

# **Morris Animal Foundation**

## **Financial Statements**

**June 30, 2022**

**(With Comparative Totals for June 30, 2021)**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder  
& Montoya, P.C.*

Certified Public Accountants



## **Independent Auditor's Report**

### **Board of Trustees Morris Animal Foundation**

#### **Opinion**

We have audited the accompanying financial statements of the Morris Animal Foundation, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morris Animal Foundation as of June 30, 2022, 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.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Morris Animal Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Morris Animal Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

**Board of Trustees  
Morris Animal Foundation**

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Morris Animal Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Morris Animal Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the Morris Animal Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Kundinger, Corder & Montoya, P.C.*

December 15, 2022

**Morris Animal Foundation**  
**Statement of Financial Position**  
**June 30, 2022**  
**(With Summarized Information for 2021)**

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 1,654,479	2,635,322
Restricted cash and cash equivalents	3,212,571	2,135,016
Contributions receivable (note 3)	1,824,446	476,112
Prepaid expenses and other assets	331,059	213,453
Investments (note 4)	99,524,030	105,330,359
Property and equipment, net (note 5)	106,844	181,765
Total assets	\$ 106,653,429	110,972,027
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 396,790	559,150
Accrued liabilities	462,195	398,771
Grants payable (note 6)	4,325,145	4,481,942
Charitable gift annuities payable (note 7)	722,219	744,826
Total liabilities	5,906,349	6,184,689
Net assets (note 8)		
Without donor restrictions	35,865,355	36,370,720
With donor restrictions	64,881,725	68,416,618
Total net assets	100,747,080	104,787,338
Commitments (notes 4, 9 and 10)		
Total liabilities and net assets	\$ 106,653,429	110,972,027

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2022**  
**(With Summarized Information for 2021)**

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
<b>Revenue, Gains and Support</b>				
Contributions	\$ 9,488,095	5,602,853	15,090,948	12,736,134
Donated professional services (note 1(j))	41,991	317,556	359,547	926,459
Forgiveness of Paycheck Protection				
Program loan	–	–	–	788,500
Net investment return	(1,887,295)	(2,544,584)	(4,431,879)	19,889,327
Change in value of gift annuities	–	(366,963)	(366,963)	265,662
Other income	375	18,317	18,692	13,029
Net assets released (note 8)	6,562,072	(6,562,072)	–	–
Total revenue, gains and support	<u>14,205,238</u>	<u>(3,534,893)</u>	<u>10,670,345</u>	<u>34,619,111</u>
<b>Expenses</b>				
Program services				
Scientific Programs	3,837,014	–	3,837,014	4,446,294
Canine Lifetime Health				
Project (CLHP)	4,187,722	–	4,187,722	3,267,714
Program Awareness	1,898,386	–	1,898,386	1,734,935
Citizen Pet	59,382	–	59,382	–
Total program services	<u>9,982,504</u>	<u>–</u>	<u>9,982,504</u>	<u>9,448,943</u>
Supporting services				
Management and general	2,054,797	–	2,054,797	1,747,582
Development and fundraising	2,673,302	–	2,673,302	2,270,914
Total supporting services	<u>4,728,099</u>	<u>–</u>	<u>4,728,099</u>	<u>4,018,496</u>
Total expenses	<u>14,710,603</u>	<u>–</u>	<u>14,710,603</u>	<u>13,467,439</u>
<b>Change in net assets</b>	(505,365)	(3,534,893)	(4,040,258)	21,151,672
<b>Net assets, beginning of year</b>	<u>36,370,720</u>	<u>68,416,618</u>	<u>104,787,338</u>	<u>83,635,666</u>
<b>Net assets, end of year</b>	<u>\$ 35,865,355</u>	<u>64,881,725</u>	<u>100,747,080</u>	<u>104,787,338</u>

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2022**  
**(With Summarized Information for 2021)**

