

**NASHVILLE HUMANE ASSOCIATION
AND SUPPORTING FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

December 31, 2012 AND 2011

**NASHVILLE HUMANE ASSOCIATION
AND SUPPORTING FOUNDATION**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nashville Humane Association and Supporting Foundation
Nashville, Tennessee

We have audited the accompanying consolidated financial statements of Nashville Humane Association and Supporting Foundation (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nashville Humane Association and Supporting Foundation as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained on pages 20 – 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Frasier, Dean & Howard, PLLC

June 13, 2013

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,131,801	\$ 1,559,574
Contribution receivable	-	40,000
Prepaid expenses and other	<u>4,094</u>	<u>4,094</u>
Total current assets	1,135,895	1,603,668
Beneficial interests in trusts	786,436	782,189
Investments	12,501,698	11,123,335
Land, building and equipment, net	<u>2,485,108</u>	<u>2,571,105</u>
Total assets	<u><u>\$ 16,909,137</u></u>	<u><u>\$16,080,297</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	<u>\$ 9,866</u>	<u>\$ 1,092</u>
Total current liabilities	<u>9,866</u>	<u>1,092</u>
Net assets:		
Unrestricted:		
Undesignated	2,958,222	3,438,497
Designated for endowment	<u>10,822,320</u>	<u>9,495,102</u>
Total unrestricted	13,780,542	12,933,599
Temporarily restricted	632,543	665,211
Permanently restricted	<u>2,486,186</u>	<u>2,480,395</u>
Total net assets	<u>16,899,271</u>	<u>16,079,205</u>
Total liabilities and net assets	<u><u>\$ 16,909,137</u></u>	<u><u>\$16,080,297</u></u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Donations	\$ 759,524	\$ 26,177	\$ -	\$ 785,701
Auxiliary fundraisers	451,914	-	-	451,914
In-kind donations	268,709	-	-	268,709
Grants	256,381	-	-	256,381
Net assets released from restriction	57,301	(57,301)	-	-
Total public support	<u>1,793,829</u>	<u>(31,124)</u>	<u>-</u>	<u>1,762,705</u>
Revenue:				
Adoptions	199,829	-	-	199,829
Other program services	89,525	-	-	89,525
Investment income	974,080	-	-	974,080
Change in value of beneficial interest in trusts	-	(1,544)	5,791	4,247
Total revenue	<u>1,263,434</u>	<u>(1,544)</u>	<u>5,791</u>	<u>1,267,681</u>
Total public support and revenue	<u>3,057,263</u>	<u>(32,668)</u>	<u>5,791</u>	<u>3,030,386</u>
Expenses:				
Program services:				
Shelter operations	1,207,266	-	-	1,207,266
Rover	302,799	-	-	302,799
CSNP	213,656	-	-	213,656
Total program services	<u>1,723,721</u>	<u>-</u>	<u>-</u>	<u>1,723,721</u>
Supporting services:				
Management and general	172,347	-	-	172,347
Fundraising	314,252	-	-	314,252
Total supporting services	<u>486,599</u>	<u>-</u>	<u>-</u>	<u>486,599</u>
Total expenses	<u>2,210,320</u>	<u>-</u>	<u>-</u>	<u>2,210,320</u>
Change in net assets	846,943	(32,668)	5,791	820,066
Net assets at beginning of year	<u>12,933,599</u>	<u>665,211</u>	<u>2,480,395</u>	<u>16,079,205</u>
Net assets at end of year	<u>\$ 13,780,542</u>	<u>\$ 632,543</u>	<u>\$ 2,486,186</u>	<u>\$ 16,899,271</u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Donations	\$ 990,042	\$ 58,895	\$ -	\$ 1,048,937
Auxiliary fundraisers	464,663	-	-	464,663
In-kind donations	148,747	-	-	148,747
Grants	240,300	-	-	240,300
Net assets released from restriction	402,977	(402,977)	-	-
Total public support	2,246,729	(344,082)	-	1,902,647
Revenue:				
Adoptions	194,672	-	-	194,672
Other program services	74,484	-	-	74,484
Investment income	574,174	-	-	574,174
Change in value of beneficial interest in trusts	-	(77,805)	(18,426)	(96,231)
Total revenue	843,330	(77,805)	(18,426)	747,099
Total public support and revenue	3,090,059	(421,887)	(18,426)	2,649,746
Expenses:				
Program services:				
Shelter operations	1,233,519	-	-	1,233,519
Rover	263,025	-	-	263,025
CSNP	217,508	-	-	217,508
Total program services	1,714,052	-	-	1,714,052
Supporting services:				
Management and general	202,303	-	-	202,303
Fundraising	275,204	-	-	275,204
Total supporting services	477,507	-	-	477,507
Total expenses	2,191,559	-	-	2,191,559
Change in net assets	898,500	(421,887)	(18,426)	458,187
Net assets at beginning of year	12,035,099	1,087,098	2,498,821	15,621,018
Net assets at end of year	\$ 12,933,599	\$ 665,211	\$ 2,480,395	\$ 16,079,205

