
MORRIS ANIMAL FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2015



Morris Animal
FOUNDATION

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Independent Auditors' Report

Board of Trustees
Morris Animal Foundation
Denver, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the Morris Animal Foundation (the Foundation), a nonprofit organization, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As explained in Note 2, the financial statements include investments valued at \$48,622,597 (55% of net assets) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Report On Summarized Comparative Information

We have previously audited the Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RubinBrown LLP

February 18, 2016

MORRIS ANIMAL FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(With Comparative Totals At June 30, 2014)

Assets

	2015	2014
Current Assets		
Cash (Note 2)	\$ 2,071,201	\$ 2,307,571
Accounts receivable	490,688	18,574
Prepaid expenses	24,005	23,735
Unrestricted/temporarily restricted investments (Note 2)	39,436,084	41,808,961
Total Current Assets	42,021,978	44,158,841
Property And Equipment		
Building and improvements	109,669	70,969
Computer hardware and software	176,454	125,818
Office furniture and equipment	262,842	141,354
Total Property And Equipment	548,965	338,141
Accumulated depreciation	(337,120)	(310,992)
Net Property And Equipment	211,845	27,149
Other Assets		
Permanently restricted investments (Note 2)	47,071,031	40,266,379
Annuity investment (Notes 2 and 3)	1,866,814	1,888,320
Total Other Assets	48,937,845	42,154,699
Total Assets	\$ 91,171,668	\$ 86,340,689

Liabilities And Net Assets

Current Liabilities		
Accounts payable	\$ 211,433	\$ 159,592
Health studies grants payable	4,591,218	3,098,256
Accrued vacation and salaries	186,688	212,323
Total Current Liabilities	4,989,339	3,470,171
Other Liabilities		
Deposit (Note 4)	—	229,888
Annuities payable (Note 3)	909,780	641,595
Total Other Liabilities	909,780	871,483
Total Liabilities	5,899,119	4,341,654
Net Assets (Note 5)		
Unrestricted	28,490,927	29,929,213
Temporarily restricted	9,710,591	11,803,443
Permanently restricted	47,071,031	40,266,379
Total Net Assets	85,272,549	81,999,035
Total Liabilities And Net Assets	\$ 91,171,668	\$ 86,340,689

MORRIS ANIMAL FOUNDATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2015 (With Comparative Totals For The Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenue And Support					
Cash contributions	\$ 4,147,702	\$ 5,305,784	\$ 707,949	\$ 10,161,435	\$ 8,497,644
Investment return (Note 2)	2,755,658	2,193,121	2,443,243	7,392,022	9,736,968
Annuity investment income	—	103,856	—	103,856	191,540
Donated services (Note 8)	1,287,899	—	—	1,287,899	992,030
Other income	3,513	210,030	—	213,543	393,337
Total Revenue And Support	8,194,772	7,812,791	3,151,192	19,158,755	19,811,519
Net Assets Released From Restrictions (Note 6)	6,252,183	(6,252,183)	—	—	—
Total Revenue And Support	14,446,955	1,560,608	3,151,192	19,158,755	19,811,519
Expenses					
Program services					
Grant evaluation (donated services Note 8)	1,280,076	—	—	1,280,076	970,185
Animal health studies	9,158,218	—	—	9,158,218	8,136,557
Program awareness	1,066,908	—	—	1,066,908	1,364,745
Grant management	1,294,371	—	—	1,294,371	1,141,423
Total Program Services	12,799,573	—	—	12,799,573	11,612,910
Support services					
Administrative	838,570	—	—	838,570	755,560
Development	2,247,098	—	—	2,247,098	2,263,185
Total Support Services	3,085,668	—	—	3,085,668	3,018,745
Total Expenses	15,885,241	—	—	15,885,241	14,631,655
Change In Net Assets	(1,438,286)	1,560,608	3,151,192	3,273,514	5,179,864
Net Assets - Beginning Of Year	29,929,213	11,803,443	40,266,379	81,999,035	76,819,171
Reclassification of Beginning Net Assets Due To Clarification Of Donor Intent And Accumulated Earnings (Note 5)					
	—	(3,653,460)	3,653,460	—	—
Net Assets - Beginning Of Year, As Reclassified	29,929,213	8,149,983	43,919,839	81,999,035	76,819,171
Net Assets - End Of Year	\$ 28,490,927	\$ 9,710,591	\$ 47,071,031	\$ 85,272,549	\$ 81,999,035

