

National Mill Dog Rescue

Independent Auditor's Report and Financial Statements

December 31, 2018 (Audited) and 2017 (Reviewed)

National Mill Dog Rescue
December 31, 2018 (Audited) and 2017 (Reviewed)

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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, 2018, and the related statements of activities, functional expenses (2018 only) 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, 2018, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2018, National Mill Dog Rescue adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

The 2017 financial statements were reviewed by us, and our report thereon, dated June 6, 2018, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

BKD, LLP

Colorado Springs, Colorado
July 19, 2019

National Mill Dog Rescue
Statements of Financial Position
December 31, 2018 and 2017

Assets

	2018	2017
	(Audited)	(Reviewed)
Cash	\$ 1,003,128	\$ 885,479
Investments	186,101	180,561
Inventory	8,667	12,310
Other receivable	2,233	-
Insurance reimbursement receivable	-	29,010
Contributions receivable	-	9,840
Property and equipment, net	<u>2,345,522</u>	<u>2,256,245</u>
Total assets	<u><u>\$ 3,545,651</u></u>	<u><u>\$ 3,373,445</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 29,814	\$ 261,208
Accrued liabilities	43,654	30,653
Long-term debt	<u>278,600</u>	<u>332,679</u>
Total liabilities	<u>352,068</u>	<u>624,540</u>

Net Assets

Without donor restrictions		
Unrestricted, undesignated	3,014,403	2,540,828
Board-designated for capital projects	<u>-</u>	<u>208,077</u>
Total net assets without donor restrictions	3,014,403	2,748,905
With donor restrictions		
Purpose restrictions	<u>179,180</u>	<u>-</u>
Total net assets	<u>3,193,583</u>	<u>2,748,905</u>
Total liabilities and net assets	<u><u>\$ 3,545,651</u></u>	<u><u>\$ 3,373,445</u></u>

National Mill Dog Rescue
Statement of Activities
Year Ended December 31, 2018
(Audited)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 2,043,547	\$ 179,180	\$ 2,222,727
Adoption fees	184,372	-	184,372
Merchandise sales, net of cost of sales of \$10,151	12,140	-	12,140
Other	(2,703)	-	(2,703)
	<u>2,237,356</u>	<u>179,180</u>	<u>2,416,536</u>
Expenses			
Program services	1,501,917	-	1,501,917
Support services			
General and administrative	217,116	-	217,116
Fundraising	252,825	-	252,825
	<u>1,971,858</u>	<u>-</u>	<u>1,971,858</u>
Change in Net Assets	<u>265,498</u>	<u>179,180</u>	<u>444,678</u>
Net Assets, Beginning of Year	<u>2,748,905</u>	<u>-</u>	<u>2,748,905</u>
Net Assets, End of Year	<u>\$ 3,014,403</u>	<u>\$ 179,180</u>	<u>\$ 3,193,583</u>

National Mill Dog Rescue
Statement of Activities
Year Ended December 31, 2017
(Reviewed)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 2,844,483	\$ -	\$ 2,844,483
Adoption fees	133,422	-	133,422
Merchandise sales, net of cost of sales of \$2,108	12,468	-	12,468
Insurance reimbursement	29,010	-	29,010
Other	10,924	-	10,924
	<u>3,030,307</u>	<u>-</u>	<u>3,030,307</u>
Expenses			
Program services	1,284,016	-	1,284,016
Support services			
General and administrative	176,824	-	176,824
Fundraising	92,038	-	92,038
	<u>1,552,878</u>	<u>-</u>	<u>1,552,878</u>
Change in Net Assets	<u>1,477,429</u>	<u>-</u>	<u>1,477,429</u>
Net Assets, Beginning of Year	<u>1,271,476</u>	<u>-</u>	<u>1,271,476</u>
Net Assets, End of Year	<u>\$ 2,748,905</u>	<u>\$ -</u>	<u>\$ 2,748,905</u>

