

**THE ANIMAL FOUNDATION**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

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FINANCIAL STATEMENTS  
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*Independent Auditors' Report*

To the Board of Directors  
The Animal Foundation

We have audited the accompanying financial statements of The Animal Foundation (a nonprofit Foundation), which comprise the statement of financial position as of December 31, 2013, 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, 2013, 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.

Prior Period Financial Statements

The financial statements of The Animal Foundation as of December 31, 2012, were audited by other auditors whose report dated March 22, 2013, expressed an unmodified opinion on those statements.

*Ellsworth & Stout, LLC*

Las Vegas, Nevada  
May 30, 2014



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Acuity Financial Center  
7881 W. Charleston Blvd., Ste. 155 • Las Vegas, NV 89117  
p 702-871-2727 f 702-876-0040  
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**THE ANIMAL FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,266,672	\$ 779,931
Cash and cash equivalents, restricted	342,889	135,299
Investments	2,992,668	2,404,830
Unconditional promises to give, net	680,527	-
Accounts receivable, net	39,834	31,934
Contributions receivable, net	209	18,098
Inventory	51,238	36,272
Prepaid expenses	12,796	41,732
Total current assets	5,386,833	3,448,096
<b>Property and Equipment, net</b>	16,184,371	16,760,130
<b>Construction in progress</b>	404,854	352,469
<b>Other Assets:</b>		
Investments	1,202,148	1,240,183
Beneficial interest in perpetual trust held by others, restricted	2,035,386	1,898,345
Unconditional promises to give, net of current portion	1,274,364	475,936
Land held for investment	216,940	216,940
Contributions receivable, net	-	23,451
Other assets	59,722	-
Total other assets	4,788,560	3,854,855
<b>Total Assets</b>	<b>\$ 26,764,618</b>	<b>\$ 24,415,550</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 199,503	\$ 126,938
Accrued expenses	344,954	230,764
Unearned revenue	146,290	276,426
Total current liabilities	690,747	634,128
<b>Net Assets:</b>		
Unrestricted:		
Undesignated	17,545,889	17,626,829
Board designated	4,194,816	3,645,013
	21,740,705	21,271,842
Temporarily restricted	2,297,780	611,235
Permanently restricted	2,035,386	1,898,345
Total net assets	26,073,871	23,781,422
<b>Total Liabilities and Net Assets</b>	<b>\$ 26,764,618</b>	<b>\$ 24,415,550</b>

*See accompanying notes to the financial statements.*

**THE ANIMAL FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Unrestricted Net Assets</b>		
Revenue and other support:		
Contract revenue	\$ 4,073,744	\$ 3,973,688
Program income	2,429,603	2,351,041
Contributions	505,264	594,240
In-kind donations	364,971	469,058
Special events, net of expenses \$48,210 and \$41,552	248,166	178,957
Investment income	89,420	37,117
Miscellaneous	39,839	36,488
Net assets released from donor restrictions	288,982	10,789
	<u>8,039,989</u>	<u>7,651,378</u>
Expenses:		
Program services:		
Adoptions	2,123,582	1,969,634
Public Clinic	378,663	309,551
Shelter	4,038,472	4,135,274
	<u>6,540,717</u>	<u>6,414,459</u>
Supporting services:		
Fundraising	528,022	381,563
Management and general	1,069,053	744,062
	<u>1,597,075</u>	<u>1,125,625</u>
	<u>8,137,792</u>	<u>7,540,083</u>
Other income (expense):		
Gain (loss) on disposal of fixed asset	(3,927)	101
Net realized and unrealized gain on investments	570,593	90,502
	<u>566,666</u>	<u>90,603</u>
Increase in unrestricted net assets	<u>468,863</u>	<u>201,898</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	1,975,527	45,188
Net assets released from donor restrictions	(288,982)	(10,789)
Increase in temporarily restricted net assets	<u>1,686,545</u>	<u>34,399</u>
<b>Permanently Restricted Net Assets</b>		
Contribution of split-interest agreement	-	1,898,345
Net realized and unrealized gain on investments	137,041	-
Increase in permanently restricted net assets	<u>137,041</u>	<u>1,898,345</u>
Increase in net assets	2,292,449	2,134,642
<b>Net Assets, Beginning of Year</b>	<u>23,781,422</u>	<u>21,646,780</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 26,073,871</u></u>	<u><u>\$ 23,781,422</u></u>