MORRIS ANIMAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2015

(With Comparative Totals For The Year Ended June 30, 2014)

	Program			Support Services		Total 2015	Total 2014
	Animal Health Studies	Program Awareness	Grant Management	Adminis- tration	Develop- ment		
Expenses							
Health studies	\$ 9,063,444	\$ 161,500	\$ —	\$ —	\$ —	\$ 9,224,944	\$ 7,646,366
Personnel	—	545,454	911,481	592,214	1,079,567	3,128,716	2,833,401
Printing	84,533	41,394	12,075	5,321	243,711	387,034	429,531
Postage and mailing	2,076	20,471	8,447	2,753	145,307	179,054	180,321
General	325	81,025	106,589	52,945	264,695	505,579	479,020
Professional services	7,880	93,162	57,364	38,154	156,700	353,260	1,139,562
Travel	(40)	45,251	54,749	9,431	252,491	361,882	358,720
Depreciation	—	4,372	6,942	5,302	9,514	26,130	19,865
Conference/convention/meetings	—	31,831	95,032	102,491	6,854	236,208	299,617
Occupancy (Note 9)	—	26,573	40,212	20,065	62,638	149,488	106,284
Donated services (Note 8)	1,280,076	—	—	7,823	—	1,287,899	992,030
Merchandise/promotional	—	15,875	1,480	2,071	25,621	45,047	146,938
Total	\$ 10,438,294	\$ 1,066,908	\$ 1,294,371	\$ 838,570	\$ 2,247,098	\$ 15,885,241	\$ 14,631,655

MORRIS ANIMAL FOUNDATION

STATEMENT OF CASH FLOWS For The Year Ended June 30, 2015 (With Comparative Totals For The Year Ended June 30, 2014)

	2015	2014
Cash Flows From Operating Activities		
Changes in net assets	\$ 3,273,514	\$ 5,179,864
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Aggregate realized gain	(796,825)	(1,815,552)
Aggregate realized (gain) loss on annuities	36,422	(588,186)
Aggregate unrealized gain	(6,453,760)	(7,654,505)
Aggregate unrealized gain on annuities	(14,916)	(147,863)
Depreciation	26,130	19,865
(Increase) decrease in assets		
Accounts receivable	(472,114)	22,382
Prepaid expenses	(270)	21,664
Increase (decrease) in liabilities		
Accounts payable	51,841	(61,364)
Health studies grants payable	1,492,962	276,221
Accrued payroll	(25,635)	27,838
Deposit	(229,888)	18,808
Annuities payable	268,185	289,477
Net Cash Used In Operating Activities	(2,844,354)	(4,411,351)
Cash Flows From Investing Activities		
Cash paid for purchase of property and equipment	(210,826)	—
Proceeds received from sale of investments	63,298,516	63,298,516
Cash paid for purchase of investments	(60,479,706)	(58,409,180)
Net Cash Provided By Investing Activities	2,607,984	4,889,336
Net Increase (Decrease) In Cash	(236,370)	477,985
Cash - Beginning Of Year	2,307,571	1,829,586
Cash - End Of Year	\$ 2,071,201	\$ 2,307,571

MORRIS ANIMAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. Summary Of Significant Accounting Policies

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

Basis Of Presentation

Financial statement presentation follows the requirements of the Accounting Standards Codification (ASC) for not-for-profit organizations by reporting information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash And Cash Equivalents

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

Contributions

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

Restricted And Unrestricted Support

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

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

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

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

Donated Services

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

Estimates And Assumptions

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

Property And Equipment

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

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

Investments

Investments in marketable securities are stated at fair value. Securities not publicly traded are stated at fair value by the general partner of the investment company, which approximates fair value. Donated investments are reflected as contributions at their fair values at date of receipt. The Foundation has invested its monies in various types of investments: money market funds, annuity investments, U.S. government bonds, hedge funds and private equity funds.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

Accounting For Uncertainty In Income Taxes

At June 30, 2015, the Foundation had no interest or penalties recognized in the statement of activities or statement of financial position. Additionally, the Foundation has no uncertain tax provisions for which a reasonable possibility exists that the total amounts of unrecognized tax benefit will significantly increase or decrease within 12 months of June 30, 2015.

