

FELINE RESCUE, INC.
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
DECEMBER 31, 2017

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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 statement of financial position as of December 31, 2017, 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 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, 2017, 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.

Respectfully submitted,

Lewis, Kisch & Associates, Ltd.

April 18, 2018

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 375,151
Prepaid Expenses	11,142
Current Investments	299,209
Total Current Assets	<u>685,502</u>

Property and Equipment

Property and Equipment	1,295,832
Less: Accumulated Depreciation	(319,152)
Property and Equipment, Net	<u>976,680</u>

Other Assets

Long-Term Investments	1,044,825
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Total Assets	<u><u>\$ 2,707,007</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accrued Payroll and Payroll Taxes	\$ 1,393
Sales Tax Payable	1,299
Accounts Payable	48,548
Total Current Liabilities	<u>51,240</u>

Net Assets

Unrestricted Net Assets	1,905,754
Temporarily Restricted Net Assets	79,590
Permanently Restricted Net Assets	670,423
Total Net Assets	<u>2,655,767</u>

Total Liabilities and Net Assets	<u><u>\$ 2,707,007</u></u>
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STATEMENT OF ACTIVITIESYEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE</u>				
Adoptions	\$ 120,682			\$ 120,682
Contributions Income	696,617	\$ 35,647	\$ 453,138	1,185,402
Fundraising Events				
(Net of \$11,304 Direct Expenses)	4,080			4,080
Merchandise Sales				
(Net of \$3,739 Cost of Goods Sold)	6,827			6,827
In-Kind Contributions	9,444			9,444
Net Investment Income	9,640	6,818		16,458
Net Realized and Unrealized Gains	10,809	60,392		71,201
Net Assets Released from Restrictions	73,156	(73,156)		
Total Support and Revenue	931,255	29,701	453,138	1,414,094
<u>EXPENSES</u>				
Program Services	643,180			643,180
Management and General	90,128			90,128
Fundraising	51,602			51,602
Total Expenses	784,910			784,910
Increase in Net Assets	146,345	29,701	453,138	629,184
Net Assets, Beginning of Year	1,759,409	49,889	217,285	2,026,583
Net Assets, End of Year	<u>\$ 1,905,754</u>	<u>\$ 79,590</u>	<u>\$ 670,423</u>	<u>\$ 2,655,767</u>

See accompanying notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

<u>EXPENSES</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Wages and Benefits	\$ 34,832	\$ 45,662	\$ 18,659	\$ 99,153
Contracted Services	29,186	19,523	9,663	58,372
Cat Care	472,622			472,622
Facilities	39,985	6,093		46,078
Operations	32,634	17,489	23,280	73,403
Other	33,921	1,361		35,282
Total Expenses	<u>\$ 643,180</u>	<u>\$ 90,128</u>	<u>\$ 51,602</u>	<u>\$ 784,910</u>

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Change in Net Assets	\$ 629,184
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:	
Contributions of Common Stock	(4,992)
Contributions Received for Long Term Purposes	(453,138)
Realized and Unrealized (Gains) Losses	(71,201)
Depreciation	38,590
(Increase) Decrease in Current Assets	
Inventory	3,739
Prepaid Expenses	(6,131)
Increase (Decrease) in Current Liabilities	
Accrued Payroll and Payroll Taxes	1,393
Sales Tax Payable	1,299
Accounts Payable	16,152
Contract Payable	(3,310)
Net Cash Flows from Operating Activities	<u>151,585</u>

CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES

Purchases of Property and Equipment	(11,849)
Purchases of Investments	(150,000)
Proceeds from Sales of Investments	150,000
Purchases of Long-Term Investments	(1,198,298)
Proceeds from Sales of Long-Term Investments	453,138
Net Cash Flows from (Used in) Investing Activities	<u>(757,009)</u>

CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES

Contributions Received for Long Term Purposes	453,138
Net Cash Flows from Financing Activities	<u>453,138</u>
Net Decrease in Cash and Cash Equivalents	<u>(152,286)</u>
Cash and Cash Equivalents, Beginning of Year	527,437
Cash and Cash Equivalents, End of Year	<u><u>\$ 375,151</u></u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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.

