

ANIMAL FRIENDS RESCUE PROJECT

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

June 30, 2016

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

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

2511 Garden Road, Suite A180
Monterey, CA 93940-5301
831-373-3337
Fax 831-373-3437

379 West Market Street
Salinas, CA 93901
831-424-2737
Fax 831-424-7936

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Animal Friends Rescue Project
Pacific Grove, California

We have audited the accompanying financial statements of Animal Friends Rescue Project (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA,
Larry W. Rollins, CPA, Jesus Montemayor, CPA*

*Sarita C. Shannon, CPA, Whitney Ernest, CPA, Devyn MacBeth, CPA,
Smriti Shrestha, CPA, Wei Ding, CPA*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Friends Rescue Project as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
January 21, 2017

ANIMAL FRIENDS RESCUE PROJECT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Cash and cash equivalents	\$ 255,968
Accounts receivable and grant receivable	22,846
Inventory	36,138
Collectibles	74,300
Investments	2,756,487
Deposits and prepaid expense	4,964
Fixed assets, net	<u>82,520</u>
Total assets	<u><u>\$ 3,233,223</u></u>

LIABILITIES

Accounts payable	\$ 51,432
Accrued liabilities	<u>34,050</u>
Total liabilities	<u>85,482</u>

NET ASSETS

Unrestricted	3,077,660
Temporarily restricted	<u>70,081</u>
Total net assets	<u>3,147,741</u>
Total liabilities and net assets	<u><u>\$ 3,233,223</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, 2016

	Unrestricted	Temporarily Restricted	Total
Operating support and revenues			
Donations	\$ 593,426	\$ 39,884	\$ 633,310
Adoption fees	134,739	-	134,739
Veterinary clinic fees	26,848	-	26,848
Treasure shop, net	58,401	-	58,401
Grants	20,000	125,712	145,712
Special events, net	85,965	21,057	107,022
Interest on cash and cash equivalents	187	-	187
Investment income, net	11,021	-	11,021
Other	1,733	-	1,733
	<u>932,320</u>	<u>186,653</u>	<u>1,118,973</u>
Net assets released from purpose restrictions	<u>179,034</u>	<u>(179,034)</u>	<u>-</u>
Total operating support and revenues	<u>1,111,354</u>	<u>7,619</u>	<u>1,118,973</u>
Expenses			
Program services	1,010,670	-	1,010,670
Supporting services			
Fundraising	66,293	-	66,293
General and administration	68,970	-	68,970
Total expenses	<u>1,145,933</u>	<u>-</u>	<u>1,145,933</u>
Change in net assets	<u>(34,579)</u>	<u>7,619</u>	<u>(26,960)</u>
Net assets at beginning of year	<u>3,112,239</u>	<u>62,462</u>	<u>3,174,701</u>
Net assets at end of year	<u>\$ 3,077,660</u>	<u>\$ 70,081</u>	<u>\$ 3,147,741</u>

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

	Program Services			Supporting Services			
	Veterinary Clinic	Adoption Program	Other Programs	Total Programs	Fund-raising	General and Administration	Total
Personnel	\$ 211,570	\$ 313,605	\$ 8,552	\$ 533,727	\$ 34,549	\$ 40,550	\$ 608,826
Medical requirements	-	57,951	31,604	89,555	-	-	89,555
Animal supplies and services	111,710	97,511	-	209,221	-	-	209,221
Occupancy	39,611	50,613	-	90,224	1,913	3,476	95,613
Depreciation	19,980	3,041	-	23,021	380	380	23,781
Insurance	1,227	6,541	-	7,768	-	-	7,768
Office expense	-	10,148	-	10,148	1,432	1,432	13,012
Direct mail	-	4,976	-	4,976	4,975	-	9,951
Advertising	-	5,332	-	5,332	1,117	-	6,449
Laundry	-	17,885	-	17,885	-	-	17,885
Credit card and bank fees	-	3,152	-	3,152	3,152	-	6,304
Transportation	-	4,165	8,983	13,148	-	-	13,148
Professional fees	-	-	-	-	-	22,569	22,569
Rental property expenses	-	-	-	-	-	75	75
Other	1,810	-	703	2,513	18,775	488	21,776
Total expenses	\$ 385,908	\$ 574,920	\$ 49,842	\$1,010,670	\$ 66,293	\$ 68,970	\$1,145,933

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ (26,960)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities	
Depreciation	23,781
Realized loss (gain) on investments	49,311
Unrealized loss (gain) on investments	(6,847)
(Increase) decrease in operating assets	
Accounts receivable	(19,797)
Inventory	(10,487)
Deposits and prepaids	4,955
Increase (decrease) in	
Accounts payable	(10,655)
Accrued liabilities	7,826
Net cash provided (used) by operating activities	11,127

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	1,070,575
Purchase of investments	(899,059)
Purchases of fixed assets	(7,084)
Net cash provided (used) by investing activities	164,432

NET INCREASE IN CASH AND CASH EQUIVALENTS

175,559

CASH AND CASH EQUIVALENTS, beginning of year

80,409

CASH AND CASH EQUIVALENTS, end of year

\$ 255,968

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

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

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 their 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 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.

