INDEPENDENT AUDITOR’S REPORT AND
FINANCIAL STATEMENTS

FELINE RESCUE, INC.

DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feline Rescue, Inc.

We have audited the accompanying financial statements of Feline Rescue, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feline Rescue, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lewis, Kisch & Associates, Ltd.

February 15, 2017

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Current		
Cash and Cash Equivalents	$ 527,437	$ 420,750
Investments	293,016	235,996
Bequest Receivable		194,215
Inventory	3,739	7,105
Prepaid Expenses	5,011	4,233
Total Current Assets	829,203	862,299
Property and Equipment		
Property and Equipment	1,283,982	1,254,956
Accumulated Depreciation	(280,561)	(244,147)
Property and Equipment, Net	1,003,421	1,010,809
Other		
Long-Term Investments	229,665	210,856
Total Assets	$ 2,062,289	$ 2,083,964

LIABILITIES AND NET ASSETS	2016	2015
Current		
Accounts Payable	$ 32,396	$ 25,753
Contract Payable	3,310	
Total Current Liabilities	35,706	25,753
Net Assets		
Unrestricted Net Assets	1,759,409	1,764,988
Unrestricted Net Assets - Board Designated for Future Facilities Needs		15,768
Total Unrestricted Net Assets	1,759,409	1,780,756
Temporarily Restricted Net Assets	49,889	72,614
Permanently Restricted Net Assets	217,285	204,841
Total Net Assets	2,026,583	2,058,211
Total Liabilities and Net Assets	$ 2,062,289	$ 2,083,964

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Adoptions	$ 109,723			$ 109,723	$ 79,469			$ 79,469
Contributions Income	369,348	$ 46,732	$ 2,104	418,184	327,506	$ 50,033	$ 6,250	383,789
Bequests			10,340	10,340	258,519		136,591	395,110
Grants		40,673		40,673		22,903		22,903
Fundraising Events (Net of $2,448 and $4,280 Direct Expenses, respectively)	5,255			5,255	10,524			10,524
In-Kind Contributions and Services	46,991			46,991	28,380			28,380
Net Investment Income	5,293	3,409		8,702	3,425	2,500		5,925
Realized and Unrealized Gains(Losses)	732	2,956		3,688	(3,758)	(7,313)		(11,071)
Other Income	516			516	1,316			1,316
Net Assets Released from Restrictions	116,495	(116,495)			68,722	(68,722)		
Total Support and Revenue	654,353	(22,725)	12,444	644,072	774,103	(599)	142,841	916,345
Expenses								
Program Services	541,686			541,686	426,212			426,212
Management and General	88,804			88,804	38,110			38,110
Fundraising	45,210			45,210	25,146			25,146
Total Expenses	675,700			675,700	489,468			489,468
Increase (Decrease) in Net Assets	(21,347)	(22,725)	12,444	(31,628)	284,635	(599)	142,841	426,877
Net Assets, Beginning of Year	1,780,756	72,614	204,841	2,058,211	1,496,121	73,213	62,000	1,631,334
Net Assets, End of Year	$ 1,759,409	$ 49,889	$ 217,285	$ 2,026,583	$ 1,780,756	$ 72,614	$ 204,841	$ 2,058,211

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			
Expenses	Program Services	Management and General	Fundraising	Total
Advertising and Public Relations	$ 4,616	$ 2,638	$ 4,809	$ 12,063
Bank and Donation Processing Fees		297	2,024	2,321
Building Repairs and Maintenance	25,710	6,728		32,438
Cat Care	402,048			402,048
Depreciation	32,028	5,892		37,920
Information Technology	915	440	3,323	4,678
Insurance	5,302	1,461		6,763
Office Supplies	1,664	1,663		3,327
Personnel Costs	27,493	48,447	12,539	88,479
Postage and Mailing	797	797	3,392	4,986
Printing and Copying	5,053	2,920	5,389	13,362
Professional Fees	13,400	13,400	13,400	40,200
Utilities	21,887	2,519	123	24,529
Miscellaneous Expense	773	1,602	211	2,586
Total Expenses	$ 541,686	$ 88,804	$ 45,210	$ 675,700

