**HELEN WOODWARD ANIMAL CENTER**
**FINANCIAL STATEMENTS**
**DECEMBER 31, 2014 AND 2013**

**HELEN WOODWARD ANIMAL CENTER**

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# INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Helen Woodward Animal Center

We have audited the accompanying financial statements of Helen Woodward Animal Center, A Nonprofit Organization, which comprise of the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helen Woodward Animal Center, A Nonprofit Organization, as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Considine & Considine

CONSIDINE & CONSIDINE
An Accountancy Corporation

August 10, 2015

# HELEN WOODWARD ANIMAL CENTER
## STATEMENTS OF FINANCIAL POSITION
## DECEMBER 31, 2014 AND 2013



| | | 2014 | | 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ | 2,664,420 | $ | 2,720,817 |
| Accounts Receivable | | 85,334 | | 64,022 |
| Inventory | | 23,473 | | 17,810 |
| Prepaid Expenses | | 88,683 | | 31,161 |
| Note Receivable from Related Party (Note 3) | | 215,309 | | 289,059 |
| Contributions Receivable (Note 4) | | 3,224,376 | | 3,973,326 |
| Investments (Note 5) | | 8,150,469 | | 8,017,459 |
| Charitable Remainder Trusts (Note 6) | | 449,716 | | 469,052 |
| Life Insurance Premium Account (Note 7) | | 455,340 | | 455,340 |
| Property and Equipment (Note 9) | | 10,646,652 | | 11,195,710 |
| Investment in San Diego Foundation (Note 10) | | 15,219 | | 15,251 |
| Investment in Rancho Santa Fe Foundation (Note 11) | | 19,529 | | 18,721 |
| **TOTAL ASSETS** | | 26,038,520 | | 27,267,728 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **LIABILITIES** | | | | |
| Accounts Payable and Accrued Expenses | | 246,088 | | 175,669 |
| Accrued Payroll | | 244,096 | | 199,138 |
| Accrued Compensated Absences | | 210,135 | | 176,368 |
| Deferred Compensation (Note 12) | | 43,527 | | 42,963 |
| Line of Credit (Note 13) | | - | | 1,079,208 |
| Notes Payable (Note 14) | | 47,523 | | 79,714 |
| Capital Lease Obligation (Note 15) | | 40,908 | | 54,576 |
| Security Deposits | | 3,520 | | 3,520 |
| **TOTAL LIABILITIES** | | 835,797 | | 1,811,156 |
| **NET ASSETS (Note 17)** | | | | |
| Unrestricted | | 13,026,238 | | 12,702,725 |
| Unrestricted - Board Designated (Note 18) | | 3,796,032 | | 3,790,063 |
| Temporarily Restricted | | 6,745,501 | | 7,328,832 |
| Permanently Restricted (Note 18) | | 1,634,952 | | 1,634,952 |
| | | 25,202,723 | | 25,456,572 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 26,038,520 | $ | 27,267,728 |

See Accompanying Notes

# HELEN WOODWARD ANIMAL CENTER
# STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
# FOR THE YEAR ENDED DECEMBER 31, 2014



| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| **SUPPORT AND REVENUE** | | | | |
| Contributions | $ 971,900 | $ 1,847,024 | $ - | $ 2,818,924 |
| Fees | 3,870,368 | - | - | 3,870,368 |
| Investment Return (Note 5) | 390,350 | - | - | 390,350 |
| Special Events, Net (Less: Direct Benefit to Donors of $13,140) | 832,923 | - | - | 832,923 |
| Sales | 538,819 | - | - | 538,819 |
| Other Income | 188,488 | - | - | 188,488 |
| Rents | 30,330 | - | - | 30,330 |
| Contributed Goods | 130,662 | - | - | 130,662 |
| Change in the Value of Split-Interest Agreements | - | (19,335) | - | (19,335) |
| | 6,953,840 | 1,827,689 | - | 8,781,529 |
| **NET ASSETS RELEASED FROM RESTRICTION** | 2,411,020 | (2,411,020) | - | - |
| **EXPENSES:** | | | | |
| Program | 6,190,067 | - | - | 6,190,067 |
| Fundraising | 1,852,205 | - | - | 1,852,205 |
| Management and General | 829,126 | - | - | 829,126 |
| | 8,871,398 | - | - | 8,871,398 |
| **COST OF SALES** | 163,980 | - | - | 163,980 |
| **TOTAL EXPENSES** | 9,035,378 | - | - | 9,035,378 |
| **CHANGE IN NET ASSETS** | 329,482 | (583,331) | - | (253,849) |
| **NET ASSETS - BEGINNING OF YEAR** | 16,492,788 | 7,328,832 | 1,634,952 | 25,456,572 |
| **NET ASSETS - END OF YEAR** | $ 16,822,270 | $ 6,745,501 | $ 1,634,952 | $ 25,202,723 |

# HELEN WOODWARD ANIMAL CENTER
# STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
# FOR THE YEAR ENDED DECEMBER 31, 2013



| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| **SUPPORT AND REVENUE** | | | | |
| Contributions | $ 883,759 | $ 6,807,448 | $ - | $ 7,691,207 |
| Fees | 3,481,147 | - | - | 3,481,147 |
| Investment Return (Note 5) | 1,226,285 | - | - | 1,226,285 |
| Special Events, Net (Less: Direct Benefit to Donors of $13,500) | 765,093 | - | - | 765,093 |
| Sales | 309,475 | - | - | 309,475 |
| Other Income | 144,333 | - | - | 144,333 |
| Rents | 29,836 | - | - | 29,836 |
| Contributed Goods | 147,624 | - | - | 147,624 |
| Change in the Value of Split-Interest Agreements | - | 52,355 | - | 52,355 |
| | 6,987,552 | 6,859,803 | - | 13,847,355 |
| **NET ASSETS RELEASED FROM RESTRICTION** | 4,006,235 | (4,006,235) | - | - |
| **EXPENSES:** | | | | |
| Program | 5,643,883 | - | - | 5,643,883 |
| Fundraising | 1,836,538 | - | - | 1,836,538 |
| Management and General | 751,711 | - | - | 751,711 |
| | 8,232,132 | - | - | 8,232,132 |
| **COST OF SALES** | 127,670 | - | - | 127,670 |
| **TOTAL EXPENSES** | 8,359,802 | - | - | 8,359,802 |
| **CHANGE IN NET ASSETS** | 2,633,985 | 2,853,568 | - | 5,487,553 |
| **NET ASSETS - BEGINNING OF YEAR** | 13,858,803 | 4,475,264 | 1,634,952 | 19,969,019 |
| **NET ASSETS - END OF YEAR** | $ 16,492,788 | $ 7,328,832 | $ 1,634,952 | $ 25,456,572 |

**HELEN WOODWARD ANIMAL CENTER**
**STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2014**

| | Program Services | | | | | | | | | Fundraising Activities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Companion Animal Hospital | Equine Hospital | Adoptions | Boarding | Education | Therapeutic Riding | Pet Encounter Therapy | AniMeals | Total Program Services | Fundraising | Special Events | Total Fundraising Activities | Management and General | Total |
| **EXPENSES** | | | | | | | | | | | | | | |
| Salaries, Wages and Related Benefits | $ 583,080 | $ 478,186 | $ 1,206,795 | $ 633,599 | $ 550,174 | $ 281,402 | $ 174,224 | $ 36,090 | $ 3,943,550 | $ 950,127 | $ - | $ 950,127 | $ 407,389 | $ 5,301,066 |
| Operating Supplies and Expenses | 341,792 | 220,578 | 294,646 | 200,680 | 120,397 | 52,606 | 14,004 | 50,575 | 1,295,278 | 151,499 | 18,697 | 170,196 | 145,119 | 1,610,593 |
| Printing, Advertising and Postage | 2,470 | 2,107 | 9,810 | 1,834 | 17,419 | 975 | 1,141 | 963 | 36,719 | 71,809 | 123,996 | 195,805 | 138 | 232,662 |
| Outside Services | 7,026 | 31,430 | 114,427 | 43,898 | 13,295 | 4,523 | 155 | 40 | 214,794 | 22,991 | 59,132 | 82,123 | - | 296,917 |
| Other | 25,870 | 21,267 | 22,001 | 21,979 | 13,261 | 2,669 | 945 | 87 | 108,079 | 85,259 | 16,355 | 101,614 | 4,924 | 214,617 |
| Maintenance, Repairs and Equipment Rental | 11,408 | 6,070 | 7,253 | 1,428 | 3,871 | 1,622 | 212 | 199 | 32,063 | 5,744 | 41,340 | 47,084 | 193 | 79,340 |
| Donated Goods and Services | 570 | 490 | 75,337 | 2,751 | 11,665 | 4,116 | 527 | 12,722 | 108,178 | 2,189 | 191,617 | 193,806 | 20,294 | 322,278 |
| Office Expenses | 2,310 | 1,419 | 9,363 | 2,065 | 820 | 66 | 179 | 12 | 16,234 | 2,412 | 226 | 2,638 | 270 | 19,142 |
| Capital Campaign Expenses | - | - | - | - | - | - | - | - | - | 23,286 | - | 23,286 | - | 23,286 |
| Total Expenses Before Depreciation | 974,526 | 761,547 | 1,739,632 | 908,234 | 730,902 | 347,979 | 191,387 | 100,688 | 5,754,895 | 1,315,316 | 451,363 | 1,766,679 | 578,327 | 8,099,901 |
| Depreciation | 320,298 | 43,270 | 17,747 | 27,481 | 955 | 11,326 | 12,781 | 1,314 | 435,172 | 98,666 | - | 98,666 | 250,799 | 784,637 |
| **TOTAL EXPENSES** | 1,294,824 | 804,817 | 1,757,379 | 935,715 | 731,857 | 359,305 | 204,168 | 102,002 | 6,190,067 | 1,413,982 | 451,363 | 1,865,345 | 829,126 | 8,884,538 |
| Less: Direct Benefits to Donors at Special Events Included in Revenue | - | - | - | - | - | - | - | - | - | - | (13,140) | (13,140) | - | (13,140) |
| **TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION OF THE STATEMENTS OF ACTIVITIES** | $ 1,294,824 | $ 804,817 | $ 1,757,379 | $ 935,715 | $ 731,857 | $ 359,305 | $ 204,168 | $ 102,002 | $ 6,190,067 | $ 1,413,982 | $ 438,223 | $ 1,852,205 | $ 829,126 | $ 8,871,398 |

