

Animal Friends, Inc.
562 Camp Horne Road
Pittsburgh, PA 15237

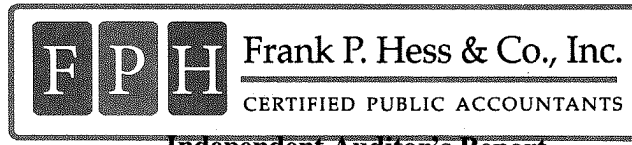
FINANCIAL REPORT

December 31, 2018 AND 2017

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Independent Auditor's Report

To the Board of Directors
of Animal Friends, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Animal Friends, Inc., (a nonprofit organization) which comprise the balance sheet as of December 31, 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Friends, Inc., 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.

Report on Summarized Comparative Information

We have previously audited the Animal Friends, Inc.'s 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

Pittsburgh, PA
July 19, 2019

Frank P. Hess & Co., Inc.

ANIMAL FRIENDS, INC.

BALANCE SHEET

DECEMBER 31, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2017

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<u>ASSETS</u>				
Cash and Cash Equivalents (Note 2)	\$ 3,537,845	\$ 125,631	\$ 3,663,476	\$ 3,038,066
Investments (Note 3)	537,397	3,435,690	3,973,087	3,738,108
Receivables (Note 4)	0	792,769	792,769	1,133,059
Inventory	55,790	0	55,790	60,242
Prepaid Expenses	106,474	0	106,474	95,169
Property, Plant and Equipment - Net (Note 5)	12,981,519	0	12,981,519	13,423,732
Assets Held In Trust (Note 6)	0	2,695,866	2,695,866	2,980,813
<u>TOTAL ASSETS</u>	\$ 17,219,025	\$ 7,049,956	\$ 24,268,981	\$ 24,469,189
<u>LIABILITIES AND NET ASSETS</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 56,632	\$ 0	\$ 56,632	\$ 104,382
Accrued Expenses	227,973	0	227,973	179,554
Debt (Note 7)	5,724,718	0	5,724,718	5,942,421
<u>Total Liabilities</u>	6,009,323	0	6,009,323	6,226,357
<u>Net Assets (Note 8)</u>				
Without Donor Restrictions	11,209,702	0	11,209,702	10,926,944
With Donor Restrictions	0	7,049,956	7,049,956	7,315,888
<u>Total Net Assets</u>	11,209,702	7,049,956	18,259,658	18,242,832
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 17,219,025	\$ 7,049,956	\$ 24,268,981	\$ 24,469,189

See Notes to Financial Statements

ANIMAL FRIENDS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017

	2018			2017
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>				
Legacies	\$ 2,713,935	\$ 562,596	\$ 3,276,531	\$ 1,892,295
Donations and Grants (Note 9)	2,099,135	1,043,199	3,142,334	3,346,869
Fund Raisers (Net of \$485,384 Direct Costs)	790,134	0	790,134	874,218
Investment Income (Note 10)	(4,946)	(126,620)	(131,566)	491,987
Trust Income (Loss) (Note 11)	128,237	(292,947)	(164,710)	349,160
Net Assets Released From Restrictions: Satisfaction of Donor Restrictions	<u>1,452,160</u>	<u>(1,452,160)</u>	<u>0</u>	<u>0</u>
	<u>7,178,655</u>	<u>(265,932)</u>	<u>6,912,723</u>	<u>6,954,529</u>
<u>EXPENSES (Note 12)</u>				
Program	5,885,255	0	5,885,255	5,343,746
Administration	419,884	0	419,884	392,239
Fund Raising	<u>590,758</u>	<u>0</u>	<u>590,758</u>	<u>605,188</u>
	<u>6,895,897</u>	<u>0</u>	<u>6,895,897</u>	<u>6,341,173</u>
<u>NET ACTIVITY</u>	282,758	(265,932)	16,826	613,356
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>10,926,944</u>	<u>7,315,888</u>	<u>18,242,832</u>	<u>17,629,476</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 11,209,702</u>	<u>\$ 7,049,956</u>	<u>\$ 18,259,658</u>	<u>\$ 18,242,832</u>

