

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-11



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Humane America Animal Foundation:

We have audited the accompanying financial statements of Humane America Animal Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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.

Auditors' 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 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 auditors consider 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.

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Auditors' Responsibility *(continued)*

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 Humane America Animal Foundation as of December 31, 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

YH Advisors, Inc.

Huntington Beach, California
October 19, 2017

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,146,560
Accounts receivable	31,861
Contributions receivable	7,000
Prepaid expenses	14,561
Prepaid income taxes	<u>26,844</u>
Total Current Assets	2,226,826

PROPERTY AND EQUIPMENT, NET

22,252

NON-CURRENT ASSETS

Website development, net	1,069,166
Deposits	<u>2,203</u>
Total Non-Current Assets	<u>1,071,369</u>

TOTAL ASSETS

\$ 3,320,447

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 139,698
Deferred revenue	<u>750,000</u>

TOTAL LIABILITIES

889,698

UNRESTRICTED NET ASSETS

2,430,749

TOTAL LIABILITIES AND NET ASSETS

\$ 3,320,447

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

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

REVENUE AND SUPPORT	
Contributions and grants	\$ 2,936,802
Contributions in-kind	471,081
Advertising income	186,719
Interest income	1,861
Other income	<u>13,750</u>
TOTAL REVENUE AND SUPPORT	3,610,213
EXPENSES	
Program services	2,294,069
Supporting services:	
General and administrative	942,613
Fundraising	185,001
Income taxes	<u>24,530</u>
TOTAL EXPENSES	<u>3,446,213</u>
CHANGE IN NET ASSETS	164,000
NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	2,247,643
PRIOR PERIOD ADJUSTMENT	<u>19,106</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,430,749</u>

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

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	164,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Prior period adjustment		19,106
Depreciation		10,498
Amortization		626,010
Change in operating assets and liabilities:		
Accounts receivable	(31,861)
Contributions receivable		3,000
Prepaid expenses	(11,422)
Prepaid income taxes	(26,844)
Deposits	(1,803)
Accounts payable and accrued liabilities		60,044
Accrued vacation	(13,554)
Accrued taxes payable	(7,732)
Deferred revenue		750,000
Net Cash Provided By Operating Activities		<u>1,539,442</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Purchases of property and equipment	(12,703)
Purchases related to website development	(<u>748,347</u>)
Net Cash From Financing Activities	(<u>761,050</u>)

NET CHANGE IN CASH AND CASH EQUIVALENTS 778,392

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 1,368,168

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,146,560

SUPPLEMENTAL DISCLOSURES

Interest paid		NONE
Cash paid for income taxes	\$	40,000
Noncash investing transactions		NONE
Noncash financing activities		NONE

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

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – Organization

The Humane America Animal Foundation (the Foundation) is a California public benefit corporation, established in 1999. The Foundation is dedicated to reducing the number of shelter animals put to death via adoption awareness programs, shelter pet database advertising, volunteerism and spay/neuter education. The Foundation manages Adopt-a-Pet.com to help shelters, humane societies, societies for the prevention of cruelty to animals, pet rescue groups and pet adoption agencies advertise their homeless pets to adopters for free.

The Foundation's sources of support include grants, donations from the general public and corporate sponsorships. As part of their relationship with corporate sponsors, the Foundation allows them to place advertisements on Adopt-a-Pet.com. The income from these advertisements is taxable as unrelated business income.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation of Financial Statements

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with United States Generally Accepted Accounting Principles (US GAAP). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Liquidity

Assets are presented according to their proximity to cash and liabilities are presented according to their nearness of payment or use of cash.

Use of Estimates and Assumptions

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 and the reported revenues and expenses. Significant estimates include valuation of accounts receivables and the useful lives of property and equipment. Actual results could differ from such estimates.

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – Summary of Significant Accounting Policies *(continued)*

Classification of Net Assets

The Foundation reports its information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – includes unrestricted funds for general operations, support used in operations after meeting initial grantor or donor restrictions.

Temporarily restricted net assets – includes funds subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When donor-imposed restriction expires due to accomplishing the stipulated purpose or through passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – are subject to donor-imposed restrictions that do not expire. Funds are held in perpetuity, while the income is available for general or designated program use.

The Foundation did not have any temporarily or permanently restricted net assets at December 31, 2016.

