



# Gorfine Schiller Gardyn

Certified Public Accountants and Consultants

## **DEFENDERS OF ANIMAL RIGHTS, INC.**

FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

*Mary Jo Kovac, president*

3/21/16

DEFENDERS OF ANIMAL RIGHTS, INC.  
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*December 31, 2015 and 2014*

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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, 2015 and 2014, 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.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Defenders of Animal Rights, Inc. as of December 31, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Hortine, Schiller + Hayden, P.A.*

March 10, 2016  
Owings Mills, Maryland

## FINANCIAL STATEMENTS

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
*December 31, 2015 and 2014*

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,312,858	\$ 1,339,141
Certificates of deposit	3,995,263	4,160,509
Investments	1,769	1,877
Accrued interest receivable	6,799	7,186
Bequests receivable	165,040	41,411
Miscellaneous receivables	800	515
Prepaid expenses	<u>16,376</u>	<u>13,245</u>
<b>Total current assets</b>	5,498,905	5,563,884
<b>PROPERTY AND EQUIPMENT, net</b>	1,082,079	996,495
<b>OTHER ASSETS</b>		
Mineral rights	<u>-</u>	<u>5,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,580,984</u>	<u>\$ 6,565,379</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 29,228	\$ 70,581
Accrued retirement benefits	57,000	53,000
Other accrued expenses	<u>12,699</u>	<u>12,736</u>
<b>Total current liabilities</b>	<u>98,927</u>	<u>136,317</u>
<b>NET ASSETS</b>		
Unrestricted	6,472,057	6,429,062
Temporarily restricted	<u>10,000</u>	<u>-</u>
<b>Total net assets</b>	<u>6,482,057</u>	<u>6,429,062</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,580,984</u>	<u>\$ 6,565,379</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, 2015 and 2014*

	2015	2014
<b>UNRESTRICTED NET ASSETS</b>		
Unrestricted support, revenue and gains		
Donations	\$ 717,835	\$ 711,587
Bequests	318,394	1,880,886
Adoptions	38,520	46,710
Spay and neuter	2,280	2,020
Petsmart rewards	2,060	3,888
Boarding	10,725	12,075
Gift shop sales	1,619	1,848
Interest and dividends	39,401	28,280
Unrealized losses on investments	(169)	(57)
Gain on sale of mineral rights	1,000	-
<b>Total unrestricted support, revenue and gains before net assets released from restrictions</b>	1,131,665	2,687,237
Net assets released from restrictions - expiration of time restriction	-	8,578
<b>Total unrestricted support, revenue and gains</b>	1,131,665	2,695,815
<b>Expenses</b>		
Program services:		
Animal rescue, shelter and care	718,920	707,034
Humane education	212,821	197,231
<b>Total program services</b>	931,741	904,265
Supporting services:		
Management and general	77,491	64,139
Fund-raising	79,438	75,176
<b>Total supporting services</b>	156,929	139,315
<b>Total expenses</b>	1,088,670	1,043,580
<b>Changes in unrestricted net assets</b>	42,995	1,652,235
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Donations	10,000	-
Net assets released from restrictions - expiration of time restriction	-	(8,578)
<b>Changes in temporarily restricted net assets</b>	10,000	(8,578)
<b>CHANGES IN NET ASSETS</b>	52,995	1,643,657
<b>NET ASSETS - Beginning of year</b>	6,429,062	4,785,405
<b>NET ASSETS - End of year</b>	\$ 6,482,057	\$ 6,429,062