*See accompanying notes to the financial statements.*

**THE ANIMAL FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2013**

	Program Services						
	Adoptions	Public Clinic	Shelter	Total Program	Fundraising	Management and General	Total
Advertising	\$ 29,980	\$ 2,478	\$ 5,726	\$ 38,184	\$ 27,998	\$ -	\$ 66,181
Animal care	105,958	78,174	214,873	399,005	564	4,320	403,889
Bad debt	-	-	10,026	10,026	41,549	-	51,574
Building maintenance	15,451	1,016	45,063	61,530	158	2,889	64,576
Clinic expense allocation	90,860	-	666,306	757,166	-	-	757,166
Credit card fees	10,410	5,947	2,986	19,343	6,828	-	26,171
Depreciation	318,893	35,929	287,966	642,787	2,609	8,241	653,637
Donated car expenses	-	-	-	-	95,527	-	95,527
Donated facilities	164,846	-	47,512	212,358	3,311	8,704	224,372
Donated materials and supplies	49,727	580	50,826	101,133	-	-	101,133
Donated professional services	11,300	-	-	11,300	21,604	6,562	39,466
Employee benefits	55,017	7,119	152,082	214,218	3,801	27,917	245,936
Equipment repairs	12,351	584	8,330	21,264	60	7,733	29,057
Insurance	29,049	668	22,660	52,377	848	14,194	67,419
Miscellaneous	6,811	5,530	6,839	19,180	13,014	14,516	46,710
Printing	9,416	2,514	5,997	17,927	20,599	6,889	45,415
Professional services	27,355	1,472	115,180	144,008	43,968	136,912	324,887
Recruitment and retention	1,171	30	1,643	2,845	73	9,460	12,377
Rent	25,551	13	5,765	31,328	3,525	2,935	37,789
Safety and security	5,427	77	8,435	13,939	67	727	14,734
Salaries and related expenses	994,187	233,922	2,207,466	3,435,575	220,516	776,506	4,432,597
Supplies	8,953	2,022	17,402	28,377	10,471	19,904	58,753
Telephone and Internet	2,227	411	2,876	5,514	411	1,232	7,157
Travel and auto expenses	-	-	2,777	2,777	6,387	507	9,671
Uniforms	6,727	179	3,741	10,647	634	1,276	12,557
Utilities	111,716	-	121,835	233,551	3,502	17,629	254,682
Volunteer expenses	30,199	-	24,159	54,358	-	-	54,358
	<u>\$ 2,123,582</u>	<u>\$ 378,663</u>	<u>\$ 4,038,472</u>	<u>\$ 6,540,717</u>	<u>\$ 528,022</u>	<u>\$ 1,069,053</u>	<u>\$ 8,137,792</u>

