

ANIMAL FRIENDS RESCUE PROJECT

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2011

**MCGILLOWAY, RAY, BROWN & KAUFMAN
ACCOUNTANTS & CONSULTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Animal Friends Rescue Project, Inc.
Pacific Grove, California

We have audited the accompanying statement of financial position of Animal Friends Rescue Project, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 that our audit provides 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 Animal Friends Rescue Project, Inc. as of June 30, 2011 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.

McGilloway, Ray, Brown & Kaufman

January 12, 2012

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ANIMAL FRIENDS RESCUE PROJECT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Cash and cash equivalents	\$ 88,461
Contribution receivable	2,675
Inventory	13,753
Prepays	4,002
Investments	53,670
Real estate investments, net	606,255
Deposit	3,400
Fixed assets, net	<u>23,201</u>
Total assets	<u><u>\$ 795,417</u></u>

LIABILITIES

Accounts payable	\$ 81,293
Other current liabilities	<u>9,676</u>
Total liabilities	<u>90,969</u>

NET ASSETS

Unrestricted	692,454
Temporarily restricted	<u>11,994</u>
Total net assets	<u>704,448</u>
Total liabilities and net assets	<u><u>\$ 795,417</u></u>

The accompanying notes are an integral part of these financial statements.

ANIMAL FRIENDS RESCUE PROJECT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating support and revenues			
Donations	\$ 377,196	\$ 45,391	\$ 422,587
Adoption fees	201,842	5,125	206,967
Treasure shop, net	35,394	3,539	38,933
Grants	12,999	18,948	31,947
Rental income, net	19,009	-	19,009
Special events, net	74,354	4,602	78,956
Investments income	508	-	508
Other	4,703	-	4,703
	<u>726,005</u>	<u>77,605</u>	<u>803,610</u>
Net assets released from purpose restrictions	<u>73,459</u>	<u>(73,459)</u>	<u>-</u>
Total operating support and revenues	<u>799,464</u>	<u>4,146</u>	<u>803,610</u>
Expenses			
Program services	661,429	-	661,429
Supporting services			
Fund-raising	49,358	-	49,358
General and administration	50,986	-	50,986
Total expenses	<u>761,773</u>	<u>-</u>	<u>761,773</u>
Change in net assets	<u>37,691</u>	<u>4,146</u>	<u>41,837</u>
Net assets at beginning of year	<u>654,763</u>	<u>7,848</u>	<u>662,611</u>
Net assets at end of year	<u>\$ 692,454</u>	<u>\$ 11,994</u>	<u>\$ 704,448</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL FRIENDS RESCUE PROJECT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services	Supporting Services		Total
		Fund-raising	General and Administration	
Personnel	\$ 208,807	\$ 37,537	\$ 32,997	\$ 279,341
Medical requirements	272,435	-	-	272,435
Animal supplies and services	71,737	-	-	71,737
Occupancy	23,876	2,711	4,938	31,525
Depreciation	12,297	1,537	1,537	15,371
Insurance	13,621	1,286	791	15,698
Office expense	7,732	1,877	1,874	11,483
Direct mailing and newsletter	5,564	2,998	-	8,562
Advertising	6,827	-	-	6,827
Laundry	9,225	-	-	9,225
Credit card and bank fees	3,275	1,092	-	4,367
Transportation	26,033	-	-	26,033
Other	-	320	4,815	5,135
Professional fees	-	-	4,034	4,034
Total expenses	\$ 661,429	\$ 49,358	\$ 50,986	\$ 761,773

The accompanying notes are an integral part of these financial statements.

ANIMAL FRIENDS RESCUE PROJECT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 41,837
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities	
Donated partnership interest	(54,847)
Loss on disposal of assets	254
Depreciation	15,371
Depreciation, real estate investments	21,112
Unrealized loss	1,177
(Increase) decrease in operating assets	
Contribution receivable	(2,290)
Inventory	(12,036)
Prepays	(3,250)
Deposits	2,400
Increase (decrease) in	
Accounts payable	26,133
Accrued liabilities	<u>1,577</u>
Net cash provided (used) by operating activities	<u>37,438</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,438
CASH AND CASH EQUIVALENTS, beginning of year	<u>51,023</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 88,461</u></u>

The accompanying notes are an integral part of these financial statements.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. Nature of Operations

Animal Friends Rescue Project (the Organization) is a California non-profit public benefit corporation founded in June 1998. The Organization is dedicated to finding life-long loving homes for stray, abandoned and abused cats, dogs and rabbits. The Organization concentrates on networking with other animal welfare agencies in the county and throughout the state to provide a safety net for the animals with the least chance of survival. The Organization plays a unique role in our community by rescuing animals that are at most risk in the shelter environment, the underage, nursing, senior, injured, shy and overlooked animals. The Organization's Life Link Transport Program helps at risk dogs from our overcrowded shelters by transporting them to eagerly awaiting animal welfare organizations throughout the western states. The Organization is also dedicated to ending the pet overpopulation crisis through focused spay/neuter programs available to the public.

2. Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances. Management believes that all accounts receivables are fully collectible; therefore, no allowance for doubtful accounts is recorded. All receivables are expected to be collected within one year.

Inventory

The inventory is stated at the lower of cost or market determined by specific identification method. Inventory at June 30, 2011 consists of T-shirts and sweatshirts, retail merchandise available for sale in our adoption center and Treasure Shop items for resale.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2. Significant Accounting Policies (continued)

Property and Equipment and Depreciation Methods

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets, which range from 5 to 39 years.

