

MORRIS ANIMAL FOUNDATION

FINANCIAL STATEMENTS

June 30, 2011

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RubinBrown LLP
Certified Public Accountants
& Business Consultants

44 Inverness Drive East
Englewood, CO 80112

T 303.799.6826
F 303.799.6926

W rubinbrown.com
E info@rubinbrown.com

**Board of Trustees
Morris Animal Foundation
Denver, Colorado**

Independent Auditors' Report

We have audited the accompanying statement of financial position of Morris Animal Foundation (a Colorado non-profit corporation) (Foundation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements, audited by *BONDI & Co. LLC*, who merged with RubinBrown LLP as of June 1, 2011, and whose report dated October 1, 2010, expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Board of Trustees
Morris Animal Foundation
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As explained in Note 2, the financial statements include investments valued at \$60,417,786 (76% of net assets) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

RubinBrown LLP

November 16, 2011

MORRIS ANIMAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2011

(With Comparative Totals at June 30, 2010)

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets:		
Cash (Note 2)	\$ 1,526,030	\$ 1,898,737
Accounts Receivable	37,137	41,207
Prepaid Expenses	28,482	28,488
Unrestricted/Temp Restricted Investments (Note 2)	<u>40,100,379</u>	<u>35,157,687</u>
Total Current Assets	<u>41,692,028</u>	<u>37,126,119</u>
Property and Equipment:		
Building and Improvements	70,969	25,709
Computer Hardware and Software	110,818	133,498
Office Furniture and Equipment	<u>141,354</u>	<u>153,178</u>
Total Property and Equipment	323,141	312,385
Less Accumulated Depreciation	<u>(234,647)</u>	<u>(252,595)</u>
Net Property and Equipment	<u>88,494</u>	<u>59,790</u>
Other Assets:		
Permanently Restricted Investments (Note 2)	39,754,005	36,024,608
Annuity Investment (Notes 2 and 3)	<u>1,096,560</u>	<u>597,586</u>
Total Other Assets	<u>40,850,565</u>	<u>36,622,194</u>
Total Assets	<u><u>82,631,087</u></u>	<u><u>73,808,103</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	188,059	222,929
Health Studies Grants Payable	2,253,377	1,514,129
Accrued Vacation and Salaries	<u>174,124</u>	<u>119,954</u>
Total Current Liabilities	<u>2,615,560</u>	<u>1,857,012</u>
Other Liabilities:		
Deposit (Note 4)	234,323	224,265
Annuities Payable (Note 3)	<u>616,874</u>	<u>459,062</u>
Total Other Liabilities	<u>851,197</u>	<u>683,327</u>
Total Liabilities	<u>3,466,757</u>	<u>2,540,339</u>
Net Assets (Note 5):		
Unrestricted	29,896,903	29,177,871
Temporarily Restricted	9,513,422	6,065,285
Permanently Restricted	<u>39,754,005</u>	<u>36,024,608</u>
Total Net Assets	<u>79,164,330</u>	<u>71,267,764</u>
Total Liabilities and Net Assets	<u><u>\$ 82,631,087</u></u>	<u><u>\$ 73,808,103</u></u>