	Program Services					Supporting Services		Total 2022	Total 2021
	Scientific Programs	CLHP	Program Awareness	Citizen Pet	Total	Management and General	Development		
Salaries, benefits, and taxes	\$ 720,296	1,535,873	1,206,654	30,798	3,493,621	1,548,559	1,743,213	6,785,393	5,913,919
Awards and grants	2,460,291	608,007	98,378	–	3,166,676	–	–	3,166,676	3,124,657
Contract services	41,665	878,954	291,545	540	1,212,704	85,123	72,922	1,370,749	1,174,244
Technology	105,768	44,366	67,687	6,490	224,311	145,948	138,703	508,962	383,227
Other program expenses	–	499,600	–	–	499,600	–	–	499,600	9,900
Printing and promotion	–	3,062	77,968	–	81,030	–	398,165	479,195	483,622
Professional services	288,541	60,012	1,032	7,804	357,389	39,463	1,734	398,586	926,459
Miscellaneous expense	153,457	3,385	43,693	723	201,258	41,664	113,675	356,597	153,325
Occupancy	31,877	61,219	63,513	8,849	165,458	84,721	74,629	324,808	322,907
Postage and shipping	1,950	234,052	1,103	–	237,105	2,066	74,909	314,080	411,521
Program supplies	–	215,095	–	–	215,095	–	–	215,095	236,537
Professional development	18,717	18,421	8,893	818	46,849	69,615	12,260	128,724	178,900
Depreciation and amortization	7,840	14,896	15,681	2,352	40,769	19,601	18,032	78,402	87,327
Travel	2,318	3,270	3,211	–	8,799	4,379	13,546	26,724	1,338
Office supplies	1,449	1,882	9,934	379	13,644	5,169	3,574	22,387	29,352
Equipment rental and maintenance	2,025	3,825	4,038	629	10,517	5,765	4,588	20,870	10,461
Conferences and meetings	820	1,803	5,056	–	7,679	2,724	3,352	13,755	19,743
<b>Total</b>	<b>\$ 3,837,014</b>	<b>4,187,722</b>	<b>1,898,386</b>	<b>59,382</b>	<b>9,982,504</b>	<b>2,054,797</b>	<b>2,673,302</b>	<b>14,710,603</b>	<b>13,467,439</b>

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Cash Flows**  
**Year Ended June 30, 2022**  
**(With Summarized Information for 2021)**

	2022	2021
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (4,040,258)	21,151,672
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	78,402	87,327
Realized and unrealized loss (gain) on investments	4,336,546	(20,089,309)
Contributions restricted for endowment	(128,534)	(150,000)
Change in value of charitable gift annuities	366,963	(265,662)
Forgiveness of Paycheck Protection Program loan	-	(788,500)
Change in operating assets and liabilities		
Contributions receivable	(1,348,334)	(129,418)
Prepaid expenses	(117,606)	(110,783)
Accounts payable	(162,360)	113,215
Accrued liabilities	63,424	189,973
Grants payable	(156,797)	(497,180)
Charitable gift annuities payable	(389,570)	233,714
Net cash used in operating activities	<u>(1,498,124)</u>	<u>(254,951)</u>
<b>Cash flows from investing activities</b>		
Disposals (purchases) of property and equipment	(3,481)	3,821
Net (purchases) sales of investments	<u>1,469,783</u>	<u>(2,149,828)</u>
Net cash provided by (used in) investing activities	<u>1,466,302</u>	<u>(2,146,007)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for endowment	<u>128,534</u>	<u>150,000</u>
Net cash provided by financing activities	<u>128,534</u>	<u>150,000</u>
<b>Net increase (decrease) in cash, cash equivalents, and restricted cash</b>	96,712	(2,250,958)
<b>Cash, cash equivalents, and restricted cash, beginning of year</b>	<u>4,770,338</u>	<u>7,021,296</u>
<b>Cash, cash equivalents, and restricted cash, end of year</b>	<u>\$ 4,867,050</u>	<u>4,770,338</u>
<b>Reconciliation of cash, cash equivalents, and restricted cash at end of year</b>		
Cash and cash equivalents	\$ 1,654,479	2,635,322
Restricted cash and cash equivalents	<u>3,212,571</u>	<u>2,135,016</u>
	<u>\$ 4,867,050</u>	<u>4,770,338</u>

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Notes to Financial Statements**  
**June 30, 2022**

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**(1) Summary of Significant Accounting Policies**

**(a) Organization**

Morris Animal Foundation (the Foundation) was founded as a nonprofit organization in 1948. The Foundation is a global leader in supporting scientific research that advances veterinary medicine. This research has improved the health and quality of life for dogs, cats, horses, and wildlife around the world by leading to better preventions, diagnostic tools, treatment protocols, and cures. The Foundation is funded by contributions and investment earnings from those contributions.

