

FELINE RESCUE, INC.  
INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, and 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 audits 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, 2019 and 2018, 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.

Respectfully submitted,

*Lewis, Kisch & Associates, Ltd.*

June 17, 2020

STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 209,076	\$ 136,555
Grant Receivable	8,000	
Prepaid Expenses	6,213	7,641
Current Operating Investments (Note 4)	273,376	100,000
Total Current Assets	<u>496,665</u>	<u>244,196</u>
<u>Property and Equipment</u>		
Property and Equipment (Note 5)	1,487,127	1,347,918
Less: Accumulated Depreciation	<u>(411,205)</u>	<u>(360,965)</u>
Property and Equipment, Net	1,075,922	986,953
<u>Other Assets</u>		
Long-Term Operating Investments (Note 4)		389,894
Endowment Investments (Note 6)	775,142	625,906
Total Other Assets	<u>775,142</u>	<u>1,015,800</u>
Total Assets	<u><u>\$ 2,347,729</u></u>	<u><u>\$ 2,246,949</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accrued Payroll and Related Expenses	\$ 15,740	\$ 9,870
Sales Tax Payable	826	
Accounts Payable	14,924	17,703
Line of Credit	50,076	
Total Current Liabilities	<u>81,566</u>	<u>27,573</u>
<u>Net Assets</u>		
Without Donor Restrictions	1,483,021	1,557,787
With Donor Restrictions (Note 8)	783,142	661,589
Total Net Assets	<u>2,266,163</u>	<u>2,219,376</u>
Total Liabilities and Net Assets	<u><u>\$ 2,347,729</u></u>	<u><u>\$ 2,246,949</u></u>

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIESYEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>SUPPORT AND REVENUE</u>						
Adoptions	\$ 104,568		\$ 104,568	\$ 108,735		\$ 108,735
Contributions	477,087	\$ 57,085	534,172	381,348	\$ 20,332	401,680
Grants		110,000	110,000		102,150	102,150
Self-Directed Fundraising Events (Net of \$20,053 and \$30,309 Direct Expenses)	11,475		11,475	9,841		9,841
Merchandise Sales, Net	1,955		1,955	1,429		1,429
In-Kind Contributions				948		948
Net Investment Income	11	21,401	21,412	15,180	14,261	29,441
Net Realized and Unrealized Gains (Losses) From Investments	65,428	107,715	173,143	(58,732)	(58,778)	(117,510)
Net Assets Released from Restrictions (Note 8)	194,648	(194,648)		166,389	(166,389)	
Reclassification (Note 6)	(20,000)	20,000				
Total Support and Revenue	835,172	121,553	956,725	625,138	(88,424)	536,714
<u>EXPENSES</u>						
Program Services	655,742		655,742	790,681		790,681
Management and General	192,672		192,672	112,908		112,908
Fundraising	61,524		61,524	69,516		69,516
Total Expenses	909,938		909,938	973,105		973,105
Increase (Decrease) in Net Assets	(74,766)	121,553	46,787	(347,967)	(88,424)	(436,391)
Net Assets, Beginning of Year	1,557,787	661,589	2,219,376	1,905,754	750,013	2,655,767
Net Assets, End of Year	\$ 1,483,021	\$ 783,142	\$ 2,266,163	\$ 1,557,787	\$ 661,589	\$ 2,219,376

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSESYEARS ENDED DECEMBER 31, 2019 AND 2018