Real Estate Investments

Real estate investments consist of a multi-family residential rental property and a commercial property both located in Clovis, California. These properties were received as contributed land and buildings in 2009 and are recorded at appraised values at the date of the gift.

Accounting for Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, the Organization relies on the assistance of over 300 volunteers. These volunteers provide foster homes for cats, dogs, and rabbits, coordinate the transport program, care for and adopt out cats at our adoption locations, work in our adoption center, staff offsite events and transport animals to other rescues throughout Northern California, Washington and Oregon.

Revenue Recognition

Revenue is substantially derived from private contributions and grants. All contributions and grants are considered to be available for use by the various programs and general operations of the Organization unless specifically restricted by the donor. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

The Organization recognizes service and contract fees when services to clients have been rendered and/or contractual obligations have been met.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2. Significant Accounting Policies (continued)

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 at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

The Organization reports investments at fair value on a recurring basis. These investments are classified as Level 2 within the fair value hierarchy.

Level 2 investment values are determined by obtaining non-binding market prices from the Organization's third party portfolio managers as of the financial statement reporting date. These investments are less actively traded in the market, but quoted market prices exist for similar instruments that are actively traded.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the Organization's financial statements.

Authoritative guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are "more likely than not" to be sustained by the applicable tax authority. Tax positions not deemed to meet the "more likely than not" threshold would be recorded as a tax benefit or expense in the current year.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2. Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization annually files Form 990 reporting various information that the Internal Revenue Service (IRS) uses to monitor the activities of tax exempt entities. The tax returns are subject to review by the taxing authorities and are subject to examination by the IRS, generally for three years after they were filed. The Organization had no tax examinations in progress and believes it is no longer subject to income tax examinations for years prior to 2006.

Use of Estimates

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

Functional Allocation of Expenses

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

Subsequent Events

Subsequent events were evaluated through January 12, 2012 which is the date the financial statements were available to be issued.

3. Fair Value of Financial Instruments

The fair values of the Organization's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 88,461	\$ 88,461
Investments	54,847	53,670
Investment rental property (carrying value measurement)	606,255	606,255
Financial liabilities:		
Accounts payable and other current liabilities	90,969	90,969

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash and cash equivalents – Fair value approximates carrying value due to the short term maturities of these financial instruments.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3. Fair Value of Financial Instruments (continued)

Investments – This investment is classified as a Level 2 investment; see Note 2, Significant Accounting Policies.

Real Estate Investments – The investment is valued at its original value at the date of donation less accumulated depreciation; see Note 6, Real Estate Investment, Net.

Accounts payable and other current liabilities – Fair value approximates carrying value since due to the short term nature of these liabilities.

4. Cash and Cash Equivalents

Cash and cash equivalents consist entirely of demand deposit accounts as of June 30, 2011. The Organization invests cash and cash equivalents at well capitalized financial institutions that are insured up to \$250,000 at June 30, 2011, by the Federal Deposit Insurance Corporation (FDIC).

5. Investments

The Organization received a donation of a limited liability company interest in Q-BLK (CRT) Fund, LLC. This investment was recorded at a donated value of \$54,847. The investment is managed by BlackRock Alternative Advisors (GenPar), LLC and is not an unrelated business investment (UBI).

Investments are presented in the financial statements at fair value based on quoted prices for similar assets (all Level 2 measurements), measured on a recurring basis. Published market quotation do not necessarily represent realizable values, particularly in the holdings of a partnership interest, as in the case of the Organization’s holdings of Q-BLK (CRT) Fund, LLC. This investment is presented as of June 30, 2011 at a fair value of \$53,670.

Unrealized losses for this investment for the year ended June 20, 2011 was \$1,177.

6. Real Estate Investment, Net

The following is a summary of investment rental property not held for use in programs as of June 30, 2011:

Land	\$ 200,900
Buildings	429,100
	630,000
Accumulated depreciation	(23,745)
	\$ 606,255

ANIMAL FRIENDS RESCUE PROJECT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

7. Fixed Assets (net)

The following is a summary of fixed assets held for use in programs as of June 30, 2011:

Automobiles	\$ 62,057
Furniture and fixtures	9,375
Equipment	52,338
Total depreciable assets	123,770
Less accumulated depreciation	(100,569)
Fixed assets, net	\$ 23,201

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of June 30, 2011:

Purpose:	
Life Link driver fund	\$ 5,725
Lucky fund	2,915
Rita fund	1,685
Van Wrap fund	758
Web medical	911
Total temporarily restricted net assets	\$ 11,994

9. Special Events, Net

The Organization had net income of \$78,956 from special events for the year ended June 30, 2011 as follows:

Special event income	\$ 97,650
Special event expenses	(18,694)
Special events, net	\$ 78,956

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. Treasure Shop, Net

The Organization had a net income of \$38,933 from the Treasure Shop for the year ended June 30, 2011 as follows:

Treasure shop sales	\$ 186,117
Less cost of goods sold, rent and expenses	<u>(147,184)</u>
Treasure shop, net	<u><u>\$ 38,933</u></u>

11. Rental Income, Net

The Organization had a net income of \$19,009 from rental property for the year ended June 30, 2011 as follows:

Rent received	\$ 59,415
Expense	(19,294)
Depreciation	<u>(21,112)</u>
Rental income, net	<u><u>\$ 19,009</u></u>

12. Related Party Matters

The Organization purchases animal supplies at wholesale prices from Posh Pets that is owned by an employee. Purchases for the year ended June 30, 2011 is \$10,832. In addition, shipping fees and new merchandise for resale in the adoption center were purchased from Illuminata, a company also owned by an employee. Total reimbursement for shipping expenses and merchandise purchases for the year ended June 30, 2011 is \$1,317.