***Description of Program Services***

Scientific Programs

The Foundation's primary mission is to fund animal health research that advances the health and well-being of animals. The Scientific Programs team manages pre- and post-award research portfolios, establishes Scientific Advisory Boards, and ensures the Foundation fulfills its mission through funding critical animal health research, funded both externally and internally, as well as research collaborations with other organizations.

Canine Lifetime Health Project (CLHP)

CLHP is the overarching project that encompasses the Golden Retriever Lifetime Study, the largest longitudinal study of its kind in veterinary medicine. The goal of both CLHP and GRLS is to register and gather data from cohorts of dogs that will enable the Foundation to better understand the risk factors for cancer and other diseases, as well as inform investment of research dollars in areas of greatest impact.

Program Awareness

Education is critical to the mission of the Foundation. Program Awareness ensures findings from the Foundation's various research programs are disseminated to stakeholders, animal health professionals and students, and the general public. Program Awareness provides unbiased information to those working to improve the health and well-being of animals.

CitizenPet

CitizenPet is a research platform that enables the citizen science program at the Foundation. Citizen science is essential to gathering large data sets from diverse participants that can inform animal health research programs. Participants also learn through doing science, helping them understand the role of science and research in advancing animal health.

**(b) Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.



# **Morris Animal Foundation**

## **Notes to Financial Statements, Continued**

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(c) Financial Statement Presentation**

The Foundation is required to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and the board of trustees and include board designated funds subject to the endowment spending policy.

*Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

#### **(d) Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents.

#### **(e) Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of amounts specifically restricted by donors for research and other miscellaneous long-term restrictions.

#### **(f) Concentrations of Credit Risk**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, investments, and contributions receivable. The Foundation places its cash and temporary investments with creditworthy, high-quality financial institutions. At times, a significant portion of the funds are not insured by the Federal Deposit Insurance Corporation or related entity.

Investments are under the guidance of the Foundation’s investment committee and an independent advisor. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Credit risk with respect to contributions receivable is limited because they are receivable from individuals with a demonstrated history of payment or from estates.

# **Morris Animal Foundation**

## **Notes to Financial Statements, Continued**

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(g) Investments**

Investments are reported at fair value. Fair value is determined as more fully described in note 1(h).

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. The market values for alternative investments represent the Foundation's pro-rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments are not publicly traded on national security market exchanges, are generally illiquid and may be valued differently than if readily available markets existed for such investments. Because of inherent uncertainties of valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values. Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment return consists of the Foundation's distributive share of any interest, dividends, capital gains and losses generated from investments, as well as the change in fair value of the investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statement of activities.

#### **(h) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles in the United States establishes a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs).

The Foundation groups assets at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

In addition, the Foundation reports certain investments using the "practical expedient" method. The practical expedient allows net asset value per share or its equivalent to represent fair value for reporting purposes when the criteria for using this method are met.

Investments valued using net asset value per share or its equivalent are not categorized within the hierarchy.

# **Morris Animal Foundation**

## **Notes to Financial Statements, Continued**

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(h) Fair Value Measurements, Continued**

These levels are:

- Level 1    Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
  
- Level 2    Other observable inputs, either directly or indirectly, including:
  - Quoted prices for similar assets/liabilities in active markets;
  - Quoted prices for identical or similar assets in non-active markets;
  - Inputs other than quoted prices that are observable for the asset/liability; and,
  - Inputs that are derived principally from or corroborated by other observable market data.
  
- Level 3    Unobservable inputs that cannot be corroborated by observable market data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The carrying amount reported in the statement of financial position for cash and cash equivalents, contributions receivable, accounts payable, accrued liabilities and grants payable, approximate fair value because of the immediate or short-term maturities of these financial instruments.

#### **(i) Property and Equipment**

Property and equipment are stated at cost at the date of purchase or, if donated, at the approximate fair market value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets (3 to 10 years), or the lease term.

The Foundation's policy is to capitalize all expenditures for property and equipment in excess of \$3,000 and with a useful life exceeding one year, and to expense normal repairs and maintenance as incurred. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

#### **(j) Revenue Recognition**

##### Contributions

Contributions are recognized when cash, securities or other assets, and unconditional promises to give are received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met. Payments received in advance of conditions being met are recorded as a refundable advance in the statement of financial position.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

# Morris Animal Foundation

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (j) Revenue Recognition, Continued

##### Contributions, Continued

Contributions, including contributions receivable, that are restricted by the donor are reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions.

