

**Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue**

Financial Statements

December 31, 2015

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Independent Auditors' Report

To the Board of Directors
Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue
Boca Raton, Florida

We have audited the accompanying financial statements of Tri County Humane Society, Inc. d/b/a Tri County Animal Rescue (the "Society") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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.

Continued from previous page

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2015, 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.

Wagtail Capital LLP

Boca Raton, Florida
December 7, 2016

Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue
Statement of Financial Position
December 31, 2015

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,072,424
Prepaid expenses and other current assets	13,531
Total current assets	<u>3,085,955</u>
Property and equipment, net	<u>289,476</u>
Total assets	<u>\$ 3,375,431</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 77,568
Accrued expenses	22,814
Deferred revenue	32,770
Total liabilities	<u>133,152</u>
Net assets:	
Unrestricted net assets	3,239,777
Temporarily restricted net assets	2,502
Total net assets	<u>3,242,279</u>
Total liabilities and net assets	<u>\$ 3,375,431</u>

See accompanying notes to financial statements.

Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue
Statement of Activities
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, income and other support:			
Contributions:			
Cash	\$ 1,009,038	\$ -	\$ 1,009,038
Professional services	67,847	-	67,847
Food and supplies	274,291	-	274,291
Adoption and other fees	321,117	-	321,117
Cemetery	54,059	27,700	81,759
Fundraising events	819,215	-	819,215
Thrift shop revenues	87,600	-	87,600
Pet store revenues	15,866	-	15,866
Investment gains, net	14,797	-	14,797
Net assets released from restrictions	27,700	(27,700)	-
Total revenues, income and other support	<u>2,691,530</u>	<u>-</u>	<u>2,691,530</u>
Expenses:			
Program services:			
Animal rescue, shelter and adoption	1,209,179	-	1,209,179
Outreach	105,698	-	105,698
Cemetery	41,044	-	41,044
Thrift shop	49,997	-	49,997
Pet store	10,841	-	10,841
Support services:			
Fundraising and development	170,580	-	170,580
General and administrative	125,588	-	125,588
Total expenses	<u>1,712,927</u>	<u>-</u>	<u>1,712,927</u>
Change in net assets	978,603	-	978,603
Net assets, beginning of year	<u>2,261,174</u>	<u>2,502</u>	<u>2,263,676</u>
Net assets, end of year	<u>\$ 3,239,777</u>	<u>\$ 2,502</u>	<u>\$ 3,242,279</u>

See accompanying notes to financial statements.

Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities:	
Change in net assets	\$ 978,603
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,746
(Increase) in operating assets:	
Prepaid expenses and other current assets	(4,513)
Increase (decrease) in operating liabilities:	
Accounts payable	2,350
Accrued expenses	(10,517)
Deferred revenue	31,670
Net cash provided by operating activities	<u>1,012,339</u>
 Cash flows from investing activities:	
Building development costs	(47,116)
Net cash used in investing activities	<u>(47,116)</u>
 Cash flows from financing activities	<u>-</u>
 Net increase in cash and cash equivalents	965,223
 Cash and cash equivalents, beginning of year	<u>2,107,201</u>
 Cash and cash equivalents, end of year	<u>\$ 3,072,424</u>

See accompanying notes to financial statements.

