Financial Statements
December 31, 2018

HALO - Helping Animals Live On, Inc.

EideBailly

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
HALO - Helping Animals Live On, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of HALO - Helping Animals Live On, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Organization'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 Organization'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 the Organization as of December 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Phoenix, Arizona
December 10, 2019

Assets	
Current Assets	
Cash and cash equivalents	$ 1,046,666
Pet food	18,532
Adoption supplies	10,033
Thrift store items	27,093
Prepaid expenses	19,935
	1,122,259
Property and Equipment, Net	370,278
Total assets	$ 1,492,537
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 50,408
Total liabilities	50,408
Net Assets	
Net assets without donor restrictions	1,431,358
Net assets with donor restrictions	10,771
Total net assets	1,442,129
Total liabilities and net assets	$ 1,492,537

	Without Restrictions	With Restrictions	Total
Public Support and Revenue			
Donations, contracts, and grants	$ 1,254,019	$ 219,660	$ 1,473,679
Adoption fees	893,306	-	893,306
In-kind donations	314,638	-	314,638
Store sales	177,375	-	177,375
Net assets released from restrictions	208,889	(208,889)	-
Total public support and revenue	2,848,227	10,771	2,858,998
Expenses			
Program services	2,227,164	-	2,227,164
Management and general	55,019	-	55,019
Fundraising	379,268	-	379,268
Total expenses	2,661,451	-	2,661,451
Change in Net Assets	186,776	10,771	197,547
Net Assets, Beginning of Year	1,244,582	-	1,244,582
Net Assets, End of Year	$ 1,431,358	$ 10,771	$ 1,442,129

	Program Services	Management and General	Fundraising Services	Total
Personnel Costs				
Salaries, wages and payroll taxes	$ 1,046,220	$ 34,491	$ 68,982	$ 1,149,693
Employee benefits	115,772	4,781	11,345	131,898
Workers compensation	36,683	1,209	2,419	40,311
Total personnel costs	1,198,675	40,481	82,746	1,321,902
Other Expenses				
Accounting	6,750	4,725	2,025	13,500
Animal adoption fees	17,657	-	-	17,657
Animal food and supplies	126,401	-	-	126,401
Company insurance	20,617	883	1,526	23,026
Consulting and professional fees	60	538	-	598
Depreciation and amortization	83,316	2,020	2,495	87,831
Direct mail	-	-	244,036	244,036
Donor development	-	-	23,262	23,262
Merchant fees	14,828	-	1,085	15,913
Miscellaneous supplies	14,346	677	645	15,668
Office supplies and periodicals	17,812	715	703	19,230
Other veterinarian care	78,321	-	-	78,321
Printing	1,144	3	6	1,153
Processing fees	-	-	8,647	8,647
Promotions	5,657	-	2,139	7,796
Sterilization	89,180	-	-	89,180
Telephone and internet	3,915	-	-	3,915
Rent	145,367	4,034	8,067	157,468
Utilities	59,117	943	1,886	61,946
Vehicle and travel	28,661	-	-	28,661
Volunteer foster services	6,702	-	-	6,702
Total other expenses	719,851	14,538	296,522	1,030,911
In-Kind Expenses				
Pet food and supplies	75,575	-	-	75,575
Thrift store cost of sales	141,057	-	-	141,057
Rent	92,006	-	-	92,006
Total in-kind expenses	308,638	-	-	308,638
Total expenses	$ 2,227,164	$ 55,019	$ 379,268	$ 2,661,451

Cash Flows from Operating Activities	
Change in net assets	$ 197,547
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	87,831
Donated assets	(6,000)
Loss on disposal of assets	1,284
(Increase) in pet food	(3,897)
Decrease in adoption supplies	6,325
Decrease in thrift store items	2,301
Decrease in prepaid expenses	2,808
Decrease in accounts payable and accrued expenses	(718)
Net Cash Provided by Operating Activities	287,481
Cash Flows from Investing Activities	
Purchases of fixed assets	(62,599)
Proceeds from sale of property and equipment	16,574
Net Cash Used by Investing Activities	(46,025)
Net Change in Cash and Cash Equivalents	241,456
Cash and Cash Equivalents, Beginning of Year	805,210
Cash and Cash Equivalents, End of Year	$ 1,046,666

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

HALO - Helping Animals Live On, Inc. (the Organization) is an Arizona non-profit organization whose primary mission is to help end the pet overpopulation by rescuing animals, such as dogs and cats, and providing temporary shelter to abandoned animals until a permanent home can be found. The Organization helps control the pet overpopulation by spaying or neutering all their adopted animals.

The Organization derives a portion of its financial support from the operation of its thrift store. Donations are picked up by the Organization and brought to the store to be sorted. Items determined to be in good condition are placed for sale in the store. Other primary financial support is derived through donor contributions, contracts, grants and adoption/sterilization fees.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Adoption fee income and store sales are recognized on the day the sale occurs.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Unconditional Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There are no promises to give outstanding at year-end.

Inventory

Inventory, which consists of donated clothing, household goods and various other items, is held for sale at the thrift store. Since there is no cost to the Organization, inventory is recorded at fair value determined by the price at which the item can be sold. Revenue is recognized when the donated item is sold and in-kind donations are recorded at an amount equal to the sales revenue from the thrift store. Changes in year-end inventory amounts are recorded as additional sales revenue or cost of goods sold, as appropriate.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. The Organization's policy is to capitalize asset purchases generally in excess of $2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred.