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Program Services			Supporting Services		
	Shelter Operations	Rover	CSNP	Management and General	Fundraising	Total Expenses
Salaries	\$ 453,628	\$ 118,936	\$ 63,751	\$ 35,244	\$ 71,765	\$ 107,009
Shelter supplies	222,719	11,060	7,668	-	-	-
Payroll taxes and employee benefits	110,857	29,066	15,579	8,613	17,538	26,151
Vet fees	48,661	70,431	47,679	-	-	-
Vet supplies	75,936	37,404	42,730	-	-	-
Fundraising events	-	-	-	-	-	-
Depreciation	69,263	10,038	15,057	-	130,234	130,234
Marketing	-	-	-	6,023	-	6,023
Utilities	53,225	8,629	11,576	-	93,669	93,669
Repairs and maintenance	63,653	568	-	4,630	-	4,630
Legal and professional	-	-	-	-	-	-
Insurance	27,558	3,994	5,992	59,129	-	59,129
Advocacy and continuing education	38,814	235	-	2,396	-	2,396
Telephone	12,227	3,777	3,624	-	-	-
Office expense	-	76	-	2,299	1,046	3,345
Bank charges and investment fees	-	-	-	19,393	-	19,393
Auto and truck expenses	8,103	8,291	-	16,465	-	16,465
Technology	-	-	-	-	-	-
Miscellaneous	7,584	294	-	12,850	-	12,850
Equipment rental	6,860	-	-	-	-	-
Cremation services	6,807	-	-	-	-	-
Taxes and licenses	-	-	-	-	-	-
Laundry and uniforms	1,371	-	-	2,560	-	2,560
				-	-	1,371
	\$ 1,207,266	\$ 302,799	\$ 213,656	\$ 169,602	\$ 314,252	\$ 483,854
				\$ 1,723,721		\$ 2,207,575

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Program Services			Supporting Services		
	Shelter Operations	Rover	CSNP	Management and General	Fundraising	Total Expenses
Salaries	\$ 442,367	\$ 87,036	\$ 56,702	\$ 586,105	\$ 105,614	\$ 1,54,522
Shelter supplies	209,012	7,043	8,176	224,231	-	-
Payroll taxes and employee benefits	105,656	20,788	13,543	139,987	25,225	36,906
Vet fees	48,749	73,048	52,966	174,763	-	-
Fundraising events	-	-	-	-	143,464	143,464
Vet supplies	64,332	30,455	47,404	142,191	-	-
Depreciation	73,357	10,632	15,947	99,936	-	6,379
Utilities	56,295	8,159	12,238	76,692	-	4,895
Repairs and maintenance	70,627	805	-	71,432	-	-
Legal and professional	-	-	-	-	-	-
Advocacy and continuing education	51,815	499	-	52,314	-	67,311
Insurance	35,030	5,077	7,615	47,722	-	-
Community outreach	38,381	-	-	38,381	-	3,046
Office expense	-	305	-	305	-	-
Auto and truck expenses	5,272	16,032	-	21,304	-	21,418
Telephone	9,876	3,146	2,917	15,939	901	21,723
Bank charges and investment fees	-	-	-	-	-	-
Technology	-	-	-	-	-	-
Miscellaneous	8,408	-	-	8,408	-	3,509
Equipment rental	7,172	-	-	7,172	-	18,540
Cremation services	5,559	-	-	5,559	-	16,523
Laundry and uniforms	1,611	-	-	1,611	-	-
Taxes and licenses	-	-	-	-	-	994
	\$ 1,233,519	\$ 263,025	\$ 217,508	\$ 1,714,052	\$ 275,204	\$ 477,507
				\$ 202,303		\$ 2,191,559