See Notes to Financial Statements

ANIMAL FRIENDS, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 16,826	\$ 613,356
Add (Deduct) Items Not Affecting Cash:		
Depreciation	530,322	407,438
Capital (Gains) Losses	283,199	(335,972)
Noncash Trust (Income) Loss	284,947	(823,879)
Change in Inventory	4,452	(9,000)
Change in Prepaid Expenses	(11,305)	7,413
Change in Accounts Payable	(47,750)	26,194
Change in Accrued Expenses	48,419	45,479
Donations Restricted to Long Term Use	(562,596)	(739,319)
 <u>NET CASH FLOWS FROM OPERATIONS</u>	 <u>546,514</u>	 <u>(808,290)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Marketable Investments	(2,260,398)	(913,264)
Sale of Marketable Investments	1,742,220	948,949
Purchase of Property, Plant and Equipment/Construction in Progress	(88,109)	(3,059,425)
 <u>NET CASH FLOWS FROM INVESTING ACTIVITIES</u>	 <u>(606,287)</u>	 <u>(3,023,740)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Donations Restricted to Long Term Use	562,596	739,319
Change in Receivables	340,290	1,286,223
Draw on Loan	0	2,949,958
Repayment on Loan	(217,703)	0
 <u>NET CASH FLOWS FROM FINANCING ACTIVITIES</u>	 <u>685,183</u>	 <u>4,975,500</u>
 <u>NET CASH FLOWS</u>	 <u>625,410</u>	 <u>1,143,470</u>
 <u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	 <u>3,038,066</u>	 <u>1,894,596</u>
 <u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	 <u>\$ 3,663,476</u>	 <u>\$ 3,038,066</u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
Cash paid for interest	<u>\$ 171,993</u>	<u>\$ 169,726</u>

Donations of animal supplies (primarily food) valued at \$125,572 and \$112,377 were received in 2018 and 2017, respectively.

See Notes to Financial Statements

ANIMAL FRIENDS, INC.
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Date of Management's Review

Management has evaluated subsequent events through July 19, 2019, which is the date the financial statements were available for issue.

Organization

Animal Friends, Inc., ("Animal Friends") received its charter as a nonprofit corporation from the Commonwealth of Pennsylvania on June 1, 1943. Since then it has operated as a public charity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of Animal Friends is to ensure the well-being of companion animals, while ending overpopulation, abuse and unwarranted euthanasia. It is the mission of the organization to 1) reduce the number of unwanted animals through aggressive spay/neuter programs; 2) provide for the well-being of companion animals in need, while adhering to our no-kill tradition, and find each a lifelong, loving home; 3) offer affordable wellness services and resources to pets and owners in need, targeting underserved communities, to support whole-life care; 4) promote the animal-human bond through outreach, education and therapeutic programs and; 5) act as an advocate on behalf of animals in crisis and as an enforcer of their rights and protection through education, investigation and legislative efforts.

Tax Status

Since incorporation, Animal Friends has operated as a public charity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Tax form 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2016, 2017, and 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Accounting For Restrictions

Net assets, revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of Animal Friends are classified and reported as follows:

Net Assets Without Donor Restrictions- Net assets which are not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions- Net assets which are subject to donor-imposed restrictions which will be satisfied by actions of Animal Friends or by the passage of time.

Animal Friends has adopted the following policies for gifts received with a donor-imposed restriction:

In the absence of donor stipulations specifying how long-lived donated assets must be used, restrictions on long-lived assets and other personal property items, or cash to acquire long-lived assets or personal property items, expire when the assets are placed in service or purchased as the case may be. The sale proceeds (or, in the case of a destroyed item, insurance proceeds) from either a donated asset or an asset purchased with a gift of cash are unrestricted unless specifically delineated otherwise by the original donor. In the absence of donor stipulations, interest income earned on funds with donor restrictions is without restriction and may be used for general operations, programs and services.