	2015			
Expenses	Program Services	Management and General	Fundraising	Total
Advertising and Public Relations	$ 2,189	$ 1,817	$ 1,280	$ 5,286
Bank and Donation Processing Fees		278	3,280	3,558
Building Repairs and Maintenance	44,788			44,788
Cat Care	280,272			280,272
Depreciation	33,851			33,851
Information Technology	964		3,324	4,288
Insurance	5,537	781		6,318
Office Supplies	3,294	2,153		5,447
Personnel Costs	16,486	16,486		32,972
Postage and Mailing	849	849	2,946	4,644
Printing and Copying	3,247	3,247	4,371	10,865
Professional Fees	9,733	9,734	9,733	29,200
Utilities	22,742			22,742
Miscellaneous Expense	2,260	2,765	212	5,237
Total Expenses	$ 426,212	$ 38,110	$ 25,146	$ 489,468

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows from (used for) Operating Activities		
Change in Net Assets	$ (31,628)	$ 426,877
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Contributions of Common Stock		(16,141)
Contributions Received for Long Term Purposes	(12,444)	(142,841)
Realized and Unrealized (Gains) Losses	(3,688)	11,071
Depreciation	37,920	33,851
(Increase) Decrease in Current Assets:		
Bequest Receivable	194,215	(194,215)
Inventory	3,366	(4,984)
Prepaid Expenses	(778)	1,024
Increase (Decrease) in Current Liabilities:		
Accounts Payable	6,643	2,534
Contract Payable	3,310	
Net Cash Flows from Operating Activities	196,916	117,176
Cash Flows from (used for) Investing Activities		
Purchases of Property and Equipment	(30,532)	(41,775)
Purchases of Investments	(206,310)	(72,577)
Proceeds from Sales of Investments	150,022	
Purchases of Long-Term Investments	(245,085)	(145,340)
Proceeds from Sales of Long-Term Investments	229,232	
Net Cash Flows from (used for) Investing Activities	(102,673)	(259,692)
Cash Flows from Financing Activities		
Contributions Received for Long Term Purposes	12,444	142,841
Net Cash Flows from Financing Activities	12,444	142,841
Net Increase in Cash and Cash Equivalents	106,687	325
Cash and Cash Equivalents, Beginning of Year	420,750	420,425
Cash and Cash Equivalents, End of Year	$ 527,437	$ 420,750

See accompanying notes to financial statements.

1. The Organization

Feline Rescue, Inc. (the “Organization”), is a Minnesota based no-kill companion cat rescue organization. The Organization was founded in 1997 in Minneapolis, Minnesota as a 501(c)(3) non-profit organization. Feline Rescue, Inc., is funded exclusively through donations and grants, and receives no municipal, state, or federal funding.

The Organization’s mission is to provide safe shelter, veterinary care, and socialization for stray, abandoned, or abused cats until good permanent homes can be found for them. In addition, the Organization promotes positive community interaction through education, spay-neuter programs, and other activities that enable people to responsibly enjoy the companionship of cats.

2. Significant Accounting Policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. The Board of Directors designated $500,000 of unrestricted net assets for future facilities needs as of December 31, 2012, and in 2013 purchased a second building for $377,683. For the years ended December 31, 2016 and 2015, board designated funds of $15,768 and $41,774, respectively, were used for renovations.

Temporarily Restricted Net Assets – Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The related investment income, expense and realized and unrealized gains and losses of endowment funds are maintained in temporarily restricted net assets until released.

Permanently Restricted Net Assets – Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. For permanently restricted endowments, the related investment income, expenses, and realized and unrealized gains or losses are included in temporarily restricted net assets in accordance with the Uniform Prudent Management of Institutional Funds Act (the “UPMIFA”).

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 reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Investments – The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment income is reported in the statements of activities and consists of interest and dividend income, less investment management and custodial fees. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Support – Contributions, bequests, and grants are recognized as revenues in the period received. Contributions, bequests, and grants are measured at their fair value and reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Organization does not have the right to expend the original principal, the assets are reported as permanently restricted. When a donor restriction is met, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are also released from donor restrictions when time restrictions are satisfied.

2. Significant Accounting Policies (Continued)

Bequest Receivable – Bequests receivable are measured at their fair value and reported as increases in net assets.