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 820,066	\$ 458,187
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	100,381	106,315
Unrealized gain on investments	(708,797)	(269,321)
Change in value of beneficial interest in trusts	(4,247)	96,231
Change in operating assets and liabilities:		
Contribution receivable	40,000	340,834
Prepaid expenses and other	-	5,748
Accounts payable	<u>8,774</u>	<u>(12,170)</u>
Net cash provided by operating activities	<u>256,177</u>	<u>725,824</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(14,384)	(1,423)
Purchase of investments	(6,586,877)	(1,533,334)
Proceeds from sale of investments	<u>5,917,311</u>	<u>1,050,053</u>
Net cash used in investing activities	<u>(683,950)</u>	<u>(484,704)</u>
(Decrease) increase in cash and cash equivalents	(427,773)	241,120
Cash and cash equivalents at beginning of year	<u>1,559,574</u>	<u>1,318,454</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,131,801</u></u>	<u><u>\$ 1,559,574</u></u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Nashville Humane Association is a nonprofit organization formed in 1946 to provide food, shelter, and medical treatment to lost, abandoned, and injured animals and to prevent cruelty to animals.

Nashville Humane Association Supporting Foundation is an affiliated nonprofit organization formed in 2004 to raise, manage, and distribute funds exclusively for the benefit of the Nashville Humane Association.

Principles of Consolidation

The consolidated statements include the accounts and activities of Nashville Humane Association and Nashville Humane Association Supporting Foundation referred herein as the “Association”. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets

Undesignated – Net assets that are not subject to donor-imposed stipulations.

Designated – Net assets currently designated by the Board of Directors for endowment.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned and any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association considers all cash and related short-term investments with original maturities of three months or less to be cash equivalents.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contribution Receivable

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the consolidated statements of activities as unrestricted.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Gains or losses on such investments are reported as a change in net assets in the period they occur.

Fair Value Measurements

The Association has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

- Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The following is a description of the valuation methodology used for asset measurement at fair value at December 31, 2012 and 2011:

Fixed income securities and common stock mutual funds: Valued at the net asset value (“NAV”) of shares held by the Association at year end.

Beneficial interests in trusts: Valued using information obtained from third party sources, including financial statements and other information from detailed listing of holdings from the trust. These valuations are typically performed annually, based on the present value of the estimated future distributions the Association expects to receive over the term of the trust.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association’s management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Land, Building and Equipment

Land, building and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets. It is the Association’s policy to capitalize any expenditures over \$500 for property and equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

Income Taxes

The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Association is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Association follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

upon ultimate settlement. Tax years that remain open for examination include years ended December 31, 2010 through December 31, 2012. There are no tax penalties or interest reported in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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

In-kind Donations

In-kind donations are recognized at the fair value of items received at the time of donation. Volunteer time is recognized to the extent such time is provided by individuals with specialized training and which would normally need to be purchased. The Association also receives volunteer services from a number of individuals in carrying out its programs that do not meet the criteria for recognition in the financial statements.

Beneficial Interests in Trusts

Accounting standards require that the following instruments be recorded as a contribution and an asset at the present value of the Association's ultimate interest:

Charitable Remainder Trusts

A donor has established and funded trusts under which specified distributions are to be made to a designated beneficiary over the trusts' term. Upon termination of the trusts, the Association receives a portion of the assets remaining in the trusts.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Trusts (Continued)

Charitable Lead Trust

A donor has established and funded a trust designating the Association as a beneficiary of specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is to be paid to a beneficiary designated by the donor.

Perpetual Trusts Held by a Third Party

Donors have established and funded trusts naming outside fiscal agents to invest and manage the trust assets in perpetuity. The Association, each year, will receive a pro-rata share of income from the trust assets in perpetuity.

Endowment Funds

The Uniform Prudent Management Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The Not-for-Profit topic of the Financial Accounting Standards Board Accounting Standards Codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds, a description of the organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization’s endowment investment policies, and additional disclosures not previously required.

Subsequent Events

The Association evaluated subsequent events through June 13, 2013, when these consolidated financial statements were available to be issued. The Association is not aware of any significant events that occurred subsequent to the consolidated statement of financial position date but prior to the filing of this report that would have a material impact on the consolidated financial statements.

