

HALO - Helping Animals Live On, Inc.
Financial Statements
December 31, 2016

HALO - Helping Animals Live On, Inc.
Index to the Financial Statements
December 31, 2016

<u>Description</u>	<u>Page Number</u>
Independent Auditor's Report	1 – 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 13



VAVRINEK, TRINE, DAY & CO., LLP

Certified Public Accountants

VALUE THE *difference*

Independent Auditor's Report

To the Board of Directors
HALO - Helping Animals Live On, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of HALO - Helping Animals Live On, Inc., which comprise the statement of financial position as of December 31, 2016, 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 HALO- Helping Animals Live On, Inc. as of December 31, 2016, and the changes in net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinick, Trine, Day & Co. LLP

Phoenix, Arizona
November 2, 2017

HALO - Helping Animals Live On, Inc.
Statement of Financial Position
December 31, 2016

Assets

Cash and cash equivalents	\$	999,991
Accounts receivable, Net		68,235
Pet food		48,938
Adoption supplies		24,767
Thrift store items		26,921
Prepaid expenses		49,887
Property and equipment, net		<u>114,814</u>
 Total Assets	 \$	 <u><u>1,333,553</u></u>

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	\$	145,240
 Net Assets:		
Unrestricted		1,148,818
Temporarily restricted		<u>39,495</u>
 Total Net Assets		<u>1,188,313</u>
 Total Liabilities and Net Assets	 \$	 <u><u>1,333,553</u></u>

The accompanying notes are an integral part of these financial statements.

HALO - Helping Animals Live On, Inc.
Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total 2016
Public Support and Revenue:			
Donations, contracts, and grants	\$ 1,285,536	\$ 36,500	\$ 1,322,036
Adoption fees	1,062,671	-	1,062,671
In-kind donations	527,123	-	527,123
Store Sales	167,833	-	167,833
Gain on disposal of assets	4,876	-	4,876
Net assets released from restrictions	294,873	(294,873)	-
	3,342,912	(258,373)	3,084,539
Expenses:			
Program services	2,585,526	-	2,585,526
Management and general	111,473	-	111,473
Fundraising	358,108	-	358,108
	3,055,107	-	3,055,107
 Change in Net Assets	 287,805	 (258,373)	 29,432
 Net Assets, Beginning of Year	 861,013	 297,868	 1,158,881
 Net Assets, End of Year	 <u>\$ 1,148,818</u>	 <u>\$ 39,495</u>	 <u>\$ 1,188,313</u>

The accompanying notes are an integral part of these financial statements.

HALO - Helping Animals Live On, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising Services</u>	<u>Total 2016</u>
Personnel Costs:				
Salaries, wages and related payroll taxes	\$ 1,149,143	\$ 78,351	\$ 78,351	\$ 1,305,845
Employee benefits	132,228	7,213	7,828	147,269
Total Personnel Costs	1,281,371	85,564	86,179	1,453,114
Other Expenses:				
Accounting	9,250	6,475	2,775	18,500
Animal adoption fees	400,979	-	-	400,979
Animal food and supplies	20,410	-	-	20,410
Company Insurance	17,772	1,797	1,317	20,886
Consulting and professional fees	1,370	3,564	228	5,162
Depreciation and amortization	45,328	1,099	1,357	47,784
Direct mail	-	-	225,687	225,687
Donor Development	-	-	15,052	15,052
Merchant fees	14,411	-	4,076	18,487
Miscellaneous expense	11,371	1,922	836	14,129
Office supplies and periodicals	27,148	1,851	1,851	30,850
Other veterinarian care	25,365	-	-	25,365
Printing	5,935	412	436	6,783
Processing fees	-	-	9,524	9,524
Promotions	12,871	-	-	12,871
Sterilization	70,282	-	-	70,282
Telephone and internet	4,138	281	282	4,701
Thrift store expense	25,943	-	-	25,943
Utilities	30,841	1,003	1,003	32,847
Vehicle and travel	23,866	-	-	23,866
Volunteer foster services	7,737	-	-	7,737
Workers Compensation	32,577	2,224	2,224	37,025
Total Other Expenses	787,594	20,628	266,648	1,074,870
In-Kind Expenses:				
Pet food and supplies	249,329	-	-	249,329
Thrift store	112,181	-	-	112,181
Rent	155,051	5,281	5,281	165,613
Total In-Kind Expenses	516,561	5,281	5,281	527,123
Total Expenses	\$ 2,585,526	\$ 111,473	\$ 358,108	\$ 3,055,107

The accompanying notes are an integral part of these financial statements.