The Organization is governed by a Board of Directors. The Organization's principal sources of revenue are adoption fees, private contributions, and grants.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States (GAAP).

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Presentation of Financial Statements of Not-for-Profit Organizations*. The Organization reports 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.

Revenue Recognition

Contributions are considered to be available for unrestricted use, unless they are specifically restricted by the donor. Contributions are recognized as income, at their fair value, when they become unconditional promises to give. Contributions of securities and other tangible assets are recorded at fair value at the date of gift. Conditional contributions and promises to give are recorded as revenue when the conditions on which they depend have been substantially met. Bequests are recorded as income when notification of an irrevocable right to receive such assets exists and when a fair value can reasonably be determined. Bequests, contributions and grants receivable are expected to be received within one year.

Animal adoption fees and veterinary health clinic fees are recognized when services have been performed.

The Organization enters into various grant agreements. Revenue related to these agreements is recognized in accordance with the terms and conditions included therein. Grants are evaluated to determine if they represent an exchange transaction or contribution. If determined to be an exchange transaction, the grant is recognized as expenses are incurred.

Donated Services

The Organization pays for most services requiring specific expertise. However, the Organization relies on the assistance of approximately 400 volunteers who provide foster homes for cats, dogs, and rabbits, coordinate the transport program, care for and adopt out cats at their adoption locations, work in their adoption center, staff offsite events and transport animals to other rescues throughout Northern California, Washington, and Oregon. No amounts have been recognized in

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

the Statement of Activities for generalized volunteer services because the criteria for recognition have not been satisfied.

The donations of professional services received for the year ended June 30, 2016, in the amount of \$100, consist of reduced billings for legal services for general and administrative purposes, and have been reported in the Statement of Activities.

Expense Allocation

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable

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

Collectibles

The Organization received a donation of artwork in the year ended June 30, 2014. The Organization elected to capitalize the work of art at fair market value at the date of donation.

Inventory

The inventory is stated at the lower of cost or market determined by specific identification method. Inventory at June 30, 2016, consists of T-shirts and sweatshirts, retail merchandise available for sale in our Adoption Center and Treasure Shop items for resale and vaccines, medicine, and tests that are used in our Veterinary Clinic.

Investments

Investments are initially recorded at cost, if purchased or at fair value at the date of donation, if contributed. Subsequent to acquisition, investments are reported at fair value based upon market quotations or, if managed by fund managers, the fair value information provided by them. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets, unless their use is temporarily or permanently restricted by donors for a specified purpose or future project.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500 when such property has an expected life of 5 years or more.

Property and equipment are carried at cost or, if donated, at approximate fair value at date of donation. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted to unrestricted net assets at that time. Depreciation is computed using primarily the straight-line method over estimated useful life of 5 to 39 years.

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
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Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended June 30, 2016, was \$6,449.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and a similar provision in the California tax codes. The Organization qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) for an organization that has been classified as not a private foundation under IRC Section 590(a)(2).

The Organization files its Form 990 in the U.S. federal jurisdiction, the California Franchise Tax Board, and the office of the state's Attorney General for the State of California.

The Organization had no interest and penalties related to income taxes for the year ended June 30, 2016. The Organization's federal returns are subject to examination generally for three years after they are filed and its state returns are subject to examination generally for four years after they are filed.

The Organization believes that it has appropriate support for any tax positions taken and, therefore, does not have any uncertain tax positions that are material to the financial statements for the year ended June 30, 2016.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Concentration of Credit Risk

Cash and cash equivalents include accounts insured by Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC).

As of June 30, 2016, cash and cash equivalents exceeded the Federal Deposit Insurance Corporation maximum insured by \$46,222. Management believes that all the applicable financial institutions are financially sound and, accordingly, present only a minimal risk.

Investments include accounts insured by SIPC. The SIPC insures securities and cash in the event of broker-dealer failure. The SIPC provides up to \$500,000 for protection for brokerage accounts held in each separate capacity, with a limit of \$250,000 for claims of un-invested cash balances. At times, such amounts may exceed SIPC limits.