Inventory – Inventory, consisting of cat food and clothing, is stated at the lower of cost or market.

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Items of $5,000 or less are expensed in the year purchased. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the assets, which range from three years for software to thirty-nine years for buildings. Costs of maintenance, repairs, and minor replacements are expensed as incurred.

In-Kind Contributions and Services – Donated services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles which include a) requiring specialized skills; b) provided by someone with those skills; and c) would have to be purchased if they were not donated. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

Income Taxes – The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2016. Tax returns for the past three years remain open for examination by tax jurisdictions.

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events – The Organization has performed an evaluation of subsequent events through February 15, 2017, which is the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment is summarized as follows:

	2016	2015
Buildings and Improvements	$ 1,268,272	$ 1,237,739
Furniture and Equipment	15,710	17,217
	1,283,982	1,254,956
Less: Accumulated Depreciation	(280,561)	(244,147)
Total Property and Equipment, Net	$ 1,003,421	$ 1,010,809

4. Investments

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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

4. Investments (Continued)

The Organization's Investments are carried at fair value based on quoted prices in active markets (all Level 1 measurements).

The Organization's investments are measured at fair value in the accompanying statements of financial position at December 31:

	2016	2015
Certificate of Deposit		$ 100,004
Fixed Income	$ 247,145	98,579
Common Stock	45,871	102,866
Mutual Funds	225,449	
Total	$ 518,465	$ 301,449

The following is summary of the Organization's investments in the accompanying statements of financial position at December 31:

	2016	2015
Investments	$ 293,016	$ 235,996
Long-Term Investments (Endowment)	229,665	210,856
Less: Cash Included in Long-Term Investments	(4,216)	(145,403)
Investments Reported at Fair Value	$ 518,465	$ 301,449

5. Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash and cash equivalents. The Organization's cash and cash equivalents have been placed with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization closely monitors these balances and has not experienced credit losses.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Medical Miracle Fund	$ 37,509	$ 66,599
Longevity Fund	12,380	6,015
Total	$ 49,889	$ 72,614

Temporarily restricted net assets were released for the following at December 31:

	2016	2015
Medical Miracle Fund	$ 75,822	$ 40,819
First Employee Fund		5,000
Spay and Neuter Fund	40,673	22,903
Total	$ 116,495	$ 68,722

7. Endowment

The Organization's endowment consists of donor-restricted funds established to support the overall operations of the Organization. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 or distributions to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation or distribution is added to the fund. The remaining portion of the donor-restricted net assets that is not classified as 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 UPMIFA.

In accordance with UPMIFA, the Organization 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

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as funds of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no such deficiencies as of December 31, 2016 and 2015.

Endowment net asset composition by type of fund as of December 31, 2016 and 2015, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
2016 Donor-Restricted Endowment Funds	$ 12,380	$ 217,285	$ 229,665
2015 Donor-Restricted Endowment Funds	$ 6,015	$ 204,841	$ 210,856

7. Endowment (Continued)

The changes in endowment net assets for the years ended December 31, 2016 and 2015, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2015	$ 10,829	$ 62,000	$ 72,829
Investment Return			
Investment Income	2,499		2,499
Realized and Unrealized Losses	(7,313)		(7,313)
Contributions		142,841	142,841
Endowment Net Assets, December 31, 2015	6,015	204,841	210,856
Investment Return			
Investment Income	3,409		3,409
Realized and Unrealized Gains	2,956		2,956
Contributions		12,444	12,444
Endowment Net Assets, December 31, 2016	$ 12,380	$ 217,285	$ 229,665

Investment Objectives and Strategies

Feline Rescue, Inc. has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve long-term total returns through a combination of capital appreciation and income. The returns should equal or exceed Feline Rescue, Inc.'s current spending rate plus the current annual rate of inflation as calculated over a 3-year period.

To achieve these objectives, Feline Rescue, Inc. follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. Feline Rescue, Inc. continually monitors the return on endowment investments and makes adjustments as needed.

Spending Policy

Feline Rescue, Inc. has established a spending rate formula that is expressed as a percent of a twelve-quarter moving average market value of the pooled assets of the Fund.