Contributions receivable are recorded at net realizable value if expected to be collected in one year. Receivables that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows, if the discount is significant to the overall financial statements. The discounts are computed using risk-adjusted interest rates applicable to the years in which the pledges are expected to be received; discount amortization is included in contribution revenue. The Foundation uses the direct write-off method to determine uncollectable amounts. In determining the collectability of receivables, management considers past collection experience and performs an analysis of subsequent collections. At June 30, 2022, management believes that all contributions receivable will be collected in their entirety.

##### Donated Professional Services

Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by the people with those skills, and would otherwise be purchased by the organization. A number of volunteers and companies have donated time in connection with the Foundation's activities. The value of this contributed time has not been reflected in the accompanying financial statements because it does not meet the criteria for recognition.

Donated professional services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation based upon the standard hourly rate charged by the professional. Included in donated professional service revenue and program service expense are services donated by volunteer scientists who evaluate, select, and monitor the animal health studies chosen to receive Foundation funding. The Foundation received donated professional services of \$359,547 for the year ended June 30, 2022. All donated services were utilized by the Foundation's program services. Donor-imposed restrictions associated with the donated services totaled \$317,556 for the year ended June 30, 2022.

#### (k) Grant Expense

Grant expense is recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. There were no conditional grants at June 30, 2022. Grants payable that are expected to be paid in future years have not been discounted to net present value because the discount is not significant.

#### (l) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Foundation incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity.

# **Morris Animal Foundation**

## **Notes to Financial Statements, Continued**

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(l) Functional Allocation of Expenses, Continued**

The Foundation also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

#### **(m) Estimates**

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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **(n) Income Tax Status**

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and contributions received qualify for the charitable contribution deduction. Income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. At times, certain of the Foundation's investment funds report unrelated business income which is taxable to the Foundation. The Foundation was not liable for tax on unrelated business income for fiscal year 2022.

Management is required to evaluate tax positions taken by the Foundation, and to recognize a tax liability if the Foundation has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. The Foundation believes it has appropriate support for any positions taken and that none would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by tax jurisdictions; however, there are currently no audits for any tax periods in progress. The three previous tax years remain subject to examination by the IRS.

#### **(o) Advertising**

The Foundation expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2022 totaled \$206,207 and is included with contract services on the statement of functional expenses.

#### **(p) Subsequent Events**

Management has evaluated subsequent events through December 15, 2022, the date the financial statements were available to be issued.

#### **(q) Prior Year Information**

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, 2021, from which the summarized information was derived.

# Morris Animal Foundation

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (r) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on the previously reported net assets or change in net assets.

#### (s) Adoption of New Accounting Principle

During 2022, the Foundation adopted Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard is aimed at increasing the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The provisions of ASU No. 2020-07 have been implemented in the accompanying financial statements on a retrospective basis. The amendments under this accounting standard update do not change the recognition and measurement requirements for contributed nonfinancial assets. Accordingly, there is no effect on net assets in connection with the implementation of ASU No. 2020-07.

### (2) Availability and Liquidity of Financial Assets

The following reflects the Foundation's financial assets as of June 30, 2022 that are available for general expenditure within one year:

Cash and cash equivalents	\$ 1,654,479
Contributions receivable within one year, without restrictions	275,446
Amounts available through board resolution:	
Board designated general endowment appropriation	2,745,853
Donor restricted endowment earnings appropriation	<u>525,382</u>
Financial assets available for general expenditure	<u>\$ 5,201,160</u>

General expenditures include administrative, program, and fundraising expenses incurred in the conduct of the Foundation's ongoing activities. The Foundation anticipates collecting sufficient revenue to cover general expenditures not covered by the above current financial assets available largely through contributions.

The Foundation's investments are invested for long-term appreciation and current income, and approximately 62% of the portfolio has various liquidity features. The Foundation's policy is to maintain three-times the annual spending needs with investments that have quarterly liquidity or shorter. Earnings on both board designated and donor restricted endowment funds are subject to the Foundation's distribution policy. Appropriations from board designated funds can be increased or decreased at the discretion of the board.

