

Financial Statements
and Independent Auditor's Report

Alaqua Animal Refuge, Inc.

December 31, 2018 and 2017

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Alaqua Animal Refuge, Inc.

December 31, 2018 and 2017

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CARTER & COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alaqua Animal Refuge, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Alaqua Animal Refuge, Inc. (a nonprofit organization), which comprise the financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Alaqua Animal Refuge, Inc.'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 Alaqua Animal Refuge, Inc.'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 Alaqua Animal Refuge, Inc. as of December 31, 2018 and 2017, and the results of its functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Adoption of New Accounting Guidance

As discussed in Note 2 to the financial statements, during 2018 Alaqua Animal Refuge, Inc. retrospectively adopted new accounting guidance related to the presentation of financial statements of not-for-profit organizations. The Organization opted not to disclose the liquidity and availability for 2017 as permitted under the ASU in the year of adoption. Our opinion is not modified with respect to this matter.

Destin, Florida
September 16, 2019

Carter & Company

Alaqua Animal Refuge, Inc.

Statements of Financial Position

ASSETS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 1,391,442	\$ 946,224
Restricted Cash	1,347,278	830,646
Accounts Receivable	4,749	3,814
Prepaid Expenses	31,134	15,243
	<u>2,774,603</u>	<u>1,795,927</u>
 <u>FIXED ASSETS</u>		
Fixed Assets, Net of Accumulated Depreciation (Note 6)	1,938,864	1,083,543
 <u>OTHER ASSETS</u>		
Deposits	<u>500</u>	<u>500</u>
 Total Assets	 <u>\$ 4,713,967</u>	 <u>\$ 2,879,970</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts Payable and Accrued Liabilities	\$ 31,628	\$ 20,053
 <u>LONG-TERM LIABILITIES</u>		
Notes Payable - Affiliate	<u>0</u>	<u>50,000</u>
Total Liabilities	31,628	70,053
 <u>NET ASSETS</u>		
Without Donor Restrictions	2,559,712	1,979,271
With Donor Restrictions	<u>2,122,627</u>	<u>830,646</u>
	4,682,339	2,809,917
 Total Liabilities and Net Assets	 <u>\$ 4,713,967</u>	 <u>\$ 2,879,970</u>

The Notes to Financial Statements are an integral part of these Statements

Alaqua Animal Refuge, Inc.

Statements of Activities

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<u>REVENUE</u>			
Grants	\$ 267,768	\$ 0	\$ 267,768
Adoption and Intake	133,231	0	133,231
Donations	1,134,872	1,395,625	2,530,497
Fundraisers	424,115	0	424,115
TOTAL REVENUE	<u>1,959,986</u>	<u>1,395,625</u>	<u>3,355,611</u>
<u>EXPENSES</u>			
Program Services	1,237,671	0	1,237,671
Fundraising	88,483	0	88,483
General and Administrative	157,035	0	157,035
TOTAL EXPENSES	<u>1,483,189</u>	<u>0</u>	<u>1,483,189</u>
Net Assets Released from Restrictions	<u>103,644</u>	<u>(103,644)</u>	<u>0</u>
CHANGE IN NET ASSETS	580,441	1,291,981	1,872,422
NET ASSETS - Beginning of the Year	<u>1,979,271</u>	<u>830,646</u>	<u>2,809,917</u>
NET ASSETS - End of the Year	<u>\$ 2,559,712</u>	<u>\$ 2,122,627</u>	<u>\$ 4,682,339</u>

The Notes to Financial Statements are an integral part of these Statements

Alaqua Animal Refuge, Inc.