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

MORRIS ANIMAL FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
REVENUE AND SUPPORT					
Cash Contributions	\$ 2,900,918	\$ 7,235,181	\$ 1,023,871	\$ 11,159,970	\$ 8,957,597
Investment Return (Note 2)	3,502,560	405,517	4,600,625	8,508,702	8,045,562
Annuity Investment Income		54,971		54,971	(53,842)
Donated Services (Note 9)	963,643			963,643	704,694
Other Income	962	312,373		313,335	109,321
Total Revenue and Support	<u>7,368,083</u>	<u>8,008,042</u>	<u>5,624,496</u>	<u>21,000,621</u>	<u>17,763,332</u>
Net Assets Released from Restrictions (Note 6)	<u>6,455,004</u>	<u>(4,559,905)</u>	<u>(1,895,099)</u>		
Total Unrestricted Revenue and Support and Reclassifications	<u>13,823,087</u>	<u>3,448,137</u>	<u>3,729,397</u>	<u>21,000,621</u>	<u>17,763,332</u>
EXPENSES					
Program Services:					
Grant Evaluation (Donated Services Note 9)	944,436			944,436	607,444
Animal Health Studies	8,031,170			8,031,170	7,856,280
Program Awareness	539,702			539,702	641,616
Grant Management	931,518			931,518	710,001
Total Program Services	<u>10,446,826</u>			<u>10,446,826</u>	<u>9,815,341</u>
Support Services:					
Administrative	844,477			844,477	974,700
Development	1,812,752			1,812,752	1,323,951
Total Support Services	<u>2,657,229</u>			<u>2,657,229</u>	<u>2,298,651</u>
Total Expenses	<u>13,104,055</u>			<u>13,104,055</u>	<u>12,113,992</u>
CHANGE IN NET ASSETS	719,032	3,448,137	3,729,397	7,896,566	5,649,340
NET ASSETS - Beginning of Year	<u>29,177,871</u>	<u>6,065,285</u>	<u>36,024,608</u>	<u>71,267,764</u>	<u>65,618,424</u>
NET ASSETS - End of Year	<u>\$ 29,896,903</u>	<u>\$ 9,513,422</u>	<u>\$ 39,754,005</u>	<u>\$ 79,164,330</u>	<u>\$ 71,267,764</u>

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

MORRIS ANIMAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	Program			Support Services		Total 2011	Total 2010
	Health Studies	Program Awareness	Grant Management	Adminis- tration	Develop- ment		
Expenses	\$ 8,031,170	\$	\$	\$	\$	\$ 8,031,170	\$ 7,856,280
Animal Health Studies		288,113	601,553	580,422	1,072,112	2,542,200	2,023,772
Personnel		54,601	3,171	3,424	142,412	203,608	201,574
Printing		40,452	2,612	1,955	109,265	154,284	146,732
Postage and Mailing		47,999	69,586	78,113	144,527	340,225	293,481
General		70,671	8,302	32,639	102,759	214,371	320,645
Professional Services		9,598	124,662	6,382	114,614	255,256	250,771
Travel				25,251		25,251	23,948
Depreciation		1,403	98,492	75,804	68,809	244,508	183,732
Conference/Convention/Meetings		12,490	23,140	21,280	35,679	92,589	84,438
Occupancy				19,207		963,643	704,694
Donated Services (Note 9)	944,436					36,950	23,925
Merchandise/Promotional		14,375			22,575		
Total	\$ 8,975,606	\$ 539,702	\$ 931,518	\$ 844,477	\$ 1,812,752	\$ 13,104,055	\$ 12,113,992

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

MORRIS ANIMAL FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 7,896,566	\$ 5,649,340
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Aggregate Realized Gain	(531,983)	(1,204,727)
Aggregate Realized (Gain) Annuities	(386,436)	84,754
Aggregate Unrealized (Gain) Loss	(7,562,423)	(6,485,335)
Aggregate Unrealized (Gain) Annuities	(112,538)	(21,296)
Dividends and Interest Received	(427,679)	(382,770)
Depreciation	25,251	23,948
(Increase) Decrease in Assets		
Accounts Receivable	4,070	195,006
Prepaid Expenses	4	2,254
Increase (Decrease) in Liabilities		
Accounts Payable	(34,873)	12,457
Health Studies' Grants Payable	739,248	(68,061)
Accrued Payroll	54,170	(4,442)
Deposit	10,058	6,183
Annuities Payable	157,812	(28,680)
Net Cash Used In Operating Activities	<u>(168,753)</u>	<u>(2,221,369)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Purchase of Property and Equipment	(53,954)	(10,905)
Proceeds Received from Sale of Investments	29,379,796	23,962,561
Cash Paid for Purchase of Investments	<u>(29,529,796)</u>	<u>(20,362,561)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(203,954)</u>	<u>3,589,095</u>
NET INCREASE (DECREASE) IN CASH	(372,707)	1,367,726
CASH - Beginning of Year	<u>1,898,737</u>	<u>531,011</u>
CASH - End of Year	<u>\$ 1,526,030</u>	<u>\$ 1,898,737</u>
NONCASH ITEMS		
In-kind Services	<u>\$ 963,643</u>	<u>\$ 704,694</u>

