

# **Morris Animal Foundation**

## **Financial Statements**

**June 30, 2024**

**(With Summarized Comparative Totals for June 30, 2023)**

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



## **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, 2024, 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, 2024, 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 (GAAP).

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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.

#### **Emphasis of Matter – Restatement**

As described in note 11 to the financial statements, the Morris Animal Foundation's net assets without donor restrictions and net assets with donor restrictions were restated as of June 30, 2023 to correct contribution classifications recorded in prior years. Our opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 GAAS 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 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 GAAS, 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 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 26, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

February 12, 2025

**Morris Animal Foundation**  
**Statement of Financial Position**  
**June 30, 2024**  
**(With Summarized Information for 2023)**

	2024	2023
<b>Assets</b>		
Cash and cash equivalents	\$ 8,325,637	3,677,248
Restricted cash and cash equivalents	376,841	4,545,734
Contributions receivable (note 1(k))	802,675	931,383
Prepaid expenses and other assets	386,317	363,671
Investments (note 3)	102,039,948	99,587,858
Property and equipment, net (note 4)	14,366	46,261
Right of use assets under operating leases (note 5)	287,790	543,352
Total assets	\$ 112,233,574	109,695,507
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 598,622	528,693
Accrued liabilities	426,897	542,834
Grants payable (note 6)	8,363,031	5,555,024
Charitable gift annuities payable (note 7)	605,233	634,072
Operating leases liability (note 5)	302,671	561,257
Total liabilities	10,296,454	7,821,880
Net assets (note 8)		
Without donor restrictions	36,473,194	37,171,899
With donor restrictions	65,463,926	64,701,728
Total net assets	101,937,120	101,873,627
Commitments (notes 3, 5, 9, and 10)		
Total liabilities and net assets	\$ 112,233,574	109,695,507

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2024**  
**(With Summarized Information for 2023)**

	Without Donor Restrictions	With Donor Restrictions	Total 2024	Total 2023
<b>Revenue, Gains and Support</b>				
Contributions	\$ 9,032,353	4,011,087	13,043,440	11,350,193
Donated professional services (note 1(k))	297,606	478,873	776,479	654,916
Net investment return	2,925,160	4,101,867	7,027,027	6,383,216
Service revenue	396,500	–	396,500	–
Change in value of gift annuities	–	30,380	30,380	20,502
Other income	–	6,372	6,372	5,765
Net assets released (note 8)	7,866,381	(7,866,381)	–	–
Total revenue, gains and support	<u>20,518,000</u>	<u>762,198</u>	<u>21,280,198</u>	<u>18,414,592</u>
<b>Expenses</b>				
Program services				
Scientific Programs	9,323,003	–	9,323,003	6,048,689
Canine Lifetime Health				
Project (CLHP)	2,833,070	–	2,833,070	2,740,454
Program Awareness	654,754	–	654,754	2,404,430
Citizen Pet	647,250	–	647,250	523,125
Total program services	<u>13,458,077</u>	<u>–</u>	<u>13,458,077</u>	<u>11,716,698</u>
Supporting services				
Management and general	3,448,486	–	3,448,486	2,668,795
Development	4,310,142	–	4,310,142	2,902,552
Total supporting services	<u>7,758,628</u>	<u>–</u>	<u>7,758,628</u>	<u>5,571,347</u>
Total expenses	<u>21,216,705</u>	<u>–</u>	<u>21,216,705</u>	<u>17,288,045</u>
<b>Change in net assets</b>	(698,705)	762,198	63,493	1,126,547
<b>Net assets, beginning of year as previously reported</b>	36,021,899	65,851,728	101,873,627	100,747,080
Prior period adjustment (note 11)	1,150,000	(1,150,000)	–	–
<b>Net assets, beginning of year, as restated</b>	<u>37,171,899</u>	<u>64,701,728</u>	<u>101,873,627</u>	<u>100,747,080</u>
<b>Net assets, end of year</b>	<u>\$ 36,473,194</u>	<u>65,463,926</u>	<u>101,937,120</u>	<u>101,873,627</u>

