

PEACEFUL VALLEY DONKEY RESCUE, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2017 and 2016

PEACEFUL VALLEY DONKEY RESCUE, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report-----	1
Financial Statements	
Statements of Financial Position -----	2
Statements of Activities-----	3
Statements of Functional Expenses -----	4
Statements of Cash Flows -----	5
Notes to Financial Statements -----	6

Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Peaceful Valley Donkey Rescue, Inc.
Miles, Texas

We have audited the accompanying financial statements of Peaceful Valley Donkey Rescue, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

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 of America. Those standards require that we plan and perform the audits 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 Peaceful Valley Donkey Rescue, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Merritt, McLane & Hamby, P.C.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
February 28, 2018

FINANCIAL STATEMENTS

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 1,104,742	\$ 734,240
Accounts receivable	17,954	
Prepaid assets	10,036	
Inventory	11,679	8,412
Investments	168,714	14,564
Total current assets	<u>1,313,125</u>	<u>757,216</u>
Non-current assets:		
Property and equipment, net of accumulated depreciation	<u>1,207,716</u>	<u>864,688</u>
Total non-current assets	<u>1,207,716</u>	<u>864,688</u>
Total Assets	\$ <u>2,520,841</u>	\$ <u>1,621,904</u>
 LIABILITIES AND NET ASSETS 		
Current liabilities:		
Accounts payable	\$ 115,704	\$ 57,286
Other liabilities	8,886	2,915
Notes payable - current	46,166	35,969
Total current liabilities	<u>170,756</u>	<u>96,170</u>
Non-current liabilities:		
Notes payable - non-current	<u>314,804</u>	<u>260,976</u>
	<u>314,804</u>	<u>260,976</u>
Total liabilities	<u>485,560</u>	<u>357,146</u>
Net assets:		
Unrestricted	<u>2,035,281</u>	<u>1,264,758</u>
Total net assets	<u>2,035,281</u>	<u>1,264,758</u>
Total Liabilities and Net Assets	\$ <u>2,520,841</u>	\$ <u>1,621,904</u>

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

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Support		
Contributions	\$ 559,967	\$ 463,288
Bequests	391,095	138,328
Merchandise sales	3,434	3,286
Fund raising	3,258,671	2,272,979
Total support	<u>4,213,167</u>	<u>2,877,881</u>
Expenses		
Program Services	2,208,552	1,769,691
Supporting Services:		
Management and general	255,526	225,666
Fund-raising	982,717	643,196
Total Expenses	<u>3,446,795</u>	<u>2,638,553</u>
Net Income from Operations	766,372	239,328
Other Income (Expense)		
Interest expense	(23,984)	(21,470)
Unrealized gain on investments	23,314	2,616
Gain on sale of assets	4,821	(1,910)
Total other income (expense)	<u>4,151</u>	<u>(20,764)</u>
Change in Net Assets	770,523	218,564
Net Assets, Beginning of Year	<u>1,264,758</u>	<u>1,046,194</u>
Net Assets, End of Year	<u>\$ 2,035,281</u>	<u>\$ 1,264,758</u>

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

PEACEFUL VALLEY DONKEY RESCUE

STATEMENT OF FUNCTIONAL EXPENSES

Years Ended December 31, 2017 and 2016

	2017				
	Supporting Services				
	Program Services	Management and General	Fund Raising	Total Supporting Services	Combined Total
Salaries and wages	\$ 326,035	\$ 95,759	\$ 17,158	\$ 112,917	\$ 438,952
Payroll taxes	25,868	7,598	1,361	8,959	34,827
Employee benefits	73,497	21,587	3,867	25,454	98,951
Total payroll expenses	<u>425,400</u>	<u>124,944</u>	<u>22,386</u>	<u>147,330</u>	<u>572,730</u>
Animal care	1,055,395				1,055,395
Bank fees	6,108	8,054	11,617	19,671	25,779
Depreciation	56,919				56,919
Direct mail	498,093	15,351	948,534	963,885	1,461,978
Gift shop		5,219		5,219	5,219
Insurance		25,479		25,479	25,479
Miscellaneous	3,413	1,002	180	1,182	4,595
Office expense		13,468		13,468	13,468
Permits, fees, and taxes		177		177	177
Postage and printing		4,674		4,674	4,674
Professional fees		57,158		57,158	57,158
Public awareness	5,421				5,421
Repair and maintenance	116,781				116,781
Utilities	41,022				41,022
Total Expenses	<u>\$ 2,208,552</u>	<u>\$ 255,526</u>	<u>\$ 982,717</u>	<u>\$ 1,238,243</u>	<u>\$ 3,446,795</u>

