



**Gorfine Schiller Gardyn**

Certified Public Accountants and Consultants

**DEFENDERS OF  
ANIMAL RIGHTS, INC.**

FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

*M. J. Kovie*  
3/23/17

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
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*December 31, 2016 and 2015*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Defenders of Animal Rights, Inc.  
Phoenix, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of Defenders of Animal Rights, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, 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 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.

### *Auditors' 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 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.

## **FINANCIAL STATEMENTS**

DEFENDERS OF ANIMAL RIGHTS, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2016 and 2015

<u>ASSETS</u>		
	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,472,727	\$ 1,312,858
Certificates of deposit	4,414,388	3,995,263
Investments	2,458	1,769
Accrued interest receivable	8,534	6,799
Bequests receivable	537,350	165,040
Miscellaneous receivables	14,090	800
Prepaid expenses	<u>12,753</u>	<u>16,376</u>
<b>Total current assets</b>	7,462,300	5,498,905
<b>PROPERTY AND EQUIPMENT, net</b>	<u>1,056,208</u>	<u>1,082,079</u>
<b>TOTAL ASSETS</b>	<u>\$ 8,518,508</u>	<u>\$ 6,580,984</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 33,124	\$ 29,228
Accrued retirement benefits	57,017	57,000
Other accrued expenses	<u>12,805</u>	<u>12,699</u>
<b>Total current liabilities</b>	<u>102,946</u>	<u>98,927</u>
<b>NET ASSETS</b>		
Unrestricted	8,415,562	6,472,057
Temporarily restricted	<u>-</u>	<u>10,000</u>
<b>Total net assets</b>	<u>8,415,562</u>	<u>6,482,057</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 8,518,508</u>	<u>\$ 6,580,984</u>

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

DEFENDERS OF ANIMAL RIGHTS, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>UNRESTRICTED NET ASSETS</b>		
Unrestricted support, revenue and gains		
Donations	\$ 679,079	\$ 717,835
Bequests	2,346,825	318,394
Adoptions	31,770	38,520
Spay and neuter	1,270	2,280
Petsmart rewards	4,160	2,060
Boarding	11,430	10,725
Gift shop sales	827	1,619
Interest and dividends	42,170	39,401
Unrealized losses on investments	621	(169)
Gain on sale of mineral rights	-	1,000
<b>Total unrestricted support, revenue and gains before       net assets released from restrictions</b>	3,118,152	1,131,665
Net assets released from restrictions - expiration of time restriction	10,000	-
<b>Total unrestricted support, revenue and gains</b>	3,128,152	1,131,665
<b>Expenses</b>		
Program services:		
Animal rescue, shelter and care	777,005	718,920
Humane education	236,738	212,821
<b>Total program services</b>	1,013,743	931,741
Supporting services:		
Management and general	79,581	77,491
Fund-raising	91,323	79,438
<b>Total supporting services</b>	170,904	156,929
<b>Total expenses</b>	1,184,647	1,088,670
<b>Changes in unrestricted net assets</b>	1,943,505	42,995
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Donations	-	10,000
Net assets released from restrictions - expiration of time restriction	(10,000)	-
<b>Changes in temporarily restricted net assets</b>	(10,000)	10,000
<b>CHANGES IN NET ASSETS</b>	1,933,505	52,995
<b>NET ASSETS - Beginning of year</b>	6,482,057	6,429,062
<b>NET ASSETS - End of year</b>	\$ 8,415,562	\$ 6,482,057

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

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**STATEMENTS OF CASH FLOWS**  
*For the Years Ended December 31, 2016 and 2015*