	2019						
	Program Services				Management and General	Fundraising	Grand Total
	Foster	Outreach	Shelter	Total			
Wages and Benefits	\$ 126,868	\$ 2,749	\$ 179,665	\$ 309,282	\$ 77,321	\$ 42,956	\$ 429,559
Contracted Services	3,627	93	5,580	9,300	65,773	8,694	83,767
Cat Care	122,447	37,256	80,649	240,352			240,352
Facilities	10,624	10,624	15,421	36,669	16,945		53,614
Operations	5,209	4,959	6,735	16,903	12,614	29,927	59,444
Other	14,412	14,412	14,412	43,236	20,019		63,255
Total Expenses by Function	283,187	70,093	302,462	655,742	192,672	81,577	929,991
Less Expenses Included With Revenues on the Statement of Activities:							
Direct Fundraising Event Expenses						(20,053)	(20,053)
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 283,187</u>	<u>\$ 70,093</u>	<u>\$ 302,462</u>	<u>\$ 655,742</u>	<u>\$ 192,672</u>	<u>\$ 61,524</u>	<u>\$ 909,938</u>
	2018						
	Program Services				Management and General	Fundraising	Grand Total
	Foster	Outreach	Shelter	Total			
Wages and Benefits	\$ 62,865	\$ 29,837	\$ 81,855	\$ 174,557	\$ 62,732	\$ 35,457	\$ 272,746
Contracted Services	10,358	10,203	10,505	31,066	15,532	8,694	55,292
Cat Care	217,050	116,111	139,471	472,632			472,632
Facilities	5,628	5,628	36,355	47,611	10,535		58,146
Operations	11,397	9,016	12,073	32,486	10,729	55,674	98,889
Other	5,125	3,060	24,144	32,329	13,380		45,709
Total Expenses by Function	312,423	173,855	304,403	790,681	112,908	99,825	1,003,414
Less Expenses Included With Revenues on the Statement of Activities:							
Direct Fundraising Event Expenses						(30,309)	(30,309)
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 312,423</u>	<u>\$ 173,855</u>	<u>\$ 304,403</u>	<u>\$ 790,681</u>	<u>\$ 112,908</u>	<u>\$ 69,516</u>	<u>\$ 973,105</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 46,787	\$ (436,391)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Contributions of Common Stock	(21,831)	(5,030)
Contributions Received for Long-Term Purposes	(120)	
Realized and Unrealized (Gains) Losses	(173,143)	117,510
Depreciation	60,897	45,533
(Increase) Decrease in Current Assets		
Grant Receivable	(8,000)	
Prepaid Expenses	1,428	3,501
Increase (Decrease) in Current Liabilities		
Accrued Payroll and Related Expenses	5,870	8,477
Sales Tax Payable	826	(1,299)
Accounts Payable	(2,779)	(30,845)
Net Cash Flows From (Used in) Operating Activities	<u>(90,065)</u>	<u>(298,544)</u>
<u>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</u>		
Purchases of Property and Equipment	(149,866)	(55,806)
Purchases of Investments	(61,909)	(367,839)
Proceeds from Sales of Investments	324,165	475,028
Net Cash Flows From (Used in) Investing Activities	<u>112,390</u>	<u>51,383</u>
<u>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</u>		
Contributions Received for Long-Term Purposes	120	
Net Borrowings on Line of Credit	50,076	
Net Cash Flows From (Used in) Financing Activities	<u>50,196</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	<u>72,521</u>	<u>(247,161)</u>
Cash and Cash Equivalents, Beginning of Year	136,555	383,716
Cash and Cash Equivalents, End of Year	<u>\$ 209,076</u>	<u>\$ 136,555</u>
<u>SUPPLEMENTAL DISCLOSURE</u>		
Cash Paid During the Year for Interest	<u>\$ 2,316</u>	

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**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 through adoption fees, donations, and grants, and receives no municipal or state 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:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 that are neither held for nor restricted by donors for long-term purposes.

Grant Receivable – The grant receivable consists of a grant that is expected to be received within one year of the financial statement date. The Organization considers this amount fully collectible and has not established an allowance account.

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 on the statement of financial position. Net investment income is reported in the statement 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 statement of activities. Investment management and custodial fees for the years ended December 31, 2019 and 2018, totaled \$15,898 and \$12,930, respectively.

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 two years for some veterinary equipment to thirty-nine years for buildings. Costs of maintenance and repairs that do not improve or extend the useful life of the respective assets are expensed currently. Depreciation for the years ended December 31, 2019 and 2018, totaled \$60,897 and \$45,533, respectively.



NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**2. Significant Accounting Policies (Continued)**

Revenues and Revenue Recognition – The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor stipulations for their use.

The Organization recognizes revenue from cat adoptions at the time the animal is transferred to the adopter. After this transaction has taken place, the Organization has no continued obligation to the cat or its adopter, unless the cat is returned. Approximately 5% of all cats adopted from the Organization are returned, at which time the cost of the cat's care reverts to the Organization until a forever home is found for the animal. Future costs related to returned cats are not practicably estimable, and therefore are not recorded in the attached financial statements.

The Organization records special event revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Sales Tax – The Organization collects sales tax from customers and remits the entire amount to the state. The Organization's accounting policy is to exclude the tax collected and remitted to the state from revenue and expenses.

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 materials, property, and equipment are recorded as contributions at their estimated fair value at the date of donation.

Advertising – Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, advertising expenses totaled \$4,265 and \$19,326, respectively.

Functional Allocation of Expenses – The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar state statutes, 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, 2019. Tax returns for the past three years remain open for examination by tax jurisdictions.

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.

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.