Statements of Activities - Continued

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
<u>REVENUE</u>			
Grants	\$ 150,250	\$ 0	\$ 150,250
Adoption and Intake	149,431	0	149,431
Donations	1,138,080	357,820	1,495,900
Fundraisers	294,729	0	294,729
TOTAL REVENUE	<u>1,732,490</u>	<u>357,820</u>	<u>2,090,310</u>
<u>EXPENSES</u>			
Program Services	1,142,131	0	1,142,131
Fundraising	108,779	0	108,779
General and Administrative	101,827	0	101,827
TOTAL EXPENSES	<u>1,352,737</u>	<u>0</u>	<u>1,352,737</u>
Net Assets Released from Restrictions	<u>153,435</u>	<u>(153,435)</u>	<u>0</u>
CHANGE IN NET ASSETS	533,188	204,385	737,573
NET ASSETS - Beginning of the Year	<u>1,446,083</u>	<u>626,261</u>	<u>2,072,344</u>
NET ASSETS - End of the Year	<u>\$ 1,979,271</u>	<u>\$ 830,646</u>	<u>\$ 2,809,917</u>

The Notes to Financial Statements are an integral part of these Statements

Alaqua Animal Refuge, Inc.

Statements of Functional Expenses

For the Year Ended December 31, 2018

<u>EXPENSES</u>	<u>Program Services</u>	<u>Support Services</u>		<u>Total</u>
	<u>Animal Care and Outreach</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Animal Supplies	\$ 245,206	\$ 0	\$ 0	\$ 245,206
Contract Repairs	185,251	0	0	185,251
Depreciation	41,841	0	0	41,841
Fundraising Expense	0	0	52,483	52,483
Insurance	29,724	0	0	29,724
Interest	1,209	1,209	0	2,418
Marketing	48,669	0	0	48,669
Miscellaneous	14,539	0	0	14,539
Office Expenses	0	106,139	0	106,139
Personnel Expenses	59,510	0	0	59,510
Professional Fees	33,500	0	0	33,500
Rent	30,000	6,000	0	36,000
Salaries	493,231	54,596	42,367	590,194
Telephone and Internet	7,687	7,687	0	15,374
Utilities	22,341	0	0	22,341
	<u>\$ 1,212,708</u>	<u>\$ 175,631</u>	<u>\$ 94,850</u>	<u>\$ 1,483,189</u>

The Notes to Financial Statements are an integral part of these Statements

Alaqua Animal Refuge, Inc.

Statements of Functional Expenses - Continued

For the Year Ended December 31, 2017

	Program Services	Support Services		Total
	Animal Care and Outreach	General and Administrative	Fundraising	
<u>EXPENSES</u>				
Animal Supplies	\$ 210,552	\$ 0	\$ 0	\$ 210,552
Contract Repairs	214,017	0	0	214,017
Depreciation	37,512	0	0	37,512
Fundraising Expense	0	0	72,779	72,779
Insurance	26,968	0	0	26,968
Interest	2,400	2,400	0	4,800
Marketing	26,049	0	0	26,049
Miscellaneous	13,502	0	0	13,502
Office Expenses	0	50,808	0	50,808
Personnel Expenses	52,747	0	0	52,747
Professional Fees	40,270	0	0	40,270
Rent	30,000	6,000	0	36,000
Salaries	460,947	36,000	36,000	532,947
Telephone and Internet	6,619	6,619	0	13,238
Utilities	20,548	0	0	20,548
	<u>\$ 1,142,131</u>	<u>\$ 101,827</u>	<u>\$ 108,779</u>	<u>\$ 1,352,737</u>

The Notes to Financial Statements are an integral part of these Statements

Statements of Cash Flows

Alaquia Animal Refuge, Inc.

	For the Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,872,422	\$ 737,573
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	41,841	37,512
Decrease (Increase) in:		
Accounts Receivable	(935)	(3,814)
Prepaid Expenses	(15,891)	(6,607)
Increase (Decrease) in:		
Accounts Payable	11,575	(2,892)
Total Adjustments	<u>36,590</u>	<u>24,199</u>
Net Cash Provided (Used) by Operating Activities	<u>1,909,012</u>	<u>761,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Purchases of Fixed Assets	<u>(897,162)</u>	<u>(26,994)</u>
Net Cash Provided (Used) by Investing Activities	(897,162)	(26,994)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal Payments on Notes Payable - Affiliate	<u>(50,000)</u>	<u>(50,000)</u>
Net Cash Provided (Used) by Financing Activities	(50,000)	(50,000)
Net Increase (Decrease) In Cash and Cash Equivalents	961,850	684,778
Cash and Cash Equivalents at Beginning of Year	<u>1,776,870</u>	<u>1,092,092</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,738,720</u>	<u>\$ 1,776,870</u>
Supplemental Information		
Interest Paid	<u>\$ 2,418</u>	<u>\$ 4,800</u>