	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 1,933,505	\$ 52,995
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	50,061	45,289
Loss on disposal of equipment	-	4,635
Gain on sale of mineral rights	-	(1,000)
Unrealized losses on investments	(621)	169
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,735)	387
Bequests receivable	(372,310)	(123,629)
Miscellaneous receivables	(13,290)	(285)
Prepaid expenses	3,623	(3,131)
Accounts payable	3,896	(41,353)
Accrued retirement benefits	17	4,000
Other accrued expenses	106	(37)
<b>Net (used in) cash provided by operating activities</b>	<b>1,603,252</b>	<b>(61,960)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(24,190)	(135,508)
Purchases of certificates of deposit	(1,291,000)	(805,000)
Redemption of certificates of deposit	877,173	976,000
Reinvestment of interest on certificates of deposit	(5,297)	(5,754)
Proceeds from sale of mineral rights	-	6,000
Reinvestment of dividends on investments	(69)	(61)
<b>Net provided by (cash used) in investing activities</b>	<b>(443,383)</b>	<b>35,677</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,159,869</b>	<b>(26,283)</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>1,312,858</b>	<b>1,339,141</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 2,472,727</b>	<b>\$ 1,312,858</b>

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

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
*For the Year Ended December 31, 2016 (with comparative totals for 2015)*

	Program services			Supporting services			Combined totals	
	Animal rescue, shelter and care	Humane education	Total	Management and general	Fund-raising	Total	2016	2015
Advertising	\$ 93,634	\$ -	\$ 93,634	\$ -	\$ 10,404	\$ 10,404	\$ 104,038	\$ 88,567
Automobile	646	-	646	34	-	34	680	1,516
Credit card fees	-	-	-	4,217	-	4,217	4,217	4,129
Data processing	-	1,698	1,698	1,018	679	1,697	3,395	3,362
Depreciation and amortization	42,802	4,756	47,558	2,503	-	2,503	50,061	45,289
Employee benefits	29,702	12,875	42,577	2,292	3,920	6,212	48,789	39,386
Gift shop purchases	-	-	-	-	-	-	-	1,279
Insurance	13,634	1,515	15,149	797	-	797	15,946	13,533
Loss on disposal of equipment	-	-	-	-	-	-	-	4,635
Office supplies and expense	-	-	-	7,325	-	7,325	7,325	5,031
Payroll taxes	15,445	7,381	22,826	1,937	2,315	4,252	27,078	28,529
Postage	345	3,102	3,447	265	1,591	1,856	5,303	5,790
Printing	905	3,619	4,524	2,262	754	3,016	7,540	7,082
Professional fees	-	-	-	19,469	-	19,469	19,469	19,259
Publications	16,976	67,906	84,882	-	28,294	28,294	113,176	113,050
Registration fees	-	1,988	1,988	153	918	1,071	3,059	3,060
Repairs and maintenance	40,563	-	40,563	2,135	-	2,135	42,698	37,374
Rescue, veterinary and care	271,420	-	271,420	-	-	-	271,420	237,445
Retirement benefits	12,891	28,150	41,041	5,376	10,600	15,976	57,017	57,000
Salaries and wages	210,743	100,715	311,458	26,423	31,587	58,010	369,468	335,582
Taxes and licenses	-	-	-	939	-	939	939	1,791
Telephone	3,530	392	3,922	1,046	261	1,307	5,229	4,849
Utilities	23,769	2,641	26,410	1,390	-	1,390	27,800	31,132
<b>Total functional expenses</b>	<b>\$ 777,005</b>	<b>\$ 236,738</b>	<b>\$ 1,013,743</b>	<b>\$ 79,581</b>	<b>\$ 91,323</b>	<b>\$ 170,904</b>	<b>\$ 1,184,647</b>	<b>\$ 1,088,670</b>