*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, 2015 and 2014*

	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 52,995	\$ 1,643,657
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	45,289	42,828
Loss on disposal of equipment	4,635	1,157
Gain on sale of mineral rights	(1,000)	-
Unrealized losses on investments	169	57
Changes in operating assets and liabilities:		
Accrued interest receivable	387	(3,877)
Bequests receivable	(123,629)	38,576
Miscellaneous receivables	(285.00)	900
Prepaid expenses	(3,131)	(2,130)
Accounts payable	(41,353)	20,323
Accrued retirement benefits	4,000	-
Other accrued expenses	(37)	3,454
<b>Net (used in) cash provided by operating activities</b>	<b>(61,960)</b>	<b>1,744,945</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(135,508)	(7,568)
Acquisition of donated mineral rights	-	(5,000)
Purchases of certificates of deposit	(805,000)	(1,612,554)
Redemption of certificates of deposit	976,000	432,554
Reinvestment of interest on certificates of deposit	(5,754)	(4,964)
Proceeds from sale of mineral rights	6,000	-
Reinvestment of dividends on investments	(61)	(55)
<b>Net provided by (cash used) in investing activities</b>	<b>35,677</b>	<b>(1,197,587)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(26,283)</b>	<b>547,358</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>1,339,141</b>	<b>791,783</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 1,312,858</b>	<b>\$ 1,339,141</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, 2015 (with comparative totals for 2014)*

	Program services				Supporting services				Combined totals	
	Animal rescue, shelter and care	Humane education	Allocation		Management and general	Fund-raising	Total	2015	2014	
			A.R.	P.E.						
Advertising	\$ 79,710	\$ -	100		\$ -	\$ 8,857	\$ 8,857	\$ 88,567	\$ 95,300	
Automobile	1,440	-	100		76	76	76	1,516	1,900	
Credit card fees	-	-			4,129	4,129	4,129	4,129	4,107	
Data processing	-	1,681		100	1,009	672	1,681	3,362	3,173	
Depreciation and amortization	38,722	4,303	90	10	2,264	-	2,264	45,289	42,828	
Employee benefits	21,159	12,166	see payroll		2,178	3,883	6,061	39,386	25,636	
Gift shop purchases	1,279	-	100		-	-	-	1,279	571	
Insurance	11,570	1,286	90	10	677	-	677	13,533	13,551	
Loss on disposal of equipment	3,963	440	90	10	232	-	232	4,635	1,157	
Office supplies and expense	-	-			5,031	-	5,031	5,031	5,249	
Payroll taxes	17,817	6,656	see p/r taxes		2,206	1,850	4,056	28,529	26,332	
Postage	376	3,388	10	90	289	1,737	2,026	5,790	5,391	
Printing	850	3,399	20	80	2,125	708	2,833	7,082	5,452	
Professional fees	-	-			19,259	-	19,259	19,259	16,762	
Publications	16,958	67,830	20	80	-	28,262	28,262	113,050	107,798	
Registration fees	-	1,989		100	153	918	1,071	3,060	2,916	
Repairs and maintenance	35,505	-	100		1,869	-	1,869	37,374	35,862	
Rescue, veterinary and care	237,445	-	100		-	-	-	237,445	249,927	
Retirement benefits	12,662	28,066	see pension		5,725	10,547	16,272	57,000	53,000	
Salaries and wages	209,574	78,295	see payroll		25,951	21,762	47,713	335,582	309,443	
Taxes and licenses	-	-			1,791	-	1,791	1,791	1,411	
Telephone	3,273	364	90	10	970	242	1,212	4,849	4,254	
Utilities	26,617	2,958	90	10	1,557	-	1,557	31,132	31,560	
<b>Total functional expenses</b>	<b>\$ 718,920</b>	<b>\$ 212,821</b>			<b>\$ 77,491</b>	<b>\$ 79,438</b>	<b>\$ 156,929</b>	<b>\$ 1,088,670</b>	<b>\$ 1,043,580</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, 2014*

