

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS

FELINE RESCUE, INC.

DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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 the 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 of 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, 2015 and 2014, 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.

February 9, 2016

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current</u>		
Cash and Cash Equivalents	\$ 420,750	\$ 420,425
Investments	235,996	151,036
Bequest Receivable	194,215	
Inventory	7,105	2,121
Prepaid Expenses	4,233	5,257
Total Current Assets	<u>862,299</u>	<u>578,839</u>
<u>Property and Equipment</u>		
Property and Equipment	1,254,956	1,213,911
Accumulated Depreciation	(244,147)	(211,026)
Property and Equipment, Net	<u>1,010,809</u>	<u>1,002,885</u>
<u>Other</u>		
Long-Term Investments	210,856	72,829
Total Assets	<u><u>\$ 2,083,964</u></u>	<u><u>\$ 1,654,553</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current</u>		
Accounts Payable	\$ 25,753	\$ 23,219
Total Current Liabilities	<u>25,753</u>	<u>23,219</u>
<u>Net Assets</u>		
Unrestricted Net Assets	1,764,988	1,438,579
Unrestricted Net Assets - Board Designated for Future Facilities Needs	15,768	57,542
Total Unrestricted Net Assets	<u>1,780,756</u>	<u>1,496,121</u>
Temporarily Restricted Net Assets	72,614	73,213
Permanently Restricted Net Assets	204,841	62,000
Total Net Assets	<u>2,058,211</u>	<u>1,631,334</u>
Total Liabilities and Net Assets	<u><u>\$ 2,083,964</u></u>	<u><u>\$ 1,654,553</u></u>

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenue</u>								
Adoptions	\$ 79,469			\$ 79,469	\$ 67,317			\$ 67,317
Contributions Income	327,506	\$ 50,033	\$ 6,250	383,789	291,944	\$ 53,073	\$ 12,000	357,017
Bequests	258,519		136,591	395,110	86,992			86,992
Grants		22,903		22,903	2,500	32,319		34,819
Fundraising Events (Net of \$4,280 and \$1,327 Direct Expenses, respectively)	10,524			10,524	4,483			4,483
In-Kind Contributions and Services	28,380			28,380	25,899			25,899
Investment Income	3,425	2,500		5,925	3,002	2,157		5,159
Realized and Unrealized Gains(Losses)	(3,758)	(7,313)		(11,071)	2,900	4,427		7,327
Rental Income					900			900
Other Income	1,316			1,316	1,318			1,318
Net Assets Released from Restrictions	68,722	(68,722)			84,603	(84,603)		
Total Support and Revenue	774,103	(599)	142,841	916,345	571,858	7,373	12,000	591,231
<u>Expenses</u>								
Program Services	426,212			426,212	398,747			398,747
Management and General	38,110			38,110	30,282			30,282
Fund Raising	25,146			25,146	29,817			29,817
Total Expenses	489,468			489,468	458,846			458,846
Increase (Decrease) in Net Assets	284,635	(599)	142,841	426,877	113,012	7,373	12,000	132,385
Net Assets, Beginning of Year	1,496,121	73,213	62,000	1,631,334	1,383,109	65,840	50,000	1,498,949
Net Assets, End of Year	<u>\$ 1,780,756</u>	<u>\$ 72,614</u>	<u>\$ 204,841</u>	<u>\$ 2,058,211</u>	<u>\$ 1,496,121</u>	<u>\$ 73,213</u>	<u>\$ 62,000</u>	<u>\$ 1,631,334</u>

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSESYEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			
<u>Expenses</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
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	<u>\$ 426,212</u>	<u>\$ 38,110</u>	<u>\$ 25,146</u>	<u>\$ 489,468</u>

	2014			
<u>Expenses</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Advertising and Public Relations	\$ 3,382	\$ 1,498	\$ 2,282	\$ 7,162
Bank and Donation Processing Fees		138	3,419	3,557
Building Repairs and Maintenance	36,483			36,483
Cat Care	259,253			259,253
Depreciation	32,496			32,496
Information Technology	898		5,393	6,291
Insurance	5,295	818		6,113
Office Supplies		3,292		3,292
Personnel Costs	10,355	10,355		20,710
Postage and Mailing	762	762	2,712	4,236
Printing and Copying	3,217	3,217	4,250	10,684
Professional Fees	9,433	9,434	9,433	28,300
Property Taxes	16,060			16,060
Utilities	20,893			20,893
Miscellaneous Expense	220	768	2,328	3,316
Total	<u>\$ 398,747</u>	<u>\$ 30,282</u>	<u>\$ 29,817</u>	<u>\$ 458,846</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2015 AND 2014