Expense Allocation

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

Grants Payable

The Foundation records grants at the net present value of the grant upon all conditions of the grant being met by the grant recipient. Grants payable have not been discounted to present value because the effect is not significant. Grants payable at June 30, 2015 were \$4,591,218.

Prior-Year Summarized 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, 2014, from which the summarized information was derived.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the presentation in the current-year financial statements.

2. Cash And Investments

The Foundation maintains cash accounts at local commercial banks. These accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of June 30, 2015, the bank balance is \$1,977,961, of which \$1,477,961 in bank deposits are uninsured by FDIC.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

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

The Foundation has investments in ACM Opportunities Fund; Fashion and You; Hound Partners Offshore; Hummer Winblad V; Indaba; Libra; Morgan Creek Absolute Return; Morgan Creek BRIC Plus Private; Morgan Creek Credit Strategies Fund; MCCM Dislocation Fund; Morgan Creek Fund; Morgan Creek Opportunity; Morgan Creek Partners Co-Investment II; Morgan Creek Partners Co-Investment III; Morgan Creek Partners I; Morgan Creek Partners II; Morgan Creek Partners III; Morgan Creek SPV AEPB, Morgan Creek Partners V; Morgan Creek Partners VI; Morgan Rio; Paul II; Raptor Global; TCW Shared Opportunities; Union Grove Venture Partners and investment partnerships and investment companies where no published fair value is available. As such, it is at least reasonably possible that a change in fair value estimates could occur in the near term, particularly during an economic downturn.

The carrying value of these long-term investments at June 30, 2015 is approximately \$48,622,597 (55%) of the Foundation's total investment and is a component of investments on the statement of financial position.

The Foundation adopted accounting rules for fair value measurements, which established a three-level fair value reporting hierarchy. The reporting hierarchy requires the Foundation to classify its investments based on valuation inputs used to determine fair value, using three levels. Level 1 investments are valued based on quoted market prices in active markets for identical assets. Level 2 investments are valued based on significant observable market inputs, such as quoted prices for similar assets and quoted prices in inactive markets or other market observable inputs. Level 3 investments are valued using significantly unobservable inputs that reflect the fund managers' determination of assumptions that market participants might reasonably use in valuing the assets. The valuation levels are not necessarily an indication of the risk associated with investing in those securities.

All assets have been valued using a market approach, except for Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. Fair values for assets in Level 3 are calculated using assumptions about discounted cash flow and other present-value techniques. There were no changes in the valuations techniques during the current year.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (Continued)

Level 1 investments are valued on a recurring basis, and Level 3 investments are valued on a nonrecurring basis. Fair values of investments at June 30, 2015 are as follows:

	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 579,289	\$ 579,289	\$ —	\$ —
Mutual funds	2,331,554	2,331,554	—	—
Annuity investment	1,866,814	1,866,814	—	—
U.S. government bonds	1,707,527	1,707,527	—	—
Hedge funds	48,182,944	—	33,266,148	14,916,796
Private equity funds	33,705,801	—	—	33,705,801
Total Investments	\$ 88,373,929	\$ 6,485,184	\$ 33,266,148	\$ 48,622,597

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

Balance at July 1	\$ 50,514,892
Total gains or losses (realized)	2,724,666
Total gains or losses (unrealized)	2,871,091
Purchases, issuances and settlements	11,449,323
Sales out of Level 3	(6,335,205)
Transfers out of Level 3	(12,602,170)
Balance At June 30	\$ 48,622,597

At year end, June 30, 2015, the Foundation transferred \$12,602,170 from Level 3 determinations to Level 2 determinations, based on a review of the underlying investments in the funds and a review of the redemption time frames and restrictions.