Contributions

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished) donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Volunteer Services

Unpaid volunteers have made significant contributions of their services to develop Animal Friends' programs and assist in its support. The value of these contributions is not reflected in the accompanying financial statements due to the nature of the services rendered. In 2018 2,882 active volunteers donated 343,719 hours of service, which equate to approximately 165 full-time equivalent employees.

Basis of Accounting

All transactions of Animal Friends have been accounted for using the accrual basis of accounting. All restricted gifts are separately identified both in the financial statements and in the underlying accounting workpapers.

Estimates

These financial statements use estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of cash, certificates of deposit, and other highly liquid investments with maturities of three months or less.

Fair Value Accounting

Investments and Assets Held in Trust are reported at fair value. Fair values are classified according to a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 - Securities traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2 - Securities not traded in an active market but for which market inputs are readily available.

Level 3 - Securities not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

All Investments and Assets Held in Trust are Level 1 securities.

Receivables

Receivables are recorded at net realizable value. No allowance for doubtful accounts was deemed necessary. A present value discount rate of 5% is used valuing pledges receivable to the capital campaign.

Inventory

Inventory is comprised of food, clothing and gift items held for sale in the gift shop. Proceeds from the sale of donated food are recorded as Donations. Net proceeds from the sale of purchased items are recorded as a Fund Raiser. Inventory also includes animal supplies (primarily food) for use in the facility. Inventory is accounted for at the lower of cost or market, using the specific identification cost method.

Property, Plant and Equipment

All Property, Plant and Equipment are being depreciated using the straight-line method over each asset's useful life. Useful lives assigned are five years for transportation equipment; three to ten years for furniture and equipment; and twenty to forty years for buildings. Repairs and maintenance, which do not extend the lives of the applicable assets, are charged to expense as incurred. Gain or loss from the retirement or other disposition of these assets is included in the statement of activities.

Revenue Recognition

Donations and Grants are recognized as revenue when a donor makes an unconditional promise to give. Income from Legacies is recognized as cash is received. Reimbursements from reduced-cost spaying and neutering services are recognized on a cash basis due to the inability to reasonably estimate bad debts.

Allocations

Animal Friends allocates expenses to Program, Administration, and Fund Raising as follows:

Payroll and Related Costs – time sheets, position responsibilities and management estimates
Depreciation, Utilities, Repairs and Maintenance, Interest, Insurance – square footage
consumed by each activity
Publicity and Bank Fees – 50% program and 50% fund raising
Other Costs – management’s best estimates using professional judgment

Prior Year Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization’s financial statements for the year ended December 31, 2017, from which the summarized information was derived.

2. LIQUIDITY

Financial Assets (Cash, Investments, Receivables)	\$ 8,429,332
Less Donor Restricted Assets	<u>(4,354,090)</u>
Financial Assets available to meet cash needs for general expenditures within one year	<u>\$ 4,075,242</u>

Animal Friends is supported by donor restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Animal Friends must maintain sufficient resources to meet those responsibilities to its donors. Thus certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, Animal Friends has a policy to structure its financial assets on hand to meet sixty days of normal operating expense, which are, on average, approximately \$1,000,000. In the event of an unanticipated liquidity need, Animal Friends could also draw on its available line of credit (\$300,000) as further discussed in Note 7.

3. INVESTMENTS

Investments were composed of the following:

<u>Investment Type</u>	<u>2018</u>	<u>2017</u>
Money Market Funds	\$ 615,510	\$ 86,424
Equity Mutual Funds	1,629,522	2,089,325
Debt Mutual Funds	1,410,316	1,035,660
Common Stocks	<u>317,739</u>	<u>526,699</u>
Total	<u>3,973,087</u>	<u>3,738,108</u>

4. RECEIVABLES

In 2013 Animal Friends initiated an \$8,500,000 Capital Campaign. \$7,500,000 of the Campaign is allocated to construction of a new 18,400 square foot public spay/neuter clinic and Animal Wellness Center. \$1,000,000 of the campaign is allocated to the organization's current and on-going operational funding. A \$20,000 allowance to adjust for present value has been recorded.