# HELEN WOODWARD ANIMAL CENTER
## STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2013



| | Program Services | | | | | | | | | Fundraising Activities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Companion Animal Hospital | Equine Hospital | Adoptions | Boarding | Education | Therapeutic Riding | Pet Encounter Therapy | AniMeals | Total Program Services | Fundraising | Special Events | Total Fundraising Activities | Management and General | Total |
| **EXPENSES** | | | | | | | | | | | | | | |
| Salaries, Wages and Related Benefits | $ 433,720 | $ 459,806 | $ 1,127,637 | $ 588,029 | $ 527,662 | $ 282,253 | $ 174,520 | $ 33,364 | $ 3,626,991 | $ 844,443 | $ - | $ 844,443 | $ 373,420 | $ 4,844,854 |
| Operating Supplies and Expenses | 264,522 | 206,047 | 261,280 | 190,247 | 102,964 | 46,840 | 13,052 | 26,515 | 1,111,467 | 84,064 | 13,847 | 97,911 | 120,132 | 1,329,510 |
| Printing, Advertising and Postage | 2,957 | 2,103 | 10,808 | 3,073 | 16,167 | 1,652 | 1,514 | 1,592 | 39,866 | 77,202 | 139,552 | 216,754 | 1,657 | 258,277 |
| Outside Services | 32,844 | 29,418 | 96,369 | 21,840 | 11,326 | 6,387 | 36 | 22 | 198,242 | 19,148 | 157,065 | 176,213 | 22 | 374,477 |
| Other | 22,799 | 21,654 | 20,167 | 22,527 | 10,133 | 1,741 | 654 | - | 99,675 | 87,254 | 29,678 | 116,932 | 4,445 | 221,052 |
| Maintenance, Repairs and Equipment Rental | 4,560 | 6,143 | 4,959 | 2,453 | 3,109 | 1,227 | 1,836 | 147 | 24,434 | 6,866 | 46,394 | 53,260 | 159 | 77,853 |
| Donated Goods and Services | 40 | 50 | 59,635 | 2,536 | 5,287 | 12,225 | 5,110 | 27,021 | 111,904 | 29,185 | 127,371 | 156,556 | 6,535 | 274,995 |
| Office Expenses | 2,770 | 524 | 7,301 | 2,176 | 934 | 188 | 89 | 20 | 14,002 | 5,392 | 1,383 | 6,775 | 157 | 20,934 |
| Capital Campaign Expenses | - | - | - | - | - | - | - | - | - | 85,773 | - | 85,773 | - | 85,773 |
| Total Expenses Before Depreciation | 764,212 | 725,745 | 1,588,156 | 832,881 | 677,582 | 352,513 | 196,811 | 88,681 | 5,226,581 | 1,239,327 | 515,290 | 1,754,617 | 506,527 | 7,487,725 |
| Depreciation | 319,007 | 38,024 | 11,177 | 27,156 | 798 | 13,151 | 7,918 | 71 | 417,302 | 95,421 | - | 95,421 | 245,184 | 757,907 |
| **TOTAL EXPENSES** | 1,083,219 | 763,769 | 1,599,333 | 860,037 | 678,380 | 365,664 | 204,729 | 88,752 | 5,643,883 | 1,334,748 | 515,290 | 1,850,038 | 751,711 | 8,245,632 |
| Less: Direct Benefits to Donors at Special Events Included in Revenue | - | - | - | - | - | - | - | - | - | - | (13,500) | (13,500) | - | (13,500) |
| **TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION OF THE STATEMENTS OF ACTIVITIES** | $ 1,083,219 | $ 763,769 | $ 1,599,333 | $ 860,037 | $ 678,380 | $ 365,664 | $ 204,729 | $ 88,752 | $ 5,643,883 | $ 1,334,748 | $ 501,790 | $ 1,836,538 | $ 751,711 | $ 8,232,132 |

# HELEN WOODWARD ANIMAL CENTER
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013



| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS PROVIDED BY OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ (253,849) | $ 5,487,553 |
| **ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Depreciation | 784,637 | 757,907 |
| Net Realized and Unrealized Gain on Investments | (224,227) | (1,066,152) |
| Change in the Value of Split-Interest Agreements | 19,335 | (52,355) |
| Change in Operating Assets and Liabilities: | | |
| Accounts Receivable | (21,312) | 22,129 |
| Inventory | (5,663) | (5,032) |
| Prepaid Expenses, Deposits, and Other Assets | (57,522) | 10,745 |
| Contributions Receivable | 748,950 | (2,807,335) |
| Accounts Payable and Accrued Expenses | 70,419 | (11,589) |
| Accrued Payroll | 44,958 | 28,066 |
| Accrued Compensated Absences | 33,767 | 23,674 |
| Deferred Compensation and Benefits | 564 | 17,029 |
| | 1,393,906 | (3,082,913) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 1,140,057 | 2,404,640 |
| **CASH FLOWS USED BY INVESTING ACTIVITIES** | | |
| Purchase of Property and Equipment | (235,579) | (170,146) |
| Change in Life Insurance Premium Account | - | (13,263) |
| Proceeds from Sale of Investments | 1,126,754 | 475,862 |
| Purchase of Investments | (1,036,312) | (794,383) |
| Distribution Received from Charitable Remainder Trust | - | 55,155 |
| Principal Payments on Note Receivable from Related Party | 73,750 | 51,744 |
| | (71,387) | (395,031) |
| **CASH FLOWS USED BY FINANCING ACTIVITIES** | | |
| Principal Payments on Line of Credit | (1,079,208) | (1,004,239) |
| Principal Payments on Note Payable | (4,591) | (4,592) |
| Principal Payments on Capital Lease | (13,668) | (12,841) |
| Debt Forgiveness on Note Payable | (27,600) | - |
| | (1,125,067) | (1,021,672) |
| **NET (DECREASE)/INCREASE IN CASH** | (56,397) | 987,937 |
| **CASH, BEGINNING OF YEAR** | 2,720,817 | 1,732,880 |
| **CASH, END OF YEAR** | $ 2,664,420 | $ 2,720,817 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest Paid | $ 34,271 | $ 51,807 |
| Income Taxes Paid | $ - | $ - |

## NOTE 1 THE CENTER

Helen Woodward Animal Center (the "Center") is a Nonprofit Organization formed in California in June 1972. The Center was renamed in 1987 for Helen Woodward, the Center's founder and benefactor. The Center serves primarily San Diego County, California.