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

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morris Animal Foundation (Foundation) was organized and incorporated as a not-for-profit in New Jersey in 1948. The Foundation was incorporated in Colorado in 1974. The Foundation provides funds for studies of health problems of companion animals and wildlife and disseminates information about these studies. The Foundation is solely funded by contributions and investment earnings from those contributions.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and or nature of any donor restrictions.

Support restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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 (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions received for a specified health study project or area of study, which will not be undertaken by the Foundation, are either returned to the donor or transferred to other areas in accordance with the donor's desires.

The Foundation has been named as beneficiary in various wills and trusts. It is the policy of the Foundation to record contributions as revenue when income is assured, generally at the time of receipt.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs, campaign solicitations, and various committee assignments.

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Foundation capitalizes all expenditures for property and equipment in excess of \$3,000. Purchased property and equipment are carried at cost. Donated property and equipment is recorded as estimated fair market value at the date of donation.

It is the policy of the Foundation to provide for depreciation under the straight-line method as charges to income in amounts sufficient to absorb the cost of the depreciable assets over their estimated useful lives of 3 to 10 years.

Investments in marketable securities are stated at fair value. Securities not publicly traded are stated at fair value by the general partner of the investment companies, which approximates market. Donated investments are reflected as contributions at their market values at date of receipt. The Foundation has invested its monies in various types of investments: U.S. Government securities and obligations, stocks, bond index funds, non-publicly traded investment companies, money market funds, and mutual funds.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not a private foundation within the meaning of IRC Section 509(a)(2).

Expenses by function have been allocated between the program awareness, grant management, development, health studies, and administrative classifications on the basis of estimates made by the Foundation's management, approved by the Executive Committee.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

NOTE 2: CASH AND INVESTMENTS

The Foundation maintains cash accounts at local commercial banks. These accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts. As of June 30, 2011, cash totaled \$1,526,030, of which \$1,012,840 in bank deposits are uninsured by FDIC.

At various times throughout the year, the Foundation maintains other cash accounts in excess of federally insured limits. The Foundation adequately monitors its cash flows to reduce the risk of loss of uninsured deposits.

The Foundation has investments in Artis Tech, Charlesbank Equity Fund V, Francisco Partners, Hummer Winblad Venture Partners IV, L.P., Hummer Winblad Venture Partners V, L.P., Libra Offshore Ltd., Morgan Creek Absolute Return Fund, Morgan Creek BRIC+, Morgan Creek Credit Strategies Fund, Morgan Creek Dislocation Fund, Morgan Creek Fund, Morgan Creek Opportunity Fund, Morgan Creek Partners I, Morgan Creek Partners II, Morgan Creek Partners III, Paul Royalty, Paul Associates II Fund, Raptor Global, TCW Shared Opportunities, and Visium investment partnerships and investment companies where no published fair value is available. As such, it is at least reasonably possible that a change in these estimates could occur in the near term, particularly during an economic downturn.

The carrying value of these long-term investments at June 30, 2011 is approximately \$60,417,786 (75%) of the Foundation's total investment and is a component of Investments on the Statement of Financial Position.

