

National Mill Dog Rescue

Independent Accountant's Review Report and Financial Statements

December 31, 2017 and 2016

National Mill Dog Rescue
December 31, 2017 and 2016

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Independent Accountant's Review Report

Board of Directors
National Mill Dog Rescue
Colorado Springs, Colorado

We have reviewed the accompanying financial statements of National Mill Dog Rescue, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2017 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
National Mill Dog Rescue

Report on the 2016 Financial Statements

The financial statements for the year ended December 31, 2016 were audited by us, and we expressed an unmodified opinion on them in our report dated October 9, 2017 but we have not performed any auditing procedures since that date.

BKD, LLP

Colorado Springs, Colorado
June 6, 2018

National Mill Dog Rescue
Statements of Financial Position
December 31, 2017 and 2016

Assets

	2017	2016
	(Reviewed)	(Audited)
Cash	\$ 885,479	\$ 646,779
Investments	180,561	167,929
Inventory	12,310	8,098
Insurance reimbursement receivable	29,010	-
Contributions receivable	9,840	7,819
Property and equipment, net	<u>2,256,245</u>	<u>932,725</u>
Total assets	<u><u>\$ 3,373,445</u></u>	<u><u>\$ 1,763,350</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 261,208	\$ 105,100
Accrued liabilities	30,653	22,563
Long-term debt	<u>332,679</u>	<u>364,211</u>
Total liabilities	<u>624,540</u>	<u>491,874</u>

Net Assets

Unrestricted, undesignated	2,540,828	1,193,758
Board-designated	<u>208,077</u>	<u>77,718</u>
Total unrestricted net assets	<u>2,748,905</u>	<u>1,271,476</u>
Total liabilities and net assets	<u><u>\$ 3,373,445</u></u>	<u><u>\$ 1,763,350</u></u>

National Mill Dog Rescue
Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
	(Reviewed)	(Audited)
Revenues, Gains and Other Support		
Contributions, unrestricted	\$ 2,844,483	\$ 1,484,947
Adoption fees	133,422	118,193
Merchandise sales, net of cost of sales of \$2,108 in 2017 and \$21,587 in 2016	12,468	45,493
Insurance reimbursement	29,010	163,247
Other income	10,924	13,382
	3,030,307	1,825,262
 Expenses		
Program services	1,284,016	1,239,991
Support services		
General and administrative	176,824	178,502
Fundraising	92,038	107,112
	1,552,878	1,525,605
 Change in Net Assets	1,477,429	299,657
 Net Assets, Beginning of Year	1,271,476	971,819
 Net Assets, End of Year	\$ 2,748,905	\$ 1,271,476

National Mill Dog Rescue
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
	(Reviewed)	(Audited)
Cash Flows from Operating Activities		
Change in net assets	\$ 1,477,429	\$ 299,657
Items not requiring (providing) operating cash flows		
Depreciation	56,702	64,909
Unrealized and realized gains on investments	(6,688)	(7,911)
Contributions received for long-lived assets	(1,200,000)	-
Noncash donation	-	(66,410)
Insurance recovery on damaged property and equipment	-	(163,247)
Changes in		
Inventory	(4,212)	5,536
Contributions receivable	(2,021)	(7,719)
Insurance reimbursement accounts receivable	(29,010)	-
Accounts payable	(70,479)	82,824
Accrued liabilities	8,090	6,113
	<u>229,811</u>	<u>213,752</u>
Net cash provided by operating activities		
	<u>229,811</u>	<u>213,752</u>
Cash Flows from Investing Activities		
Insurance recovery on damaged property and equipment	-	163,247
Purchase of property and equipment	(1,153,635)	(82,932)
Proceeds from sale of investments	167,929	66,410
Purchase of investments	(173,873)	(69,380)
	<u>(1,159,579)</u>	<u>77,345</u>
Net cash provided by (used in) investing activities		
	<u>(1,159,579)</u>	<u>77,345</u>
Cash Flows from Financing Activities		
Contributions received for long-lived assets	1,200,000	-
Principal payments on long-term debt	(31,532)	(35,992)
	<u>1,168,468</u>	<u>(35,992)</u>
Net cash provided by (used in) financing activities		
	<u>1,168,468</u>	<u>(35,992)</u>
Net Increase in Cash	<u>238,700</u>	<u>255,105</u>
Cash, Beginning of Year	<u>646,779</u>	<u>391,674</u>
Cash, End of Year	<u>\$ 885,479</u>	<u>\$ 646,779</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 16,468</u>	<u>\$ 12,008</u>