*See accompanying notes to the financial statements.*

**THE ANIMAL FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2012**

	Program Services						
	Adoptions	Public Clinic	Shelter	Total Program	Fundraising	Management and General	Total
Advertising	\$ 4,179	\$ 1,239	\$ -	\$ 5,418	\$ 37,758	\$ -	\$ 43,176
Animal care	108,788	76,251	184,842	369,881	1,401	5,531	376,813
Bad debt	-	-	19,845	19,845	7,500	(15)	27,330
Building maintenance	24,444	1,042	58,188	83,674	42	7,087	90,804
Clinic expense allocation	162,665	-	1,192,876	1,355,541	-	-	1,355,541
Credit card fees	21,292	4,005	6,629	31,926	6,665	-	38,591
Depreciation	314,808	53,598	282,665	651,071	2,334	10,313	663,719
Donated car expenses	-	-	-	-	75,966	-	75,966
Donated facilities	74,538	-	139,449	213,988	372	5,183	219,542
Donated materials and supplies	69,926	73	34,434	104,432	732	-	105,164
Donated professional services	62,680	16,500	28,827	108,007	24,856	289	133,151
Employee benefits	46,048	2,723	102,690	151,461	1,915	19,354	172,730
Equipment repairs	10,379	391	15,903	26,673	-	14,910	41,583
Insurance	20,330	-	27,400	47,730	70	3,529	51,328
Litigation	-	-	-	-	-	(125,500)	(125,500)
Miscellaneous	4,529	329	6,881	11,739	3,969	12,042	27,750
Printing	1,143	1,235	675	3,054	11,551	1,013	15,617
Professional services	36,301	16,959	114,284	167,545	3,038	83,307	253,889
Recruitment and retention	1,608	356	2,628	4,592	4	11,694	16,289
Rent	27,336	144	5,618	33,098	144	3,020	36,262
Safety and security	7,216	453	12,052	19,721	406	3,044	23,171
Salaries and related expenses	834,640	131,944	1,737,082	2,703,666	194,025	652,546	3,550,236
Supplies	5,817	857	12,159	18,833	4,726	21,304	44,863
Telephone and Internet	1,824	1,312	3,663	6,799	1,312	1,383	9,494
Travel and auto expenses	248	-	1,993	2,241	2,032	3,851	8,124
Uniforms	2,058	140	6,251	8,449	15	-	8,464
Utilities	105,265	-	120,984	226,249	731	10,179	237,160
Volunteer expenses	21,570	-	17,256	38,826	-	-	38,826
	<u>\$ 1,969,634</u>	<u>\$ 309,551</u>	<u>\$ 4,135,274</u>	<u>\$ 6,414,459</u>	<u>\$ 381,563</u>	<u>\$ 744,062</u>	<u>\$ 7,540,083</u>

*See accompanying notes to the financial statements.*

**THE ANIMAL FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 2,292,449	2,134,642
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of unconditional promise to give	504,954	-
Bad debt	51,574	12,953
Contribution of beneficial interest in perpetual trust held by others	-	(1,898,345)
Depreciation	653,637	663,719
(Gain) loss on disposal of fixed assets	3,927	(101)
Net realized and unrealized gain on investments	(707,634)	(83,117)
Noncash contributions	-	(11,200)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give	(1,983,909)	7,600
(Increase) decrease in accounts receivable	(17,925)	(21,205)
(Increase) decrease in contributions receivable	(209)	532
(Increase) decrease in inventory	(14,966)	14,844
(Increase) decrease in prepaid expenses	28,936	(20,325)
(Increase) decrease in other asset	(59,722)	-
Increase (decrease) in accounts payable	72,565	(75,294)
Increase (decrease) in accrued expenses	114,190	7,522
Increase (decrease) in litigation payable	-	(140,000)
Increase (decrease) in deferred revenue	(130,136)	129,807
Net cash provided by operating activities	<u>807,732</u>	<u>722,031</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	573,174	-
Purchase of investments	(552,385)	(3,561,895)
Proceeds from sale of equipment	94	101
Purchase of property and equipment	(81,899)	(34,509)
Construction in progress expenditures	(52,385)	(20,482)
Net cash used in investing activities	<u>(113,401)</u>	<u>(3,616,785)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	694,331	(2,894,754)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>915,230</u>	<u>3,809,984</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,609,561</u>	<u>\$ 915,230</u>
<b>Cash and cash equivalents, unrestricted</b>	\$ 1,266,672	\$ 779,931
<b>Cash and cash equivalents, restricted</b>	342,889	135,299
	<u>\$ 1,609,561</u>	<u>\$ 915,230</u>
<b>Supplemental disclosure of non-cash operating and investing activities:</b>		
Contribution of beneficial interest in perpetual trust held by others	<u>\$ -</u>	<u>\$ 1,898,345</u>
Contributions of property and equipment	<u>\$ -</u>	<u>\$ 11,200</u>