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2024**  
**(With Summarized Information for 2023)**

	Program Services					Supporting Services		Total 2024	Total 2023
	Scientific Programs	CLHP	Program Awareness	Citizen Pet	Total	Management and General	Development		
Salaries, benefits, and taxes	\$ 1,036,991	1,024,041	450,510	602,957	3,114,499	1,858,209	2,929,131	7,901,839	7,335,556
Awards and grants	7,360,897	24,079	21,000	–	7,405,976	–	–	7,405,976	4,377,782
Contract services	85,557	1,125,983	111,275	1,689	1,324,504	799,635	294,046	2,418,185	1,681,071
Professional services	411,910	66,439	5,018	524	483,891	264,918	27,670	776,479	654,916
Technology	112,057	34,133	18,716	8,696	173,602	82,983	181,441	438,026	455,390
Miscellaneous expense	4,317	5,845	8,758	400	19,320	277,861	127,772	424,953	418,496
Occupancy	66,045	59,968	24,343	24,173	174,529	76,984	151,670	403,183	391,453
Printing and promotion	–	13,113	74	–	13,187	657	388,622	402,466	578,133
Postage and shipping	–	197,531	–	–	197,531	825	86,270	284,626	367,275
Other program expenses	195,000	45,200	–	–	240,200	–	–	240,200	269,000
Program supplies	–	196,134	–	–	196,134	–	–	196,134	208,793
Professional development	21,692	12,534	8,330	5,868	48,424	63,700	60,708	172,832	240,098
Travel	12,292	19,788	889	–	32,969	9,431	34,444	76,844	88,907
Depreciation and amortization	6,100	5,719	2,403	2,287	16,509	6,863	14,758	38,130	60,583
Conferences and meetings	8,046	–	2,596	–	10,642	–	8,417	19,059	138,264
Equipment rental and maintenance	1,208	1,153	467	447	3,275	4,849	2,881	11,005	8,605
Office supplies	891	1,410	375	209	2,885	1,571	2,312	6,768	13,723
<b>Total</b>	<b>\$ 9,323,003</b>	<b>2,833,070</b>	<b>654,754</b>	<b>647,250</b>	<b>13,458,077</b>	<b>3,448,486</b>	<b>4,310,142</b>	<b>21,216,705</b>	<b>17,288,045</b>

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Statement of Cash Flows**  
**Year Ended June 30, 2024**  
**(With Summarized Information for 2023)**

	2024	2023
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 63,493	1,126,547
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	38,130	60,583
Realized and unrealized gains on investments	(6,597,906)	(6,492,572)
Contributions restricted for endowment	(602,890)	(114,050)
Change in value of charitable gift annuities	(30,380)	(20,502)
Operating lease asset and liability noncash expense	(3,024)	17,905
Change in operating assets and liabilities		
Contributions receivable	128,708	893,063
Prepaid expenses and other expenses	(22,646)	(32,612)
Accounts payable	69,929	131,903
Accrued liabilities	(115,937)	80,639
Grants payable	2,808,007	1,229,879
Charitable gift annuities payable	1,541	(67,645)
Net cash used in operating activities	(4,262,975)	(3,186,862)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(6,235)	–
Net sales of investments	4,145,816	6,428,744
Net cash provided by investing activities	4,139,581	6,428,744
<b>Cash flows from financing activities</b>		
Contributions restricted for endowment	602,890	114,050
Net cash provided by financing activities	602,890	114,050
<b>Net increase in cash, cash equivalents, and restricted cash</b>	479,496	3,355,932
<b>Cash, cash equivalents, and restricted cash, beginning of year</b>	8,222,982	4,867,050
<b>Cash, cash equivalents, and restricted cash, end of year</b>	\$ 8,702,478	8,222,982
<b>Reconciliation of cash, cash equivalents, and restricted cash at year end</b>		
Cash and cash equivalents	\$ 8,325,637	3,677,248
Restricted cash and cash equivalents	376,841	4,545,734
	\$ 8,702,478	8,222,982
<b>Supplemental disclosure of non-cash operating activity</b>		
Operating lease asset and liability noncash expense	\$ –	17,905
Operating lease right of use assets	\$ –	798,915
Operating lease liabilities	\$ –	812,511

See the accompanying notes to the financial statements.

