation is exempt from Federal income tax. Therefore, no provision for income taxes is made in the accompanying financial statements.

The Foundation is no longer subject to potential income tax examinations by tax authorities for years before 2012.

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.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

NOTE 3 – FAIR VALUE MEASUREMENTS

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>

The following table provides information by level on the fair value of the investments as of December 31, 2014:

	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	\$ 2,039,915	\$ -	\$ -	\$ 2,039,915
Bonds	1,596,703	1,596,703	-	-
Land held for investment	216,940	-	216,940	-
Mutual funds	171,125	171,125	-	-
Stocks	2,679,977	2,679,977	-	-
	<u>\$ 6,704,660</u>	<u>\$ 4,447,805</u>	<u>\$ 216,940</u>	<u>\$ 2,039,915</u>

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

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, 2015 (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 following table presents information about fair value measurements that use significant unobservable inputs (Level 3):

Beneficial interest in perpetual trust

Balance - January 1, 2015	\$ 2,039,915
Total gains or losses recognized in the change in permanently restricted net assets:	
Change in value of perpetual trust	(95,697)
Balance - December 31, 2015	<u>\$ 1,944,218</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, 2015 and 2014, unconditional promises to give are as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 13,787,506	\$ 5,205,664
Receivable in one to five years	1,490,000	500,000
Receivable in more than five years	<u>1,540,000</u>	<u>1,200,000</u>
Total unconditional promises to give	16,817,506	6,905,664
Less discounts to net present value	<u>(651,029)</u>	<u>(525,636)</u>
Net unconditional promises to give	<u>\$ 16,166,477</u>	<u>\$ 6,380,028</u>

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE (Continued)

The following table presents unconditional promises to give at December 31, 2015 and 2014, as shown on the statement of financial position:

	<u>2015</u>	<u>2014</u>
Current unconditional promises to give	\$13,777,700	\$5,111,713
Present value of noncurrent unconditional promises to give	<u>2,388,777</u>	<u>1,268,315</u>
Total unconditional promises to give, net of present value	<u>\$16,166,477</u>	<u>\$6,380,028</u>

NOTE 5 – PROPERTY AND EQUIPMENT

As of December 31, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 20,345,347	\$ 20,345,347
Computers and software	131,220	126,435
Furniture and equipment	725,884	707,516
Leasehold improvements	<u>20,371</u>	<u>20,371</u>
	21,222,822	21,199,669
Less: accumulated depreciation	<u>(6,217,210)</u>	<u>(5,578,698)</u>
	<u>\$ 15,005,612</u>	<u>\$ 15,620,971</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$638,510 and \$652,301, 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 2015 and beyond to raise funds to complete the project.

As of December 31, 2015 and 2014, costs of \$609,012 and \$422,158 respectively have been capitalized to the construction in progress account. There was no construction interest capitalized during 2015 or 2014.

The expansion plans, deemed the Campus Completion Project, have a total budget of \$31,987,003. Currently, the Foundation has secured \$13,184,006 in municipal appropriations plus \$132,997 to be paid in bond issuance costs, and approximately \$12,160,000 in private donations, of which \$10,000 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 \$18,670,000. As of May 26, 2016, the date the financial statements were available to be issued, these terms had not been finalized.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

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, 2015, the fair market value of the Foundation’s share is \$1,944,218. 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.

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, 2015 and 2014.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are held for the following purposes at December 31, 2015 and 2014:

	2015	2014
Adoptions	\$ 194,076	\$ 25,000
Animal Care	-	3,000
Building	22,444,180	7,211,323
Other programs	-	100
	\$ 22,638,256	\$ 7,239,423

Temporarily restricted net assets consist of cash and cash equivalents of \$6,475,279 and \$881,150, and net unconditional promises to give of \$16,162,977 and \$6,358,273 as of December 31, 2015 and 2014, 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, 2015, the Board of Directors had designated \$3,944,768 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.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

NOTE 10 – ENDOWMENT (Continued)

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.

Composition of and changes in endowment net assets for the year ended December 31, 2015 were as follows:

Board-designated endowment net assets, beginning of year	\$ 4,519,490
Investment income	137,698
Net appreciation (depreciation)	(167,784)
Amounts appropriated for expenditure	<u>(544,637)</u>
Board-designated endowment net assets, end of year	<u><u>\$ 3,944,767</u></u>

NOTE 11 – LEASE AGREEMENTS

The Foundation leases office equipment and land under non-cancelable operating lease agreements expiring through 2020. Total lease expense under these agreements for the years ended December 31, 2015 and 2014 were \$12,587 and \$9,590, respectively.

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

2016	\$ 9,822
2017	\$ 12,556
2018	\$ 11,730
2019	\$ 7,969
2020	\$ 3,972

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.

THE ANIMAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

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 agreement with the City of North Las Vegas Animal Control (NLVAC) calls for a yearly payment to the Foundation of \$628,863 or monthly payments of \$52,405. The compensation payments received as of December 31, 2015 and 2014, were \$628,861 and \$624,530, 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) requires a yearly payment of \$1,614,683 or monthly payments of \$134,557. The compensation payments received as of December 31, 2015 and 2014, were \$1,614,861 and \$1,764,634, 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) calls for a yearly payment to the Foundation of \$1,946,082 or monthly payments of \$162,174. The compensation payments received as of December 31, 2015 and 2014, including CPI adjustments, were \$1,945,906 and \$1,719,844, 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 – INSURANCE PROGRAM

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 \$0 and \$2,867 were recorded and included in accrued expenses on the statement of activities for the years ended December 31, 2015 and 2014, 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.

NOTE 15 – RECLASSIFICATIONS

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 26, 2016, which is the date the financial statements were available to be issued.