*See accompanying notes to the financial statements.*



**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 1 – NATURE OF ORGANIZATION**

The Animal Foundation (the Foundation) was incorporated in March 1978. The Animal Foundation is a public, nonprofit, multi-service agency dedicated to making a difference in the lives of animals in the Las Vegas Valley. To promote the humane treatment of 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, with approximately 39% and 41% of the total support being collectively generated from contracts with the City of Las Vegas, the City of North Las Vegas and Clark County during 2013 and 2012, 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 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, 2013 AND 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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

	2013	2012
Free use of facilities	\$ 224,372	\$ 219,542
Materials and supplies	101,133	105,164
Professional services	39,466	133,151
Property and equipment	-	11,200
	<u>\$ 364,971</u>	<u>\$ 469,058</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.

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

As of December 31, 2013, the tax years that remain to potential examination by taxing authorities begin with 2010.

**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.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. The disclosures required under this Topic have been included in this note.

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

The following table provides information by level on the fair value of the investments as of December 31, 2013.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Recurring fair value measurements:</u>				
Beneficial interest in perpetual trust	\$2,035,386	\$ -	\$ -	\$2,035,386
Bonds	1,202,148	1,202,148	-	-
Land held for investment	216,940	-	216,940	-
Mutual funds	271,252	271,252	-	-
Stocks	2,721,416	2,721,416	-	-
	<u>\$6,447,142</u>	<u>\$4,194,816</u>	<u>\$216,940</u>	<u>\$2,035,386</u>

The following table provides information by level on the fair value of the investments as of December 31, 2012.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Recurring fair value measurements:</u>				
Beneficial interest in perpetual trust	\$1,898,345	\$1,898,345	\$ -	\$ -
Bonds	1,240,183	1,240,183	-	-
Land held for investment	216,940	-	216,940	-
Mutual funds	353,805	353,805	-	-
Stocks	2,051,025	2,051,025	-	-
	<u>\$5,760,298</u>	<u>\$5,543,358</u>	<u>\$216,940</u>	<u>\$ -</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, 2013 (see Note 7). The interest in the trust was transferred from a Level 1 measurement to Level 3 during the year ended December 31, 2013 after the Foundation evaluated the terms of the trust agreement and considered the current practice among other similar nonprofit entities for classifying beneficial interests in perpetual trusts. 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 table below presents information about fair value measurements that use significant unobservable inputs (Level 3):

Beneficial interest in perpetual trust

Balance - January 1, 2013	\$ -
Transfer into Level 3	1,898,345
Total gains or losses recognized in the change in permanently restricted net assets:	
Change in value of perpetual trust	137,041
Balance - December 31, 2013	<u>\$ 2,035,386</u>

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

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, NET**

Unconditional promises to give are recorded as receivables and revenue when received. As of December 31, 2013 and 2012, unconditional promises to give are as follows:

	2013	2012
Receivable in less than one year	\$ 683,909	\$ -
Receivable in one to five years	500,000	500,000
Receivable in more than five years	1,300,000	-
Total unconditional promises to give	2,483,909	500,000
Less discounts to net present value	(529,018)	(24,064)
Net unconditional promises to give	<u>\$ 1,954,891</u>	<u>\$ 475,936</u>

Unconditional promises to give at December 31, 2013 and 2012, as shown on the statement of financial position:

	2013	2012
Current unconditional promises to give	\$ 680,527	\$ -
Present value of noncurrent unconditional promises to give	1,274,364	475,936
Total unconditional promises to give, net of present value	<u>\$ 1,954,891</u>	<u>\$ 475,936</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

As of December 31, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Buildings	\$ 20,345,347	\$ 20,345,347
Computers and software	100,513	58,997
Furniture and equipment	644,537	608,979
Leasehold improvements	20,371	20,371
	21,110,768	21,033,694
Less: accumulated depreciation	(4,926,397)	(4,273,564)
	<u>\$ 16,184,371</u>	<u>\$ 16,760,130</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$653,637 and \$663,719, respectively.

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**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 2013 and beyond to raise funds to complete the project.