Donated Assets and Services

Donated assets and services are considered to be available for unrestricted use unless specifically restricted by the donor. Donated assets consist of vehicles, services, and facilities. The donations are recorded at their estimated fair value at the date of donation and are included in revenues and expenses or capitalized if appropriate. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Expense Allocation

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, worker's compensation, payroll taxes, professional services, accounting, utilities, supplies, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization adopted guidance issued by the Financial Accounting Standards Board (FASB) which established a single model to address accounting for uncertain tax positions and clarified the accounting for income taxes by prescribing a minimum threshold a tax position is required to meet before being recognized in the financial statements. An uncertain tax position represents a tax position management determines may have a less than 50% chance of being sustained upon an examination by a taxing authority.

While the Organization does not currently include an income tax provision in the financial statements, management monitors the reporting of uncertain tax positions used in preparation of the Organization's tax return, including applicable interest and penalties related to material uncertain tax positions, which could result in recording of an income tax provision in the future. The Organization evaluated its tax position for all open tax years. Currently, the tax years open and subject to examination are the 2015, 2016 and 2017 tax years by the Internal Revenue Service and the 2014, 2015, 2016 and 2017 tax years by the Arizona Department of Revenue.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Adoption of New Accounting Pronouncements

As of January 1, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Organization's donor restricted endowment funds and underwater endowments (as applicable). The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Organization's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, which may require the use of judgment and estimates. The Organization may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. This standard is effective for annual reporting periods beginning after December 15, 2018. Early adoption of the amendments is permitted with some exceptions.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of activities. The effective for this standard has been delayed to annual reporting periods beginning after December 15, 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605).* ASU 2018-08 clarifies and refines existing guidance to help explain the scope of contributions and applies to both resource providers and resource recipients. ASU 2018-08 clarifies two issues. The first issue, in the case of grants and similar contracts with government agencies, is that unless the resource provider receives commensurate value from the resource recipient, the transaction is most likely a contribution, not an exchange transaction. The second issue is distinguishing between conditional and unconditional contributions. For a donor-imposed condition to exist, it must have both a measurable barrier that must be overcome and a right of return of the gift to the donor or a release from the donor's promise to give. The Organization may adopt ASU 2018-08 by using a modified prospective approach. A full retrospective approach for all periods presented is also permitted. For resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. For resources providers, this standard is effective for annual reporting periods beginning after December 15, 2019. Early adoption of the amendment is permitted.

Subsequent Events

The Organization has evaluated subsequent events through the date of the auditor's report, which is the date that these financial statements were available to be issued.

Note 2 - Liquidity and Availability

For general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise of cash and cash equivalents of $1,035,895, which also excludes other cash set aside specifically for donor restrictions. The Organization has a goal to maintain financial assets, which consist of cash on hand to meet 60 days of normal operating expense, which are, on average $200,000. The organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3 - Concentrated Credit Risk

The Organization maintains its available cash at various financial institutions. The Organization's interest-bearing funds are insured by the Federal Deposit Institution Corporation up to $250,000. At various times, the balances in these accounts may exceed federally insured limits.

Note 4 - Property and Equipment

At December 31, 2018, property and equipment consists of the following:

Vehicles	$	146,952
Furniture, fixtures, and equipment		102,609
Leasehold improvements		329,031
Software		5,418
Website		6,000
		590,010
Less accumulated depreciation		(219,732)
	$	370,278

Depreciation expense is $87,831 for the year ending December 31, 2018.

Note 5 - Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following programs as of the year ended December 31, 2018:

PCI Learning Management System	$	10,627
Allen Health Memorial Fund		144
	$	10,771

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Subject to Expenditure for Specified Purpose		
Supplies	$	4,856
Veterinary Care and related items		107,600
Equipment		95,000
Training		1,433
	$	208,889

Note 6 - Operating Leases

During 2012, The Organization began utilizing space to run their adoption program under an agreement with PetSmart Charities, Inc. within a PetSmart retail store without any charge for rent. An in-kind donation of rent totaling $34,428 is recorded for 2018.

During 2017, The Organization began utilizing additional space to run their adoption program under an agreement with PetSmart Charities, Inc. within another PetSmart retail store without any charge for rent. An in-kind donation of rent totaling $5,738 is recorded for 2018.

During May 2014, the Organization entered into an operating lease for a shelter space at Metro-Center Mall. The lease expired April 2018 with the Organization renewing the lease which terminates April 2020. An in-kind donation of rent totaling $51,840 is recorded for 2018.

During 2018, the Organization executed non-cancelable operating leases with respect to office spaces through February 2024. Approximate minimum annual payments under the non-cancelable leases at December 31, 2018 are as follows:

Years Ending December 31,	Amount
2019	$ 100,689
2020	87,540
2021	88,867
2022	91,017
2023	93,167
Thereafter	31,533
	$ 492,813

Total rent expense for the year ended December 31, 2018 is $249,474.

Note 7 - In-Kind Donations

In-kind donations are as follows as of December 31, 2018:

Pet food and litter	$ 75,575
Thrift store items	141,057
Rent (see Note 7)	92,006
	$ 308,638

Note 8 - Other Concentrations and Risk

An unforeseen change of general economic conditions, particularly in Arizona, may adversely impact the Organization’s ability to generate future unconditional promises to give and donations.

Note 9 - Related Party Transactions

The Organization’s Chief Executive Officer (CEO) maintains a foster animal shelter on the property of her personal residence. The Organization pays the cost of insurance for the shelter and occasional incidental costs which may arise. The CEO personally absorbs all other costs associated with the shelter. The Organization paid approximately $1,765 during 2018 for costs associated with the foster shelter.

Members of the Organization’s board of directors provide various services to the Organization. The Organization paid approximately $89,401 for these services during 2018.