	Program services			Supporting services			Combined totals
	Animal rescue, shelter and care	Humane education	Total	Management and general	Fund-raising	Total	
Advertising	\$ 85,770	\$ -	\$ 85,770	\$ -	\$ 9,530	\$ 9,530	\$ 95,300
Automobile	1,805	-	1,805	95	-	95	1,900
Credit card fees	-	-	-	4,107	-	4,107	4,107
Data processing	-	1,586	1,586	952	635	1,587	3,173
Depreciation and amortization	36,618	4,069	40,687	2,141	-	2,141	42,828
Employee benefits	12,708	7,792	20,500	2,612	2,524	5,136	25,636
Gift shop purchases	571	-	571	-	-	-	571
Insurance	11,586	1,287	12,873	678	-	678	13,551
Loss on disposal of equipment	989	110	1,099	58	-	58	1,157
Office supplies and expense	-	-	-	5,249	-	5,249	5,249
Payroll taxes	16,811	6,304	23,115	1,462	1,755	3,217	26,332
Postage	350	3,154	3,504	270	1,617	1,887	5,391
Printing	654	2,617	3,271	1,636	545	2,181	5,452
Professional fees	-	-	-	16,762	-	16,762	16,762
Publications	16,170	64,679	80,849	-	26,949	26,949	107,798
Registration fees	-	1,895	1,895	146	875	1,021	2,916
Repairs and maintenance	34,069	-	34,069	1,793	-	1,793	35,862
Rescue, veterinary and care	249,927	-	249,927	-	-	-	249,927
Retirement benefits	11,590	26,339	37,929	5,161	9,910	15,071	53,000
Salaries and wages	197,561	74,082	271,643	17,177	20,623	37,800	309,443
Taxes and licenses	-	-	-	1,411	-	1,411	1,411
Telephone	2,871	319	3,190	851	213	1,064	4,254
Utilities	26,984	2,998	29,982	1,578	-	1,578	31,560
<b>Total functional expenses</b>	<b>\$ 707,034</b>	<b>\$ 197,231</b>	<b>\$ 904,265</b>	<b>\$ 64,139</b>	<b>\$ 75,176</b>	<b>\$ 139,315</b>	<b>\$ 1,043,580</b>

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

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
*December 31, 2015 and 2014*

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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, 2015 and 2014.

**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, 2015 and 2014*

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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, 2015 and 2014*

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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, 2015 and 2014 was \$88,567 and \$95,300, 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>2015</u>	<u>2014</u>
Program services:		
Animal rescue, shelter and care	\$ 16,958	\$ 16,170
Humane education	67,830	64,679
Supporting services:		
Fund-raising	<u>28,262</u>	<u>26,949</u>
<b>Total</b>	<u>\$ 113,050</u>	<u>\$ 107,798</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, 2015. The Organization's income tax filings for the years 2012 – 2015 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 10, 2016, 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, 2015 and 2014*

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**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 \$165,040 and \$41,411 at December 31, 2015 and 2014, respectively. Management believes that no allowance for uncollectible bequests is necessary. Additionally, as of December 31, 2015, 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>2015</b>	<b>2014</b>
Land	\$ 112,675	\$ 112,675
Building and improvements	1,578,316	1,491,616
Land improvements	180,771	180,771
Furniture and equipment	183,843	148,513
Vehicles	22,000	22,000
	2,077,605	1,955,575
Less: Accumulated depreciation	(995,526)	(959,080)
<b>Total</b>	<b>\$ 1,082,079</b>	<b>\$ 996,495</b>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$45,289 and \$42,828, 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 had also received certain donations with the stipulation that the original amount of the donations be held as a quasi-endowment for a period of five years ending February 2014. The interest earned by these quasi-endowment funds was unrestricted. Net assets temporarily restricted for pet supplies as of December 31, 2015 and 2014 were \$10,000 and \$-0-, respectively.

**DEFENDERS OF ANIMAL RIGHTS, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
*December 31, 2015 and 2014*

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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, 2015 and 2014 was \$57,000 and \$53,000, respectively.

**NOTE F – CONCENTRATIONS**

As of December 31, 2015, the Organization had uninsured deposits in excess of FDIC coverage limits of approximately \$255,000. The amount of the uninsured deposits was derived from the bank balances as of December 31, 2015 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.