**Morris Animal Foundation**  
**Notes to Financial Statements**  
**June 30, 2024**

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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 (GRLS), 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

Program Awareness is designed to disseminate findings to key stakeholders, animal health professionals and students, and the general public from the Foundation's various research programs. During FY24, this program was reduced in size.

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. At the end of fiscal year 2024, this platform was discontinued.

**(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**

The Foundation considers all highly liquid investments with an initial maturity of three months or less, including certificates of deposit with terms exceeding three months but less than one year, and which are not held by investment managers as part of an investment portfolio or restricted by donors for long-term purposes, to be cash equivalents. At June 30, 2024, certificates of deposit with values totaling \$5,433,000 are included in cash and cash equivalents. These certificates had terms ranging from two to nine months and rates ranging from 4.70% to 4.75%

**(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. These funds are invested in fixed income funds and cash equivalents that are not part of the investment portfolio.

**(f) Concentrations**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, cash equivalents, 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 recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position. Fair value is determined as more fully described in note 1(h). 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 the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Generally accepted accounting principles (GAAP) 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). Assets are grouped 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. These levels are:

- Level 1     Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2     Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- 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.

In addition, 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.

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. 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. Alternative investments are not publicly traded on national security market exchanges, are generally illiquid, and may be valued differently should readily available markets exist for such investments. The market values for alternative investments represents the pro-rata interest in the net assets of the investment and is based on financial information determined and reported by the investment manager. Because of inherent uncertainties of valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values.

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

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

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

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 is recorded 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. Property improvements are amortized ratably over the estimated useful life. It is the Foundation's policy to capitalize all property and equipment purchases over \$3,000 with a useful life greater than one year, and to expense normal repairs and maintenance as incurred. When assets are sold, retired, or otherwise disposed of, the applicable costs are removed from the accounts and any resulting gain or loss is recognized. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

**(j) Leases**

The Foundation has elected not to record on the statement of financial position a lease whose term is twelve months or less and does not include a purchase option that the Foundation is reasonably certain to exercise. The Foundation has elected to use the risk-free rate to determine the present value of the lease payments for the purpose of calculating the right of use asset and lease liability. In addition, the Foundation has elected the practical expedient not to separate lease and non-lease components for the office lease.

**(k) 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 barrier and a right of return, are not recognized until the conditions on which they depend are substantially met. Should the Foundation substantially meet the conditions in the same period that the contribution was received, and barring any further donor restrictions, the Foundation has elected to recognize the revenue in net assets without donor restrictions. Payments received in advance of conditions being met are recorded as a refundable advance in the statement of financial position. At June 30, 2024, there were no conditional contributions.

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. 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.

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

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

**(k) Revenue Recognition, Continued**

Contributions, Continued

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 uncollectible amounts. In determining the collectability of receivables, management considers past collection experience and performs an analysis of subsequent collections. At June 30, 2024, all contributions receivable outstanding of \$802,675 are due within one year and 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 Foundation. 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 \$776,479 for the year ended June 30, 2024. Donor-imposed restrictions associated with the donated services totaled \$478,873 for the year ended June 30, 2024.

Service Revenue

Service revenue is generated from contractual agreements with corporate partners whereby the Foundation provides access to data samples collected through research studies. Revenue is recognized once the research data is delivered. The contracts generally involve a one-time fee. Cash received in advance of the services being provided is recorded as deferred revenue on the statement of financial position. At June 30, 2024, there was no deferred service revenue.