Gains and losses (realized and unrealized) included in unrestricted and temporarily restricted net assets for the year are reported in investment return for the year ended June 30, 2015 are as follows:

Realized gain	\$ 1,133,573
Unrealized gains	6,453,760
Dividends and interest	141,437
Investment advisory fees	(336,748)
Total Investment Return	\$ 7,392,022

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

The Foundation has adopted ASC 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the guidance, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain portfolio investments on the basis of the net asset value per share. In the normal course of business, the Foundation holds certain investments that would qualify for the usage of the practical expedient.

The following table summarizes the Foundation's investments in entities that calculate net asset value per share (or its equivalents):

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge fund (a)	\$ 2,146,474	Monthly	45 days
Hedge fund (b)	4,294,507	Quarterly	95 days
Hedge fund (c)	1,711,332	Quarterly	65 days
Hedge fund (d)	1,741,155	Quarterly	90 days
Hedge fund (e)	3,235,245	Quarterly	90 days, 20% investor gate
Hedge fund (f)	2,860,410	Quarterly	90 days, 25% investor gate
Hedge fund (g)	1,981,020	Quarterly	60 days
Hedge fund (h)	2,093,754	Quarterly	120 days
Hedge fund (i)	3,715,295	Monthly	1 month
Hedge fund (j)	1,936,698	Annually	90 days
Hedge fund (k)	1,033,195	Quarterly	90 days
Hedge fund (l)	1,820,463	Quarterly	45 days
Hedge fund (m)	1,243,965	Quarterly	60 days
Hedge fund (n)	<u>4,180,607</u>	Quarterly	60 days
	<u>\$ 33,994,120</u>		

Note: See the following for explanations of each hedge fund.

- (a) Globally diversified, multi-strategy hedge fund. The fund consists of multiple portfolio managers operating within core investment strategies, including sector fundamental long/short, discretionary global macro and equity trading. The fair value of the fund has been estimated using the net asset value per share of the investments.
- (b) Long/short domestic equity hedge fund focused on healthcare subsectors. The fair value of the fund has been estimated using the net asset value per share of the investments.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

- (c) Global long/short equity hedge fund that employs a rigorous sector-focused fundamental investment process driven by high-conviction best ideas with a global mandate. The fund focuses on technology, media and telecommunications and gaming/leisure/consumer stocks.
- (d) Global long/short equity hedge fund, specifically focusing on Europe, but also North America and Asia. The fund, utilizing a valuation-led approach, specifically seeks to capture the value gap between market price and intrinsic value independent of market performance and the economic cycle.
- (e) Global long/short equity hedge fund with a value orientation and a fundamental bias. The fair value of the fund has been estimated using the net asset value per share of the investments.
- (f) Enhanced fixed income event-driven hedge fund, primarily investing in U.S.-based opportunities.
- (g) A fundamentally driven, value-based directional long/short fund that invests in global equities with a focus in the Industrials, Basic Materials, Energy, Transportation and Consumer with opportunistic commodities investments.
- (h) Multi-strategy opportunity hedge fund dedicated to asset, credit and special situation investments in Latin America, primarily in the larger countries.
- (i) Long/short Japanese equity hedge fund with a directional approach to investing focusing on stock selection. The portfolio is enhanced with index and currency derivative overlays for hedging and investment purposes when appropriate.
- (j) A long-only fund focused on India. Invests into diligence-heavy, bottom-up ideas which have fundamentally strong business models run by a strong set of individuals, with a long-only bias.
- (k) This fund is a global long/short equity fund dedicated to exploiting asymmetric risk-reward opportunities. The investments range across geographies, industries, themes and strategies.
- (l) This fund is 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.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

- (m) This fund's goal is uncorrelated sources of alpha by combining proprietary company analysis with fundamental sector and supply/demand research to identify opportunities that meet the firm's investment criteria. This fund maintains a diversified portfolio, with a primary sector focus on energy, TMT and consumer.
- (n) This fund aims to capture long and short opportunities in Chinese companies listed globally across market caps. It is typically one-third financial services, one-third TMT, 20% consumer and the balance in other sectors.