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods reported. These reclassifications had no effect on previously reported net assets.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**2. Significant Accounting Policies (Continued)**

Recently Adopted Accounting Pronouncements – The Organization has adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, as management believes the standards improve the usefulness and understandability of the Organization’s financial reporting. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue or contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue and contributions have been enhanced in accordance with the standards.

Subsequent Events – The Organization has performed an evaluation of subsequent events through June 17, 2020, which is the date the financial statements were available to be issued.

**3. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 209,076	\$ 136,555
Grants receivable	8,000	
Prepaid expenses	6,213	7,641
Current operating investments	<u>273,376</u>	<u>100,000</u>
Total	496,665	244,196
Less: Amounts in these accounts with donor restrictions	<u>(8,000)</u>	<u>(35,683)</u>
Available	<u>\$ 488,665</u>	<u>\$ 208,513</u>

The Organization’s endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of the Organization’s liquidity management plan, the Organization invests cash in excess of daily requirements. At December 31, 2018, the Organization had \$389,894 of long-term operating investments that could be converted to cash if necessary. At December 31, 2019, all operating investments of the Organization are considered available for unrestricted use within the next year.

**4. Fair Value Measurements and Disclosures**

The Organization reports its investments at fair value in the accompanying financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**4. Fair Value Measurements and Disclosures (Continued)**

A three-tier hierarchy categorizes the inputs as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

*Level 3* – Unobservable inputs for the asset or liability. In these situations, management develops inputs using the best information available in the circumstances.

The Organization's current and long-term investments are classified within Level 1 because they are comprised of common stock and mutual funds with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis as of December 31, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>December 31, 2019</u>			
Fixed Income Mutual Funds	\$ 400,048			\$ 400,048
Equity Mutual Funds	631,614			631,614
Total	<u>\$ 1,031,662</u>			<u>\$ 1,031,662</u>
	<u>December 31, 2018</u>			
Fixed Income Mutual Funds	\$ 375,434			\$ 375,434
Equity Mutual Funds	655,610			655,610
Alternative Mutual Funds	52,797			52,797
Total	<u>\$ 1,083,841</u>			<u>\$ 1,083,841</u>

The following is a summary of the Organization's investments as reported in the accompanying statement of financial position at December 31, 2019 and 2018:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current Operating Investments	\$ 273,376	\$ 100,000
Long-Term Operating Investments		389,893
Endowments	775,142	625,907
Less: Cash Included in Endowments	(16,856)	(31,959)
Investments Reported at Fair Value	<u>\$ 1,031,662</u>	<u>\$ 1,083,841</u>

**5. Property and Equipment**

Property and equipment consists of the following at December 31, 2019 and 2018:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Buildings and Improvements	\$ 1,271,686	\$ 1,280,122
Shelter Furniture and Equipment	147,492	11,490
Office Furniture and Equipment	18,334	15,128
Veterinary Equipment	49,615	41,178
Total Property and Equipment	<u>1,487,127</u>	<u>1,347,918</u>
Less: Accumulated Depreciation	(411,205)	(360,965)
Total Property and Equipment, Net	<u>\$ 1,075,922</u>	<u>\$ 986,953</u>

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**6. Endowment**

The Organization's endowment consists of three donor-restricted funds established to provide annual funding for specific activities and general operations. 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 funds, absent explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net asset composition by type of fund as of December 31, 2019 and 2018, is as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>With Donor</u>	<u>With Donor</u>
	<u>Restrictions</u>	<u>Restrictions</u>
Donor-restricted endowment funds		
Original donor-restricted amounts required to be maintained in perpetuity by donor	\$ 670,543	\$ 670,423
Accumulated investment gains (losses)	104,599	(44,517)
Total	<u>\$ 775,142</u>	<u>\$ 625,906</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law ("underwater endowments"). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$670,423, fair values of \$625,906, and deficiencies of \$44,517 were reported in net assets with donor restrictions. These amounts were fully recovered in 2019 due to favorable market fluctuations.

During 2019, the Organization used unrestricted funds to replenish \$20,000 of accumulated investment gains on donor-restricted endowment funds, which had been appropriated during the year ended December 31, 2018.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**6. Endowment (Continued)**

*Investment and Spending Objectives and Policies* – The Organization has adopted investment and spending policies to provide guidelines for investing endowment assets. Under this policy, the Organization’s investment committee selects and oversees investments in each endowment account based on criteria that may include, but are not limited to, the following:

- Maximization of income and/or return within reasonable and prudent levels of risk and identified criteria for each account
- Provision of returns comparable to returns for similar investment options
- Control of administrative and management fees
- Provision of appropriate diversification within investment accounts
- Investment’s adherence to stated investment objectives and style

The Organization maintains three separate endowment accounts, which have the following investment and spending objectives and policies:

Sanders Endowment – Objective: Growth – Approximately 52% stock/40% bonds/8% alternatives. This account will be invested to provide for long-term growth of principal while providing an ongoing income stream. Income will be transferred from this account to the operating investment account for the Organization’s ongoing needs annually, at a minimum. The income goal for distribution is 4% annually, which is based on the average account value over the preceding 12-quarter period. The investment committee will also monitor the account’s dividends, income, and overall investment return on an ongoing basis to ensure that this goal remains appropriate.