85.6%      6.7%      7.7%

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



**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
*For the Year Ended December 31, 2015*

	Program services			Supporting services			Combined totals
	Animal rescue, shelter and care	Humane education	Total	Management and general	Fund-raising	Total	
Advertising	\$ 79,710	\$ -	\$ 79,710	\$ -	\$ 8,857	\$ 8,857	\$ 88,567
Automobile	1,440	-	1,440	76	-	76	1,516
Credit card fees	-	-	-	4,129	-	4,129	4,129
Data processing	-	1,681	1,681	1,009	672	1,681	3,362
Depreciation and amortization	38,722	4,303	43,025	2,264	-	2,264	45,289
Employee benefits	21,159	12,166	33,325	2,178	3,883	6,061	39,386
Gift shop purchases	1,279	-	1,279	-	-	-	1,279
Insurance	11,570	1,286	12,856	677	-	677	13,533
Loss on disposal of equipment	3,963	440	4,403	232	-	232	4,635
Office supplies and expense	-	-	-	5,031	-	5,031	5,031
Payroll taxes	17,817	6,656	24,473	2,206	1,850	4,056	28,529
Postage	376	3,388	3,764	289	1,737	2,026	5,790
Printing	850	3,399	4,249	2,125	708	2,833	7,082
Professional fees	-	-	-	19,259	-	19,259	19,259
Publications	16,958	67,830	84,788	-	28,262	28,262	113,050
Registration fees	-	1,989	1,989	153	918	1,071	3,060
Repairs and maintenance	35,505	-	35,505	1,869	-	1,869	37,374
Rescue, veterinary and care	237,445	-	237,445	-	-	-	237,445
Retirement benefits	12,662	28,066	40,728	5,725	10,547	16,272	57,000
Salaries and wages	209,574	78,295	287,869	25,951	21,762	47,713	335,582
Taxes and licenses	-	-	-	1,791	-	1,791	1,791
Telephone	3,273	364	3,637	970	242	1,212	4,849
Utilities	26,617	2,958	29,575	1,557	-	1,557	31,132
<b>Total functional expenses</b>	<b>\$ 718,920</b>	<b>\$ 212,821</b>	<b>\$ 931,741</b>	<b>\$ 77,491</b>	<b>\$ 79,438</b>	<b>\$ 156,929</b>	<b>\$ 1,088,670</b>

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

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
*December 31, 2016 and 2015*

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**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Nature of Activities**

Defenders of Animal Rights, Inc. (the Organization) is a not-for-profit corporation, which provides rescue, shelter, veterinary and other services for animals and provides humane education to the general public. The Organization operates an animal shelter in Phoenix, Maryland.

**2. Basis of Presentation**

The financial statements of the Organization have been prepared using the accrual basis of accounting. In accordance with generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The Organization had no permanently restricted net assets as of and for the years ended December 31, 2016 and 2015.

**3. Use of Estimates in Preparing Financial Statements**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions 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.

**4. Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the Organization considers cash in banks and investments in money market funds to be cash equivalents.

**5. Certificates of Deposit**

Certificates of deposit with original maturities greater than three months are classified as short-term investments. Certificates of deposit are stated at cost, which approximates fair market value.

**6. Investments**

Investments are in marketable equity securities and are stated at fair market value as determined by quoted market prices on the active markets in which the securities are traded. Gains and losses on the sale of marketable securities are determined using the specific identification method. Unrealized gains and losses are included in the statements of activities. Investment income, gains and losses are reflected as changes in unrestricted net assets unless there are donor restrictions on the use of the income.

DEFENDERS OF ANIMAL RIGHTS, INC.  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
*December 31, 2016 and 2015*

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**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**7. Bequests and Promises to Give**

Unconditional promises to give are recognized as assets and contribution revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give are recorded at net realizable value if expected to be collected within one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Bequests are recorded as revenue when notification is received that the Organization has been named as a beneficiary of a will that has been probated and declared valid by the courts and an estimate is reasonably determinable.

**8. Property and Equipment**

Property and equipment are stated at cost. Major additions and betterments in excess of \$500 are charged to the asset accounts, while maintenance and repairs, which do not improve or extend the lives of the assets, are expensed. Depreciation is calculated using the straight-line method over the estimated economic useful lives of the assets, which range from five to fifty years.

**9. Contributions**

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence or nature of any donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the contribution as unrestricted. Contributions of marketable securities are recorded at their estimated fair market values as of the date of the contributions.

**10. Donated Services**

No amounts have been reflected in the financial statements for donated services because the criteria for recognition have not been satisfied. The Organization generally pays for services requiring specific expertise. However, individuals volunteer their time to assist the Organization in program and administrative functions.