Tri County Humane Society, Inc.
d/b/a Tri County Animal Rescue
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services					Support Services		Total
	Animal Rescue Shelter and Adoption	Outreach	Cemetery	Thrift Shop	Pet Store	Fundraising and Development	General and Administrative	
Personnel expenses:								
Payroll and taxes	\$ 499,797	\$ 105,698	\$ 20,945	\$ 21,342	\$ 9,838	\$ 32,121	\$ 54,637	\$ 744,378
Subcontractors	5,525	-	-	-	-	-	-	5,525
Employee benefits	32,798	-	565	-	-	-	-	33,363
Total personnel expenses	<u>538,120</u>	<u>105,698</u>	<u>21,510</u>	<u>21,342</u>	<u>9,838</u>	<u>32,121</u>	<u>54,637</u>	<u>783,266</u>
Occupancy expenses:								
Depreciation	8,258	-	1,475	-	-	-	5,013	14,746
Utilities	41,183	-	1,314	1,314	-	751	1,885	46,447
Landscaping	8,877	-	1,684	-	-	-	-	10,561
Rent	-	-	-	24,000	-	-	-	24,000
Repairs	267	-	-	-	-	-	4,901	5,168
Total occupancy expenses	<u>58,585</u>	<u>-</u>	<u>4,473</u>	<u>25,314</u>	<u>-</u>	<u>751</u>	<u>11,799</u>	<u>100,922</u>
Animal care direct costs:								
Animal supplies	250,474	-	-	-	-	-	-	250,474
Animal food	44,157	-	-	-	-	-	-	44,157
Cemetery	-	-	3,678	-	-	-	-	3,678
Fostering	4,076	-	-	-	-	-	-	4,076
Travel and rescue	21,585	-	-	-	-	-	-	21,585
Medical supplies	51,568	-	-	-	-	-	-	51,568
Veterinary	111,737	-	-	-	-	-	-	111,737
Total animal care direct costs	<u>483,597</u>	<u>-</u>	<u>3,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,275</u>
Other expenses:								
Advertising	43,394	-	-	2,500	-	3,929	2,098	51,921
Automobile	2,021	-	-	-	-	65	-	2,086
Cost of goods sold	-	-	11,383	-	1,003	-	-	12,386
Computer	1,172	-	-	-	-	100	2,290	3,562
Credit card fees	22,397	-	-	341	-	733	2,722	26,193
Gas expense	6,958	-	-	-	-	224	299	7,481
Fundraising	-	-	-	-	-	123,072	-	123,072
Insurance	34,688	-	-	-	-	1,113	3,159	38,960
Licenses, dues, and subscriptions	425	-	-	-	-	-	2,620	3,045
Meeting	483	-	-	-	-	1,954	2,631	5,068
Professional fees	-	-	-	-	-	1,850	28,191	30,041
Postage	-	-	-	-	-	2,523	1,269	3,792
Supplies	17,339	-	-	500	-	2,145	13,873	33,857
Total other expenses	<u>128,877</u>	<u>-</u>	<u>11,383</u>	<u>3,341</u>	<u>1,003</u>	<u>137,708</u>	<u>59,152</u>	<u>341,464</u>
Total expenses	<u>\$ 1,209,179</u>	<u>\$ 105,698</u>	<u>\$ 41,044</u>	<u>\$ 49,997</u>	<u>\$ 10,841</u>	<u>\$ 170,580</u>	<u>\$ 125,588</u>	<u>\$ 1,712,927</u>

See accompanying notes to financial statements.

Note 1 – Description of Organization

Tri County Humane Society, Inc. d/b/a Tri County Animal Rescue (the "Society") was incorporated in the State of Florida on November 2, 1999. The Society is located in Boca Raton, Florida, and serves primarily Palm Beach, Broward and Miami-Dade Counties. The Society operates a no-kill animal shelter designed for the placement of homeless dogs and cats with qualified prospective owners and also houses and maintains dogs and cats which cannot be placed with owners due to age, temperament, sickness or disease. The eleven acre premises also includes a pet cemetery maintained by the Society. The Society seeks to prevent pet overpopulation through sterilization and public education, including a community outreach program educating and building awareness in both private and public schools, the Boy Scouts, Girl Scouts and Eagle Scouts. In addition, the Society has a pet therapy program with on-site visits to hospitals, rehab centers, and nursing homes. The Society also operates a thrift shop in Boca Raton to raise funds for its programs.