Investments are stated at fair value.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 2: CASH AND INVESTMENTS (Continued)

The Foundation adopted FASB ASC No. 820, Fair Value Measurements, which established a three level fair value reporting hierarchy. The reporting hierarchy requires the Foundation to classify its investments based on valuation inputs used to determine fair value, using three levels. Level 1 investments are valued based on quoted market prices in active markets for identical assets. Level 2 investments are valued based on significant observable market inputs, such as quoted prices for similar assets and quoted prices in inactive markets or other market observable inputs. Level 3 investments are valued using significantly unobservable inputs that reflect the fund managers determination of assumptions that market participants might reasonably use in valuing the assets. The valuation levels are not necessarily an indication of the risk associated with investing in those securities.

Fair values of investments measured on a recurring basis at June 30, 2011 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 2,707,464	\$ 2,707,464	\$	\$
US Government Bonds	10,282,388	10,282,388		
Equity Funds	67,961,092	6,019,496	1,523,810	60,417,786
Total Investments	<u>\$ 80,950,944</u>	<u>\$ 19,009,348</u>	<u>\$ 1,523,810</u>	<u>\$ 60,417,786</u>

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used by the fund managers in determining value:

Balance at July 1, 2010	\$ 58,494,037
Total Gains or Losses (Realized)	834,689
Total Gains or Losses (Unrealized)	7,302,239
Purchases, Issuances, and Settlements	5,013,902
Transfers out of Level 3	<u>(11,227,081)</u>
Balance at June 30, 2011	<u>\$ 60,417,786</u>

Transfers out of Level 3 investments represent restructuring of the Foundation's investment portfolio or draws from endowments to fund program expenses.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 2: CASH AND INVESTMENTS (Continued)

Investment Return is summarized as follows:

Realized Gain	\$	5,675,690
Unrealized Gain		2,683,022
Dividends and Interest		438,267
Investment Advisory Fees		<u>(288,277)</u>
Total Investment Return	\$	<u>8,508,702</u>

The Foundation, through its various money managers, has entered into forward foreign exchange contracts. These contracts were entered into for the purpose of hedging against changes in currency prices relative to the U.S. dollar.

Forward Foreign Exchange Contracts are contractual obligations between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Cash flows from the Forward Foreign Exchange Contracts have been presented with other investing cash flows in the Statement of Cash Flows.

NOTE 3: GIFT ANNUITIES

The Foundation receives contributions for gift annuities to be paid to various beneficiaries over their lifetimes. The 2000CM mortality table and a 6% rate of return assumption are used to determine the liability as of the balance sheet date. The Foundation records the contributions at market value on the date of contribution and invests such contributions in its two gift annuity reserve accounts (one for California annuities and one for annuities associated with all other states).

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MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 3: GIFT ANNUITIES (Continued)

For the year ending June 30, 2011, the reserve accounts incurred the following gains and losses (totals reflect the combined activity of both accounts):

Opening Investment Market Value	\$	597,586
Contributions Received		412,000
Dividends and Interest		24,082
Unrealized Gain (Loss)		112,538
Annuity Fees		(8,553)
Annuity Payments Made		(141,093)
Other Addition		100,000
		<hr/>
Ending Investment Market Value	\$	1,096,560
		<hr/>
Annuities Payable Liability	\$	616,874
		<hr/>

NOTE 4: DEPOSIT - FORT WORTH/TARRANT COUNTY ANIMAL FOUNDATION

In 1993, the Foundation entered into an investment agreement with Fort Worth/Tarrant County Animal Foundation. Fort Worth/Tarrant County deposited \$265,000 in 1993, \$30,000 in 1995, and \$50,000 in 2004 into the Morris Animal Foundation's investments. Fort Worth/Tarrant County is not assessed a management fee as long as 75% of the annual return on investment distribution is designated for Morris Animal Foundation approved health studies during the same calendar year. The term of the original agreement was three years and has been extended multiple times and currently expires in 2012. Either party may elect to terminate the agreement after the initial three-year term. Upon written termination by either party, the value of the fund as of the next quarterly valuation shall be paid in cash to Fort Worth/Tarrant County. The liability for this deposit at June 30, 2011 was \$234,323.