3. Gift Annuities

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

For the year ending June 30, 2015, the reserve accounts incurred the following gains and losses (totals reflect the combined activity of both accounts):

Opening investment market value	\$ 1,888,320
Contributions received	650,000
Withdrawals	(600,000)
Dividends and interest	36,516
Unrealized/realized gain	17,905
Annuity fees	(21,042)
Annuity payments made	<u>(104,885)</u>
Ending Investment Market Value	<u>\$ 1,866,814</u>
Annuities Payable Liability	<u>\$ 909,780</u>

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

4. Deposit - Fort Worth/Tarrant County Animal Foundation

In 1993, the Foundation entered into an investment agreement with the Fort Worth/Tarrant County Animal Foundation (Fort Worth/Tarrant County). Fort Worth/Tarrant County deposited \$265,000 in 1993, \$30,000 in 1995 and \$50,000 in 2004 into the Foundation's investments. Fort Worth/Tarrant County is not assessed a management fee as long as 75% of the annual return on investment distribution is designated for Foundation-approved health studies during the same calendar year. The term of the original agreement was three years and was extended multiple times. Either party could have elected to terminate the agreement after the initial three-year term. Upon written termination by either party, the value of the fund as of the next quarterly valuation was to be paid in cash to Fort Worth/Tarrant County.

During the year ended June 30, 2015, Fort Worth/Tarrant County was paid out the balance of its deposit, after its request to terminate the agreement. Accordingly, at June 30, 2015, there is a zero balance in this related account.

5. Net Assets And Donor-Designated Endowments

The Foundation's endowments consist of 13 individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. During 2015, the Foundation's clarification of donor intent resulted in \$3,653,460 of temporarily restricted net assets being reclassified to permanently restricted net assets. Of this \$3,653,460 temporarily restricted amount, \$76,225 was not already part of an endowment.

Interpretation Of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. This interpretation applies to the 13 donor-restricted funds, unless otherwise specified by the donor agreement. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The balance of the permanently restricted net assets of the endowment funds increase or decrease each year in accordance with the terms of the governing documents.

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

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

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

Return Objectives And Risk Parameters

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

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

Strategies Employed For Achieving Objectives

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

Distribution Policy And How The Investment Objectives Relate To Distribution Policy

The Foundation's spending policy allows for appropriating for distribution each year 5% of the trailing average asset value over the preceding 12 quarters on the invested funds. Effective July 1, 2014, the Capital Appreciation, the Mark and Louise Morris and the Mark L. Morris Jr. Family Funds were all amended to allow up to a 4% draw based on the trailing average asset value over the preceding 12 quarters. Other funds were not amended during the year and remain at 5%. In establishing the distribution policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow, net of spending, at the rate of inflation or greater over the investment horizon, thus maintaining the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return. There were distributions of \$1,682,850 in fiscal year 2015 from all donor-restricted endowment funds.

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

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ —	\$ 1,516,173	\$ 47,071,031	\$ 48,587,204
Board-designated endowment funds	29,266,759	—	—	29,266,759
Total Funds	\$ 29,266,759	\$ 1,516,173	\$ 47,071,031	\$ 77,853,963

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

Changes in endowment net assets as of June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, June 30, 2014	\$ 27,692,884	\$ 4,710,441	\$ 40,266,379	\$ 72,669,704
Contributions	—	—	707,949	707,949
Investment income	1,052,241	797,019	935,213	2,784,473
Net appreciation	1,804,839	1,363,705	1,619,392	4,787,936
Investment advisory fees	(125,167)	(94,907)	(111,362)	(331,436)
Reclassification for donor intent	—	(3,577,235)	3,653,460	76,225
Amounts appropriated for expenditures	(1,158,038)	(1,682,850)	—	(2,840,888)
Endowment Net Assets, July 1, 2015	\$ 29,266,759	\$ 1,516,173	\$ 47,071,031	\$ 77,853,963

Unrestricted Net Assets

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

	<u>2015</u>
Operating deficit	\$ (6,346,698)
Fund for operating draw	29,418,855
Unrestricted donations	5,418,770
Total	\$ 28,490,927

Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets consist of 23 donor-restricted funds established by donors for the benefit of the Foundation, as well as temporarily restricted earnings on permanently restricted funds and other smaller, as yet unspent, annual donations temporarily restricted to various interest areas of animal health studies.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