As of December 31, 2013 and 2012, costs of \$404,854 and \$352,469 respectively have been capitalized to the construction in progress account. There was no construction interest capitalized during 2013 and 2012.

The expansion plans, deemed the Campus Completion Project, have a total budget of \$28,782,959. Currently the Foundation has secured \$1,500,000 in municipal appropriations and \$8,000,000 in private donation pledges. Funding efforts will continue through 2014.

**NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUST HELD BY OTHERS**

During 2012, the Foundation received 33% beneficial interest in a perpetual trust which is held by others. As of December 31, 2013, the fair market value of the Foundation's share is \$2,035,386. 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 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, 2013 and 2012.

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are held for the following purposes at December 31, 2013 and 2012:

	2013	2012
Adoptions	\$ 105,000	\$ -
Building	2,111,600	611,235
Other programs	40,000	-
Public clinic	41,180	-
	<u>\$ 2,297,780</u>	<u>\$ 611,235</u>

Temporarily restricted net assets consist of cash and cash equivalents of \$342,889 and \$135,299, and unconditional promises to give, net of \$1,954,891 and \$475,936 as of December 31, 2013 and 2012, respectively.

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 10 – ENDOWMENT**

During 2012, the Board of Directors established an endowment fund for the long-term financial security of the Foundation. As of December 31, 2013, the Board of Directors had designated \$4,194,816 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 income earned during the year is considered unrestricted. 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, 2013 were as follows:

Board-designated endowment net assets, beginning of year	\$ 3,645,013
Net acquisitions	88,769
Net appreciation	<u>461,034</u>
Board-designated endowment net assets, end of year	<u><u>\$ 4,194,816</u></u>

**NOTE 11 – LEASE AGREEMENTS**

The Foundation leases office equipment under non-cancelable operating lease agreements expiring through 2018. Total lease expense under these agreements for the years ended December 31, 2013 and 2012 were \$7,164 and \$11,972, respectively. As of December 31, 2013, future minimum lease payments are due as follows:

2014	\$ 10,363
2015	\$ 8,568
2016	\$ 5,550
2017	\$ 4,312
2018	\$ 3,486

**NOTE 12 – RETIREMENT PLAN**

The Foundation established a 401(k) plan effective January 1, 2012 that covered substantially all full time employees meeting the age (21) and service requirements (1 year). The Foundation could make discretionary payments, as well as discretionary matching of employees' contributions. The employees could elect to defer amounts according to the maximum allowed under Federal guidelines. No discretionary payments or matching payments were made for the year ended December 31, 2013 and 2012. As of August 2, 2013 the Foundation dissolved the 401(k) plan and as of August 15, 2013 it adopted a retirement savings plan pursuant to Section 403(b) of the Internal Revenue Code. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

**THE ANIMAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2013 AND 2012**

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**NOTE 13 – CONCENTRATION OF CREDIT RISK**

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.

**NOTE 14 – 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 May 2008 through June 2015. Collectively, the three jurisdictions agreed to fund the Foundation 60% of the original animal care and shelter expenses. The contract is subject to an annual rate adjustment on January 1, 2010, and each succeeding January 1, 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 \$604,568 or monthly payments of \$50,381. The compensation payments received as of December 31, 2013 and 2012, including CPI adjustments, were \$638,221 and \$606,789, respectively.

The agreement with the City of Las Vegas Animal Control (CLVAC) requires a yearly payment of \$1,521,805 or monthly payments of \$126,817. The compensation payments received as of December 31, 2013 and 2012, including CPI adjustments, were \$1,728,285 and \$1,608,674, respectively.

The agreement with Clark County Animal Control (CCAC) calls for a yearly payment to the Foundation of \$1,582,632 or monthly payments of \$131,886. The compensation payments received as of December 31, 2013 and 2012, including CPI adjustments, were \$1,707,238 and \$1,758,225, respectively.

**NOTE 15 – RECLASSIFICATIONS**

Certain reclassifications have been made to the 2012 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 30, 2014, which is the date the financial statements were available to be issued.