

**NASHVILLE HUMANE ASSOCIATION
AND SUPPORTING FOUNDATION**

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

April 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville Humane Association and Supporting Foundation

We have audited the accompanying consolidated statement of financial position of Nashville Humane Association and Supporting Foundation (a nonprofit Association) as of April 30, 2005 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 April 30, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 12 – 14 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Frasier, Dean + Howard, PLLC

July 8, 2005

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
April 30, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 1,882,459
Contributions receivable, less doubtful accounts of \$23,000	72,700
Prepaid expenses	<u>4,094</u>
Total current assets	1,959,253
Beneficial interest in trusts	735,798
Investments	6,243,835
Land, building, and equipment, net	3,304,076
Deposit	<u>1,000</u>
Total assets	<u><u>\$ 12,243,962</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	<u>\$ 29,011</u>
Total current liabilities	29,011
Net assets:	
Unrestricted	9,111,453
Temporarily restricted	808,498
Permanently restricted	<u>2,295,000</u>
Total net assets	<u>12,214,951</u>
Total current liabilities and net assets	<u><u>\$ 12,243,962</u></u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended April 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Donations	\$ 473,475	\$ 72,700	\$ -	\$ 546,175
Auxiliary fundraisers	327,375	-	-	327,375
In-kind donations	79,061	-	-	79,061
Total public support	<u>879,911</u>	<u>72,700</u>	<u>-</u>	<u>952,611</u>
Revenue:				
Adoptions	163,437	-	-	163,437
Other program services	47,332	-	-	47,332
Grants	168,884	-	-	168,884
Investment income	217,463	-	-	217,463
Gain on sale of property	490,864	-	-	490,864
Change in value of beneficial interest in trusts	<u>-</u>	<u>22,969</u>	<u>-</u>	<u>22,969</u>
Total revenue	<u>1,087,980</u>	<u>22,969</u>	<u>-</u>	<u>1,110,949</u>
Total public support and revenue	<u>1,967,891</u>	<u>95,669</u>	<u>-</u>	<u>2,063,560</u>
Expenses:				
Program services:				
Shelter operations	932,610	-	-	932,610
Rover	249,402	-	-	249,402
Total program services	<u>1,182,012</u>	<u>-</u>	<u>-</u>	<u>1,182,012</u>
Supporting services:				
Management and general	139,336	-	-	139,336
Fundraising	151,480	-	-	151,480
Total supporting services	<u>290,816</u>	<u>-</u>	<u>-</u>	<u>290,816</u>
Total expenses	<u>1,472,828</u>	<u>-</u>	<u>-</u>	<u>1,472,828</u>
Change in net assets	<u>495,063</u>	<u>95,669</u>	<u>-</u>	<u>590,732</u>
Net assets at beginning of year as previously reported	8,616,390	-	2,295,000	10,911,390
Restatement to reflect beneficial interest in trusts	<u>-</u>	<u>712,829</u>	<u>-</u>	<u>712,829</u>
Net assets at beginning of year as restated	<u>8,616,390</u>	<u>712,829</u>	<u>2,295,000</u>	<u>11,624,219</u>
Net assets at end of year	<u>\$ 9,111,453</u>	<u>\$ 808,498</u>	<u>\$ 2,295,000</u>	<u>\$ 12,214,951</u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended April 30, 2005

	Program Services			Supporting Services		
	Shelter Operations	Rover	Total	Management and General	Fundraising	Total Expenses
Salaries	\$ 345,383	\$ 80,606	\$ 425,989	\$ 26,725	\$ 49,573	\$ 76,298
Depreciation	152,270	19,700	171,970	-	-	-
Vet fees	45,934	63,099	109,033	-	-	-
Fundraising events	-	16,678	16,678	-	81,818	81,818
Telephone and utilities	66,960	1,127	68,087	19,408	9,549	28,957
Vet supplies	53,930	36,975	90,905	-	-	-
Payroll taxes and employee benefits	60,238	13,968	74,206	5,238	7,857	13,095
In-kind	79,061	-	79,061	-	-	-
Shelter supplies	37,084	9,583	46,667	-	-	-
Legal and professional	-	-	-	36,587	-	36,587
Insurance	27,839	-	27,839	3,019	2,683	5,702
Oceola property expenses	-	-	-	28,091	-	28,091
Repairs and maintenance	15,253	85	15,338	-	-	-
Miscellaneous	15,006	22	15,028	-	-	-
Cremation services	14,260	-	14,260	-	-	-
Office expense	-	436	436	13,015	-	13,015
Seminars	13,336	-	13,336	-	-	-
Auto and truck expenses	1,178	6,663	7,841	-	-	-
Bank charges and investment fees	-	-	-	5,543	-	5,543
Equipment rental	4,303	-	4,303	-	-	-
Taxes and licenses	-	460	460	1,710	-	1,710
Laundry and uniforms	575	-	575	-	-	-
	<u>\$ 932,610</u>	<u>\$ 249,402</u>	<u>\$ 1,182,012</u>	<u>\$ 139,336</u>	<u>\$ 151,480</u>	<u>\$ 290,816</u>
						<u>\$ 1,472,828</u>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended April 30, 2005

Cash flows from operating activities:	
Change in net assets	\$ 590,732
Adjustments to reconcile change in nets assets to net cash provided by operating activities:	
Depreciation	171,970
Gain on sale of property	(490,864)
Unrealized gain on investments	(52,866)
Donated investments	(5,511)
Change in operating assets and liabilities	
Contributions receivable	(33,000)
Beneficial interest in trusts	(22,969)
Accounts payable	20,555
Accrued payroll	(4,130)
Deferred revenue	(10,090)
	<hr/>
Net cash provided by operating activities	163,827
	<hr/>
Cash flows from investing activities:	
Purchase of land, building and equipment	(44,493)
Proceeds from sale of land, building and equipment	517,125
Purchase of investments	(10,160,413)
Proceeds from sale of investments	8,160,666
	<hr/>
Net cash used by investing activities	(1,527,115)
	<hr/>
Decrease in cash	(1,363,288)
Cash and cash equivalents at beginning of year	3,245,747
	<hr/>
Cash and cash equivalents at end of year	\$ 1,882,459
	<hr/>
Supplemental disclosure of cash flow information:	
Non-cash investing and financing activity:	
Receipts of donated investments	\$ 5,511
	<hr/>

See accompanying notes to financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

Nashville Humane Association Supporting Foundation is an affiliated nonprofit organization formed in 2004 whose purpose is 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 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 – Net assets that are not subject to donor-imposed stipulations.

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. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as unrestricted.

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 statement 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
April 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 124, “*Accounting for Certain Investments Held by Not-for-Profit Associations*,” investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. 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 but not meeting the criteria for recognition in the financial statements.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

At various times through the year, the Association had cash and investment balances with banks and other financial institutions exceeding \$100,000 which is the maximum insured by the Federal Deposit Insurance Corporation. Credit risk is managed by maintaining all deposits in high quality financial institutions.

Split Interest Agreements

Accounting standards require that the following instrument 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 trust's term. Upon termination of the trust, the Association receives a portion of the assets remaining in the trust.

NOTE 2 – INVESTMENTS

Investments at April 30, 2005 consist of the following:

Certificates of deposit	\$ 829,971
GNMA pass-through pools	6,143
Fixed income securities	3,184,380
Preferred securities	100,000
Common stocks	<u>2,123,341</u>
	<u>\$ 6,243,835</u>

The following schedule summarizes the investment return for the year ended April 30, 2005:

Interest and dividends	\$ 164,597
Unrealized gains (losses), net	<u>52,866</u>
	<u>\$ 217,463</u>

The Association's general investment policy is to maintain approximately 50% of its portfolio in stocks and 50% in fixed income securities. The Association plans to eventually distribute approximately 5% of Foundation principal on an annual basis beginning fiscal 2007. Such distributions will be used to help fund the programs of the Association.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2005

NOTE 3 – CONTRIBUTIONS RECEIVABLE

At April 30, 2005, contributions receivable in the amount of \$72,700 were outstanding. These unconditional promises to give are to be received by the Association within one year. Management has established an allowance for doubtful accounts of \$23,000 at April 30, 2005.

NOTE 4 – BENEFICIAL INTEREST IN TRUSTS

The Association has been named as one of three beneficiaries of charitable remainder trusts, held and administrated by a third party, upon termination of the trusts. Based upon earnings at an estimated rate of 8% over the life of the trust, 6% annual distribution to an unrelated specified beneficiary over their lifetime, and a 4% discount rate, the present value of future benefits expected to be received by the Association totaled \$735,798 as of April 30, 2005.

NOTE 5 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment at April 30, 2005, consists of the following:

Land	\$ 426,395
Building	2,627,510
Furniture and fixtures	56,268
Equipment	385,457
Works of art	16,625
Vehicles	<u>161,254</u>
	3,673,509
Less: accumulated depreciation	<u>(369,433)</u>
	<u>\$ 3,304,076</u>

NOTE 6 – NET ASSETS

Temporarily restricted net assets consist of the following at April 30, 2005:

Contributions receivable	\$ 72,700
Beneficial interest in trusts	<u>735,798</u>
	<u>\$ 808,498</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 \$2,295,000 at April 30, 2005.

Contributions made by the Association to the Supporting Foundation are accounted for as transfers of net assets. Transfers of net assets totaled \$6,660,906 for the year ended April 30, 2005.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2005

NOTE 7 – CONTRIBUTED SERVICES AND ITEMS

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 recognized in the accompanying financial statements for fiscal year 2005 totaled \$79,061.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Association established a Simple IRA Retirement Plan during the year ended April 30, 2005. 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. No employer contributions were made for the year ended April 30, 2005.

NOTE 9 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE INVESTMENTS

The Community Foundation of Middle Tennessee, 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 \$2.3 million at April 30, 2005.

NOTE 10 – RESTATEMENT

The Association restated net assets as of April 30, 2004 to properly record its beneficial interest in certain charitable remainder trusts at that date of \$712,829. The Association's interest in such trusts had previously been unrecorded in the Association's accounting records.

NOTE 11 – SUBSEQUENT EVENT

Subsequent to April 30, 2005, the Association received approximately \$375,000 from the settlement of an estate. The board designated one-half of the settlement to be used for operating purposes and the other one-half to be invested in the Association's Supporting Foundation.

ADDITIONAL INFORMATION

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
April 30, 2005

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
Current assets			
Cash and cash equivalents	\$ 360,253	\$ 1,522,206	\$ 1,882,459
Contributions receivable, less doubtful accounts of \$23,000	72,700	-	72,700
Prepaid expenses	4,094	-	4,094
	<hr/>	<hr/>	<hr/>
Total current assets	437,047	1,522,206	1,959,253
Beneficial interest in trusts	735,798	-	735,798
Investments	936,114	5,307,721	6,243,835
Land, building and equipment, net	3,304,076	-	3,304,076
Deposit	1,000	-	1,000
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 5,414,035</u>	<u>\$ 6,829,927</u>	<u>\$ 12,243,962</u>
Current liabilities			
Accounts payable	\$ 29,011	\$ -	\$ 29,011
	<hr/>	<hr/>	<hr/>
Total current liabilities	29,011	-	29,011
	<hr/>	<hr/>	<hr/>
Net assets			
Unrestricted	4,576,526	4,534,927	9,111,453
Temporarily restricted	808,498	-	808,498
Permanently restricted	-	2,295,000	2,295,000
	<hr/>	<hr/>	<hr/>
Total net assets	5,385,024	6,829,927	12,214,951
	<hr/>	<hr/>	<hr/>
Total current liabilities and net assets	<u>\$ 5,414,035</u>	<u>\$ 6,829,927</u>	<u>\$ 12,243,962</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended April 30, 2005

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
<u>Unrestricted</u>			
Public support and revenue:			
Public support:			
Donations	\$ 473,475	\$ -	\$ 473,475
Auxiliary fundraisers	327,375	-	327,375
In-kind donations	79,061	-	79,061
	<hr/>	<hr/>	<hr/>
Total public support	879,911	-	879,911
	<hr/>	<hr/>	<hr/>
Revenue:			
Adoptions	163,437	-	163,437
Other program services	47,332	-	47,332
Grants	168,884	-	168,884
Investment income	42,364	175,099	217,463
Gain on sale of property	490,864	-	490,864
	<hr/>	<hr/>	<hr/>
Total revenue	912,881	175,099	1,087,980
	<hr/>	<hr/>	<hr/>
Total public support and revenue	1,792,792	175,099	1,967,891
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services:			
Shelter operations	932,610	-	932,610
Rover	249,402	-	249,402
	<hr/>	<hr/>	<hr/>
Total program services	1,182,012	-	1,182,012
	<hr/>	<hr/>	<hr/>
Supporting services:			
Management and general	133,258	6,078	139,336
Fundraising	151,480	-	151,480
	<hr/>	<hr/>	<hr/>
Total supporting services	284,738	6,078	290,816
	<hr/>	<hr/>	<hr/>
Total expenses	1,466,750	6,078	1,472,828
	<hr/>	<hr/>	<hr/>
Change in unrestricted net assets	326,042	169,021	495,063
Unrestricted net assets at beginning of year	8,616,390	-	8,616,390
Transfer of net assets	(4,365,906)	4,365,906	-
	<hr/>	<hr/>	<hr/>
Unrestricted net assets at end of year	<u>\$ 4,576,526</u>	<u>\$ 4,534,927</u>	<u>\$ 9,111,453</u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (Continued)
Year Ended April 30, 2005

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Consolidated
<u>Temporarily restricted</u>			
Public support:			
Donations	\$ 72,700	\$ -	\$ 72,700
Total public support	72,700	-	72,700
Revenue:			
Change in value of beneficial interest in trusts	22,969	-	22,969
Total revenue	22,969	-	22,969
Change in temporarily restricted net assets	95,669	-	95,669
Temporarily restricted net assets at beginning of year as previously reported	-	-	-
Restatement to reflect beneficial interest in trusts	712,829	-	712,829
Temporarily restricted net assets at beginning of year as restated	712,829	-	712,829
Temporarily restricted net assets at end of year	<u>\$ 808,498</u>	<u>\$ -</u>	<u>\$ 808,498</u>
<u>Permanently restricted</u>			
Permanently restricted net assets at beginning of year	\$ 2,295,000	\$ -	\$ 2,295,000
Transfer of net assets	(2,295,000)	2,295,000	-
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>\$ 2,295,000</u>	<u>\$ 2,295,000</u>