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

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**(3) Contributions Receivable**

At June 30, 2022, unconditional contributions are scheduled to be received as follow for the years ending June 30:

2023	\$ 1,744,446
2024	<u>80,000</u>
Total	\$ <u>1,824,446</u>

Management has determined that all contributions receivable are collectible. Contributions receivable have not been discounted to net present value because the amount is insignificant.

**(4) Investments**

The Foundation's investment assets, which include private and publicly held investments, are dedicated to providing the financial resources needed to meet the Foundation's grant making and other charitable objectives. The Foundation's investments are held in various investment structures which may include foreign domiciled funds and pooled investments.

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment. The value of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions.

Some investment managers retained by the Foundation are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes.

Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio.

Investments consist of the following at June 30, 2022:

Private investments	\$ 32,631,754
Real assets	3,793,012
Less-correlated strategies	7,721,148
Fixed income	12,818,971
International emerging markets	7,730,100
Non-U.S. developed equity	10,644,026
U.S. small/mid cap	3,550,043
U.S. large cap	13,706,984
Cash and cash equivalents	<u>6,927,992</u>
Total investments	\$ <u>99,524,030</u>

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

**(4) Investments, Continued**

Certain of the Foundation's investments require that the Foundation commit to investing additional funds. At June 30, 2022, the Foundation had unfunded commitments totaling approximately \$11,000,000.

The following table summarizes the valuation of the Foundation's investments by the fair value hierarchy levels as of June 30, 2022:

	Assets				
	Fair Value	Measured at NAV (a)	Level 1	Level 2	Level 3
Private investments	\$ 32,631,754	32,631,754	—	—	—
Real assets	3,793,012	3,762,488	30,524	—	—
Less-correlated strategies	7,721,148	7,721,148	—	—	—
Fixed income	12,818,971	3,999,746	8,819,225	—	—
International emerging markets	7,730,100	7,730,100	—	—	—
Non-U.S. developed equity	10,644,026	4,135,285	6,508,741	—	—
U.S. small/mid cap	3,550,043	2,056,212	1,493,831	—	—
U.S. large cap	13,706,984	7,568,332	6,138,652	—	—
Cash and cash equivalents	<u>6,927,992</u>	<u>—</u>	<u>6,927,992</u>	<u>—</u>	<u>—</u>
Total investments	<u>\$ 99,524,030</u>	<u>69,605,065</u>	<u>29,918,965</u>	<u>—</u>	<u>—</u>

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

All Level 1 investments have been valued using a market approach. All other investments are valued at net asset value per share (or its equivalent) as permitted under the practical expedient rule. There were no changes in valuation techniques during the current year.

The following table summarizes the significant information related to investments valued at net asset value per share (or its equivalent) as of June 30, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private investments (a)	\$ 32,631,754	8,004,965	None to quarterly	90 days
Real assets (b)	\$ 3,762,488	1,048,595	None to quarterly	N/A
Less-correlated (c)	\$ 7,721,148	1,366,079	None to semi-annually	60-180 days
Int'l emerging markets (d)	\$ 7,730,100	—	Monthly to quarterly	10-60 days
Fixed income (e)	\$ 3,999,746	501,940	None to quarterly	90 days
U.S. equity funds (f)	\$ 9,624,544	—	Monthly to quarterly	30-60 days
Non-U.S. developed Equity (g)	\$ 4,135,285	—	Monthly to quarterly	15-90 days



## **Morris Animal Foundation**

### **Notes to Financial Statements, Continued**

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#### **(4) Investments, Continued**