National Mill Dog Rescue
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services							Support Services			Total Expenses
	Rescue	Rehabilitation & Care	Veterinary Care	Kennel Facility	Adoptions & Foster Care	Outreach & Education	Total Program Services	Management and General	Fundraising	Total Support Services	
Compensation and payroll tax	\$ 44,246	\$ 226,155	\$ 278,411	\$ -	\$ 135,739	\$ 102,347	\$ 786,898	\$ 75,451	\$ 64,200	\$ 139,651	\$ 926,549
Rescue and related support	4,591	-	150,046	250	11,781	15,930	182,598	26,380	115,754	142,134	324,732
Travel expenses	24,911	-	287	-	-	7,050	32,248	686	-	686	32,934
Vehicle costs	20,372	-	-	-	-	-	20,372	-	-	-	20,372
Supplies	-	10,885	206,426	24,153	-	1,076	242,540	9,697	-	9,697	252,237
Repairs and maintenance	-	-	3,350	5,900	-	-	9,250	1,344	-	1,344	10,594
Information Technology	-	-	-	-	-	1,301	1,301	31,668	69	31,737	33,038
In-kind donations	-	68,672	-	-	-	-	68,672	-	72,802	72,802	141,474
Depreciation and amortization	-	-	-	76,417	-	-	76,417	-	-	-	76,417
Interest	-	-	-	11,921	-	-	11,921	-	-	-	11,921
Insurance/worker's comp	-	-	-	33,946	-	-	33,946	13,515	-	13,515	47,461
Bank/credit card fees	-	-	-	35,754	-	-	35,754	58,375	-	58,375	94,129
	<u>\$ 94,120</u>	<u>\$ 305,712</u>	<u>\$ 638,520</u>	<u>\$ 188,341</u>	<u>\$ 147,520</u>	<u>\$ 127,704</u>	<u>\$ 1,501,917</u>	<u>\$ 217,116</u>	<u>\$ 252,825</u>	<u>\$ 469,941</u>	<u>\$ 1,971,858</u>

National Mill Dog Rescue
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018 (Audited)	2017 (Reviewed)
Cash Flows from Operating Activities		
Change in net assets	\$ 444,678	\$ 1,477,429
Items not requiring (providing) operating cash flows		
Depreciation	76,417	56,702
Unrealized and realized gains on investments	(956)	(6,688)
Contributions received for long-lived assets	-	(1,200,000)
In-kind donations	(141,474)	-
Loss on disposal of PPE	10,470	-
Changes in		
Inventory	145,117	(4,212)
Contributions receivable	9,840	(2,021)
Insurance reimbursement accounts receivable	29,010	(29,010)
Accounts payable	(4,807)	(70,479)
Accrued liabilities	13,001	8,090
Net cash provided by operating activities	581,296	229,811
Cash Flows from Investing Activities		
Purchase of property and equipment	(404,984)	(1,153,635)
Proceeds from sale of investments	(4,584)	167,929
Purchase of investments	-	(173,873)
Net cash used in investing activities	(409,568)	(1,159,579)
Cash Flows from Financing Activities		
Contributions received for long-lived assets	-	1,200,000
Principal payments on long-term debt	(54,079)	(31,532)
Net cash provided by (used in) financing activities	(54,079)	1,168,468
Net Increase in Cash	117,649	238,700
Cash, Beginning of Year	885,479	646,779
Cash, End of Year	\$ 1,003,128	\$ 885,479
Supplemental Cash Flow Information		
Interest paid	\$ 11,921	\$ 16,468
Noncash Investing Activities		
Purchase of property and equipment on accounts payable	\$ -	\$ 226,587

National Mill Dog Rescue
Notes to Financial Statements
December 31, 2018 (Audited) and 2017 (Reviewed)

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, 2018, the Organization's cash accounts exceeded federally insured limits by approximately \$595,000.

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", includes dividend, interest, realized and unrealized gains and losses on investments carried at fair value, less external and any direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions.

Inventory Pricing

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

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

National Mill Dog Rescue
Notes to Financial Statements
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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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The board has designated, from net assets without donor restrictions, net assets for capital expansion and operating reserves.