The Center conducts a variety of programs which benefit the community. The Center's pet placement service finds new homes for cats and dogs surrendered by their owners or rescued from organizations and cares for these animals prior to adoption. The Therapeutic Riding program benefits disabled children and adults, both physically and emotionally. The Pet Encounter Therapy program brings the joy of animals to persons confined in such facilities as homes for abused or homeless children, hospitals, and senior centers, and provides the same experience for groups that choose to visit the Center.

The Center also provides humane educational programs for children and adults on a variety of topics, including proper animal care and animal behavior, in hopes that participants gain greater respect and appreciation for all living things. The Center's auxiliary services include AniMeals pet food supplements for the pets of homebound adults and tours for children and seniors.

The Center maintains a community equine hospital and animal boarding facilities. The hospital serves as a surgical and diagnostic facility for horses and other large exotic animals. The Center grants hospital privileges to large animal veterinarians in the County. The Center's pet boarding facility provides care and individual attention for small animals, primarily cats and dogs.

The Center also operates a small animal hospital open to all cats, dogs and small exotic animals. The hospital offers a variety of services including pet vaccinations, pet dentistry and emergency care.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Center have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. New standards were issued regarding classification of endowment funds of nonprofits subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhanced disclosures for endowment. The State of California adopted UPMIFA in October 2008. The Center follows the new standards effective January 1, 2009.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and Cash Equivalents - The Center considers all investment instruments purchased with a maturity of three months or less to be cash equivalents. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash as of December 31, 2014 and 2013 are balances of $91,087 and $228,031, respectively, held in money market accounts.

Accounts Receivable - Accounts receivable totaling $86,084 and $66,301 net of an allowance for uncollectible accounts of $750 and $2,279 for the years ended December 31, 2014 and 2013, respectively, consist primarily of accounts receivable related to services performed at the equine hospital and sponsorships for special events that have occurred in the past year. Bad debts are accounted for using the specific identification method and are written-off after all collection attempts have been exhausted. Accordingly, bad debt expense is charged to operations in the year in which an account is determined uncollectible.

Inventory - Inventory consists of mostly pet supplies held for resale and is stated at the lower of cost or market. Cost is determined by the specific identification method.

Contributions - Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions Receivable - Contributions receivable consist of unconditional promises to give and are recorded in the year the promise is made. Conditional promises are not recognized until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated cash flows. The Center provides for probable losses on contributions receivable using the allowance method. The allowance is determined based on management's experience and collection efforts.

The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. The interest rate used in computing the discount of estimated future cash flows was 4% for pledges received in 2014 and 2013.

Investments - The Center reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

Fair Value Measurement - The Center follows accounting standards consistent with the FASB codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities.

Property and Equipment - Land, building and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restriction regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

| | |
|---|---|
| Land Improvements | 7 - 25 years |
| Building and Improvements | 3 - 25 years |
| Equipment | 3 - 18 years |
| Furniture and Fixtures | 3 - 20 years |
| Vehicles | 5 years |

The Center is currently raising funds for a capital campaign to renovate the Center. During 2011, the first of four construction phases was completed and placed in service. The Center has capitalized the costs related to the construction of the unfinished phases and will not begin depreciating those assets until they are placed in service. Construction in progress costs totaled $346,454 and $293,376 as of December 31, 2014 and 2013, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is relieved of any depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Unrestricted Net Assets - It is policy of the Board of Directors of the Center to review its plans for future operating funds, equipment acquisitions and other reserves from time to time and to designate appropriate sums to assure adequate financing of such items. At December 31, 2014 and 2013, unrestricted net assets totaling $3,796,032 and $3,790,063, respectively, have been designated by the Board of Directors as an endowment for the purpose of securing the Center's long term financial viability.

Contributed Services, Materials, Equipment, and Food - The Center has received substantial donations of materials, equipment, food, and professional services. The donations of materials, food and other assets are recorded at their fair market value. The value of the donations received not relating to special events totaled $130,662 and $147,624 for the years ended December 31, 2014 and 2013, respectively.

The nature and extent of donated and contributed services received by the Center ranges from the limited participation of many individuals in fundraising activities to active participation in the Center's management and service programs during 2014 and 2013. The value of contributed time is not reflected in these statements since they do not require specialized skills.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses - The Center allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Center's management.

The Center achieves some of its programmatic, management, and general goals in direct mail campaigns that consist of a newsletter that includes a request for contributions. The costs of conducting these campaigns include a total of $29,299 and $31,451 of joint costs for the years ended December 31, 2014 and 2013, respectively, not directly attributable to either program or management and general components or the fundraising component of the activities. These joint cost were allocated as follows:

| | 2014 | 2013 |
|---|---|---|
| Companion Animal Hospital | $ 981 | $ 1,474 |
| Equine Hospital | 981 | 1,474 |
| Adoptions | 8,894 | 5,079 |
| Boarding | 981 | 1,474 |
| Education | 981 | 1,474 |
| Therapeutic Riding | 981 | 1,474 |
| Pet Encounter Therapy | 981 | 1,474 |
| AniMeals | 981 | 1,474 |
| Management and General | 981 | 1,474 |
| Fundraising | 12,557 | 14,580 |
| | $ 29,299 | $ 31,451 |

Income Taxes - The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code.

The Center follows accounting standards which provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination. As of December 31, 2014 and 2013, the Center has not accrued interest or penalties related to uncertain tax positions. The Center files tax returns in the U.S. Federal jurisdiction and the State of California. The Center is no longer subject to U.S. and California examination by tax authorities for years before 2011 and 2010, respectively.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. This reclassification had no effect on total assets, liabilities, total net assets and changes in net assets.

## NOTE 3 NOTE RECEIVABLE FROM RELATED PARTY

The Center has a note receivable from the president of the Center. The note requires monthly payments of $1,575 with interest at 1.65%. The note is due by November, 2015 and is secured by a deed of trust in residential real estate.

## NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| * Bequests | $ 2,251,462 | $ 2,787,429 |
| Temporarily Restricted Pledges | 1,921,214 | 2,477,836 |
| | 4,172,676 | 5,265,265 |
| Less: Discount | (948,300) | (1,291,939) |
| | $ 3,224,376 | $ 3,973,326 |

The following is a schedule by years of future receipts for unrestricted and temporarily restricted pledges as of December 31:

| | |
|---|---|
| 2015 | $ 569,214 |
| 2016 | 452,000 |
| 2017 | 450,000 |
| 2018 | 450,000 |
| | $ 1,921,214 |

* Bequests are usually received within a two-year period following the death of donor, and are typically subject to court proceedings and the probate process. The Center has also received irrevocable bequests from donors who wish to make a contribution upon their death. These bequests have been discounted based on the life expectancy of the donors, using interest rates ranging from 1.97% to 3.72% for the years ended December 31, 2014 and 2013.

## NOTE 5 INVESTMENTS

Investments are stated at fair value and consist of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| Common Stocks | $ 5,078,380 | $ 5,251,281 |
| Mutual Funds | 1,772,586 | 1,475,808 |
| Managed Funds | 945,626 | 929,329 |
| Municipal Funds | 253,762 | 256,846 |
| Corporate Bonds | 100,115 | 104,192 |
| | $ 8,150,469 | $ 8,017,456 |

The following schedule summarizes the investment return of the assets held by the Center for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Net Realized and Unrealized Gain on Investments | $ 224,227 | $ 1,065,950 |
| Interest and Dividend Income | 166,123 | 160,335 |
| | $ 390,350 | $ 1,226,285 |

The Center paid investment fees of $77,693 and $73,891 related to these investments during the year ended December 31, 2014 and 2013, respectively.

## NOTE 6 CHARITABLE REMAINDER TRUSTS

The Center is the beneficiary of a charitable remainder trust administered by an outside trustee. The trust provides for the payment of distributions to a beneficiary over the term of the trust. At the end of the trust's term, the remaining assets are available for the Center's unrestricted use. The trust's assets consist of cash, investments and real property and were valued using a discount rate of 2.2% and 2.4% for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, the trust had a value of $350,000, and was shown net of a discount of $144,981. At December 31, 2013, the trust had a value of $375,000, and was shown net of a discount of $161,085.

## NOTE 6 CHARITABLE REMAINDER TRUSTS (continued)

The Center is the beneficiary of a charitable remainder trust administered by an outside trustee. The trust provides for the payment of distributions to a beneficiary over the term of the trust. At the end of the trust's term, the remaining assets are available for the Center's unrestricted use. The trust's assets consist of cash and investments and were valued using a discount rate of 2.2% and 2.4% for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, the trust had a value of $291,144, and was shown net of a discount of $46,447. At December 31, 2013, the trust had a value of $307,116, and was shown net of a discount of $51,979.

The Center was a beneficiary of a charitable remainder trust administered by an outside trustee. The trust provided for the payment of distributions to a beneficiary over the term of the trust. At the end of the trust's term, the remaining assets are available for the Center's unrestricted use. During 2013, the trust was liquidated the Center received their full portion of the proceeds.

## NOTE 7 LIFE INSURANCE PREMIUM ACCOUNT

The Center maintains a life insurance policy with a face value of $469,000 on a former key employee. The policy was originated under a split-dollar insurance agreement with the insured. In accordance with the agreement, the Center was to be repaid an amount equal to the cumulative total of its share of premiums on the policy. During 2006, the agreement was amended and the Center agreed to pay all premiums for the remainder of the policy, and in exchange, the former employee assigned his beneficiary interest in the policy to the Center. The Center records the policy at an estimated fair value using a discounted cash flow method. The face value of the policy is discounted based on the life expectancy of the insured and a 3% discount rate.

The life insurance policy carries a cash surrender value that is significantly less than the face amount of the policy. However, the Center does not intend to terminate or allow the policy to lapse.

## NOTE 8 FAIR VALUE MEASUREMENT

The Company follows the methods of fair value measurement to value its financial assets. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below:

**NOTE 8 FAIR VALUE MEASUREMENT (continued)**

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial assets and liabilities carried at fair value at December 31, 2014 and 2013 are classified below in one of three categories described above. The table below presents the balances of assets measured at fair value on a recurring basis.

| Assets | 2014 Level 1 | 2014 Level 2 | 2014 Level 3 | 2014 Total |
|---|---|---|---|---|
| Common Stocks: | | | | |
| US Large Cap | $ 3,575,670 | $ - | $ - | $ 3,575,670 |
| US Small-Mid Cap | 246,847 | - | - | 246,847 |
| International | 1,255,863 | - | - | 1,255,863 |
| Mutual Funds: | | | | |
| Multi-strategy Funds | 923,100 | - | - | 923,100 |
| Fixed Income Funds | 495,254 | - | - | 495,254 |
| Bond Funds | 247,048 | - | - | 247,048 |
| Int'l Fixed Income Funds | 78,096 | - | - | 78,096 |
| Real Estate Securities Funds | 29,088 | | | 29,088 |
| Privately Managed Funds: | | | | |
| US Small-Mid Cap | - | 708,866 | - | 708,866 |
| International | - | 236,760 | - | 236,760 |
| Government Bonds | - | 253,762 | | 253,762 |
| Corporate Bonds | - | 100,115 | | 100,115 |
| Charitable Remainder Trusts | - | 449,716 | - | 449,716 |
| Life Insurance Premium Account | - | 455,340 | - | 455,340 |
| | $ 6,850,966 | $ 2,204,559 | $ - | $ 9,055,525 |