National Mill Dog Rescue

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

National Mill Dog Rescue (the Organization) is a not-for-profit organization working to rescue, rehabilitate, and rehome discarded commercial breeding dogs and to educate the public about cruel realities of the puppy mill industry.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$470,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return, classified in other income, includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Inventory Pricing

Inventories consist of merchandise. Inventories are stated at the lower of cost or market. Costs of merchandise are determined using the first-in, first-out (FIFO) method.

National Mill Dog Rescue

Notes to Financial Statements

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Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	15 – 39 years
Vehicles and equipment	5 – 7 years

Supplies

The Organization holds various program and fundraising related supplies. The Organization expenses these items upon purchase as the result of additional, future revenues from these materials is not reasonably assured.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives various program-related in-kind contributions from donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2017 and 2016, in-kind contributions received were \$96,746 and \$128,645, respectively.

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Notes to Financial Statements
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Insurance Reimbursement

During 2016, the Organization was reimbursed for various repairs resulting from weather-related damage to operating facilities and other property. These repair costs were expensed and classified in program expenses in the statements of activities.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. National Mill Dog Rescue recorded no unrelated business income during the year.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program supporting services based on time expended.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

Subsequent Events

Subsequent events have been evaluated through June 6, 2018, which is the date the financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments consisted of the following:

	<u>2017</u>	<u>2016</u>
Money market funds, held by broker	\$ 176,034	\$ 241
Domestic large-cap mutual funds	-	29,235
Domestic common stock	<u>4,527</u>	<u>138,453</u>
	<u>\$ 180,561</u>	<u>\$ 167,929</u>

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Total investment return, classified in other income, is comprised of the following:

	2017	2016
Interest and dividends, net of fees	\$ 1,998	\$ 3,375
Unrealized and realized gains	6,688	7,911
	\$ 8,686	\$ 11,286

Note 3: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Money market funds, held by broker	\$ 176,034	\$ 176,034	\$ -	\$ -
Domestic common stock	4,527	4,527	-	-

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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Money market funds, held by broker	\$ 241	\$ 241	\$ -	\$ -
Domestic large-cap mutual funds	29,235	29,235	-	-
Domestic common stock	138,453	138,453	-	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization currently holds no Level 2 or Level 3 investments.

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Note 4: Property and Equipment

Property and equipment at December 31, 2017 and 2016 consists of:

	2017	2016
Land	\$ 62,582	\$ 62,582
Buildings and improvements	948,799	947,170
Vehicles and equipment	268,575	239,158
	1,279,956	1,248,910
Less accumulated depreciation	372,888	316,185
Construction in progress	1,349,177	-
Total property and equipment	\$ 2,256,245	\$ 932,725

Note 5: Long-term Debt

Long-term debt at December 31, 2017 and 2016 consists of:

	2017	2016
Note payable (A)	\$ 332,679	\$ 364,211

(A) Due January 2044; payable \$2,203 monthly including interest at 4.00%; secured by property. During 2017, the Organization remitted approximately \$19,000 in excess of the required principal payments.

Aggregate annual maturities of long-term debt at December 31, 2017, are:

	Long-term Debt
2018	\$ 13,376
2019	13,920
2020	14,488
2021	15,128
2022	15,692
Thereafter	260,075
	\$ 332,679

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Notes to Financial Statements

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Note 6: Net Assets

Board-designated Net Assets

Board-designated net assets established by the Board of Directors total \$208,077 at December 31, 2017 and \$77,718 at December 31, 2016. Board-designated net assets are available to fund various capital project costs.

Note 7: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Concentration Risk from Contributions

The Organization primarily relies on individual contributions for its funding. Approximately 40% of all contributions were received from one donor in 2017.

Note 8: Future Change in Accounting Principle

Presentation of Financial Statements of Not-for-Profit Entities

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*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to *net assets with donor restrictions* and *net assets without donor restrictions*; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations and requires disclosure of expenses by both their natural and functional classification on the face of the statements of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017. Entities should apply the amendment in this update retrospectively to all periods presented. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

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Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized.

Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.