Note 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements are prepared using the accrual basis of accounting. Net assets, revenue, gains and losses are classified into three classes of net assets based on the existence or absence of donor-imposed restrictions. The three net asset categories are reflected in the accompanying financial statements as follows:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Restricted net assets received and expended in the same year are classified as unrestricted.
- **Temporarily Restricted** – Net assets whose use by the Society is subject to donor-imposed stipulations that can be fulfilled by actions of the Society pursuant to those stipulations or that expire through the passage of time.
- **Permanently Restricted** – Net assets of the Society resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Society.

Expenses generally are reported as decreases in unrestricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

At December 31, 2015, the Society did not have any permanently restricted net assets.

Note 2 – Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results may differ from those estimates.

Concentrations of Credit Risk

The Society's cash deposits exceeded Federal Deposit Insurance Corporation (“FDIC”) limits at various times during the year ended December 31, 2015. The Society has not experienced losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances. At December 31, 2015, the Society's cash and cash equivalents exceeded federally insured limits by \$2,309,288.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions and Donation

The Society receives cash and in-kind contributions from donations by individuals and local businesses for the support of its animal adoption program. The Society receives revenue from contributions, fundraising events, animal adoption fees, pet supply sales, thrift shop sales, and funeral and cemetery services. In-kind contributions are recognized when donated services received create or enhance long-lived assets or require specialized skills and when goods that would typically need to be purchased are provided by donation.

The Society hosts several fundraising events throughout the year. The direct costs of fundraising events (*e.g.*, meals and entertainment, and prizes paid for by the Society) are recorded as direct fundraising expense. Donated goods and services for auction or other fundraising purposes are recorded when the related fundraising revenues are realized; no inventory of such items was on hand at December 31, 2015.

The value of items donated to the thrift shop is determined when the specific items are sold, due to the uncertainty about the value at the time of the donation.

Dogs and cats that are surrendered to the shelter are not recorded as contributions or inventory. Some animals are subsequently placed in qualified homes whereupon adoption and related revenue is recorded. Other animals remain at the shelter as their home.

Note 2 – Summary of Significant Accounting Policies, continued

Revenue Recognition

The Society recognizes contribution revenue as follows:

- **Contributions** – Unconditional promises to give are recognized as revenues with the gifts' underlying promises are received by the Society. The Society reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. When a donor restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.
- **In-Kind Contributions** – Support arising from donated goods, property and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received:
 - a) Create or enhance non-financial assets, or
 - b) Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Society utilizes the services of outside volunteers to perform a variety of tasks that assist the Society. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria of recognition under U.S. GAAP.

Investments

The Society reports its investments in money market funds at fair value in the statement of financial position. Investment gains (losses), including realized and unrealized gains and losses on investments, and interest income are included in the statement of activities under the caption "Investment gains, net". See Note 4.

Inventory

Inventory consists primarily of items sold in the pet store and cemetery items sold as part of the Society's pet funeral services. All inventory items are recorded at the lower of cost (first-in, first-out) or market (net realizable value). At December 31, 2015, the Society had no inventory on-hand.

Property and Equipment

Property and equipment are stated at cost if purchased, or fair value, if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Furniture and equipment	5 years
Modular facilities	10 years
Shelter improvements	10 years
Vehicles	5 years

Note 2 – Summary of Significant Accounting Policies, continued

Property and Equipment, continued

The Society's policy is to capitalize expenditures of property and equipment and donated property and equipment received that exceed \$1,000 and have a useful life greater than one (1) year. When items are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statement of activities and changes in net assets. Repairs or betterments in excess of \$1,000 that prolong the useful lives of assets are capitalized. Repairs and maintenance for normal upkeep are expensed as incurred.

Accrued Expenses

The Society records accrued expenses primarily for payroll and related payroll taxes.

Advertising

Advertising and marketing costs are expensed as incurred and totaled \$51,921 for the year ended December 31, 2015.

Allocation of Functional Expenses

The costs of providing the various programs and other activities of the Society have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefit.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) as confirmed by a determination letter issued by the Internal Revenue Services. As a result, the financial statements do not reflect a provision for income taxes.