Warner Endowment – Objective: Growth – Approximately 52% stock/40% bonds/8% alternatives. This account will be invested to provide for long-term growth of principal while providing for ongoing income to be used as specified in the endowment. Income will be transferred to the Medical Miracle Fund and used on an annual basis, at minimum. The income goal for distribution is 4% annually, based on the average account value over the preceding 12-quarter period. The investment committee will also monitor the account’s dividends, income, and overall investment return on an ongoing basis to ensure that this goal remains appropriate.

10<sup>th</sup> Life Endowment – Objective: Aggressive growth and income – Approximately 78% stock/16% bonds/6% alternatives. This account has a longer timeframe and is able to take on a higher amount of risk in order to provide longer-term funds to meet the spending objectives of the 10<sup>th</sup> Life Fund. The income goal for distribution is 4% annually, based on the average account value over the preceding 12-quarter period. The investment committee will monitor this account’s dividends, income, and overall investment return on an ongoing basis to ensure that this goal remains appropriate. The committee will retain discretion to recommend that a greater or lesser amount be distributed in order to finance the board’s objectives and initiatives.

Changes in endowment net assets for the years ended December 31, 2019 and 2018, were as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, January 1, 2018	\$ 750,013
Investment return, net	(44,517)
Appropriation of endowment assets pursuant to spending-rate policy	<u>(79,590)</u>
Endowment net assets, December 31, 2018	625,906
Investment return, net	129,116
Contributions	120
Replenishment of endowment assets pursuant to spending-rate policy	<u>20,000</u>
Endowment net assets, December 31, 2019	<u>\$ 775,142</u>

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**7. Line of Credit**

On February 4, 2019, the Organization opened a \$100,000 line of credit with its bank, maturing May 1, 2020. The interest rate on this line of credit is variable at 0.25 percentage points over prime, which was 5.25% when the line was opened and 4.50% at December 31, 2019. All non-restricted investments of the Organization are collateral on this line when it is used. The Organization had an outstanding balance of \$50,076 on the line of credit at December 31, 2019.

**8. Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes at December 31, 2019 and 2018:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Veterinarian and shelter manager payroll		\$ 35,683
Promises to give, the proceeds from which have been restricted by donors for		
Neonatal program	8,000	
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for		
Available for general use	73,353	
Medical Miracle Fund	31,246	
Subject to endowment spending policy and appropriation		
Sanders Endowment	453,138	453,138
Warner Endowment	146,931	146,931
10 <sup>th</sup> Life Endowment	70,474	70,354
Underwater endowments		(44,517)
Total endowments	<u>775,142</u>	<u>625,906</u>
Total net assets with donor restrictions	<u>\$ 783,142</u>	<u>\$ 661,589</u>

Net assets were released from donor restrictions as follows during the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Appropriation of endowment assets		
General		\$ 54,049
Satisfaction of purpose restrictions		
Shelter housing upgrades	\$ 100,000	
Medical Miracle Fund	53,840	21,237
Veterinarian and shelter manager payroll	35,683	54,317
Sanitation protocol upgrade		8,900
Other grant expenditures	2,000	3,250
Medical care for specific cats	3,125	
Restricted-purpose spending rate distributions and appropriations		
Medical Miracle Fund		24,636
Total released	<u>\$ 194,648</u>	<u>\$ 166,389</u>

**9. Functionalized Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities, which are allocated on a square footage basis, as well as wages and benefits, contracted services, operations, and other, which are allocated based on estimates of time and effort.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**10. Concentrations**

During the years ended December 31, 2019 and 2018, 10.5% and 14.7% of the Organization's revenues, respectively, consisted of grants from one organization. Loss of this grantor could have a major impact on the Organization's activities.

**11. Subsequent Event**

Beginning in March 2020, the COVID-19 outbreak in the United States resulted in significant changes to the Organization's operations. While this disruption in the Organization's operations is currently expected to be temporary, there is considerable uncertainty regarding its duration. Therefore, the Organization expects this matter to negatively affect its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Investments, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to considerably economic uncertainty related to the COVID-19 crisis, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.