Temporarily Restricted Net Assets – Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met 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").

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.

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.

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 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 year ended December 31, 2017, totaled \$6,733.

Inventory – At times, the Organization holds inventory for sale, which consists of apparel featuring the Feline Rescue logo. When apparel inventory is on hand, it is reported on the statement of assets, liabilities, and net assets at the lower of cost or net realizable value determined by the first-in, first-out method. At December 31, 2017, there was no inventory on hand.

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. Depreciation for the year ended December 31, 2017, totaled \$38,590.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2017**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.

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. In-kind contributions during the year ended December 31, 2017, consisted of veterinary equipment and insulated outdoor cat houses.

Functional Allocation of Expenses – The costs of program and supporting services activities 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 based on allocation estimates developed by management.

Advertising – The Organization records advertising expenses as they are paid. For the year ended December 31, 2017, advertising expenses totaled \$16,440.

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, 2017. 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.

Subsequent Events – The Organization has performed an evaluation of subsequent events through April 18, 2018, which is the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment is summarized as follows as of December 31, 2017:

Buildings and Improvements	\$ 1,280,122
Furniture and Equipment	15,710
Total Property and Equipment	1,295,832
Less: Accumulated Depreciation	(319,152)
Total Property and Equipment, Net	<u>\$ 976,680</u>

4. Investments

The Organization reports its investments at fair value in the 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 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, 2017**4. Investments (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 carried at fair value based on quoted prices in active markets (all Level 1 measurements).

The following table presents assets measured at fair value on a recurring basis as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 52,063			\$ 52,063
Fixed Income Mutual Funds	297,654			297,654
Equity Mutual Funds	712,587			712,587
Bond Mutual Funds	247,145			247,145
Total	<u>\$ 1,309,449</u>			<u>\$ 1,309,449</u>

The following is a summary of the Organization's investments as reported in the accompanying statement of financial position at December 31, 2017:

Current Investments	\$ 299,209
Long-Term Investments	1,044,825
Less: Cash Included in Long-Term Investments	(34,584)
Investments Reported at Fair Value	<u>\$ 1,309,449</u>

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2017:

Medical Miracle Fund	\$ 25,541
Longevity Fund	54,049
Total	<u>\$ 79,590</u>

Net assets were released from restrictions as follows during the year ended December 31, 2017:

<u>Satisfaction of Purpose Restrictions</u>	
Medical Miracle Fund	\$ 73,156
Total Released in 2017	<u>\$ 73,156</u>

6. 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 endowment, (b) the original value of subsequent gifts to the endowment (including promises to give), and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2017**6. Endowment (Continued)**

The remaining portion of the donor-restricted endowment 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, 2017.

Donor-restricted endowment net asset composition and changes in endowment net assets by type of fund as of and for the year ended December 31, 2017, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 12,380	\$ 217,285	\$ 229,665
Investment Return			
Investment Income, Net of Fees	6,818		6,818
Realized and Unrealized Gains	60,392		60,392
Contributions		453,138	453,138
Endowment Net Assets, End of Year	<u>\$ 79,590</u>	<u>\$ 670,423</u>	<u>\$ 750,013</u>

Investment Objectives and Strategies

The Organization 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 the Organization's current spending rate plus the current annual rate of inflation as calculated over a 3-year period.

To achieve these objectives, the Organization follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. The Organization's board of directors and investment committee continually monitor the return on endowment investments and make 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 endowment fund.

7. Concentrations

During the year ended December 31, 2017, 32.0% and 19.9% of the Organization's revenues consisted of contributions made by two donors. Lack of similar support in the future could significantly affect the Organization's operations.