NOTE 5: NET ASSETS

During fiscal year 2009, the Foundation adopted FASB Staff Position ASC No. 958, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

for All Endowment Funds. The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008.

The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. This interpretation applies to the fourteen donor-restricted funds. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The balance of the permanently restricted net assets of the endowment funds increase or decrease each year in accordance with the terms of the governing documents.

The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA or donor stipulations.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other Foundation resources

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of distribution that supports current needs and provides for growth in assets and income over time. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that is, net of spending, greater than the rate of inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on the investment strategies of its investment advisor that emphasizes a total return strategy to exceed the S&P 500. Investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

The Foundation's spending policy allows for appropriating for distribution each year 5% of the trailing average asset value over the preceding 12 quarters on the invested funds. In establishing the distribution policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow, net of spending, at the rate of inflation or greater over the investment horizon thus maintaining the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. There were distributions of \$3,765,126 in fiscal year 2011 from all donor restricted endowment funds.

In determining distributions to the Foundation, the Board of Directors may make an exception to the distribution policy but may not distribute funds to the Foundation for debt reduction, the payment of interest, to offset poor operating results or management oversight.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Unrestricted Net Assets

Unrestricted net assets represent donations absent any donor-imposed restriction. The Board elected to designate a portion of unrestricted net assets for operating expenses:

	<u>2011</u>
Operating Surplus	\$ 1,445,578
Fund for Operating Draw	27,380,430
Unrestricted Donations	<u>1,070,895</u>
Total	<u>\$ 29,896,903</u>

Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets consist of 15 donor-restricted funds established by donors for the benefit of the Foundation as well as temporarily restricted earnings on permanently restricted funds and other smaller, as yet unspent, annual donations temporarily restricted to various interest areas of animal health studies. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The temporarily restricted net assets represent the net proceeds of donations which have been restricted by the donors to be used only for the following purposes:

	<u>2011</u>
<u>L.A.N.A. Camelid Research Fund</u> - The fund was established in 1990 by L.A.N.A. Camelid Research Foundation upon its termination. Principal is retained by the Foundation and invested for a 10-year period. Income from the investment may be used in health studies related to Camelid health. In 2000, the agreement was renewed for another 10-year period. At the end of the 10-year period, the principal will be used for health studies of medical disorders suffered by the Camelid animal family.	\$ 156,331

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)

<u>Alpaca Research Fund (ARF)</u> – Donated in 1999, the fund is temporarily restricted for the purpose of Llama/Alpaca health studies.	\$ 164,392
<u>American Heartworm Association</u> – Donated in 2001, the fund is temporarily restricted for the purpose of heartworm studies.	182,940
<u>Irene McElhinny Estate</u> - Donated in 2003, the fund is temporarily restricted for the purpose of scientific symposium support.	43,374
<u>Permanently Restricted Donation Earnings</u> – Temporarily restricted earnings from permanently restricted net assets.	921,910
<u>Gift Annuity</u> – Established in 2002. Reclassified in 2007 to include gains from investment.	1,096,560
<u>Animal Cancer Center (ACC) Cancer Biology Program</u> – Anonymously donated in 2005, this fund was established to fund the ACC Cancer Biology Training Program at Colorado State University.	239,870
<u>Canine Cancer Initiative</u> – Established in 2005, temporarily restricted donations to fund a consortium aimed at researching and curing canine cancer.	1,579,149
<u>Canine Lifetime Health Project</u> – Established in 2009 to conduct a 13 year longevity study to identify genetic, nutritional and environmental risk factors for cancer and other diseases in dogs.	3,488,733
<u>Mark L. Morris Jr. Memorial Fund</u> – Established in 2007, temporarily restricted donations in honor of Dr. Mark L. Morris, Jr. Use of funds is still being determined.	\$ 143,700

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)