- (a) This category consists of twenty-nine private investment funds, most of which are illiquid. Approximately 42% of this category is comprised of Morgan Creek Partners funds totaling \$13,638,087. The majority of the funds specialize in fund of fund investments that invest primarily in energy and natural resources, buyouts, venture capital, and real estate. Approximately 6% of this category consists of a fund-of-funds that seeks to invest in buyout funds, venture capital, and private equity funds. Approximately 3% of this category is in a partnership fund that specializes in lower middle market buyout focused on the defense, aerospace and maritime industries. Approximately 2% of this category is in a partnership that targets managers whose investment strategies include growth equity, cross-over, multi-stage venture, seed stage, and early-stage investing. The remaining 47% is invested in various funds with various investment strategies. All of the funds in this category are valued using net asset value per share.
- (b) This category consists of six funds, most of which are illiquid. Approximately 29% is invested in a fund that focuses on event-driven and distressed investment strategies. Approximately 22% of this category consists of a fund that invests primarily in select global aircraft and aviation related hard and soft assets. Approximately 5% is invested in a global equity long/short institutional fund which seeks managers with a fundamentally different risk/return profile than what is offered by the market. The remaining 44% is invested in a fund that seeks investments with the opportunity to create or capture value across three types of real estate transactions: corporate platforms, loans and securities, and direct assets. The fair value of all funds in this category has been estimated using net asset value per share.
- (c) This category consists of four funds with varying liquidity features. Approximately 49% of this category consists of a multi-manager fund of funds that deploys its assets to accounts managed by sub-advisors who invest principally in global equity markets by employing a long/short investment strategy. Approximately 37% of this category is in a fund that invests across a wide variety of market caps with large and mid-cap positions comprising the bulk of the portfolio. The fund takes offsetting long and short positions in comparable securities which typically have an economic relationship to each other. The remaining 14% consists of two partnerships with no liquidity and varying investment strategies. The fair value of all funds in this category has been estimated using net asset value per share.
- (d) This category consists of two funds. Approximately 61% is invested in a fund that invests primarily in both long and short Asia-related equity investments with the objective of achieving long-term significant capital gain while maintaining low correlation with relevant indices. Approximately 39% of this category is invested in a fund that invests in emerging markets in Asia, Latin America, Eastern Europe, the Middle East, and Africa using a long-only strategy. The fair value of the funds in this category has been estimated using net asset value per share.
- (e) This category consists of two funds with varying liquidity features. Approximately 88% of this category consists of a fund that invests primarily in public and private non-investment grade and non-rated debt securities. The remaining 12% consists of a fund that invests primarily in senior secured corporate debt instruments based mainly in North America. The fair value of the funds in this category has been estimated using net asset value per share.

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

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**(4) Investments, Continued**

- (f) This category consists of five funds with varying liquidity features. Approximately 24% of this category invests primarily in equity securities with the objective of achieving above-average, long-term capital appreciation. Approximately 22% of this category invests primarily in equity securities with an emphasis on mid- to large- capitalization companies. Approximately 22% is invested in U.S. and non-U.S. long equity positions, short equity positions, and select fixed income positions with the objective of earning long-term rates of return with an emphasis on capital preservation. Approximately 19% of this category invests primarily in U.S. and non-U.S. equity securities publicly traded on U.S. exchanges using a quantitative, long-biased investment strategy. Approximately 13% is invested in a fund dedicated to exploiting opportunity in industries driven by technological innovation, specifically in the technology, e-commerce, internet media, traditional media, alternative energy and telecom industries. The fair value of the funds in this category have been estimated using net asset value per share.
- (g) This category consists of two funds. Approximately 55% of the total consists of a partnership that invests primarily in international small cap stocks. Approximately 45% is a long/short global equity hedge fund specifically focusing on Europe, but also North America and Asia. The fair value of the funds in this category has been estimated using net asset value per share.

**(5) Property and Equipment**

Property and equipment consists of the following at June 30, 2022:

Office furniture and equipment	\$ 285,172
Computer hardware and software	197,480
Leasehold improvements	<u>44,889</u>
	527,541
Less accumulated depreciation	<u>(420,697)</u>
Property and equipment, net	\$ <u>106,844</u>

**(6) Grants Payable**

Unconditional grants which have been approved but not paid are due as follows for years ending June 30:

2023	\$ 3,090,693
2024	985,959
2025	230,417
2026	<u>18,076</u>
Total grants payable	\$ <u>4,325,145</u>

**(7) Charitable Gift Annuities Payable**

Charitable gift annuities are arrangements between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise for the Foundation to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability of \$722,219 at June 30, 2022 has been recognized at the present value of the future cash flows projected to be paid. The liability has been calculated by discounting the future cash flows using rates obtained from the Internal Revenue Code mortality tables and the applicable federal rate. Included in the investment balance in the accompanying statement of financial position are annuity reserves totaling \$1,542,560 to cover the annuity payment liability.

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

**(8) Net Assets**

Net assets without donor restrictions are as follows at June 30, 2022:

Undesignated	\$ 6,791,923
Board designated endowment	<u>29,073,432</u>
Total net assets without donor restrictions	<u>\$ 35,865,355</u>

The board designated endowment funds are subject to the endowment spending policy as described below.