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

L.A.N.A. Camelid Research Fund	\$ 181,031
Alpaca Research Fund (ARF)	176,213
American Heartworm Association	229,260
Permanently Restricted Donation Earnings	1,516,173
Gift Annuity	1,866,814
Animal Cancer Center (ACC) Cancer Biology Program	71,998
Canine Lifetime Health Project	2,411,594
Osteosarcoma	1,541,466
Doberman Pinscher Foundation of America, Inc.	523,577
Doberman Pinscher Foundation of America, Inc. - Heart Fund	15,740
Eck's Heart Fund Doberman Pinscher Foundation of America, Inc.	22,421
Other - Represents small dollar donations that are temporarily restricted to various interest areas of animal health studies.	1,154,304
	<hr/>
Total Temporarily Restricted Net Assets	\$ 9,710,591

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets consist of 13 donor-restricted funds established by donors for the benefit of the Foundation.

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

Eve Keeler Memorial Fund	\$ 1,002,474
Ballard Student Fund	114,110
Other	57,916
Capital Appreciation Fund	34,678,221
Matuska Fund	167,926
DiGioia Equine Species Endowment	95,000
Canine Species Endowment	100,000
Canine Cancer Endowment	20,000
Mark L. Morris Jr. Family Fund	7,549,006
Mark and Louise Morris Fund	1,534,299
Mark L. Morris Jr. Wildlife Fund	1,527,300
Eck's Dobie Heart Fund	76,334
Dr. R.K. Anderson Animal Behavior Fund	148,445
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Total Permanently Restricted Net Assets	\$ 47,071,031

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

6. Net Assets Released From Restrictions

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

	<u>2015</u>
Released for health study expenses	\$ 4,795,243
Released for operation expenses	147,207
Draw from capital appreciation fund for operations	<u>1,309,733</u>
Total	<u>\$ 6,252,183</u>

7. Retirement Commitments

The Foundation made matching contributions of up to 6% to a Code Section 403(b)(7) custodial account for participating employees with at least 1 year of service. The above rate is subject to change by the Executive Committee. The Foundation's contributions for the fiscal year ending June 30, 2015 to the custodial accounts were approximately \$67,509. The plan was amended in October 2015 to allow for participation 90 days from an employees' date of hire.

8. In-Kind Services

Volunteer scientists donate numerous hours evaluating, selecting and monitoring the animal health studies chosen to receive Foundation funding. These hours are individually tracked and recorded by the Foundation and equal \$1,280,076. In addition, the Foundation received other donated services valued at \$7,823.

9. Commitments

At June 30, 2015, approximately 92% of the Foundation's investments were invested in investment partnerships and investment companies. Under the terms of certain partnership agreements, the Foundation is obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2015, the Foundation had uncalled commitments of approximately \$9,187,312.

MORRIS ANIMAL FOUNDATION

Notes To Financial Statements (*Continued*)

The retirement plan was amended in October 2015 to allow for participation 90 days from an employee's date of hire.

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

The Foundation expensed \$149,488 in rent expense for fiscal year 2015 for both the lease noted above and that noted below.

On July 25, 2014, the Foundation signed an operating lease agreement for a new office space location. The lease term is for a period of 96 months, which commenced on November 1, 2014 and had no lease payments due for the period November 1, 2014 through February 2015. On March 1, 2015, the rental payment will be \$11,332 and will escalate every 12 months from that date. The future payments under this lease agreement are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ 137,401
2017	141,650
2018	145,900
2019	150,149
2020	154,399
2021	158,648
2022	162,898
2023	55,244
Total	\$ 1,106,289

10. Canine Lifetime Health Project

Starting in 2011, the Foundation launched a study called the Canine Lifetime Health Project (CLHP). It is a prospective study of dogs to identify genetic, environmental and nutritional risk factors for the development of cancer and other health conditions. The study enrolls golden retrievers and follows them for up to 13 years. The Foundation expects to spend roughly \$32 million on CLHP-related costs over the life of the study.

11. Subsequent Events

The Foundation has reviewed and considered subsequent events for disclosure in the financial statements through February 18, 2016, the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Subsequent events are as described in Note 7 (Retirement Commitments). Refer there for more information.