Net assets with donor restrictions are subject to donor restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

National Mill Dog Rescue
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In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

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, 2018 and 2017, in-kind contributions received were \$141,474 and \$96,746, respectively.

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. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fund raising categories based on time expended and other methods.

Subsequent Events

Subsequent events have been evaluated through July 19, 2019, which is the date the financial statements were available to be issued.

National Mill Dog Rescue
Notes to Financial Statements
December 31, 2018 (Audited) and 2017 (Reviewed)

Note 2: Change in Accounting Principle

In 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Functional Expenses

Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

Note 3: Liquidity and Availability

The Organization has a liquidity policy to maintain current working capital at a minimum of four months of operating expenses. To achieve these targets, the Organization forecasts future cash flows and monitors its liquidity quarterly and monitors reserves annually. The Organization primarily solicits and receives contributions without donor restrictions, which provides the organization with fiscal flexibility to pay all annual obligations and general expenditures each year.

The Organization manages its liquidity and reserves following three guiding principles:

1. Operating within a prudent range of financial soundness and stability
2. Maintaining adequate liquid assets to fund near-term operating needs
3. Maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be met

National Mill Dog Rescue
Notes to Financial Statements
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Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

	2018
Cash and cash equivalents	\$ 1,003,128
Investments	186,101
Total financial assets	1,189,229
Donor-imposed restrictions	179,180
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,010,049

Note 4: 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

National Mill Dog Rescue
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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, 2018 and 2017:

	2018			
	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	\$ 183,866	\$ 183,866	\$ -	\$ -
Domestic common stock	2,235	2,235	-	-
	<u>\$ 186,101</u>	<u>\$ 186,101</u>	<u>\$ -</u>	<u>\$ -</u>
	2017			
	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	\$ 176,034	\$ 176,034	\$ -	\$ -
Domestic common stock	4,527	4,527	-	-
	<u>\$ 180,561</u>	<u>\$ 180,561</u>	<u>\$ -</u>	<u>\$ -</u>

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.

National Mill Dog Rescue
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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 5: Property and Equipment

Property and equipment at December 31, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Land	\$ 62,582	\$ 62,582
Buildings and improvements	2,417,043	948,799
Vehicles and equipment	<u>287,601</u>	<u>268,575</u>
	2,767,226	1,279,956
Less accumulated depreciation	421,704	372,888
Construction in progress	<u>-</u>	<u>1,349,177</u>
Total property and equipment	<u>\$ 2,345,522</u>	<u>\$ 2,256,245</u>

Note 6: Long-term Debt

Long-term debt at December 31, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Note payable (A)	<u>\$ 278,600</u>	<u>\$ 332,679</u>

(A) Due January 2044; payable \$2,203 monthly including interest at 4.00%; secured by property. During 2018 and 2017, the Organization remitted approximately \$40,000 and 20,000, respectively, in excess of the required principal payments.

National Mill Dog Rescue
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Aggregate annual maturities of long-term debt at December 31, 2018, are:

	Long-term Debt
2019	\$ 15,579
2020	16,213
2021	16,874
2022	17,562
2023	18,277
Thereafter	194,095
	\$ 278,600

Note 7: Net Assets With Donor Restrictions

Donor restricted net assets total \$179,180 and \$0 at December 31, 2018 and 2017, respectively. Donor restricted net assets are available to fund capital projects.

Note 8: Natural Classification of Expenses

The Organization's natural classification of expenses for the year ended December 31, 2017 are:

	2017
Compensation and payroll tax	\$ 814,915
Rescue and related support	115,265
Travel expenses	29,495
Vehicle costs	33,993
Supplies	217,132
Repairs and maintenance	25,588
Information Technology	8,730
In-kind donations	96,746
Depreciation and amortization	56,702
Interest	16,468
Insurance/worker's comp	33,281
Bank/credit card fees	104,563
	\$ 1,552,878

National Mill Dog Rescue
Notes to Financial Statements
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Note 9: 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 59% of all contributions were received from individual donors in 2018.

Note 10: Future Change in Accounting Principle

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 effect the amendment will have on the financial statements.