Net assets with donor restrictions consist of the following at June 30, 2022:

Specific purpose or time	
Canine health and research	\$ 6,274,910
Veterinary student scholars program	273,949
Feline health and research	51,558
Wildlife and special species health and research	<u>1,778,211</u>
Purpose or time restrictions	<u>8,378,628</u>
Donor restricted endowments	
Perpetual endowments	53,471,461
Term endowments and unappropriated earnings on perpetual endowments	<u>3,031,636</u>
Donor restricted endowments	<u>56,503,097</u>
Total net assets with donor restrictions	<u>\$ 64,881,725</u>

During the year ended June 30, 2022, net assets totaling \$6,562,072 were released from restriction due to the passage of time, incurring expenditures in accordance with donor restrictions, or appropriation of endowment earnings or funds for expenditure in accordance with the terms of the endowment agreements.

Endowment Funds

The Foundation's endowment net assets consist of the following at June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowments</u>
Board designated endowments	\$ 29,073,432	–	29,073,432
Term endowments and unappropriated earnings on perpetual endowments	–	3,031,636	3,031,636
Perpetual endowments	<u>–</u>	<u>53,471,461</u>	<u>53,471,461</u>
Total endowment net assets	<u>\$ 29,073,432</u>	<u>56,503,097</u>	<u>85,576,529</u>

Perpetual endowments consist of sixteen donor restricted funds subject to the terms of the endowment agreements. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

**(8) Net Assets, Continued**

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the perpetual endowment funds consist of (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, unless the donor specifies that the corpus of the endowment fund can be appropriated for expenditure in accordance with the Foundation's spending policy.

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
- (7) The investment policies of the Foundation

Following are the changes in the endowment net assets for the year ended June 30, 2022:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total <u>Endowments</u>
Endowment net assets, June 30, 2021	\$ 29,271,092	59,664,235	88,935,327
Investment return (loss)	(1,579,598)	(2,512,121)	(4,091,719)
Contributions	9,530,461	221,001	9,751,462
Appropriated for expenditure	<u>(8,148,523)</u>	<u>(870,018)</u>	<u>(9,018,541)</u>
Endowment net assets, June 30, 2022	\$ <u>29,073,432</u>	<u>56,503,097</u>	<u>85,576,529</u>

*Return Objectives and Risk Parameters*

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 while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to preserve the real purchasing power and seek stable real total returns over the long-term while maintaining adequate current liquidity and cash flow to meet operating needs and with an emphasis on preservation of principal.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). While preservation of capital is important, the Foundation also believes that varying degrees of investment risk are generally rewarded with compensating returns.

*Spending Policy and How the Investment Objectives Relate to Distribution Policy*

Distributions from the endowment funds are based on 4% or 5% of the twelve quarter trailing average of each separate endowment fund, depending on donor instructions. It is the expectation that on average, over the long term, the overall draw will be generally lower than 5% of the assets of the investment pool.

**Morris Animal Foundation**  
**Notes to Financial Statements, Continued**

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**(9) Retirement Plan**

The Foundation provides a tax-sheltered annuity plan (the Plan) for all eligible employees. Employees are able to make elective deferrals beginning on their date of hire and are eligible for matching contributions after 90 days of service. Participants may elect to defer up to 100% of their compensation, not to exceed a certain dollar limit set by law. The Foundation makes matching contributions equal to 100% of the participant's elective deferral, up to 6% of the participant's compensation. All contributions to the Plan vest immediately. Employer contributions in 2022 were \$307,363 and are included with salaries, benefits, and taxes on the statement of functional expenses.

**(10) Commitments**

Office Lease

The Foundation leases its office space and other equipment under various non-cancelable operating leases that expire over the next three years. Future minimum office space lease payments required under the lease agreements are as follows for years ending June 30:

2023	\$ 259,543
2024	265,474
2025	<u>226,089</u>
Total	\$ <u>751,106</u>

Rent expense incurred during 2022 was \$279,335 and is included with occupancy on the statement of functional expenses.

Canine Lifetime Health Project

The Foundation launched the Canine Lifetime Health Project (CLHP) in 2011 to identify genetic, environmental, and nutritional risk factors leading to the development of cancer and other health conditions in dogs. The project enrolled a cohort of 3,044 golden retrievers as puppies under age 2 years, and will follow them over their lifetimes. The Foundation expects to spend roughly \$32 million on CLHP-related costs over the life of the project.