**11. Functional Expenses**

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

DEFENDERS OF ANIMAL RIGHTS, INC.  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
*December 31, 2016 and 2015*

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**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**12. Advertising Costs**

Advertising costs are charged to expense in the year incurred. Advertising expense for the years ended December 31, 2016 and 2015 was \$104,038 and \$88,567, respectively.

**13. Allocation of Joint Costs**

The Organization incurred joint costs for informational materials and activities that included fund-raising appeals. These costs were allocated as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Program services:		
Animal rescue, shelter and care	\$ 16,976	\$ 16,958
Humane education	67,906	67,830
Supporting services:		
Fund-raising	<u>28,294</u>	<u>28,262</u>
<b>Total</b>	<u>\$ 113,176</u>	<u>\$ 113,050</u>

**14. Income Taxes**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The exemption is on all income except for unrelated business income, which is defined as income from any trade or business that is not substantially related to the exercise or performance of the Organization's exempt purpose. The Organization's boarding revenue is considered unrelated business income. Since related expenses exceed the revenue for this activity, no provision for income taxes has been accrued.

The Organization adopted the provisions of the Financial Accounting Standards Board Accounting Standards Codification regarding uncertainty in income taxes. The Organization believes it has taken no uncertain tax positions that would be required to be recognized in the financial statements as of December 31, 2016. The Organization's income tax filings for the years 2013 – 2016 are open and are subject to audit by various taxing authorities.

**15. Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition and disclosure through March 17, 2017, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
*December 31, 2016 and 2015*

**NOTE B – BEQUESTS RECEIVABLE**

Bequests receivable represent amounts due from estates that are expected to be collected within one year. These receivables are unrestricted and have been recorded at estimated net realizable value. Bequests receivable was \$537,350 and \$165,040 at December 31, 2016 and 2015, respectively. Management believes that no allowance for uncollectible bequests is necessary. Additionally, as of December 31, 2016, the Organization had received notification of bequests that were not recorded since the bequests could not be reasonably estimated.

The Organization has received notification that they are a beneficiary of several conditional bequests. The conditions include the death of the decedents' pets and the termination of a life estate. Under the terms of these wills the Organization will receive a stated percentage of the decedents' estate upon satisfaction of the conditions. The Organization's share of these bequests cannot be reasonably estimated.

**NOTE C – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<b>Amount</b>	
	<b>2016</b>	<b>2015</b>
Land	\$ 112,675	\$ 112,675
Building and improvements	1,578,316	1,578,316
Land improvements	193,271	180,771
Furniture and equipment	186,577	183,843
Vehicles	22,000	22,000
	2,092,839	2,077,605
Less: Accumulated depreciation	(1,036,631)	(995,526)
<b>Total</b>	<b>\$ 1,056,208</b>	<b>\$ 1,082,079</b>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$50,061 and \$45,289, respectively.

**NOTE D – RESTRICTIONS ON NET ASSETS**

During the year ended December 31, 2015, the Organization received a \$10,000 donation with the stipulation that the funds be used to purchase pet supplies. The Organization spent these funds on pet supplies during 2016. The interest earned by these quasi-endowment funds was unrestricted. Net assets temporarily restricted for pet supplies as of December 31, 2016 and 2015 were \$-0- and \$10,000, respectively.

DEFENDERS OF ANIMAL RIGHTS, INC.  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
*December 31, 2016 and 2015*

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**NOTE E – RETIREMENT PLAN**

The Organization sponsors a profit sharing plan that covers all employees who meet the eligibility requirements. Contributions to the plan are subject to management's discretion. Eligible employees are split into two groups. Contributions to the two groups may be for different amounts and contributions to each group are allocated to all eligible employees in the group in proportion to those employees' salaries. Retirement benefits expense for the years ended December 31, 2016 and 2015 was \$57,017 and \$57,000, respectively.

**NOTE F – CONCENTRATIONS**

As of December 31, 2016, the Organization had uninsured deposits in excess of FDIC and SIPC coverage limits of approximately \$1,091,000. The amount of the uninsured deposits was derived from the bank balances as of December 31, 2016 and not from the Organization's reconciled cash balances. The Organization has not experienced any losses resulting from uninsured balances and management believes the risk of any such losses is remote.