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

2016

Supporting Services				
Program Services	Management and General	Fund Raising	Total Supporting Services	Combined Total
\$ 260,904	\$ 92,179	\$ 16,614	\$ 108,793	\$ 369,697
20,403	7,208	1,299	8,507	28,910
63,546	22,451	4,047	26,498	90,044
<u>344,853</u>	<u>121,838</u>	<u>21,960</u>	<u>143,798</u>	<u>488,651</u>
922,833				922,833
3,852	17,328	7,324	24,652	28,504
39,908				39,908
328,190	11,132	613,813	624,945	953,135
	13,095		13,095	13,095
	17,578		17,578	17,578
1,546	544	99	643	2,189
	14,768		14,768	14,768
	20		20	20
	6,392		6,392	6,392
	22,971		22,971	22,971
13,447				13,447
82,145				82,145
<u>32,917</u>				<u>32,917</u>
<u>\$ 1,769,691</u>	<u>\$ 225,666</u>	<u>\$ 643,196</u>	<u>\$ 868,862</u>	<u>\$ 2,638,553</u>

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets from operations	\$ 766,372	\$ 239,328
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	56,919	39,908
Unrealized gain on investments	(23,314)	(2,616)
Gain on sale of assets	4,821	
(Increase) Decrease in operating assets		
Inventory	(3,267)	4,970
Accounts receivable	(17,954)	
Other assets	(10,036)	
Increase (Decrease) in operating liabilities		
Accounts payable	58,418	39,702
Other liabilities	5,971	(4,617)
	<u>837,930</u>	<u>316,675</u>
Cash flows from investing activities		
Purchase of property and equipment	(444,355)	(93,374)
Disposal of property and equipment	67,722	10,748
Purchase of investments	(130,836)	(11,948)
	<u>(507,469)</u>	<u>(94,574)</u>
Cash flows from financing activities		
Interest expense	(23,984)	(21,470)
Proceeds from note payable	151,791	52,377
Payment on note payable	(87,766)	(32,495)
	<u>40,041</u>	<u>(1,588)</u>
Net increase in cash and cash equivalents	370,502	220,513
Cash and cash equivalents at beginning of year	<u>734,240</u>	<u>513,727</u>
Cash and cash equivalents at end of year	<u>\$ 1,104,742</u>	<u>\$ 734,240</u>
 Supplemental items		
Interest paid	<u>\$ 23,984</u>	<u>\$ 21,470</u>

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

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND PURPOSE

Peaceful Valley Donkey Rescue, Inc. (the Organization) is a not-for-profit organization with its primary office location in San Angelo, Texas as well as volunteer operated facilities in California, Oregon, Arizona, Oklahoma, Iowa, Virginia, North Carolina, South Carolina, Florida, Tennessee, and Washington. The Organization provides rescue services and/or seeks out and obtains unwanted and abused donkeys. Once the donkeys are rescued, they are given medical treatment and training. When the donkeys are deemed ready, they are made available for adoption.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Peaceful Valley Donkey Rescue, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Financial statement presentation follows the recommendations of Financial Accounting Standards Board, *FASB ASC 958-205, Financial Statements of Not-for-profit Organizations*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Use of Estimates

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

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost when purchased or at fair market value when contributed. Depreciation and amortization are computed by the straight-line method over the estimated useful life of the asset as follows:

	<u>Years</u>
Office Equipment	5-7
Machinery and Equipment	5-7
Improvements	15-40

The Organization has not formally adopted a capitalization policy; however the Organization generally capitalizes individual items with a useful life of more than five years.

Donations of property and equipment 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 stipulation regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no restricted contributions in 2017 or 2016.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the State of California Revenue and Taxation Code. The Organization has no income from unrelated business; therefore, no amounts are recorded in the financial statements. The Organization is not considered a private foundation.

The Organization files the Federal Form 990 with the Internal Revenue Service and the State Form 199 in the State of California. The Federal Form 990 is generally no longer open for review by the Internal Revenue Service for years prior to 2014.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory is valued at market. The difference between cost and market is not considered material.

Functional Expenses/Joint Costs

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Source of Revenue

The Organization receives its revenue from public donation, grants and fundraising. The grants have no spending stipulations.

Fundraising

During 2017 and 2016 the Organization used the services of a direct mail organization, Eberle Communications Group, formerly Fund Raising Strategies, Inc. The annual cost expended was \$1,461,978 and \$953,135, which was allocated between program services, administration and fundraising as shown on the statements of functional expenses. Gross revenue raised was \$3,258,671 and \$2,272,979 for the years ended December 31, 2017 and 2016, respectively.

NOTE 3: LIQUIDITY

The Organization has \$1,313,125 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$1,104,742, investments of \$168,714, accounts receivable of \$17,954, inventory of \$11,679, and prepaid expenses of \$10,036. None of the 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 accounts receivable are subject to implied time restrictions with the majority expected to be collected within 30 days. The Organization has a goal to maintain financial assets, which consist of cash, short-term investments, other assets, inventory, and accounts receivable to meet 60 days of normal operating expenses, which are, on average, approximately \$569,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 4: CASH AND CASH EQUIVALENTS

All material cash and certificates of deposit, when applicable, are deposited into institutions that are insured or collateralized by the Federal Deposit Insurance Corporation (FDIC). Under FDIC guidelines, each depositor's accounts are insured to an aggregate of \$250,000 per financial institution. As of December 31, 2017, the Organization had deposits which exceeded the FDIC limit by a total of \$281,230 at First Financial Bank and \$339,896 at United Bank, but the Organization feels the risk of loss is minimal. As of December 31, 2016, the Organization had deposits which exceeded the FDIC limit by a total of \$65,147 at First Financial Bank and \$210,597 at United Bank.