Anticipated cash flow from these pledges is as follows:

<u>Year</u>	<u>Cash Collected</u>
2019	\$ 443,028
2020	239,322
2021	<u>110,419</u>
Total	<u>\$ 792,769</u>

5. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2018, Property, Plant and Equipment were composed of the following:

<u>Description</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>2017</u>
Land	\$ 1,032,949	\$ 0	\$ 1,032,949	\$ 1,032,949
Building	13,933,346	2,421,667	11,511,679	11,806,382
Furniture and Equipment	1,167,452	800,920	366,532	464,892
Transportation Equipment	422,811	352,452	70,359	119,509
	<u>\$ 16,556,558</u>	<u>\$ 3,575,039</u>	<u>\$ 12,981,519</u>	<u>\$ 13,423,732</u>

6. ASSETS HELD IN TRUST

Donor Restricted Assets Held In Trust represents assets held in twelve separate trusts by others. In these trusts, Animal Friends is entitled to receive a percentage of the future income earned as stipulated by the grantor in perpetuity.

7. DEBT

In 2016 Animal Friends received a \$6,000,000 loan commitment from PNC Bank to finance the new Animal Wellness Center (\$3,015,000) and retire existing bonds (\$2,985,000). The new loan commitment has an interest rate of 68% of the one month LIBOR rate plus 1.65% and required interest only payments through September 1, 2017. Monthly principal and interest payments of \$32,474 beginning October 1, 2017 are due through February 1, 2037. Payments each month are charged to interest first and principal is credited for the residual amount. With a variable interest rate each month, the loan could be paid off before February 1, 2037 (improbable) or have a balloon payment balance due (probable). The loan is secured by the Resource Center and Animal Wellness Center land and buildings.

Animal Friends has a \$300,000 line of credit with interest at the prime rate expiring October 20, 2019. At December 31, 2018, nothing was drawn on the line.

8. NET ASSETS

Animal Friends currently maintains two separate net asset classifications in order to control in detail all gifts received. These classifications include: 1) Without Donor Restrictions, which is used to account for revenues earned and gifts received without a restricted directive and 2) With Donor Restrictions, which is used to account for gifts received by Animal Friends with donor-restricted directives. A summary of the activity in the open Net Asset With Donor Restrictions class from January 1, 2018 to December 31, 2018 is as follows:

<u>Net Assets With Donor Restrictions</u>	<u>January 1</u>	<u>Support and Revenue</u>	<u>Release of Net Assets</u>	<u>December 31</u>
Endowment	\$ 3,147,328	\$ 435,975	\$ 147,613	\$ 3,435,690
Assets Held in Trust	2,980,813	(284,947)	0	2,695,866
Capital Campaign	1,062,559	30,000	299,790	792,769
Major Ben Follansbee Pets for Vets	87,042	65,361	62,335	90,068
Therapeutic Programming	15,602	258,919	251,502	23,019
Reward	12,544	0	0	12,544
Animal Wellness	0	655,920	655,920	0
AAARF	0	25,000	25,000	0
Other	10,000	0	10,000	0
	<u>\$ 7,315,888</u>	<u>\$ 1,186,228</u>	<u>\$ 1,452,160</u>	<u>\$ 7,049,956</u>

A reconciliation of endowment activity is as follows:

	<u>Original Gift</u>	<u>Subsequent Activity</u>	<u>2018 Total</u>	<u>2017 Total</u>
Balance January 1	\$ 2,558,497	\$ 588,831	\$ 3,147,328	\$ 3,147,328
Contributions	562,596	0	562,596	0
Investment Income	0	136,158	136,158	51,478
Capital Gains/(Losses)	0	(243,684)	(243,684)	408,636
Fees	0	(19,095)	(19,095)	(18,650)
Distributions	0	(147,613)	(147,613)	(145,214)
Balance December 31	<u>\$ 3,121,093</u>	<u>\$ 314,597</u>	<u>\$ 3,435,690</u>	<u>\$ 3,147,328</u>

8. NET ASSETS (continued)

Animal Friends' endowment fund is governed by Pennsylvania's Principal and Income Act (Act 141) enacted on December 21, 1998.