The Notes to Financial Statements are an integral part of these Statements

Note 1 – Organization

Alaqua Animal Refuge, Inc. (“Alaqua”) was established in 2007 as a Florida nonprofit organization founded by Laurie Hood (“Founder”) to advocate the general welfare and humane treatment of animals by providing shelter, prevention of pet overpopulation and adoption services.

The organization is directed by an active Board of Directors, and supported primarily through private grants and donations.

Note 2 – Summary of Significant Accounting Policies

The financial statements include only the accounts and transactions of Alaqua Animal Refuge, Inc.

Alaqua retrospectively adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Alaqua’s net assets and changes thereto are classified and reported as follows:

- *Net assets without donor restrictions* – consists of amounts that are available for use in carrying out the activities of Alaqua and are not subject to donor-imposed restrictions. This classification includes board designated or appropriated amounts as the board has the authority to change or withdraw such designations or appropriations.
- *Net assets with donor restrictions* – consists of amounts that are available for use contingent on the satisfaction of donor-imposed restrictions. When a restriction is satisfied, the associated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Assets are presented in the accompanying statement of financial position according to nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

The costs of providing various services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the services benefited. Alaqua allocates its expenses on a functional basis to its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are primarily allocated based on the amount of employee time involved.

Note 2 – Summary of Significant Accounting Policies - continued

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, Alaqua considers all unrestricted highly liquid debt instruments with an initial maturity of three months or less, which are not permanently restricted, to be cash equivalents. Alaqua maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Alaqua has not experienced any losses in such accounts. Alaqua believes it is not exposed to any significant credit risk on cash and cash equivalents. The balance in excess of federally insured limits at December 31, 2018 and 2017 was \$2,238,317 and \$1,232,206, respectively.

Property and Equipment

Property and equipment are recorded at cost, or at fair market value if donated. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained. Alaqua reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Alaqua reclassifies net assets with donor restrictions to net assets without donor restrictions as net assets released from restrictions at that time. Alaqua follows the practice of capitalizing acquisitions of assets in excess of \$1,000. Depreciation expense is reported in the Statements of Activities as a decrease in net assets without donor restrictions and is calculated using the straight-line method with useful lives ranging from five to forty years.

Revenue Recognition

Contributions received are recorded depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a 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.

Accounts Receivable

Alaqua provides an allowance for bad debts using the allowance method, which is based on judgment considering historical information. Accounts receivable are unsecured. When collection efforts have been exhausted, the accounts are written off against the related allowance. Alaqua has determined that no allowance is necessary for the years ended December 31, 2018 and 2017.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2018 and 2017 were \$48,669 and \$26,049, respectively.

Donated Services

A substantial number of volunteers donate time and their services to assist employees with animal care and welfare activities. Alaqua does not recognize any services donated by volunteers in the financial statements.

Note 2 – Summary of Significant Accounting Policies – continued

Income Taxes

Alaqua has been granted an exemption from income taxes under Internal Revenue Code, Section 501(c)(3) as a not-for-profit corporation. However, income from certain activities not directly related to the Alaqua's tax-exempt purpose can be subject to taxation as unrelated business income. There was no unrelated income in 2018 and 2017. In addition, Alaqua qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Alaqua has adopted the provisions of FASB ASC Topic 740, Accounting for Uncertainty in Income Taxes, which requires financial statement recognition and disclosure for uncertain tax positions taken or expected to be taken in a tax return. The implementation had no impact on the statement of financial position or statement of activities. Alaqua does not believe its financial statements include any uncertain tax positions.

The Federal Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts in the prior financial statements have been reclassified to conform to the current presentation. These amounts were not material to the financial statements.

Note 3 – Related Party

Alaqua leases land and office space from a company that is affiliated with the founder of Alaqua. Rent expense paid during 2018 and 2017 was \$36,000. Additionally, this company occasionally funds operating shortfalls.