NOTE 5: INVESTMENTS

The Organization has adopted SFAS ASC 958-320-50 *Accounting for Certain Investments held by Not-for-Profit Organizations*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. The following shows the cost and market value of the investments.

December 31, 2017	Cost	Market Value
Investments		
Equities and cash	\$ 142,785	\$ 168,235
December 31, 2016		
Equities	11,948	14,564

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LAND, BUILDINGS AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 700,000	\$ 700,000
Buildings	289,928	44,815
Leasehold improvements	14,500	14,500
Automotive equipment	229,471	126,288
Machinery and equipment	243,275	201,593
Furniture and equipment	1,488	1,488
Office equipment	1,691	1,691
	<u>1,480,353</u>	<u>1,090,375</u>
Less: Accumulated Depreciation	<u>272,637</u>	<u>225,687</u>
Net Property and equipment	<u>\$ 1,207,716</u>	<u>\$ 864,688</u>

Depreciation expense for the year ended December 31, 2017 and 2016 was \$56,919 and \$39,908, respectively.

NOTE 7: DEBT

	<u>2017</u>	<u>2016</u>
Note payable to Ford Motor Credit, secured by a 2012 Ford F-350, payable at \$931 per month including interest at 6.89%. The note matured July 2017.		6,358
Note payable to John Deere Credit, secured by a John Deere mower, payable at \$122 per month including interest at 4.9%. The note matured in May 2017.		4,164
Note payable to Art Schaefer Trust, secured by real property located in Tom Green County, Texas, payable at \$2,867 per month including interest at 8.0%. The note matures in December 2026.	221,607	236,299
Note payable to Ford Motor Credit, secured by a 2016 Ford F-350, payable at \$1,025 per month including interest at 6.39%. The note was paid in full during the year ended December 31, 2017.		50,124
Note payable to Ford Motor Credit, secured by a 2017 Ford F-350, payable at \$1,148 per month including interest at 6.39%. The note matures in January 2022.	49,380	
Note payable to Ford Motor Credit, secured by a 2017 Ford F-350, payable at \$1,083 pre month including interest at 6.89%. The note matures in September 2022.	52,416	

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7: DEBT - continued

Note payable to Ford Motor Credit, secured by a 2017 Ford F-250, payable at \$763 per month including interest at 6.89%. The note matures in October 2022.

	37,567		
	360,970		296,945
Less current payable	46,166		35,969
Long-term payable	\$ 314,804	\$	260,976

The following is a schedule of maturities as of December 31, 2017:

	Principal		Interest		Total
2018	\$ 46,166	\$	27,038	\$	73,204
2019	48,120		22,218		70,338
2020	51,700		18,637		70,337
2021	55,580		14,757		70,337
2022	41,969		10,965		52,934
2023-2026	117,435		20,177		137,612
	\$ 360,970	\$	113,792	\$	474,762

NOTE 8: RETIREMENT

During the years ended December 31, 2017 and 2016, the Organization contributed \$7,021 and \$7,136, respectively, to the simple IRA defined contribution retirement account for employees. The Organization matches up to 3% of employee's salary toward this plan each year for all employees who are reasonably expected to receive at least \$5,000 in compensation for the year.

NOTE 9: HEALTH INSURANCE

The Organization spent \$71,546 and \$49,852 toward health insurance for employees for the year ended December 31, 2017 and 2016, respectively.

NOTE 10: FINANCIAL INSTRUMENTS

Fair Value Measurements

Accounting principles generally accepted in the United States of America require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10: FINANCIAL INSTRUMENTS - continued

about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A fair value hierarchy exists for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example: interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Investments – The fair value of investments in equities approximates fair value because of the active market for the equities. Investments are reported at fair value utilizing Level I inputs (market value) as reported by Edward Jones.

Inventory – The carrying amount reported in the statement of financial position approximates fair value due to the short-term nature of the inventory.

Accounts payable – The carrying amount reported in the statement of financial position approximates fair value due to the short term nature of the liability.

The estimated fair values of the Corporation's financial instruments are as follows:

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10: FINANCIAL INSTRUMENTS – continued

December 31, 2017	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,104,742	\$ 1,104,742
Investments	168,714	168,714
Accounts receivable	17,954	
Other assets	10,036	
Inventory	11,679	11,679
Accounts payable	115,704	115,704
December 31, 2016	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 734,240	\$ 734,240
Investments	14,564	14,564
Inventory	8,412	8,412
Accounts payable	57,286	57,286

NOTE 11: SUBSEQUENT EVENTS

The Organization entered into a note agreement with John Deere Financial for the purchase of a 314 G Skid Steer Loader on January 3, 2018. Payments of \$1,098 are due monthly including interest of 0.0%. The note is secured by the equipment and matures in January 2021. The difference between the interest rate paid at market rates as compared with the 0.0% rate is not material to the financial statements as a whole, and, therefore, there will be no imputed interest.

NOTE 12: DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through February 28, 2018, the financial statements issuance date.