NOTE 2 – CONTRIBUTION RECEIVABLE

Contribution receivable consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Promise to give	\$ -	\$ 40,000

The promise to give was received subsequent to December 31, 2011. Accordingly, no allowance for doubtful accounts had been provided at December 31, 2011.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 3 – INVESTMENTS

Investments are stated at fair value with fair value, determined based on active markets (Level 1), and consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Fixed income securities:		
United States Treasury Notes	\$ 6,850,789	\$ 5,482,163
Common stock mutual funds:		
Large blend	<u>5,650,909</u>	<u>5,641,172</u>
	<u>\$ 12,501,698</u>	<u>\$ 11,123,335</u>

The following schedule summarizes the investment return for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 265,283	\$ 304,853
Unrealized gains, net	<u>708,797</u>	<u>269,321</u>
	<u>\$ 974,080</u>	<u>\$ 574,174</u>

NOTE 4 – BENEFICIAL INTERESTS IN TRUSTS

The Association has been named as one of three beneficiaries of charitable remainder trusts, held and administrated by a third party. The Association receives a portion of the assets remaining in the trusts upon termination of the trusts. Based upon earnings at an estimated rate of 8% over the life of the trust, 8% annual distribution to an unrelated specified beneficiary over their lifetime, and a 1.9% discount rate, the present value of future benefits expected to be received by the Association totaled approximately \$578,000 as of December 31, 2012 and 2011.

A donor has established a trust held by a third party naming the Association as a beneficiary of a charitable lead trust. Under terms of the split-interest agreement, the Association is to receive 20% of 5% of the trust assets annually for its unrestricted use for a period of fifteen years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 5% over the life of the trust and a 1.18% discount rate, the present value of future benefits expected to be received by the Association totaled approximately \$17,000 and \$18,000 at December 31, 2012 and 2011, respectively.

The Association is one of five beneficiaries of a perpetual trust. The assets of the trust, totaling approximately \$1,172,000 and \$1,128,000 at December 31, 2012 and 2011, respectively, are held and administered by an outside fiscal agent. The Association is the beneficiary of an additional perpetual trust. The assets of the trust, totaling approximately \$74,000 and \$73,000 at December 31, 2012 and 2011, respectively, are also held and administered by an outside fiscal agent.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 4 – BENEFICIAL INTERESTS IN TRUSTS (Continued)

The Association has recorded assets, which are considered permanently restricted, of approximately \$191,000 and \$185,000 at December 31, 2012 and 2011, respectively, representing its beneficial interest in the trusts based on the present value of amounts to be received. The Association received approximately \$9,000 and \$1,500 available to the Association from these trusts for the years ended December 31, 2012 and 2011, respectively.

NOTE 5 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 426,395	\$ 426,395
Building	2,674,376	2,674,376
Furniture and fixtures	59,843	59,843
Equipment	545,527	531,143
Works of art	16,625	16,625
Vehicles	<u>274,240</u>	<u>274,240</u>
	3,997,006	3,982,622
Less: accumulated depreciation	<u>(1,511,898)</u>	<u>(1,411,517)</u>
	<u>\$ 2,485,108</u>	<u>\$ 2,571,105</u>

Depreciation expense totaled \$100,381 and \$106,315 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Relief aid	\$ 11,092	\$ 11,092
Teddy Wagon	26,201	17,325
Promise to give	-	40,000
Beneficial interest in trusts	<u>595,250</u>	<u>596,794</u>
	<u>\$ 632,543</u>	<u>\$ 665,211</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the operations of the Association. Permanently restricted net assets totaled \$2,486,186 and \$2,480,395 at December 31, 2012 and 2011, respectively.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 7 – IN-KIND DONATIONS

The Association receives a significant amount of donated services and items from unpaid volunteers who assist in fundraising, animal care, and special projects. The amount meeting accounting criteria described in Note 1 and recognized in the accompanying financial statements for the years ended December 31, 2012 and 2011 totaled \$268,709 and \$148,747, respectively.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Association has established a Simple IRA Retirement Plan. Under the terms of the plan, the Association will provide a matching contribution up to a maximum of 3% of each eligible employee's annual compensation. Employees are eligible to participate in the plan once compensation exceeds \$1,000 or upon completion of one year of service. Employer contributions totaled \$14,235 and \$12,127 for the years ended December 31, 2012 and 2011, respectively.

NOTE 9 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE INVESTMENTS

The Community Foundation of Middle Tennessee ("the Community Foundation"), a separate nonprofit organization, maintains investments on behalf of the Association. The Community Foundation has ultimate authority and control over the investments; accordingly, the net assets of the Association do not include these investments.

The Association does anticipate receiving periodic investment earnings on its pro-rata share of the Community Foundation's assets. The balance of the endowment fund held for the benefit of the Association totaled approximately \$2 million at December 31, 2012 and 2011. The Association received approximately \$98,000 and \$96,000 from these investments for the years ended December 31, 2012 and 2011, respectively.