Notes payable to a company affiliated with the founder requires interest only payments of approximately \$200 monthly until maturity on August 1, 2020. At December 31, 2018 and 2017, \$0 and \$50,000, respectively, is due and included in long-term liabilities. Interest expense during 2018 and 2017 was \$2,418 and \$4,800, respectively.

Note 4 – Liquidity and Availability

Alaqua has \$2,743,469 of financial assets available to meet cash needs for general expenditures within one year of the date of the statement of financial position. The financial assets consist of operating cash of \$2,738,720 and accounts receivable of \$4,749. Of the operating cash, \$1,347,278 are subject to donor restrictions (Note 8).

Alaqua primarily manages liquidity needed for general expenditures and operations through budgeted monthly cash inflows and outflows. Budgeted cash outflows are monitored and adjusted as needed to not exceed expected cash inflows. Alaqua typically attempts to maintain a small excess cash balance in anticipation of potential unexpected cash outflow requirements.

Notes to Financial Statement - continued

Alaqua Animal Refuge, Inc.

December 31, 2018 and 2017

Note 5 – Expansion Project

In 2018, Alaqua began a capital campaign to secure \$15 million in fundraising over eighteen to twenty-four months for Alaqua’s relocation and expansion. All costs incurred for the expansion project are currently being recorded to work in progress until deemed ready to be placed in service (Note 6).

Note 6 – Fixed Assets

During 2013, Alaqua received a donation of land with a fair market value of \$300,000. The donor did not restrict the land to a specific purpose and donations are being accumulated to eventually expand the shelter.

Fixed Assets at December 31, consisted of:

	<u>2018</u>	<u>2017</u>
Land	\$ 580,000	\$ 580,000
Land Improvements	782,648	735,789
Furniture and Fixtures	56,386	49,195
Vehicles	8,674	8,674
Work in Progress	<u>843,112</u>	<u>0</u>
Subtotal	2,270,820	1,373,658
Accumulated depreciation	<u>(331,956)</u>	<u>(290,115)</u>
Total	<u>\$ 1,938,864</u>	<u>\$ 1,083,543</u>

During 2018, significant improvements to expand the shelter occurred. Improvements for Alaqua’s expansion currently in progress totals \$843,112 as of December 31, 2018. The funding consisted of \$775,349 from donor restricted funds and the remaining \$67,763 was paid through general funds.

Note 7 – Line of Credit

Alaqua has a line of credit with a bank in the amount of \$100,000, payable on demand. Interest accrues at the rate of 6.25 percent. Alaqua has a second line of credit with another bank in the amount of \$104,000, payable on demand. Interest accrues at the rate of prime plus .96 percent. The lines of credit are personally guaranteed by the founder. During 2018 and 2017, respectively, Alaqua had not drawn on the lines of credit.

Note 8 – Net Assets – With Donor Restrictions

Net assets restricted to use by the donor or board of directors at December 31, 2018 and 2017 consisted of restricted cash of \$1,347,278 and \$830,646, respectively and work in progress of \$775,349 and \$0, respectively.

	<u>2018</u>	<u>2017</u>
SNAP	\$ 2,214	\$ 5,482
Expansion Funds	1,100,759	580,859
Medical Clinic	<u>244,305</u>	<u>244,305</u>
Total restricted cash	1,347,278	830,646
Work in progress – Expansion (Note 6)	<u>775,349</u>	<u>0</u>
Total net assets with donor restrictions	<u>\$ 2,122,627</u>	<u>\$ 830,646</u>

Notes to Financial Statement - continued

Alaqua Animal Refuge, Inc.

December 31, 2018 and 2017

Note 9 – Commitments and Contingencies

Support and Revenue

Alaqua receives the majority of its support from individuals and companies located in the Florida Panhandle. Since Alaqua receives a substantial amount of its support from one geographic area, a significant reduction in the level of this support, if it were to occur, may have an effect on its activities.

Note 10 - Subsequent Event

Alaqua has evaluated subsequent events through September 16, 2019, which is the date the financial statements are available for issuance.