3. Inventory

Inventory at June 30, 2016 consisted of the following:

Adoption Center and Treasure Shop inventory	\$ 23,002
Veterinary Clinic inventory	<u>13,136</u>
	<u><u>\$ 36,138</u></u>

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. Investments

Investments consist of the following at June 30, 2016:

Money Market Funds	\$ 74,097
Equities	1,298,987
Fixed Income	1,189,199
Hedge Funds	52,133
Public REITs	142,071
	<u>\$2,756,487</u>

Investment income for the year ended June 30, 2016, was as follows:

Investment earnings	\$ 81,153
Unrealized gains/(losses)	6,847
Realized gains/(losses)	(49,311)
Investment fees	(27,668)
	<u>\$ 11,021</u>

5. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures*, states the framework for measuring fair value. This framework provides 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 measurement involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.
- 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 or liability, either directly or indirectly, for substantially the same term for the financial statements.
- Level 3 - inputs to the valuation are unobservable and significant to the fair value measurement.

At June 30, 2016, the following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 74,097	\$ -	\$ -	\$ 74,097
Equities	1,298,987	-	-	1,298,987
Fixed Income	1,189,199	-	-	1,189,199
Hedge Funds	52,133	-	-	52,133
Public REITs	142,071	-	-	142,071
Total	<u>\$2,756,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,756,487</u>

ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6. Fixed Assets (net)

The following is a summary of fixed assets held for use in programs as of June 30, 2016:

Automobiles	\$ 161,957
Furniture and fixtures	7,935
Equipment	<u>74,060</u>
Total depreciable assets	243,952
Less accumulated depreciation	<u>(161,432)</u>
Fixed assets, net	<u><u>\$ 82,520</u></u>

Depreciation expense for the year ended June 30, 2016 was \$23,781.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of June 30, 2016:

Purpose:

Medical purposes:

Monterey Peninsula Foundation	\$ 20,000
Monterey County Gives	14,874
Bernice Barbour Foundation	4,500
Community Foundation Cat Spay Mobile Clinic	4,370
Lucky Fund	1,095
Salinas Shelter	600
Harden Medical Fund	<u>563</u>
Total for medical purposes	\$ 46,002

Transportation purposes:

Party for the Paws	1,500
Lifelink Fund	<u>4,844</u>
Total for transportation purposes	6,344
Feral Fund	12,779
Rita Fund	4,906
Feline Family Fund	<u>50</u>

Total temporarily restricted net assets	<u><u>\$ 70,081</u></u>
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ANIMAL FRIENDS RESCUE PROJECT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. Treasure Shop, Net

The Organization had a net income from the Treasure Shop for the year ended June 30, 2016, which consists of sales and in-kind donations, as follows:

Treasure Shop income		\$ 270,269
Less cost of goods sold		<u>(113,952)</u>
Gross profit on sales		156,317
Operating expense		
Personnel costs	\$ 54,086	
Occupancy	34,333	
All other operating costs	<u>9,497</u>	
Total operating expense		<u>97,916</u>
Net income		<u><u>\$ 58,401</u></u>

9. Special Events, Net

The Organization had net income from special events for the year ended June 30, 2016 as follows:

	<u>Including In-kind</u>	<u>Excluding In-kind</u>
Special event income	\$ 183,065	\$ 142,966
Special event expenses	<u>(76,043)</u>	<u>(35,944)</u>
Special events, net	<u><u>\$ 107,022</u></u>	<u><u>\$ 107,022</u></u>

10. Operating Leases

The Organization leases real property for the Adoption Center and Administrative office space, Treasure Shop, and Veterinary Clinic as follows:

The Adoption Center/Administrative office space is under lease with annual increases to rent based on CPI increase year-over-year with a monthly rate of \$2,541 as of June 30, 2016.

The Treasure Shop is currently under a month to month lease at a monthly rate of \$2,500.

The Veterinary Clinic is under a lease expiring June 30, 2017. However, the Organization has the right to cancel within 60 days of the annual renewal date of February 1st. Current rent is \$2,652 per month.

Actual rental expenses under these leases for the year ended June 30, 2016, was:

Adoption Center and Administrative office	\$ 30,890
Treasure Shop (included in Note 8 - Occupancy)	30,000
Veterinary Clinic	<u>31,485</u>
	<u><u>\$ 92,375</u></u>

11. Subsequent Events

Subsequent events were evaluated by management through January 21, 2017, which is the date the financial statements were available to be issued.