Accounts receivable represent amounts due resulting from performance of these services. The Foundation uses the allowance for credit losses method to determine uncollectible amounts. In determining the collectability of receivables, management considers contract terms, past collection experience, and performs an analysis of current conditions and subsequent collections. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. At June 30, 2024, management has determined that no allowance for credit losses related to these receivables is necessary. There were no accounts receivable outstanding or uncollectible amounts written off against bad debt for the year ended June 30, 2024.

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

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

**(l) 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, 2024.

**(m) 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. The Foundation also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. development 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.

**(n) Estimates**

The preparation of financial statements in conformity with GAAP 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.

**(o) Income Taxes**

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

Management is required to evaluate tax positions taken by the Foundation, and to recognize a tax liability (or asset) if the Foundation has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. The Foundation believes it has appropriate support for any tax 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.

**(p) Advertising**

The Foundation expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2024 totaled \$347,330 and is included with contract services on the statement of functional expenses.

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

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

**(q) Subsequent Events**

Management has evaluated subsequent events through February 12, 2025, the date the financial statements were available to be issued.

**(r) Comparative Financial 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 GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

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

The following reflects the Foundation's financial assets as of June 30, 2024 that are available for general expenditure within one year:

Cash and cash equivalents	\$ 8,325,637
Contributions receivable within one year, without restrictions	802,675
Amounts available through board resolution:	
Board designated general endowment appropriation	3,236,747
Donor restricted endowment earnings appropriation	<u>854,876</u>
Financial assets available for general expenditure	\$ <u>13,219,935</u>

General expenditures include management and general, program, and development 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 29% 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.

**(3) 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. 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.

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

**(3) Investments, Continued**

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, 2024:

Private investments	\$ 37,864,363
Real assets	5,887,038
Less-correlated strategies	6,398,814
Fixed income	14,646,196
International emerging markets	7,585,429
Non-U.S. developed equity	9,845,677
Global equity	5,066,448
U.S. small/mid cap equity	3,310,960
U.S. large cap equity	7,448,954
Cash and cash equivalents	<u>3,986,069</u>
Total investments	<u>\$ 102,039,948</u>

Certain of the Foundation's investments require that the Foundation commit to investing additional funds. At June 30, 2024, the Foundation had unfunded commitments totaling approximately \$15,600,000.

The following table summarizes the valuation of the Foundation's financial instruments by the fair value hierarchy levels as of June 30, 2024:

	Fair Value	Assets Measured at			
		NAV (a)	Level 1	Level 2	Level 3
Private investments	\$ 37,864,363	37,864,363	–	–	–
Real assets	5,887,038	5,829,945	57,093	–	–
Less-correlated strategies	6,398,814	6,398,814	–	–	–
Fixed income	14,646,196	4,546,600	10,099,596	–	–
International emerging markets	7,585,429	7,585,429	–	–	–
Non-U.S. developed equity	9,845,677	1,951,778	7,893,899	–	–
Global equity	5,066,448	5,066,448	–	–	–
U.S. small/mid cap equity	3,310,960	1,695,302	1,615,658	–	–
U.S. large cap equity	7,448,954	147,620	7,301,334	–	–
Cash and cash equivalents	<u>3,986,069</u>	<u>–</u>	<u>3,986,069</u>	<u>–</u>	<u>–</u>
Total investments	<u>102,039,948</u>	<u>71,086,299</u>	<u>30,953,649</u>	<u>–</u>	<u>–</u>
Total restricted cash and cash equivalents	<u>376,841</u>	<u>–</u>	<u>282,057</u>	<u>94,784</u>	<u>–</u>
Total	<u>\$ 102,416,789</u>	<u>71,086,299</u>	<u>31,235,706</u>	<u>94,784</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.