<u>Feline Health Campaign</u>	\$ 272,928
<u>Pfizer/MAF STP Fellowships</u>	451,500
<u>Guide and Service Dogs</u>	119,493
<u>Kirkpatrick Foundation</u>	331,315
<u>Other</u> – Represents small dollar donations that are temporarily restricted to various interest areas of animal health studies.	<u>\$321,227</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,513,422</u>

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets consist of 14 donor-restricted funds established by donors for the benefit of the Foundation. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets are to provide a permanent endowment, with a portion of the investment income allocated to health studies. The permanently restricted net assets have been restricted by the donors to be used for the following purposes:

	<u>2011</u>
<u>Eve Keeler Memorial Fund</u> - The Foundation names a study to be funded with interest earned from the retained principal of the Eve Keeler Memorial Fund. Studies must include support to veterinary or post-doctoral students for participation in the studies.	\$ 1,065,908

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)

<u>Ballard Student Fund</u> - Established by Joseph Ballard in 1980, the interest earned on the principal is used to provide stipends to veterinary students who promote the mission of Morris Animal Foundation at their local college or university.	\$ 114,110
<u>Other</u> – Established by Daniel A. Marsh Jr. in 1999, to create the following endowments: General, Feline, Equine and Wildlife. The interest earned is to be used to fund health studies in each area.	45,077
<u>Mark L. Morris, Jr. CAF</u> - Established in 1983, the fund was created to increase Foundation investments. In 1992, the Foundation's Executive Committee approved a donor submitted proposal that allows for the continued private management of this portion of MAF funds. In accordance with the donor stipulation, a permanent endowment would be set up when 5% of the investment would support all operating activities of the Foundation. This stipulation was met December 1, 2001.	31,994,043
<u>Matuska Fund</u> - In 2002, the Estate of Eleanore Matuska donated \$167,926 to be used to fund canine and feline health studies.	167,926
<u>Doberman Pinscher Foundation of America, Inc.</u> – In 2005, the Doberman Pinscher Foundation of America, Inc. merged with Morris Animal Foundation, and in accordance with the terms of the merger, a permanent endowment fund was established, the earnings from which will fund health studies that will benefit Doberman Pinschers.	\$ 477,445

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)

Doberman Pinscher Foundation of America, Inc. – Heart Fund

In 2005, the Doberman Pinscher Foundation of America, Inc. merged with Morris Animal Foundation, and in accordance with the terms of the merger, a permanent endowment fund was established, the earnings from which will fund canine heart health studies that will benefit Doberman Pinschers. \$ 10,013

Eck’s Heart Fund Doberman Pinscher Foundation of America, Inc. – In 2005, the Doberman Pinscher Foundation of America, Inc. merged with Morris Animal Foundation, and in accordance with the terms of the merger, a permanent endowment fund was established, the earnings from which will fund canine heart health studies that will benefit Doberman Pinschers based on the direction of the original donors, the Eck’s. 92,051

DiGioia Equine Species Endowment – Established in 2007 by the estate of Carol DiGioia, permanently restricted for future equine studies. 100,548

Mark L. Morris Jr Family Fund - Permanently restricted fund established in 2006 by Dr. Mark L. Morris, Jr. for the purpose of funding canine, feline and/or avian health studies selected by the donor’s representative. 4,478,373

Mark and Louise Morris Fund – Permanently restricted fund established in 2006 for the purpose for funding Fellowship Training Grants. 952,671

Canine Species Endowment – Established in 2007 by the Peggy Quinn estate, permanently restricted for canine health studies. \$ 96,187

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 5: NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)

Canine Cancer Endowment – Established in 2007, this endowment will help fund MAF's Canine Cancer Consortium. \$ 20,087

Dr. R. K. Anderson Animal Behavior Fund – Established in 2007 for the purpose of funding research to improve the behavioral health of companion animals. 139,566

Total Permanently Restricted Net Assets \$ 39,754,005

Reconciliation of beginning and ending balances of permanently restricted endowments:

