



Gorfine Schiller Gardyn

Certified Public Accountants and Consultants

**DEFENDERS OF
ANIMAL RIGHTS, INC.**

FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Majda Kovacs, president
4/11/19

DEFENDERS OF ANIMAL RIGHTS, INC.
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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, 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 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 auditors' 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, 2018 and 2017, 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.

Hofins, Schiller & Haden, P.A.

March 25, 2019

Owings Mills, Maryland

FINANCIAL STATEMENTS

DEFENDERS OF ANIMAL RIGHTS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

<u>ASSETS</u>		
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,050,037	\$ 2,211,245
Certificates of deposit	5,576,631	5,045,623
Investments	4,099	2,434
Accrued interest receivable	18,806	11,946
Bequests receivable	541,114	208,525
Miscellaneous deposit	14,710	13,600
Prepaid expenses	12,658	15,639
Total current assets	8,218,055	7,509,012
PROPERTY AND EQUIPMENT, net	980,543	1,024,887
TOTAL ASSETS	<u>\$ 9,198,598</u>	<u>\$ 8,533,899</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 38,203	\$ 28,501
Accrued retirement benefits	60,352	62,864
Other accrued expenses	14,632	13,388
Total current liabilities	113,187	104,753
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>9,085,411</u>	<u>8,429,146</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,198,598</u>	<u>\$ 8,533,899</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, 2018 and 2017

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Unrestricted support, revenue and gains		
Donations	\$ 712,696	\$ 747,771
Bequests	999,080	283,538
Adoptions	24,170	28,950
Spay and neuter	690	875
Petsmart rewards	1,270	980
Boarding	11,490	13,260
Gift shop sales	432	417
Interest and dividends	92,136	60,682
Unrealized losses on investments	(543)	(95)
Realized losses on sale of investments	(73)	-
Loss on disposal of property and equipment	(622)	-
Miscellaneous income	-	2,294
	<u>1,840,726</u>	<u>1,138,672</u>
Expenses		
Program services:		
Animal rescue, shelter and care	793,198	743,523
Humane education	224,894	211,271
	<u>1,018,092</u>	<u>954,794</u>
Total program services		
Supporting services:		
Management and general	80,159	87,854
Fundraising	86,210	82,440
	<u>166,369</u>	<u>170,294</u>
Total supporting services		
Total expenses	<u>1,184,461</u>	<u>1,125,088</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	656,265	13,584
NET ASSETS - Beginning of year	<u>8,429,146</u>	<u>8,415,562</u>
NET ASSETS - End of year	<u>\$ 9,085,411</u>	<u>\$ 8,429,146</u>

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, 2018 (with comparative totals for 2017)

	Program services			Supporting services			Combined totals	
	Animal rescue, shelter and care	Humane education	Total	Management and general	Fundraising	Total	2018	2017
Advertising	\$ 80,640	-	\$ 80,640	\$ 4,743	\$ 9,487	\$ 14,230	\$ 94,870	\$ 106,912
Automobile	1,561	-	1,561	82	-	82	1,643	1,286
Credit card fees	-	-	-	5,054	-	5,054	5,054	4,368
Data processing	-	1,534	1,534	920	614	1,534	3,068	3,205
Depreciation	44,598	4,955	49,553	2,608	-	2,608	52,161	52,328
Employee benefits	20,964	11,170	32,134	2,173	3,637	5,810	37,944	34,843
Gift shop purchases	672	-	672	-	-	-	672	833
Insurance	13,102	1,456	14,558	766	-	766	15,324	15,707
Office supplies and expense	-	-	-	5,740	-	5,740	5,740	6,392
Payroll taxes	16,898	6,458	23,356	2,068	1,900	3,968	27,324	26,422
Postage	324	2,912	3,236	249	1,494	1,743	4,979	5,693
Printing	875	3,499	4,374	2,187	729	2,916	7,290	5,540
Professional fees	-	-	-	16,510	-	16,510	16,510	25,539
Publications	19,449	77,797	97,246	-	32,415	32,415	129,661	113,211
Registration fees	-	2,246	2,246	173	1,037	1,210	3,456	3,450
Repairs and maintenance	33,268	-	33,268	1,751	-	1,751	35,019	28,232
Rescue, veterinary and care	308,915	-	308,915	-	-	-	308,915	267,186
Retirement benefits	14,140	29,293	43,433	5,919	11,000	16,919	60,352	62,864
Salaries and wages	210,820	80,577	291,397	25,806	23,700	49,506	340,903	329,338
Taxes and licenses	-	-	-	1,202	-	1,202	1,202	396
Telephone	2,653	295	2,948	786	197	983	3,931	5,320
Utilities	24,319	2,702	27,021	1,422	-	1,422	28,443	26,023
Total functional expenses	\$ 793,198	\$ 224,894	\$ 1,018,092	\$ 80,159	\$ 86,210	\$ 166,369	\$ 1,184,461	\$ 1,125,088