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

**(3) Investments, Continued**

All Level 1 investments have been valued using a market approach. Level 2 investments are valued using quoted prices for similar assets. 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, 2024:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private investments (a)	\$ 37,864,363	13,463,194	None to quarterly	90 days
Real assets (b)	5,829,945	2,142,437	None to quarterly	90 days
Less-correlated (c)	6,398,814	–	Quarterly to annually	60-65 days
Fixed income (d)	4,546,600	–	Annually	90 days
Int'l emerging markets (e)	7,585,429	–	Monthly to quarterly	10-60 days
Non-U.S. developed equity (f)	1,951,778	–	Monthly	15 days
Global equity (g)	5,066,448	–	Monthly to quarterly	30-60 days
U.S. equity funds (h)	<u>1,842,922</u>	<u>–</u>	Quarterly	45-65 days
Total	<u>\$ 71,086,299</u>	<u>15,605,631</u>		

(a) This category consists of thirty-eight private investment funds, most of which are illiquid. Approximately 29% of this category is comprised of Morgan Creek Partners funds totaling \$11,020,571. 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 17% of this category is comprised of RCP funds totaling \$6,440,622. The majority of the funds invest in private equity funds of lower middle markets. Approximately 5% of this category consists of a fund-of-funds that seeks to invest in buyout funds, venture capital, and private equity funds. The remaining 49% 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 37% is invested in a fund that is structured as an offshore exempted limited partnership whose strategy pursues equity investments in infrastructure assets that generally exhibit monopolistic characteristics, high barriers to entry, inelastic demand, and limited redundancy and/or susceptibility to technological obsolescence. This fund allows quarterly redemptions with 90 days' notice. Approximately 16% is invested in a fund that focuses on event-driven and distressed investment strategies. Approximately 17% is invested in a fund which seeks to capitalize on commercial real estate investment opportunities that are emerging due to the impact of the COVID-19 pandemic. Approximately 29% is invested in two funds that seek 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. Unfunded commitments under this strategy total \$2,142,437 and are to be funded over the next one to eight years.



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

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**(3) Investments, Continued**

- (c) This category consists of two funds with varying liquidity features. Approximately 51% 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. The other 49% 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 fair value of all funds in this category has been estimated using net asset value per share.
- (d) This category consists of a fund that invests primarily in public and private non-investment grade and non-rated debt securities. 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 74% 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 26% 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.
- (f) This category consists of a partnership fund that invests primarily in international small cap stocks and has a monthly redemption period. The fair value of the funds in this category has been estimated using net asset value per share.
- (g) This category consists of two funds with varying liquidity features. Approximately 60% of the total consists of a partnership that invests primarily in equity securities with an objective of achieving above-average long-term capital appreciation. Approximately 40% is a long/short publicly traded equity fund with the objective of earning superior risk-adjusted returns on an absolute basis. The fair value of the funds in this category has been estimated using net asset value per share.
- (h) This category consists of two funds with varying liquidity features. Approximately 92% is invested in 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 8% is invested in a fund dedicated to exploiting opportunity in industries driven by technological innovation, specifically in the technology, d-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.

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

**(4) Property and Equipment**

Property and equipment consists of the following at June 30, 2024:

Office furniture and equipment	\$ 285,172
Computer hardware and software	203,715
Leasehold improvements	<u>44,889</u>
	533,776
Less accumulated depreciation	<u>(519,410)</u>
Property and equipment, net	\$ <u>14,366</u>

**(5) Right of Use Assets Under Operating Leases and Operating Leases Liability**

The Foundation leases its office space and other equipment under various non-cancelable operating leases that expire over the next four years. The Foundation includes in the determination of the right of use asset and lease liability any renewal options when the options are reasonably certain to be exercised. Renewal options have not been elected as of June 30, 2024. The Foundation's operating lease provides for increases in future minimum annual rental payments. Additionally, the operating office lease agreement requires the Foundation to pay for interior repairs or improvements.

The weighted-average discount rates are based on the risk-free rates determined using a period comparable to the lease terms as the discount rate for leases where the implicit rates are not readily determinable. The Foundation has applied the risk-free rate option to the property and equipment class of assets.

Rent expense incurred during 2024 was \$274,098 and is included with occupancy on the statement of functional expenses.