	<u>July 1, 2010</u>	<u>Contributions</u>	<u>Change in Value</u>	<u>Distributions</u>	<u>June 30, 2011</u>
Eve Keeler Memorial Fund	\$ 1,065,908	\$	\$	\$	\$ 1,065,908
Ballard Student Fund	114,110				114,110
Daniel Marsh, Jr. Fund	38,890	2,951	5,249	(2,013)	45,077
Mark L. Morris, Jr. Fund	29,800,061		3,932,306	(1,738,324)	31,994,043
Matuska Fund	167,926				167,926
Doberman Pinscher Foundation	442,772	250	60,652	(26,229)	477,445
Doberman Pinscher Heart Foundation	9,203	530	1,247	(967)	10,013
Eck's Heart Fund	85,506		11,453	(4,908)	92,051
DiGioia Equine Species Fund	92,943		12,450	(4,845)	100,548
Mark L. Morris, Jr. Family Fund	3,140,888	1,020,000	434,416	(116,931)	4,478,373
Mark & Louise Morris Fund	840,136		112,535		952,671
Canine Species Endowment	84,825		11,362		96,187
Canine Cancer Endowment	18,492		2,477	(882)	20,087
Dr. R.K. Anderson Fund	<u>122,948</u>	<u>140</u>	<u>16,478</u>		<u>139,566</u>
Total	<u>\$ 36,024,608</u>	<u>\$ 1,023,871</u>	<u>\$ 4,600,625</u>	<u>\$ (1,895,099)</u>	<u>\$ 39,754,005</u>

NOTE 6: NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by donors or time restrictions:

Released for Health Study Expenses	\$ 4,565,627
Released for Operation Expenses	151,053
Draw from Capital Appreciation Fund for Operations	<u>1,738,324</u>
Total	<u>\$ 6,455,004</u>

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 7: RETIREMENT COMMITMENTS

The Foundation made matching contributions of up to 6% to a Code Section 403(b)(7) custodial account for participating employees with at least one year of service. The above rate is subject to change by the Executive Committee. The Foundation's contributions for the fiscal year ending June 30, 2011 to the custodial accounts were approximately \$70,831.

NOTE 8: ALLOCATION OF JOINT COSTS - ADVERTISING

In 2011, the Foundation incurred joint costs in the production and publication of AnimalNews. These costs have been allocated between the following functional expenses:

	Public Service Information
Program Services	\$ 77,826
Development	23,773
Total	<u>\$ 101,599</u>

NOTE 9: IN-KIND SERVICES

Volunteer scientists donate numerous hours evaluating, selecting, and monitoring the animal health studies chosen to receive Foundation funding. These hours are individually tracked and recorded by the Foundation and equal \$944,436. In addition, the Foundation received pro bono legal services valued at \$19,207.

NOTE 10: COMMITMENTS

At June 30, 2011, approximately 84% of the Foundation's investments were invested in investment partnerships and investment companies. Under the terms of certain partnership agreements, the Foundation is obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2011, the Foundation had uncalled commitments of approximately \$7,557,265.

MORRIS ANIMAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE 10: COMMITMENTS (Continued)

On June 29, 2007, the Foundation signed an operating lease agreement for office space. The lease term, a period of 85 months, commenced on October 1, 2007 with a starting fixed month's rent of \$5,767, and then increasing on each anniversary. The Foundation signed an amendment to the operating lease agreement for additional space on March 1, 2011 with a starting fixed month's rent on March 1, 2012 of \$1,198, and then increasing on each anniversary.

Year Ended June 30,	Amount
2012	\$ 106,640
2013	125,137
2014	134,467
2015	45,687
Totals	<u>\$ 411,931</u>

The Foundation paid \$92,589 in rent expense for fiscal year 2011.

NOTE 11: SUBSEQUENT EVENTS

The Foundation has reviewed and considered subsequent events for disclosure in the financial statements through the date of the independent auditors' report, which is the date the financial statements were available to be issued.