<u>Cash Flow from (used in) Operating Activities</u>	<u>2015</u>	<u>2014</u>
Change in Net Assets	\$ 426,877	\$ 132,385
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Contributions of Common Stock	(16,141)	(15,142)
Contributions Received for Long Term Purposes	(142,841)	(12,000)
Realized and Unrealized (Gains) Losses	11,071	(7,327)
Depreciation	33,851	32,496
(Increase) Decrease in Current Assets:		
Bequest Receivable	(194,215)	
Inventory	(4,984)	1,503
Prepaid Expenses	1,024	(2,631)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	2,534	4,223
Deferred Rent		(900)
Net Cash Flows from Operating Activities	<u>117,176</u>	<u>132,607</u>
<u>Cash Flows (used in) Investing Activities</u>		
Purchases of Property and Equipment	(41,775)	(64,775)
Purchases of Investments	(72,577)	(35,265)
Purchases of Long-Term Investments	<u>(145,340)</u>	<u>(12,000)</u>
Net Cash Flows (used in) Investing Activities	<u>(259,692)</u>	<u>(112,040)</u>
<u>Cash Flows from Financing Activities</u>		
Contributions Received for Long Term Purposes	<u>142,841</u>	<u>12,000</u>
Net Cash Flows from Financing Activities	<u>142,841</u>	<u>12,000</u>
Net Increase in Cash and Cash Equivalents	325	32,567
Cash and Cash Equivalents, Beginning of Year	420,425	387,858
Cash and Cash Equivalents, End of Year	<u><u>\$ 420,750</u></u>	<u><u>\$ 420,425</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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, Feline Rescue, Inc. 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, 2015 and 2014, board designated funds of \$41,774 and \$64,775, respectively, were used for renovations. The Board of Directors plans for the balance of \$15,768 to be used in 2016.

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. Such estimates include depreciation.

Cash and Cash Equivalents – For purposes of the statement of cash flows, cash equivalents include highly liquid debt instruments with an original purchased maturity of three months or less.

Investments – The Organization carries investments in marketable securities with readily determinable fair value and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

2. Significant Accounting Policies (Continued)

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.

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, 2015. Tax returns for the past three years remain open for examination by tax jurisdictions.

Functional Allocation of Expenses – The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis, based on estimates developed by management.

Reclassification – Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. These reclassifications had no impact on change in net assets or net asset balances.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued.

The Organization has performed an evaluation of subsequent events through February 9, 2016, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014**3. Property and Equipment**

Property and equipment is summarized as follows:

	<u>2015</u>	<u>2014</u>
Buildings and Improvements	\$ 1,237,739	\$ 753,506
Furniture and Equipment	17,217	17,947
Construction In-Progress		442,458
	<u>1,254,956</u>	<u>1,213,911</u>
Less: Accumulated Depreciation	(244,147)	(211,026)
Total Property and Equipment, Net	<u>\$ 1,010,809</u>	<u>\$ 1,002,885</u>

4. Investments

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as 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. FASB ASC Topic 820 also establishes a fair value hierarchy which 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 active 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.

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:

	<u>2015</u>	<u>2014</u>
Certificate of Deposit	\$ 100,004	
Corporate Bonds	98,579	\$ 99,512
Common Stock	102,866	118,639
Total	<u>\$ 301,449</u>	<u>\$ 218,151</u>

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014**4. Investments (Continued)**

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

	<u>2015</u>	<u>2014</u>
Investments	\$ 235,996	\$ 151,036
Long-Term Investments (Endowment)	210,856	72,829
Less: Cash Included in Long-Term Investments	(145,403)	(5,714)
Investments Reported at Fair Value	<u>\$ 301,449</u>	<u>\$ 218,151</u>

5. Rental Income

The Organization leased a portion of the shelter building to an unrelated party, and in 2014 the lease was terminated. Rental income for the year ended December 31, 2014 was \$900.

6. 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.

7. Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Medical Miracle Fund	\$ 66,599	\$ 57,384
First Employee Fund		5,000
Longevity Fund	6,015	10,829
Total	<u>\$ 72,614</u>	<u>\$ 73,213</u>

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

	<u>2015</u>	<u>2014</u>
Medical Miracle Fund	\$ 40,819	\$ 30,250
First Employee Fund	5,000	17,500
Development Software Project		4,534
Spay and Neuter Fund	22,903	32,319
Total	<u>\$ 68,722</u>	<u>\$ 84,603</u>

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014**8. 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, 2015 and 2014.

Endowment net asset composition by type of fund as of December 31, 2015 and 2014 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
2015 Donor-Restricted Endowment Funds	\$ 6,015	\$ 204,841	\$ 210,856
2014 Donor-Restricted Endowment Funds	\$ 10,829	\$ 62,000	\$ 72,829

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2015 AND 2014**8. Endowment (Continued)**

The changes in endowment net assets for the years ended December 31, 2015 and 2014 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2014	\$ 4,245	\$ 50,000	\$ 54,245
Investment Return			
Investment Income	2,157		2,157
Realized and Unrealized Gains	4,427		4,427
Contributions		12,000	12,000
Endowment Net Assets, December 31, 2014	<u>10,829</u>	<u>62,000</u>	<u>72,829</u>
Investment Return			
Investment Income	2,499		2,499
Realized and Unrealized Gains/Losses	(7,313)		(7,313)
Contributions		142,841	142,841
Endowment Net Assets, December 31, 2015	<u>\$ 6,015</u>	<u>\$ 204,841</u>	<u>\$ 210,856</u>

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.