The Society evaluated its tax positions and concluded that the Society had taken no uncertain tax positions that require adjustment to the financial statements. In addition, the Society's management is not aware of any matters which would cause the Society to lose its tax-exempt status. In general, the Society is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2012.

Any interest and penalties related to unrecognized tax benefits would be recognized as accrued expenses in its accompanying financial statements. During the year ended December 31, 2015, the Society did not recognize any interest and penalties.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018. Management is evaluating the potential impact of this new guidance on the financial statements.

Note 2 – Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In August 2016, the FASB issued ASU No. 2016-14 Not-For-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-For-Profit Entities*. Under the new guidance, not-for-profit entities are required to: (1) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than the currently required three classes. That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets; (2) present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes; (3) continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method reconciliation if using the direct method; (4) provide enhanced disclosure on (a) governing board designations, appropriation, and similar actions that result in self-imposed limits on use of resources without donor-imposed restrictions as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period; (c) qualitative information that communicates how the Association manages its liquid resources to meet cash needs for general expenditures within one year of the balance sheet date; (d) qualitative information that communicates availability of the Society's financial asset at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date; (e) amount of expenses by both their natural and functional classification; (f) methods used to allocate costs among programs and support functions; (g) additional disclosures on underwater endowment funds. The new reporting guidance is effective for fiscal years beginning after December 15, 2017. Management is evaluating the potential impact of this new guidance on the financial statements.

Date of Management's Review

The Society's management has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 7, 2016, which is the date the financial statements were available to be issued.

Note 3 – Fair Value Measurements

The FASB establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Note 3 – Fair Value Measurements, continued

The three levels of the fair value hierarchy are described as follows:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The assets or liability fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table's presents the Society's financial assets that are measured at fair value on a recurring basis at December 31, 2015 for each of the fair value hierarchy levels:

Description	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds (cash equivalents)	\$ 225,722	\$ 225,722	\$ -	\$ -
Total	<u>\$ 225,722</u>	<u>\$ 225,722</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4 – Investments

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2015:

Interest income	<u>\$ 14,797</u>
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Note 5 – Property and Equipment

Property and equipment consists of the following at December 31, 2015:

Furniture and equipment	\$ 73,907
Vehicles	81,763
Shelter improvements	329,796
Construction-in-process	267,707
Total property and equipment	<u>753,173</u>
Less: accumulated depreciation	<u>(463,697)</u>
Total property and equipment, net	<u><u>\$ 289,476</u></u>

Construction-in-process consists of engineering, architectural and permit costs incurred with the Society's planned facilities.

Total depreciation expense for the year ended December 31, 2015 was \$14,746.

Note 6 – Lease Commitments

Premises Lease

The Society is party to a 30 year lease with the City of Boca Raton for premises to be used as its facility and animal shelter. In exchange for the \$1 payments per annum, the Society has assumed performance obligations, including the care, feeding, medical treatment, apprehension and collection of domestic animals within the City of Boca Raton. The agreement also requires that other operating and maintenance costs of running the facility be paid by the Society. The lease contains four, five-year renewal periods, but can be terminated by the City only for material breach of the agreement or loss of the Society's nonprofit status. The lease is accounted for as an exchange transaction due to the nature of the Society's standby commitments.

Thrift Shop Lease

The Society is a tenant to a building lease for its thrift shop which expired in July 2014. The Society is currently operating the lease on a month-to-month basis. Rent expense related to this lease was \$24,000 for the year ended December 31, 2015.

Note 7 – Temporarily Restricted Net Assets

The Society's temporarily restricted net assets are available for the following purpose:

Employee of the month fund	<u><u>\$ 2,502</u></u>
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Net assets were released from donor and Board restrictions by incurring expenses during 2015 that satisfied the specified restrictions, as follows:

Cemetery perpetual care expenses	<u><u>\$ 27,700</u></u>
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