HALO - Helping Animals Live On, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 29,432
Adjustments to Reconcile Increase in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation and amortization	47,784
Gain on disposal of assets	(4,876)
(Increase) in accounts receivable	(50,676)
(Increase) in pet food	(38,839)
(Increase) in adoption supplies	(4,345)
Decrease in thrift store items	1,248
Increase in prepaid expenses	(24,764)
Decrease in accounts payable and accrued expenses	<u>60,724</u>
Net Cash Provided by Operating Activities	15,688
Cash Flows from Investing Activities:	
Purchases of fixed assets	(22,455)
Proceeds from sale of fixed assets	<u>6,543</u>
Net Cash Used by Investing Activities	<u>(15,912)</u>
Net Decrease in Cash and Cash Equivalents	(224)
Cash and Cash Equivalents, Beginning of Year	<u>1,000,215</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 999,991</u></u>

The accompanying notes are an integral part of these financial statements.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

1. Organization:

HALO - Helping Animals Live On, Inc. (the Organization) is an Arizona non-profit organization whose primary mission is to help end the pet overpopulation by rescuing animals, such as dogs and cats, and providing temporary shelter to abandoned animals until a permanent home can be found. The Organization helps control the pet overpopulation by spaying or neutering all their adopted animals.

The Organization derives a portion of its financial support from the operation of its thrift store. Donations are picked up by the Organization and brought to the store to be sorted. Items determined to be in good condition are placed for sale in the store. Other primary financial support is derived through donor contributions, contracts, grants and adoption/sterilization fees.

2. Summary of Significant Accounting Policies and Use of Estimates:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Basis of Presentation

The financial statement presentation is in accordance with the Financial Accounting Standards Board (FASB) guidance on *Financial Statements of Not-for-Profit Organizations*. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting, cash and cash equivalents include short-term liquid assets that are easily convertible to known amounts of cash and have insignificant credit risk. Cash received with donor stipulations limiting its use to long-term purposes is shown as restricted. There is no restricted cash at December 31, 2016.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Accounts Receivable

Accounts receivable for services performed are reported at the amount management expects to collect on balances outstanding at year-end. The Organization does not normally require collateral. Management closely monitors outstanding balances and writes off, as of year-end, all balances that have not been collected by the time the financial statements are issued. Receivables are considered delinquent when past due over a period of three to six months. No allowance has been established, as management believes all amounts to be collectible.

Unconditional Promises to Give

Grant income is recognized when the grantor makes a promise to give to the Organization that is, in substance, unconditional. Grant income that is restricted by the grantor is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Unconditional promises to give expected to be collected in less than one year are measured at net realizable value. Long-term unconditional promises to give expected to be collected are measured using present value of future cash flows.

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on management's analysis of specific promises made. There are no promises to give outstanding at year-end.

Inventory

Inventory, which consists of donated clothing, household goods and various other items, is held for sale at the thrift store. Since there is no cost to the Organization, inventory is recorded at fair value determined by the price at which the item can be sold. Revenue is recognized when the donated items are sold and in-kind donations are recorded at an amount equal to the sales revenue from the thrift store. Changes in year-end inventory amounts are recorded as additional sales revenue or cost of goods sold, as appropriate.

Property and Equipment

Property and equipment is recorded at cost or, if donated, at the approximate fair value at the date of donation. The Organization's policy is to capitalize asset purchases generally in excess of \$500. Depreciation is computed using the straight line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a 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.

Fee income is recognized in the period in which the service is performed.

Store sales are recognized as income on the day the sale occurs.