NOTE 10 – ENDOWMENT

The Association's endowment was established to further its programs. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the UPMIFA as requiring that the Association classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) 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 remaining portion of the donor-restricted endowment fund that is not

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 10 – ENDOWMENT (Continued)

classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

Endowment net asset composition by type of fund for the year ended December 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,295,000	\$ 2,295,000
Board-designated endowment funds	<u>10,822,320</u>	<u>-</u>	<u>10,822,320</u>
Total funds	<u>\$ 10,822,320</u>	<u>\$ 2,295,000</u>	<u>\$ 13,117,320</u>

Changes in endowment net assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,495,102	\$ 2,295,000	\$ 11,790,102
Investment return	974,156	-	974,156
Transfers	355,807	-	355,807
Expenditures	<u>(2,745)</u>	<u>-</u>	<u>(2,745)</u>
Endowment net assets, end of year	<u>\$ 10,822,320</u>	<u>\$ 2,295,000</u>	<u>\$ 13,117,320</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 10 – ENDOWMENT (Continued)

Endowment net asset composition by type of fund for the year ended December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,295,000	\$ 2,295,000
Board-designated endowment funds	<u>9,495,102</u>	<u>-</u>	<u>9,495,102</u>
Total funds	<u>\$ 9,495,102</u>	<u>\$ 2,295,000</u>	<u>\$ 11,790,102</u>

Changes in endowment net assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,570,244	\$ 2,295,000	\$ 10,865,244
Investment return	574,130	-	574,130
Transfers	353,648	-	353,648
Expenditures	<u>(2,920)</u>	<u>-</u>	<u>(2,920)</u>
Endowment net assets, end of year	<u>\$ 9,495,102</u>	<u>\$ 2,295,000</u>	<u>\$ 11,790,102</u>

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide a real total return, net of investment management fees, that is consistent with spending policy requirements. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Association's investment policy is to generally maintain 0%-20% in cash and cash equivalents, 25%-100% in fixed income securities, and 0%-75% in domestic equities.

The Association may authorize a distribution of up to 5% of the market value calculated on a rolling three-year average market value. No distributions were made in 2012 or 2011.

ADDITIONAL INFORMATION

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2012

	<u>Nashville Humane Association</u>	<u>Nashville Humane Association Supporting Foundation</u>	<u>Consolidated</u>
Current assets:			
Cash and cash equivalents	\$ 515,638	\$ 616,163	\$ 1,131,801
Prepaid expenses and other	4,094	-	4,094
Total current assets	519,732	616,163	1,135,895
Beneficial interests in trusts	786,436	-	786,436
Investments	541	12,501,157	12,501,698
Land, building and equipment, net	2,485,108	-	2,485,108
Total assets	<u>\$ 3,791,817</u>	<u>\$ 13,117,320</u>	<u>\$ 16,909,137</u>
Current liabilities:			
Accounts payable	\$ 9,866	\$ -	\$ 9,866
Total current liabilities	<u>9,866</u>	<u>-</u>	<u>9,866</u>
Net assets:			
Unrestricted			
Undesignated	2,958,222	-	2,958,222
Designated	-	10,822,320	10,822,320
Total unrestricted	2,958,222	10,822,320	13,780,542
Temporarily restricted	632,543	-	632,543
Permanently restricted	191,186	2,295,000	2,486,186
Total net assets	<u>3,781,951</u>	<u>13,117,320</u>	<u>16,899,271</u>
Total liabilities and net assets	<u>\$ 3,791,817</u>	<u>\$ 13,117,320</u>	<u>\$ 16,909,137</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2011

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
Current assets:			
Cash and cash equivalents	\$ 892,298	\$ 667,276	\$ 1,559,574
Contribution receivable	40,000	-	40,000
Prepaid expenses and other	4,094	-	4,094
Total current assets	936,392	667,276	1,603,668
Beneficial interests in trusts	782,189	-	782,189
Investments	509	11,122,826	11,123,335
Land, building and equipment, net	2,571,105	-	2,571,105
Total assets	<u>\$ 4,290,195</u>	<u>\$ 11,790,102</u>	<u>\$ 16,080,297</u>
Current liabilities:			
Accounts payable	\$ 1,092	\$ -	\$ 1,092
Total current liabilities	<u>1,092</u>	<u>-</u>	<u>1,092</u>
Net assets:			
Unrestricted			
Undesignated	3,438,497	-	3,438,497
Designated	-	9,495,102	9,495,102
Total unrestricted	3,438,497	9,495,102	12,933,599
Temporarily restricted	665,211	-	665,211
Permanently restricted	185,395	2,295,000	2,480,395
Total net assets	<u>4,289,103</u>	<u>11,790,102</u>	<u>16,079,205</u>
Total liabilities and net assets	<u>\$ 4,290,195</u>	<u>\$ 11,790,102</u>	<u>\$ 16,080,297</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	<u>Nashville Humane Association</u>	<u>Nashville Humane Association Supporting Foundation</u>	<u>Consolidated</u>
<u>Unrestricted</u>			
Public support and revenue:			
Public support:			
Donations	\$ 759,524	\$ -	\$ 759,524
Auxiliary fundraisers	451,914	-	451,914
In-kind donations	268,709	-	268,709
Grants	256,381	-	256,381
Net assets released from restriction	57,301	-	57,301
Total public support	<u>1,793,829</u>	<u>-</u>	<u>1,793,829</u>
Revenue:			
Adoptions	199,829	-	199,829
Other program services	89,525	-	89,525
Investment income	(76)	974,156	974,080
Total revenue	<u>289,278</u>	<u>974,156</u>	<u>1,263,434</u>
Total public support and revenue	<u>2,083,107</u>	<u>974,156</u>	<u>3,057,263</u>
Expenses:			
Program services:			
Shelter operations	1,207,266	-	1,207,266
Rover	302,799	-	302,799
CSNP	213,656	-	213,656
Total program services	<u>1,723,721</u>	<u>-</u>	<u>1,723,721</u>
Supporting services:			
Management and general	169,602	2,745	172,347
Fundraising	314,252	-	314,252
Total supporting services	<u>483,854</u>	<u>2,745</u>	<u>486,599</u>
Total expenses	<u>2,207,575</u>	<u>2,745</u>	<u>2,210,320</u>
Change in unrestricted net assets	(124,468)	971,411	846,943
Unrestricted net assets at beginning of year	3,438,497	9,495,102	12,933,599
Transfer of net assets	(355,807)	355,807	-
Unrestricted net assets at end of year	<u>\$ 2,958,222</u>	<u>\$10,822,320</u>	<u>\$ 13,780,542</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (Continued)
For the Year Ended December 31, 2012

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
<u>Temporarily restricted</u>			
Public support:			
Donations	\$ 26,177	\$ -	\$ 26,177
Net assets released from restriction	(57,301)	-	(57,301)
Total public support	(31,124)	-	(31,124)
Revenue:			
Change in value of beneficial interest in trusts	(1,544)	-	(1,544)
Total revenue	(1,544)	-	(1,544)
Change in temporarily restricted net assets	(32,668)	-	(32,668)
Temporarily restricted net assets at beginning of year	665,211	-	665,211
Temporarily restricted net assets at end of year	<u>\$ 632,543</u>	<u>\$ -</u>	<u>\$ 632,543</u>
<u>Permanently restricted</u>			
Permanently restricted net assets at beginning of year	\$ 185,395	\$ 2,295,000	\$ 2,480,395
Change in value of beneficial interest in trusts	5,791	-	5,791
Permanently restricted net assets at end of year	<u>\$ 191,186</u>	<u>\$ 2,295,000</u>	<u>\$ 2,486,186</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (Continued)
For the Year Ended December 31, 2011

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
<u>Temporarily restricted</u>			
Public support:			
Donations	\$ 58,895	\$ -	\$ 58,895
Net assets released from restriction	(402,977)	-	(402,977)
Total public support	(344,082)	-	(344,082)
Revenue:			
Change in value of beneficial interest in trusts	(77,805)	-	(77,805)
Total revenue	(77,805)	-	(77,805)
Change in temporarily restricted net assets	(421,887)	-	(421,887)
Temporarily restricted net assets at beginning of year	1,087,098	-	1,087,098
Temporarily restricted net assets at end of year	<u>\$ 665,211</u>	<u>\$ -</u>	<u>\$ 665,211</u>
<u>Permanently restricted</u>			
Permanently restricted net assets at beginning of year	\$ 203,821	\$ 2,295,000	\$ 2,498,821
Change in value of beneficial interest in trusts	(18,426)	-	(18,426)
Permanently restricted net assets at end of year	<u>\$ 185,395</u>	<u>\$ 2,295,000</u>	<u>\$ 2,480,395</u>