The Board of Directors has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the real value of the endowment portfolio. Under this policy, the endowment assets are invested in a manner that is intended to emphasize total return (aggregate return from capital appreciation and dividend and interest income) sufficient to preserve the real (inflation-adjusted) value of the portfolio, achieve long-term growth of principal, while avoiding excessive risk and to the extent necessary, provide for the operating needs of Animal Friends. The Board of Directors has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes (domestic and international equity, investment grade fixed income and cash equivalents). The investment objective for each asset class portfolio is to exceed the rate of return of a relevant benchmark after taking into account all manager fees.

Each year, Animal Friends appropriates a percentage of its endowment fund's average fair value over the prior three years preceding the fiscal year in which the distribution is planned. The Board of Directors votes on this appropriation each year. For the fiscal years 2018 and 2017, this percentage was 5%.

9. DONATIONS

Donations are received from a broad base of donors. There is not a significant concentration of risk in large donations.

10. INVESTMENT INCOME

Investment Income is composed of the following:

<u>Item</u>	<u>2018</u>	<u>2017</u>
Dividends	\$ 129,022	\$ 148,551
Interest	45,308	29,780
Capital Gains (Losses)	(283,199)	335,972
Expenses	(22,697)	(22,316)
	<u>\$ (131,566)</u>	<u>\$ 491,987</u>

11. TRUST INCOME

Trust Income is composed of the following:

<u>Item</u>	<u>2018</u>	<u>2017</u>
Dividends	\$ 64,979	\$ 76,393
Interest	20,177	17,295
Capital Gains (Losses)	(220,527)	284,045
Expenses	(29,339)	(28,573)
	<u>\$ (164,710)</u>	<u>\$ 349,160</u>

12. EXPENSES

Detail of functional expenses is as follows:

<u>Expense</u>	2018			2017	
	<u>Program</u>	<u>Administration</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Total</u>
Payroll & Related Costs*	\$ 3,173,404	\$ 299,305	\$ 364,538	\$ 3,837,247	\$ 3,557,773
Animal Care & Services	1,355,594	0	0	1,355,594	1,264,224
Depreciation	503,806	10,606	15,910	530,322	407,438
Utilities	222,764	4,715	8,251	235,730	219,113
Software Support	91,639	54,983	36,656	183,278	101,553
Interest	161,673	3,440	6,880	171,993	169,726
Printing & Postage	63,364	6,267	69,631	139,262	168,648
Office Costs	66,776	18,697	21,368	106,841	101,505
Repairs & Maintenance	87,669	1,846	2,769	92,284	69,166
Publicity	32,207	0	32,208	64,415	58,577
Insurance	56,812	1,209	2,418	60,439	65,506
Bank Fees	29,518	0	29,519	59,037	48,108
Local Transportation	23,019	0	0	23,019	20,620
Professional Fees	2,686	18,511	0	21,197	22,337
Other	14,324	305	610	15,239	66,879
Total	\$ 5,885,255	\$ 419,884	\$ 590,758	\$ 6,895,897	\$ 6,341,173

* On January 1, 1999 Animal Friends adopted a defined contribution pension plan covering employees who are twenty-one or over, worked over 1,000 hours, and have completed one year of service. Animal Friends can contribute 0%-15% of employee wages to the plan. Animal Friends' cost for this plan was \$20,000 in 2018 and \$19,592 in 2017.

13. CONCENTRATION OF CREDIT RISK

Although Animal Friends maintains cash balances in excess of federally insured limits, they have not historically experienced any credit loss.