## NOTE 8 FAIR VALUE MEASUREMENT (continued)

| Assets | 2013 Level 1 | 2013 Level 2 | 2013 Level 3 | 2013 Total |
|---|---|---|---|---|
| Common Stocks: | | | | |
| US Large Cap | $ 3,673,915 | $ - | $ - | $ 3,673,915 |
| US Small-Mid Cap | 548,153 | - | - | 548,153 |
| International | 1,029,216 | - | - | 1,029,216 |
| Mutual Funds: | | | | |
| Multi-strategy Funds | 648,450 | - | - | 648,450 |
| Fixed Income Funds | 492,712 | - | - | 492,712 |
| Bond Funds | 246,580 | - | - | 246,580 |
| Int'l Fixed Income Funds | 88,066 | - | - | 88,066 |
| Privately Managed Funds: | | | | |
| US Small-Mid Cap | - | 678,569 | - | 678,569 |
| International | - | 250,758 | - | 250,758 |
| Government Bonds | - | 256,847 | | 256,847 |
| Corporate Bonds | - | 104,193 | | 104,193 |
| Charitable Remainder Trusts | - | 469,052 | - | 469,052 |
| Life Insurance Premium Account | - | 455,340 | - | 455,340 |
| | $ 6,727,092 | $ 2,214,759 | $ - | $ 8,941,851 |

The investments in marketable securities and mutual funds are valued at market prices in active markets and are classified as Level 1. The investments in corporate bonds, privately managed funds and government obligations are valued using a bid-evaluation method which compares the corroborated indicative quotes and other observable market-based data. These investments are classified as Level 2.

The charitable remainder trusts assets are valued using a valuation model that calculates the net present value of estimated future cash flows and are classified as Level 2 (See Note 6).

The life insurance premium account is discounted based on life expectancy of the insured and are classified as Level 2 (See Note 7).

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis - The Center may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value usually result from the discounting of pledges to present value or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis in 2014 and 2013 that were still held in the balance sheet at each respective year end, the following table provides the fair value hierarchy and the carrying value of the related individual assets or portfolios at year end.

## NOTE 8 FAIR VALUE MEASUREMENT (continued)

| Assets | 2014 Level 1 | 2014 Level 2 | 2014 Level 3 | 2014 Total |
|---|---|---|---|---|
| Contributions Receivable | $ - | $ - | $ 3,224,376 | $ 3,224,376 |

| Assets | 2013 Level 1 | 2013 Level 2 | 2013 Level 3 | 2013 Total |
|---|---|---|---|---|
| Contributions Receivable | $ - | $ - | $ 3,973,326 | $ 3,973,326 |

The contributions receivable are valued using discounted cash flow and life expectancy models and are classified as a Level 3.

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2014:

| | Contributions Receivable |
|---|---|
| Balance at January 1, 2014 | $ 3,973,326 |
| New Pledges Received | 140,762 |
| Collections | (1,233,353) |
| Discount on Pledges | 343,641 |
| Balance at December 31, 2014 | $ 3,224,376 |

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2013:

| | Contributions Receivable |
|---|---|
| Balance at January 1, 2013 | $ 1,165,991 |
| New Pledges Received | 6,960,899 |
| Collections | (2,925,360) |
| Discount on Pledges | (1,228,204) |
| Balance at December 31, 2013 | $ 3,973,326 |

## NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| Building and Improvements | $ 15,940,222 | $ 15,912,556 |
| Equipment | 2,363,752 | 2,267,160 |
| Furniture and Fixtures | 838,331 | 835,739 |
| Land and Improvements | 781,070 | 781,070 |
| Construction in Progress | 346,454 | 293,376 |
| Vehicles | 282,098 | 226,448 |
| | 20,551,927 | 20,316,349 |
| Accumulated Depreciation | (9,905,275) | (9,120,639) |
| | $ 10,646,652 | $ 11,195,710 |

Depreciation expense was $784,637 and $757,907 for the years ended December 31, 2014 and 2013, respectively.

## NOTE 10 INVESTMENT IN SAN DIEGO FOUNDATION

The Center has investments held by the San Diego Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The income from these investments is kept inside the account as part of an endowment. The investments are carried at fair value and totaled $15,219 and $15,251 at December 31, 2014 and 2013, respectively.

## NOTE 11 INVESTMENT IN RANCHO SANTA FE FOUNDATION

The Center has investments held by the Rancho Santa Fe Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The income from these investments is kept inside the account as part of an endowment. The investments are carried at fair value and totaled $19,529 and $18,721 at December 31, 2014 and 2013, respectively.

## NOTE 12 DEFERRED COMPENSATION

In April 1987, the Center entered into an employment agreement with a former key employee, which included the establishment of an unfunded nonqualified deferred compensation arrangement that included health insurance premiums. Generally accepted accounting principles require that the Center recognize a liability for the cost of unfunded deferred compensation arrangements and post employment health insurance benefits. The liability at the end of each year represents the present value of the benefits expected to be paid and totaled $43,527 and $42,963 at December 31, 2014 and 2013, respectively. Each year the Center recognizes an expense equal to the change in the liability based on a 5% discount factor. Total expenses related to this agreement were $2,218 for the years December 31, 2014 and 2013.

## NOTE 13 LINE OF CREDIT

The Center had a $3,000,000 line of credit with California Bank & Trust which was set to expire on February 1, 2016. The line of credit was paid off and subsequently closed in June 2014. As on December 31, 2014 and 2013, the Center had and outstanding balance of $0 and $1,079,208, respectively drawn against the line of credit. The line of credit beared a variable interest rate of 5% at December 31, 2014 and 2013, and was collateralized by substantially all business assets.