Donated Assets and Services

Donated assets and services are considered to be available for unrestricted use unless specifically restricted by the donor. Donated assets consist of vehicles, services, and facilities. The donations are recorded at their estimated fair value at the date of donation and are included in revenues and expenses or capitalized if appropriate. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Expense Allocation

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

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization adopted guidance issued by the FASB which established a single model to address accounting for uncertain tax positions and clarified the accounting for income taxes by prescribing a minimum threshold a tax position is required to meet before being recognized in the financial statements. An uncertain tax position represents a tax position management determines may have a less than 50 percent chance of being sustained upon an examination by a taxing authority.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Income Taxes (Continued)

While the Organization does not currently include an income tax provision in the financial statements, management monitors the reporting of uncertain tax positions used in preparation of the Organization's tax return, including applicable interest and penalties related to material uncertain tax positions, which could result in recording of an income tax provision in the future. The Organization evaluated its tax position for all open tax years. Currently, the tax years open and subject to examination are the 2013, 2014 and 2015 tax years by the Internal Revenue Service and the 2012, 2013, 2014 and 2015 tax years by the Arizona Department of Revenue.

Uses of Estimates

As applicable, management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions can affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Date of Management's Review

Subsequent events have been evaluated through the date of the auditors' report, which is the date the financial statements were available to be issued.

3. Concentrated Credit Risk:

The Organization maintains its available cash at various financial institutions. The Organization's interest bearing funds are insured by the Federal Deposit Institution Corporation up to \$250,000. At various times, the balances in these accounts may exceed federally insured limits. The Organization has not experienced any losses and does not believe it is exposed to significant risk associated with its cash and cash equivalents.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

4. Property and Equipment:

At December 31, property and equipment consists of the following:

Vehicles	\$ 110,808
Furniture, fixtures, and equipment	95,110
Leasehold improvements	61,794
Software	11,418
Website	13,969
	<u>293,099</u>
Less: accumulated depreciation	<u>(178,285)</u>
Total	<u>\$ 114,814</u>

Depreciation expense is \$47,784 for the year ending December 31, 2016.

5. Operating Leases:

During January 2013, the Organization entered into an operating lease for the shelter space at Maricopa County Animal Care and Control. The lease expires April 2017 and with options to renew three additional two year extensions. An in-kind donation of rent totaling \$88,009 is recorded for 2016.

The Organization leases its thrift store facility on a month-to-month lease arrangement requiring rental payments of approximately \$1,500 per month. Rent expenses totaling \$18,205 is included in thrift store expense on the statement of functional expenses.

During 2012, The Organization began utilizing space to run their adoption program under an agreement with PetSmart Charities, Inc. within a PetSmart retail store without any charge for rent. An in-kind donation of rent totaling \$34,369 is recorded for 2016.

During May 2014, the Organization entered into an operating lease for a shelter space at Metro-Center Mall. The lease has required payments totaling \$43,235 and expires April 2017 with an option to renew. Of that \$43,235, an in-kind donation of rent totaling \$43,235 is recorded for 2016.

Total rent expense for the year ended December 31, 2016 is \$183,818.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

6. Restrictions on Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>
Best Friends	\$ 10,000
ASCPA - RR	25,000
PCI Phoenix Rainbow	698
Play Yard	<u>3,797</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 39,495</u></u>

7. In-Kind Donations:

In-kind donations are as follows for 2016:

Pet food and litter	\$ 249,329
Thrift store items	112,181
Rent (see Note 5)	<u>165,613</u>
Total	<u><u>\$ 527,123</u></u>

8. Other Concentrations and Risk:

The majority of store sales were from items donated by one donor for apparel, accessories, and home furnishings.

An unforeseen change of general economic conditions, particularly in Arizona, may adversely impact the Organization's ability to generate future unconditional promises to give and donations.

9. Related Party Transactions:

The Organization's Chief Executive Officer (CEO) maintains a foster animal shelter on the property of her personal residence. The Organization pays the cost of insurance for the shelter and occasional incidental costs which may arise. The CEO personally absorbs all other costs associated with the shelter. The Organization paid approximately \$2,725 during 2016 for costs associated with the foster shelter.

Members of the Organization's Board of Directors provide various services to the Organization. The Organization paid approximately \$54,000 for these services during 2016.

HALO - Helping Animals Live On, Inc.
Notes to the Financial Statements
December 31, 2016

10. Subsequent Event:

Effective March 6, 2017, the Organization executed a seven-year agreement to rent 8,600 square feet of space. Monthly rent approximates \$11,000 (including common area maintenance charges and taxes) in fiscal year 2017. During April 2017, the Organization moved from its previous location to its newly rented space.