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, 2017

	Program services		Supporting services		Combined totals
	Animal rescue, shelter and care	Humane education	Management and general	Fundraising	
Advertising	\$ 90,875	\$ -	\$ 5,346	\$ 10,691	\$ 106,912
Automobile	1,222	-	64	-	1,286
Credit card fees	-	-	4,368	-	4,368
Data processing	-	1,603	961	641	3,205
Depreciation	44,741	49,712	2,616	-	52,328
Employee benefits	20,206	9,700	1,861	3,076	34,843
Gift shop purchases	833	-	-	-	833
Insurance	13,430	1,492	785	-	15,707
Office supplies and expense	-	-	6,392	-	6,392
Payroll taxes	16,148	6,345	2,045	1,884	26,422
Postage	370	3,330	285	1,708	5,693
Printing	665	2,659	1,662	554	5,540
Professional fees	-	-	25,539	-	25,539
Publications	16,982	67,926	-	28,303	113,211
Registration fees	-	2,243	172	1,035	3,450
Repairs and maintenance	26,820	-	1,412	-	28,232
Rescue, veterinary and care	267,186	-	-	-	267,186
Retirement benefits	16,927	29,049	6,088	10,800	62,864
Salaries and wages	201,277	79,082	25,497	23,482	329,338
Taxes and licenses	-	-	396	-	396
Telephone	3,591	399	1,064	266	5,320
Utilities	22,250	2,472	1,301	-	26,023
Total functional expenses	\$ 743,523	\$ 211,271	\$ 87,854	\$ 82,440	\$ 1,125,088

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, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Changes in net assets	\$ 656,265	\$ 13,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,161	52,328
Unrealized losses on investments	543	95
Realized losses on sale of investments	73	-
Loss on disposal of equipment	622	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(6,860)	(3,412)
Bequests receivable	(332,589)	328,825
Miscellaneous deposits	(1,110)	490
Prepaid expenses	2,981	(2,886)
Accounts payable	9,702	(4,623)
Accrued retirement benefits	(2,512)	5,847
Other accrued expenses	1,244	583
	<u>380,520</u>	<u>390,831</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(8,439)	(21,007)
Purchases of certificates of deposit	(1,924,000)	(2,156,000)
Redemption of certificates of deposit	1,401,000	1,530,000
Reinvestment of interest on certificates of deposit	(8,008)	(5,235)
Purchase of investments	(4,580)	-
Proceeds from sale of investments	2,506	-
Reinvestment of dividends on investments	(207)	(71)
	<u>(541,728)</u>	<u>(652,313)</u>
Net cash used in investing activities	<u>(541,728)</u>	<u>(652,313)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(161,208)	(261,482)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>2,211,245</u>	<u>2,472,727</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 2,050,037</u>	<u>\$ 2,211,245</u>

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

DEFENDERS OF ANIMAL RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Organization had no net assets with donor restrictions as of and for the years ended December 31, 2018 and 2017.

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 net assets without donor restrictions unless there are donor restrictions on the use of the income.

DEFENDERS OF ANIMAL RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

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 net assets without donor restrictions or net assets with donor restrictions, 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 without donor restrictions. 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. Certain costs have been allocated among the programs and supporting services benefited. Depreciation, repairs and maintenance and insurance are allocated based on square footage. Salaries, payroll taxes and employee benefits are allocated based on estimates of time and effort. Other expenses are allocated based on estimates of actual use.

DEFENDERS OF ANIMAL RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

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, 2018 and 2017 was \$94,870 and \$106,912, respectively.

13. Allocation of Joint Costs

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

	<u>2018</u>	<u>2017</u>
Program services:		
Animal rescue, shelter and care	\$ 19,449	\$ 16,982
Humane education	77,797	67,926
Supporting services:		
Fundraising	<u>32,415</u>	<u>28,303</u>
Total	<u>\$ 129,661</u>	<u>\$ 113,211</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 follows 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, 2018. The Organization's income tax filings for the years 2015 – 2018 are open and are subject to audit by various taxing authorities.

15. Change in Accounting Principle

In August 2016, FASB issued Accounting Standards Update 2016-14 *Not-for-Profit Entities*, which contains significant changes to the presentation and disclosure requirements for not-for-profit entities. The new standard is effective for the year ending December 31, 2018 and is to be retroactively applied. There were no changes to the Organization's financial statements upon adoption of this new standard other than the additional disclosures in Note D.

DEFENDERS OF ANIMAL RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

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

16. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition and disclosure through March 25, 2019, 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.

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 \$541,114 and \$208,525 at December 31, 2018 and 2017, respectively. Management believes that no allowance for uncollectible bequests is necessary. Additionally, as of December 31, 2018, 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:

	Amount	
	2018	2017
Land	\$ 112,675	\$ 112,675
Building and improvements	1,578,316	1,578,316
Land improvements	195,156	195,156
Furniture and equipment	207,281	201,706
Vehicles	22,000	22,000
	2,115,428	2,109,853
Less: Accumulated depreciation	(1,134,885)	(1,084,966)
Total	\$ 980,543	\$ 1,024,887

Depreciation expense for the years ended December 31, 2018 and 2017 was \$52,161 and \$52,328, respectively.

DEFENDERS OF ANIMAL RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE D – LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash and cash equivalents	\$ 2,050,037
Certificates of deposit	5,576,631
Investments	4,099
Accrued interest receivable	18,806
Bequests receivable	<u>541,114</u>
Total	<u>\$ 8,190,687</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets, which consist of cash, certificates of deposit and investments, to meet both normal operating expenses and unanticipated capital needs. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization invests cash in excess of anticipated short-term needs in money market accounts and certificates of deposit.

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, 2018 and 2017 was \$60,352 and \$62,864, respectively.

NOTE F – CONCENTRATIONS

As of December 31, 2018, the Organization had uninsured deposits in excess of FDIC and SIPC coverage limits of approximately \$1,119,000. The amount of the uninsured deposits was derived from the bank balances as of December 31, 2018 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.

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