## NOTE 14 NOTES PAYABLE

| | 2014 | 2013 |
|---|---|---|
| Laboratory Service Provider<br>Annual Principal payments of $13,800<br>plus interest at 7.0%<br>due March 2017<br>The note is unsecured | $ 41,400 | $ 69,000 |
| Ally Financial<br>$383 per month; 0% interest<br>Due May 2016<br>Secured by the underlying vehicle | 6,123 | 10,714 |
| | $ 47,523 | $ 79,714 |

## NOTE 14 NOTES PAYABLE (continued)

The following is a summary of principal maturities of long-term debt for the next five years:

| | | |
|---|---|---|
| 2015 | $ | 18,393 |
| 2016 | | 15,330 |
| 2017 | | 13,800 |
| | $ | 47,523 |

## NOTE 15 CAPITAL LEASE OBLIGATION

The Center is leasing medical equipment classified as a capital lease. The economic substance of this lease is that the Center is financing the acquisition of the equipment through the lease and, accordingly, it is recorded in the Center's assets and liabilities. Included in property and equipment on the accompanying statement of financial position as of December 31, 2014, is equipment acquired under a capital lease with a capitalized cost of $70,050, less accumulated depreciation of $28,327. Depreciation of assets under capital lease charged to expense totaled $10,623 for the year ended December 31, 2014.

During 2014, the Center had the following capital lease obligation:

| | | |
|---|---|---|
| Choice Health<br>Equipment Lease<br>$1,391 per month; 6.26% annual interest<br>Due August 2018<br>Secured by the underlying equipment | $ | 40,908 |

Future minimum lease payments under capital leases as of December 31, 2014 for each of the remaining years and in the aggregate are as follows:

| | | |
|---|---|---|
| 2015 | $ | 16,696 |
| 2016 | | 16,696 |
| 2017 | | 11,130 |
| | | 44,522 |
| Less: Amounts Representing Interest | | (3,614) |
| Present Value of Minimum Lease Payments | $ | 40,908 |

## NOTE 16 RETIREMENT PLAN

The Center maintains a tax deferred qualified plan under Section 403(b) of the Internal Revenue Code. Eligible employees may contribute a percentage of their compensation to the plan. The Center matches a portion of the employee's contribution for all eligible employees hired before January 1, 2009. The Center also pays all of the administrative and investment fees for the plan. The total expenses related to the plan for the years ended December 31, 2014 and 2013 were approximately $75,900 and $73,300, respectively.

While the Center expects to continue the plan indefinitely, it has reserved the right to modify, amend, or terminate the plan. In the event of termination, the entire amount contributed under the plan must be applied to the payment of benefits to the participants or their beneficiaries.

## NOTE 17 NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

| | 2014 | 2013 |
|---|---|---|
| Equine Hospital Operations | $ 2,467,332 | $ 2,485,630 |
| Charitable Remainder Trusts | 449,716 | 469,052 |
| AniMeals Operations | 230,676 | 155,191 |
| Therapeutic Riding Operations | 157,560 | - |
| Pet Encounter Therapy Operations | 106,990 | 120,838 |
| Equine Hospital Equipment | 45,421 | 29,450 |
| Equine Hospital Funds | 23,077 | 32,062 |
| Adoptions Training | 12,555 | 14,255 |
| Adoptions Operations and Supplies | 8,922 | 4,950 |
| General Obligations and Equipment | 8,837 | 6,852 |
| Equine Hospital Emergency Services | 4,686 | 14,686 |
| Education Operations and Programs | 1,663 | 3,597 |
| Club Pet Employee Services | 1,114 | - |
| Therapeutic Riding Equipment | 1,109 | 1,145 |
| Adoptions Emergency Medical Fund | 918 | 1,201 |
| Adoptions Equipment | 548 | 16,597 |
| | | |
| Contributions Receivable in Future Years: | | |
| Restricted Pledges (Net of Discount) | 1,698,791 | 2,148,453 |
| Bequests (Net of Discount) | 1,404,447 | 1,662,649 |
| Capital Campaign (Net of Discount) | 121,137 | 162,224 |
| | $ 6,745,501 | $ 7,328,832 |

**NOTE 17 NET ASSETS (continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows:

| | 2014 | 2013 |
|---|---|---|
| Adoptions Operations and Supplies | $ 376,979 | $ 322,790 |
| Therapeutic Riding Operations | 201,307 | 158,792 |
| Equine Hospital Operations | 192,585 | 47,026 |
| Pet Encounter Therapy Operations | 105,354 | 107,184 |
| General Obligations | 87,378 | 166,173 |
| Adoptions Emergency Medical Fund | 84,919 | 76,521 |
| AniMeals Operations | 52,717 | 23,816 |
| Adoptions Training and Grants | 50,613 | 58,057 |
| Adoptions Equipment | 30,429 | 22,792 |
| Equine Hospital Equipment | 26,135 | 55,531 |
| Pet Encounter Therapy Equipment | 26,735 | 26,735 |
| Foster a Horse Program | 4,570 | 4,900 |
| Education Operations and Programs | 4,310 | 2,317 |
| Education Scholarship | 1,195 | - |
| Club Pet Employee Services | 893 | 209 |
| Companion Animal Hospital Operations | 100 | - |
| Therapeutic Riding Scholarships | 30 | 5,452 |
| Adoptions Spay/Neuter | 3 | 100 |
| Therapeutic Riding Equipment and Building | - | 1,964 |
| AniMeals Equipment | - | 516 |
| Contributions Receivable in Future Years: | | |
| Bequests | 549,702 | 197,686 |
| General Operations | 450,000 | 450,000 |
| Capital Campaign | 165,066 | 2,277,674 |
| | $ 2,411,020 | $ 4,006,235 |

At December 31, 2014 and 2013, permanently restricted net assets totaling $1,634,952 resulted from donations received with the stipulation that they be invested to provide a permanent source of income.

