

# **National Mill Dog Rescue**

Independent Auditor's Report and Financial Statements

December 31, 2016

**National Mill Dog Rescue**  
December 31, 2016

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## Independent Auditor's Report

Board of Directors  
National Mill Dog Rescue  
Colorado Springs, Colorado

We have audited the accompanying financial statements of National Mill Dog Rescue, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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.

Board of Directors  
National Mill Dog Rescue

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Mill Dog Rescue as of December 31, 2016, 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.

*BKD, LLP*

Colorado Springs, Colorado  
October 9, 2017

**National Mill Dog Rescue**  
**Statement of Financial Position**  
**December 31, 2016**

**Assets**

Cash and cash equivalents	\$	646,779
Investments		167,929
Inventory		8,098
Contributions receivable		7,819
Property and equipment, net		<u>932,725</u>
Total assets		<u><u>\$ 1,763,350</u></u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$	105,100
Accrued liabilities		22,563
Long-term debt		<u>364,211</u>
Total liabilities		<u>491,874</u>

**Net Assets**

Unrestricted, undesignated		1,193,758
Board-designated		<u>77,718</u>
Total unrestricted net assets		<u>1,271,476</u>
Total liabilities and net assets		<u><u>\$ 1,763,350</u></u>

**National Mill Dog Rescue**  
**Statement of Activities**  
**Year Ended December 31, 2016**

<b>Revenues, Gains and Other Support</b>	
Contributions	\$ 1,484,947
Adoption fees	118,193
Merchandise sales, net of cost of sales of \$21,587	45,493
Insurance reimbursement	163,247
Other income	<u>13,382</u>
Total revenues, gains and other support	<u>1,825,262</u>
<b>Expenses</b>	
Program services	1,239,991
Support services	
General and administrative	178,502
Fundraising	<u>107,112</u>
Total expenses	<u>1,525,605</u>
<b>Change in Net Assets</b>	<u>299,657</u>
<b>Net Assets, Beginning of Year</b>	<u>971,819</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 1,271,476</u></u>

**National Mill Dog Rescue**  
**Statement of Cash Flows**  
**Year Ended December 31, 2016**

<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ 299,657
Depreciation	64,909
Unrealized and realized gains on investments	(7,911)
Noncash donation	(66,410)
Insurance recovery on damaged property and equipment	(163,247)
Changes in	
Inventory	5,536
Contributions receivable	(7,719)
Accounts payable	82,824
Accrued liabilities	6,113
	<u>213,752</u>
Net cash provided by operating activities	<u>213,752</u>
<b>Cash Flows from Investing Activities</b>	
Insurance recovery on damaged property and equipment	163,247
Purchase of property and equipment	(82,932)
Proceeds from sale of investments	66,410
Purchase of investments	(69,380)
	<u>77,345</u>
Net cash provided by investing activities	<u>77,345</u>
<b>Cash Flows from Financing Activities</b>	
Principal payments on long-term debt	(35,992)
	<u>(35,992)</u>
Net cash used in financing activities	<u>(35,992)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>255,105</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>391,674</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 646,779</u>
<b>Supplemental Cash Flow Information</b>	
Interest paid	<u>\$ 12,008</u>

# **National Mill Dog Rescue**

## **Notes to Financial Statements**

### **December 31, 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 and Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016, cash equivalents consisted primarily of money market accounts with various banks.

At December 31, 2016, the Organization's cash accounts exceeded federally insured limits by approximately \$360,000.

##### ***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 statement 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.

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**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 statement 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 year ended December 31, 2016, \$128,645 was received in in-kind contributions.

**National Mill Dog Rescue**  
**Notes to Financial Statements**  
**December 31, 2016**

***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 statement 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 statement 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 the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**Note 2: Investments and Investment Return**

Investments consisted of the following:

Money market funds, held by broker	\$ 241
Domestic large-cap mutual funds	29,235
Domestic common stock	138,453
	167,929
	\$ 167,929

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

Interest and dividends, net of fees	\$ 3,375
Unrealized and realized gains	7,911
	11,286
	\$ 11,286

**National Mill Dog Rescue**  
**Notes to Financial Statements**  
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**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 statement 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, 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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 statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

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***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.

**Note 4: Property and Equipment**

Property and equipment at December 31, 2016 consists of:

Land	\$ 62,582
Buildings and improvements	947,170
Vehicles and equipment	<u>239,158</u>
	1,248,910
Less accumulated depreciation	<u>316,185</u>
	<u><u>\$ 932,725</u></u>

**Note 5: Long-term Debt**

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

Note payable (A)	<u><u>\$ 364,211</u></u>
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(A) Due January 2044; payable \$2,203 monthly including interest at 4.00%; secured by property. During 2016, the Organization remitted approximately \$24,000 in excess of the required principal payments.

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Aggregate annual maturities of long-term debt at December 31, 2016, are:

	<b>Long-term Debt</b>
2017	\$ 12,091
2018	12,583
2019	13,096
2020	13,630
2021	14,185
Thereafter	298,626
	\$ 364,211

**Note 6: Net Assets**

***Board-designated Net Assets***

Board-designated net assets established by the Board of Directors total \$77,718 at December 31, 2016, and 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:

***Litigation***

The Organization is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

**Note 8: Subsequent Events**

Subsequent to year-end, the Organization entered into an agreement with a construction contractor to build a new building, adjacent to the existing operating facility, for approximately \$1.1 million.