The weighted-average term and discount rates for the operating leases outstanding as of June 30, 2024 are as follows:

	<u>Office Lease</u>	<u>Equipment Lease</u>
Weighted-average term (years)	1.08	2.50
Weighted-average discount rate	2.88%	2.88%

Future payments due under the operating leases as of June 30, 2024 are as follows:

Undiscounted cash flows due in:

	<u>Office Lease</u>	<u>Equipment Lease</u>	<u>Total</u>
2025	\$ 261,248	10,107	271,355
2026	21,770	10,107	31,877
2027	<u>—</u>	<u>5,053</u>	<u>5,053</u>
Total undiscounted cash flows	283,018	25,267	308,285
Impact of present value discount	<u>(4,698)</u>	<u>(916)</u>	<u>(5,614)</u>
Lease liability recognized	\$ <u>278,320</u>	<u>24,351</u>	<u>302,671</u>

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

**(6) Grants Payable**

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

2025		\$ 5,499,355
2026		2,023,066
2027		779,465
2028		<u>61,145</u>
Total grants payable		<u>\$ 8,363,031</u>

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.

**(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 \$605,233 at June 30, 2024 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 \$1,526,143 to cover the annuity payment liability.

**(8) Net Assets**

Net assets without donor restrictions are as follows at June 30, 2024:

Undesignated		\$ 7,754,022
Board designated endowment		<u>28,719,172</u>
Total net assets without donor restrictions		<u>\$ 36,473,194</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, 2024:

Specific purpose or time		
Canine health and research		\$ 4,072,699
Veterinary student scholars program		418,109
Feline health and research		51,558
Wildlife and special species health and research		<u>720,592</u>
Purpose or time restrictions		<u>5,262,958</u>
Donor restricted endowments		
Perpetual endowments		57,145,110
Term endowments and unappropriated earnings on perpetual endowments		<u>3,055,858</u>
Donor restricted endowments		<u>60,200,968</u>
Total net assets with donor restrictions		<u>\$ 65,463,926</u>

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

**(8) Net Assets, Continued**

During the year ended June 30, 2024, net assets totaling \$7,866,381 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, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowments</u>
Board designated endowments	\$ 28,719,172	–	28,719,172
Term endowments and unappropriated earnings on perpetual endowments	–	3,055,858	3,055,858
Perpetual endowments	<u>–</u>	<u>57,145,110</u>	<u>57,145,110</u>
Total endowment net assets	\$ <u>28,719,172</u>	<u>60,200,968</u>	<u>88,920,140</u>

Perpetual endowments consist of seventeen 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.

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, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowments</u>
Endowment net assets, as restated June 30, 2023	\$ 29,922,471	57,881,652	87,804,123
Investment return	2,420,564	3,929,496	6,350,060
Contributions	9,726,458	653,400	10,379,858
Appropriated for expenditure	<u>(13,350,321)</u>	<u>(2,263,580)</u>	<u>(15,613,901)</u>
Endowment net assets, June 30, 2024	\$ <u>28,719,172</u>	<u>60,200,968</u>	<u>88,920,140</u>

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

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**(8) Net Assets, Continued**

*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.

**(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 fiscal year 2024 were \$319,082 and are included with salaries, benefits, and taxes on the statement of functional expenses.

**(10) Commitments**

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.

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

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**(11) Prior Period Adjustment**

During fiscal year 2024, it was determined that certain contributions received in a prior year totaling \$1,150,000 had been incorrectly recorded to net assets with donor restrictions, resulting in net assets with donor restrictions being overstated and net assets without donor restrictions being understated by the same amount. While there was no impact to total net assets, corrections to accounts were made, resulting in the following restated balances on the statement of financial position and statement of activities as of June 30, 2023.

	As originally <u>stated</u>	<u>Change</u>	As <u>Restated</u>
Net assets without donor restrictions	\$ 36,021,899	1,150,000	37,171,899
Net assets with donor restrictions	<u>65,851,728</u>	<u>(1,150,000)</u>	<u>64,701,728</u>
Total net assets	\$ <u>101,873,627</u>	<u>—</u>	<u>101,873,627</u>