## NOTE 18 ENDOWMENT FUND

The Center is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Center's Board of Directors has interpreted the UPMIFA as permitting the expenditure or accumulation of as much of permanent endowment funds as the Center determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund was established, even if this results in the occasional invasion of the endowments historical gift value. Thus, at times, the value of donor-restricted assets may fall below the level that a donor requires the Center to maintain as permanently restricted net assets. As of December 31, 2014 and 2013, the value of the donor-restricted assets had not fallen below the original donated level.

The Center classifies as permanently restricted endowment net assets (a) the original value of gifts used to establish permanent endowments and (b) the original value of subsequent gifts to permanent endowments: collectively known as "historical gift value". Board designated endowment funds are classified as unrestricted net assets, available to be appropriated for expenditure by the Center.

Included in investments on the Statement of Financial Position are permanently restricted and board designated long-term investments held in an endowment fund. The objective of the endowment fund is to support the continuing operations of the Center. The Center's Board of Directors have delegated authority over the investment of the Endowment Fund to the Investment Committee (the "Committee"). The Committee is responsible for the oversight of the investments of the Endowment Fund and for reporting on the Fund's performance to the Board. The Committee is authorized to retain an investment manager to make investment decisions.

To achieve the desired objective, the Center has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to meet the annual distribution policy rules while growing the fund if possible. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment payout is defined as a fixed percentage currently set at 5% of the market value of the Endowment Funds. This amount will be available for center wide operating purposes, including investment management fees for the Endowment Fund.

**NOTE 18 ENDOWMENT FUND (continued)**

The portion of the Endowment Fund that is classified as permanently restricted is not reduced by losses on the investments of the fund. Losses on the investments of permanently restricted funds reduce the temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets.

During 2014, the Center had the following endowment related activities:

| | Permanently Restricted Funds | Board Designated Funds | Total |
|---|---|---|---|
| Investment Income | $ 73,331 | $ 258,905 | $ 332,236 |
| Unrealized Loss on Investments | (18,041) | (56,715) | (74,756) |
| Principal Payments on Notes Receivable | - | 78,000 | 78,000 |
| Amounts Appropriated for Expenditure | (61,637) | (217,618) | (279,255) |
| Investment and Trustee Fees | (11,093) | (39,163) | (50,256) |
| Total Change in Endowment Funds | $ (17,440) | $ 23,409 | $ 5,969 |

During 2013, the Center had the following endowment related activities:

| | Permanently Restricted Funds | Board Designated Funds | Total |
|---|---|---|---|
| Investment Income | $ 45,057 | $ 159,078 | $ 204,135 |
| Unrealized Gain on Investments | 159,760 | 486,646 | 646,406 |
| Principal Payments on Notes Receivable | - | 57,000 | 57,000 |
| Intercompany Loan Transactions | - | (25,675) | (25,675) |
| Amounts Appropriated for Expenditure | (56,821) | (200,611) | (257,432) |
| Investment and Trustee Fees | (10,511) | (37,109) | (47,620) |
| Total Change in Endowment Funds | $ 137,485 | $ 439,329 | $ 576,814 |

## NOTE 18 ENDOWMENT FUND (continued)

Endowment net asset composition by type of fund as of December 31, 2014.

| | Permanently Restricted | Unrestricted | Endowment Net Assets |
|---|---|---|---|
| Donor-Restricted Endowment Funds | $ 1,634,952 | $ - | $ 1,634,952 |
| Board-Designated Endowment Funds | - | 3,796,032 | 3,796,032 |
| Total Funds | $ 1,634,952 | $ 3,796,032 | $ 5,430,984 |

Changes in endowment net assets as of December 31, 2014 are as follows:

| | Permanently Restricted | Board Designated Unrestricted | Total Endowment Net Assets |
|---|---|---|---|
| Endowment Net Assets, | | | |
| Beginning of Year | $ 1,634,952 | $ 3,790,063 | $ 5,425,015 |
| Investment Income | - | 332,236 | 332,236 |
| Unrealized Gain on Investments | - | (74,756) | (74,756) |
| Principal Payments on Notes Receivable | - | 78,000 | 78,000 |
| Amounts Appropriated For Expenditure | - | (279,255) | (279,255) |
| Investment and Trustee Fees | - | (50,256) | (50,256) |
| Endowment Net Assets, | | | |
| End of Year | $ 1,634,952 | $ 3,796,032 | $ 5,430,984 |

Endowment net asset composition by type of fund as of December 31, 2013.

| | Permanently Restricted | Unrestricted | Endowment Net Assets |
|---|---|---|---|
| Donor-Restricted Endowment Funds | $ 1,634,952 | $ - | $ 1,634,952 |
| Board-Designated Endowment Funds | - | 3,790,063 | 3,790,063 |
| Total Funds | $ 1,634,952 | $ 3,790,063 | $ 5,425,015 |

**NOTE 18 ENDOWMENT FUND (continued)**

Changes in endowment net assets as of December 31, 2013 are as follows:

| | Permanently Restricted | Unrestricted | Total Endowment Net Assets |
|---|---|---|---|
| Endowment Net Assets, | | | |
| Beginning of Year | $ 1,634,952 | $ 3,213,249 | $ 4,848,201 |
| Investment Income | - | 204,135 | 204,135 |
| Unrealized Loss on Investments | - | 646,406 | 646,406 |
| Principal Payments on Notes Receivable | - | 57,000 | 57,000 |
| Intercompany Loan Transactions | - | (25,675) | (25,675) |
| Amounts Appropriated For Expenditure | - | (257,432) | (257,432) |
| Investment and Trustee Fees | - | (47,620) | (47,620) |
| Endowment Net Assets, | | | |
| End of Year | $ 1,634,952 | $ 3,790,063 | $ 5,425,015 |

**NOTE 19 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 10, 2015, the date which the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements.