

**AMERICAN VETERINARY MEDICAL FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**AMERICAN VETERINARY MEDICAL FOUNDATION**

**FINANCIAL STATEMENTS**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
American Veterinary Medical Foundation

We have audited the accompanying statements of financial position of American Veterinary Medical Foundation as of December 31, 2010 and 2009 and the related statements of activities, and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 an 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 the Foundation's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Veterinary Medical Foundation as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Legacy Professionals LLP*

March 17, 2011

**AMERICAN VETERINARY MEDICAL FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

YEARS ENDED DECEMBER 31, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,290,988	\$ 1,051,259
Accounts receivable	739,574	322,707
Investments	594,906	1,363,720
Inventory	9,900	11,000
Property and equipment - net	11,689	21,625
Prepaid expenses	21	600
Artwork		
Donated paintings and sculptures	24,110	24,110
Statue	<u>122,494</u>	<u>122,494</u>
Total assets	<u>\$ 3,793,682</u>	<u>\$ 2,917,515</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 134,779	\$ 147,217
Grants payable	285,559	139,000
Pfizer scholarship program deposits	<u>599,336</u>	<u>444,352</u>
Total liabilities	<u>1,019,674</u>	<u>730,569</u>
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	347,724	336,486
Board designated	<u>466,207</u>	<u>377,190</u>
Total unrestricted net assets	813,931	713,676
Temporarily restricted	1,846,562	1,359,755
Permanently restricted	<u>113,515</u>	<u>113,515</u>
Total	<u>2,774,008</u>	<u>2,186,946</u>
Total liabilities and net assets	<u>\$ 3,793,682</u>	<u>\$ 2,917,515</u>

See accompanying notes to financial statements.

AMERICAN VETERINARY MEDICAL FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	December 31, 2010			December 31, 2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>								
Donations	\$ 775,668	\$ 920,141	\$ -	\$ 1,695,809	\$ 512,946	\$ 427,182	\$ -	\$ 940,128
Program service revenue	604,000	-	-	604,000	-	-	-	-
Investment income	45,685	2,283	-	47,968	85,161	7,194	-	92,355
Event registration income	40,625	-	-	40,625	-	-	-	-
Miscellaneous income	-	-	-	-	1,918	-	-	1,918
Net assets released from restrictions	1,465,978	922,424	-	2,388,402	600,025	434,376	-	1,034,401
Total revenue	435,617	(435,617)	-	-	197,341	(197,341)	-	-
	1,901,595	486,807	-	2,388,402	797,366	237,035	-	1,034,401
<b>EXPENSES</b>								
Program								
Direct program grants								
Humane outreach and animal welfare								
Disaster relief and response	225,041	-	-	225,041	181,830	-	-	181,830
Animal shelter assistance	15,000	-	-	15,000	-	-	-	-
Student enhancement								
Scholarships - Pfizer program	555,000	-	-	555,000	-	-	-	-
Food animal veterinarian debt reduction	100,000	-	-	100,000	27,000	-	-	27,000
Other scholarships and grants	33,300	-	-	33,300	-	-	-	-
Education and public awareness								
Pet Wellness Coalition	12,909	-	-	12,909	-	-	-	-
Our Oath in Action	4,412	-	-	4,412	-	-	-	-
Research support								
Animal studies	50,000	-	-	50,000	12,500	-	-	12,500
Other direct program grants	27,115	-	-	27,115	-	-	-	-
Indirect program expenses	250,487	-	-	250,487	285,755	-	-	285,755
Total program expenses	1,273,264	-	-	1,273,264	507,085	-	-	507,085
Management and general	232,420	-	-	232,420	210,185	-	-	210,185
Fundraising	295,656	-	-	295,656	151,277	-	-	151,277
Total expenses	1,801,340	-	-	1,801,340	868,547	-	-	868,547
CHANGE IN NET ASSETS	100,255	486,807	-	587,062	(71,181)	237,035	-	165,854
NET ASSETS								
Beginning of year	713,676	1,359,755	113,515	2,186,946	784,857	1,122,720	113,515	2,021,092
End of year	813,931	1,846,562	113,515	2,774,008	713,676	1,359,755	113,515	2,186,946

See accompanying notes to financial statements.

**AMERICAN VETERINARY MEDICAL FOUNDATION**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 587,062	\$ 165,854
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation on property and equipment	10,812	10,816
Net realized and unrealized gain on investments	(29,370)	(50,527)
(Increase) in accounts receivable	(416,867)	(305,490)
Decrease in inventory	1,100	1,100
(Increase) decrease in prepaid expenses	579	(600)
Increase (decrease) in accounts payable and accrued expenses	(12,438)	17,941
Increase (decrease) in grants payable	146,559	(49,494)
Increase in Pfizer scholarship program deposits	154,984	444,352
Net cash provided by operating activities	<u>442,421</u>	<u>233,952</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(876)	(2,517)
Purchase of investments	(196,846)	(1,094,488)
Proceeds from sale of investments	995,030	1,080,993
Net cash provided by (used in) investing activities	<u>797,308</u>	<u>(16,012)</u>
<b>NET INCREASE IN CASH</b>	1,239,729	217,940
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,051,259</u>	<u>833,319</u>
End of year	<u>\$ 2,290,988</u>	<u>\$ 1,051,259</u>

See accompanying notes to financial statements.

# AMERICAN VETERINARY MEDICAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

### NOTE 1. NATURE OF THE ORGANIZATION

American Veterinary Medical Foundation (Foundation) is an Illinois not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was incorporated on July 29, 1963 to receive and administer funds exclusively for charitable, scientific, literary or educational purposes. The Foundation is dedicated to embracing and advancing the well-being and medical care of animals, through strategic goals focusing on humane outreach and animal welfare, student enhancement, education and public awareness, and research support.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**New Accounting Pronouncements** - In January 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance that enhanced disclosure requirements for fair value measurements. This update requires disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements, a description of the reasons for such transfers, and disclosure about the valuation techniques and inputs used for fair value measurements using Level 2 and Level 3 inputs. The new guidance was effective for periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

**Classification of Net Assets** - Unrestricted net assets are available to finance the general operations of the Foundation. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates and the purposes specified in its articles of incorporation. Voluntary resolutions by the Board of Directors to designate a portion of its unrestricted net assets for specific purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board of Directors at any time, designated net assets are included in unrestricted net assets.

Temporarily restricted net assets result (a) from contributions and other inflows of assets, the Foundation's use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Net Assets (continued)** - Permanently restricted net assets result (a) from contributions and other inflows of assets, the use of which by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

**Cash and Cash Equivalents** - The Foundation considers cash to be amounts on hand and in bank demand deposit checking and money market accounts, which is subject to immediate withdrawal. Short-term, highly-liquid debt instruments with an established maturity date, including certificates of deposit, are considered to be investments.

**Accounts Receivable** - Accounts receivable, which include promises to give, are considered fully collectible, and therefore an allowance for uncollectible accounts has not been provided. All amounts are expected to be collected within one year and therefore no discount for future receivables has been calculated.

**Investments** - The investments of the Foundation are reported at fair value. The fair value of a financial instrument is the amount that would be received to sell that asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date (the exit price).

Purchases and sales of the investments are reflected on a trade-date basis.

Dividend income is recorded on the ex dividend date. Interest income is recorded on the accrual basis.

**Inventory** - Inventory of scale-replica statues (for fundraising campaign) is stated at lower of cost or market.

**Property and Equipment** - Property and equipment are carried at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed over the estimated useful lives of the related assets by the straight-line method. The Foundation's property and equipment is comprised of computer equipment and software which is being depreciated over 5 years. Depreciation expense was \$10,812 and \$10,816 for the years ended December 31, 2010 and 2009 and accumulated depreciation at December 31, 2010 and 2009 was \$32,140 and \$21,328, respectively.

**Artwork** - Donated paintings and sculptures are recorded at the appraised fair market value at the date of contribution. The statue is recorded at the cost of construction.

**Grants and Awards** - Grants and awards are recognized as expenses when approved by the Board of Directors.

**Pfizer Scholarship Program Deposits** - The Foundation has been contracted to administer the Pfizer Animal Health Veterinary Scholarship Program. Amounts received from Pfizer to fund future years' scholarships are recorded as a deposit liability on the Statement of Financial Position.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 in the financial statements. Actual results could differ from those estimates.

**Reclassifications** - Certain prior year amounts have been reclassified to conform to the current year presentation.

**Subsequent Events** - Subsequent events have been evaluated through March 17, 2011, which is the date the financial statements were available to be issued.

**NOTE 3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available at December 31, 2010 and 2009 for the following purposes:

	<u>2010</u>	<u>2009</u>
Programs:		
Animal Disaster Relief and Response Fund	\$ 1,035,972	\$ 1,014,236
Pet Wellness Coalition	402,091	-
Food Animal Veterinarian Recruitment and Retention Fund	291,029	197,800
Animal Studies Fund	71,888	131,997
Education Fund	32,295	4,718
M.S. Scholarship Endowment Fund	13,287	11,004
Total	<u>\$ 1,846,562</u>	<u>\$ 1,359,755</u>

**NOTE 4. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2010</u>	<u>2009</u>
Animal Disaster Relief and Response Fund	\$ 240,041	\$ 181,830
Food Animal Veterinarian Recruitment and Retention Fund	100,000	-
Animal Studies Fund	59,859	12,500
Education Fund	22,808	-
Pet Wellness Coalition	12,909	-
Unrestricted pledges for future years (time restricted)	-	2,011
M.S. Scholarship Endowment Fund	-	1,000
Total	<u>\$ 435,617</u>	<u>\$ 197,341</u>

## **NOTE 5. ENDOWMENT FUNDS**

The Foundation's endowment funds consist of investments in the Endowment Fund and the M.S. Scholarship Endowment Fund. The Endowment Fund was established for the purpose of protecting and growing the assets of the Foundation for the future and is comprised of donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The M.S. Scholarship Endowment Fund was established to provide scholarships to veterinary students. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**NOTE 5. ENDOWMENT FUNDS (CONTINUED)**

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowed assets that have the dual goals of striving to preserve assets in addition to maximizing the funds' total rate of return. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy approved by the Finance Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that should achieve a rate of return in excess of inflation (Consumer Price Index) over a period of three-to-five years while assuming a reasonable level of risk

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation utilizes the investment income generated from the M.S. Scholarship Endowment Fund to provide scholarships to veterinary students. The direction for the use of the investment income generated from the Endowment Fund is made by the Board of Directors annually.

Financial Information

The endowment net asset composition by type of fund as of December 31, 2010 and 2008 is as follows:

	<u>2010</u>	<u>2009</u>
M.S. Scholarship Endowment Fund - temporarily restricted	\$ 13,287	\$ 11,004
M.S. Scholarship Endowment Fund - permanently restricted	104,262	104,262
Endowment Fund - unrestricted board designated	466,207	377,190
Endowment Fund - permanently restricted	<u>9,253</u>	<u>9,253</u>
Total	<u>\$ 593,009</u>	<u>\$ 501,709</u>

Statement of Activities - M.S. Scholarship Endowment Fund

Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue:</b>				
Interest and dividends	\$ -	\$ 885	\$ -	\$ 885
Net realized and unrealized gain on investments	<u>-</u>	<u>1,398</u>	<u>-</u>	<u>1,398</u>
Total revenue	-	2,283	-	2,283
<b>Expenses:</b>				
Scholarships	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	-	2,283	-	2,283
<b>Net assets:</b>				
Beginning of year	<u>-</u>	<u>11,004</u>	<u>104,262</u>	<u>115,266</u>
End of year	<u>\$ -</u>	<u>\$ 13,287</u>	<u>\$ 104,262</u>	<u>\$ 117,549</u>

**NOTE 5. ENDOWMENT FUNDS (CONTINUED)**

Statement of Activities - M.S. Scholarship Endowment Fund

Year Ended December 31, 2009

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue:				
Interest and dividends	\$ -	\$ 3,258	\$ -	\$ 3,258
Net realized and unrealized gain on investments	-	3,936	-	3,936
Released from restriction	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>
Total revenue	1,000	6,194	-	7,194
Expenses:				
Scholarships	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Change in net assets	-	6,194	-	6,194
Net assets:				
Beginning of year	<u>-</u>	<u>4,810</u>	<u>104,262</u>	<u>109,072</u>
End of year	<u>\$ -</u>	<u>\$ 11,004</u>	<u>\$ 104,262</u>	<u>\$ 115,266</u>

Statement of Activities - Endowment Fund

Year Ended December 31, 2010

	<u>Unrestricted</u>	Unrestricted Board <u>Designated</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue:				
Allocation of unrestricted contributions	\$ -	\$ 37,693	\$ -	\$ 37,693
Other board additions	-	5,639	-	5,639
Interest and dividends	-	17,713	-	17,713
Net realized and unrealized gain on investments	<u>-</u>	<u>27,972</u>	<u>-</u>	<u>27,972</u>
Total revenue	-	89,017	-	83,378
Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	-	89,017	-	83,378
Net assets:				
Beginning of year	<u>-</u>	<u>377,190</u>	<u>9,253</u>	<u>386,443</u>
End of year	<u>\$ -</u>	<u>\$ 466,207</u>	<u>\$ 9,253</u>	<u>\$ 469,821</u>

**NOTE 5. ENDOWMENT FUNDS (CONTINUED)**

Statement of Activities - Endowment Fund

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Unrestricted Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Allocation of unrestricted contributions	\$ -	\$ 22,326	\$ -	\$ 22,326
Other board additions	-	23,241	-	23,241
Interest and dividends	-	38,570	-	38,570
Net realized and unrealized loss on investments	-	46,591	-	46,591
Total revenue	-	130,728	-	130,728
Expenses	-	-	-	-
Change in net assets	-	130,728	-	130,728
Net assets:				
Beginning of year	-	246,462	9,253	255,715
End of year	<u>\$ -</u>	<u>\$ 377,190</u>	<u>\$ 9,253</u>	<u>\$ 386,443</u>

**NOTE 6. INVESTMENTS**

Investments at fair value at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 180,959	\$ 990,959
Mortgage-backed security	32,487	25,911
Common stock	-	1,054
Mutual funds	381,460	345,796
Total	<u>\$ 594,906</u>	<u>\$ 1,363,720</u>

A summary of investment income for the year ended December 31, 2010 and 2008 is as follows:

	<u>2010</u>	<u>2009</u>
Interest income and capital gains	\$ 18,598	\$ 41,828
Net realized and unrealized gain on investments	29,370	50,527
Total	<u>\$ 47,968</u>	<u>\$ 92,355</u>

## NOTE 7. FAIR VALUE MEASUREMENTS

The *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

### Basis of Fair Value Measurement

- |                |   |
|----------------|---|
| <u>Level 1</u> | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities                              |
| <u>Level 2</u> | Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly |
| <u>Level 3</u> | Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable   |

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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.

**NOTE 7. FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables set forth, by level within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2010 and 2009. As required, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At December 31, 2010 and 2009, the Foundation held no assets classified within Level 3.

Fair Value Measurements at 12/31/10 Using

	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 180,959	\$ 180,959	\$ -	\$ -
Mortgage-backed security	32,487	-	32,487	-
Mutual funds:				
Equity based	322,134	322,134	-	-
Fixed income based	59,326	59,326	-	-
Total	<u>\$ 594,906</u>	<u>\$ 562,419</u>	<u>\$ 32,487</u>	<u>\$ -</u>

Fair Value Measurements at 12/31/09 Using

	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 990,959	\$ 990,959	\$ -	\$ -
Mortgage-backed security	25,911	-	25,911	-
Common stock	1,054	1,054	-	-
Mutual funds:				
Equity based	293,227	293,227	-	-
Fixed income based	52,569	52,569	-	-
Total	<u>\$ 1,363,720</u>	<u>\$ 1,337,809</u>	<u>\$ 25,911</u>	<u>\$ -</u>

## NOTE 7. FAIR VALUE MEASUREMENTS (CONTINUED)

### Level 1 Measurements

Common stock is traded in active markets on national and international securities exchanges and are valued at closing prices on the last business day of each period presented.

The fair values of mutual funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Shares held in mutual funds are traded on national securities exchanges and are valued at the net asset value as of December 31, 2010 and 2009.

Certificates of deposit are carried at face value which approximates fair value.

### Level 2 Measurements

Mortgage-backed securities are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. To the extent that quoted prices are not available, fair value is determined based on a valuation model that include inputs such as interest rate yield curves and credit spreads. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using the investment manager's best estimates.

As of December 31, 2010, the fair value of the Foundation's investment in the mortgage-backed security was \$32,487. This security has a coupon rate of approximately 5.50% and a maturity date in 2033.

## NOTE 8. TAX STATUS

The Internal Revenue Service has advised the Foundation that it is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. The Foundation files Form 990, *Return of Organizations Exempt from Income Tax*. The Foundation's returns are subject to examination by the Internal Revenue Service until the applicable statute of limitations expires.

In addition, the Internal Revenue Service has determined that the Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

## **NOTE 9. RELATED ORGANIZATIONS**

**Contributions** - The Foundation is affiliated with the American Veterinary Medical Association (AVMA). The AVMA made an unrestricted contribution of \$46,000 to the Foundation in each year ended December 31, 2010 and 2009.

**Program Expenses** - The Foundation contributed \$65,000 and \$50,000 respectively during the years ended December 31, 2010 and 2009 to the AVMA in support of their Veterinary Medical Assistance Teams (VMATs), as well as \$20,000 to sponsor the Veterinary Leadership Conference.

**Administrative Expenses** - Certain administrative expenses incurred by the Foundation, such as occupancy and general office expenses, are paid by the American Veterinary Medical Association and are not charged to the Foundation. For the years ended December 31, 2010 and 2009 the Foundation recognized \$34,952 and \$22,825 respectively, as contribution income and a related noncash rent expense for the estimated fair value of occupancy. The amount of general office expenses has been determined to be nominal.

**Salaries and Benefits** - The salaries and benefits for the Foundation's employees are initially paid the AVMA and reimbursed on a quarterly basis by the Foundation. The total amounts charged to the Foundation for the years ended December 31, 2010 and 2009 was \$383,686 and \$349,146 respectively and the amounts owed to the AVMA for salary and benefits were \$99,398 and \$121,967 at December 31, 2010 and 2009, respectively, which is included in accounts payable and accrued expenses.

The employees of the Foundation are participants in the AVMA Employees Retirement Plan, which is a 401(k) plan for its employees. Generally, all full-time employees are eligible to participate after obtaining age 18. AVMA contributes 3% of compensation of all covered employees which is calculated and remitted with each payroll. AVMA contributes an additional 7% of compensation at the end of the year for all covered employees that have at least 1,000 hours of service during the plan year. The employer contributions are vested beginning after 2 years of employment and ending with 100% vesting after 6 years of employment. The total retirement plan expenses for the Foundation's employees was \$29,369 and \$24,972 for the years ending December 31, 2010 and 2009, respectively, and are included in the above salary and benefit amounts.