Revenue Recognition

The Foundation recognizes contributions as revenue in the period received. Contributions of assets other than cash are recorded at their estimated fair value on the date of donation. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. Expenses are reported as decreases in unrestricted net assets.

Cash and Cash Equivalents

All highly liquid cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents. As of December 31, 2016, and at various times during the year, the Foundation maintained cash balances in excess of federally insured limits. The Foundation has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk related to cash.

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – Summary of Significant Accounting Policies *(continued)*

Accounts Receivable

The accounts receivable consist primarily of amounts due from sponsors, and are stated at the amount that management expects to collect from outstanding balances. Accounts receivable are written off when they are determined to be uncollectible.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. For the year ended December 31, 2016, the Foundation did not receive any conditional promises to give.

Property and Equipment

Property and equipment are stated at cost, with the exception of donated equipment, which is recorded at fair market value on the date received. Additions and betterments with value in excess of \$2,500 are capitalized. Depreciation has been provided on the double-declining method over the estimated useful life of the assets, which is currently five to seven years. Expenditures for repairs and maintenance are expensed as incurred.

Website Development

Website development is stated at cost. The cost of website development is for internal use software and is capitalized. Amortization is computed on the straight-line basis over the estimated useful life of the asset, which is currently three years.

Deferred Revenue

Income from grant payments is deferred and recognized during the periods for which the grant relates.

Contributed Goods

The Foundation recognizes donated goods at their fair market value when an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. During the year ended December 31, 2016, the Foundation received \$471,081 in donated advertising which was utilized to support adoption services.

HUMANE AMERICA ANIMAL FOUNDATION
dba ADOPT-A-PET.COM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – Summary of Significant Accounting Policies *(continued)*

Functional Expenses

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

Advertising Costs

Advertising costs for the Foundation are considered costs related to the promotion of its pet adoption awareness program. Advertising costs of this nature are charged to operations when incurred. Such expenses for the year ended December 31, 2016 were \$491,561, of which \$471,081 was received in-kind.

Income Tax Status

The Foundation has received tax-exempt status from the Internal Revenue Service and Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and California under Revenue and Taxation Code Section 23701(d), respectively. However, the Foundation's advertising income is considered an unrelated business activity, and as such, is subject to income taxes. Total taxes related to such activities for the year ended December 31, 2016 were \$24,530.

Since the Foundation is exempt from federal and state income tax liability, no provision is made for current or deferred income taxes. The Foundation uses the same accounting methods for tax and financial reporting. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-04 Not-For-Profit Entities (Topic 985) Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a Not-For-Profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Foundation is still evaluating the impact the amendments in this ASU will have on its financial statements.

HUMANE AMERICA ANIMAL FOUNDATION
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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – Summary of Significant Accounting Policies (continued)

Subsequent Events

The Foundation has evaluated subsequent events through October 19, 2017, which is the date the financial statements were available to be issued for the year ended December 31, 2016 and determined there are no other items to disclose.

NOTE 3 – Accounts Receivable

Accounts receivable consisted of the following at December 31 2016:

Advertising	\$ 26,861
Royalties	<u>5,000</u>
Total	<u>\$ 31,861</u>

There was no allowance for doubtful accounts at December 31, 2016 deemed necessary by management.

NOTE 4 – Contributions Receivable

Contributions receivable are summarized as follows at December 31, 2016:

Unconditional promises expected to be collected in less than one year:	\$ 7,000
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There was no allowance or present value discount at December 31, 2016 as management expects all outstanding amounts to be collected in full within one year.

NOTE 5 – Property and Equipment

Property and equipment are summarized as follows at December 31, 2016:

Computer and office equipment	\$ 125,707
Office furniture	<u>4,585</u>
	130,292
Less accumulated depreciation	(<u>108,040</u>)
Total	<u>\$ 22,252</u>

Depreciation expense for the year ended December 31, 2016 was \$10,498.

HUMANE AMERICA ANIMAL FOUNDATION
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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 – Website Development

Website development summarized as follows at December 31, 2016:

Website development	\$ 3,585,913
Less accumulated amortization	<u>(2,516,747)</u>
Total	<u>\$ 1,069,166</u>

Amortization expense for the year ended December 31, 2016 was \$626,010.

NOTE 7 – Retirement Plan

The Foundation maintains a defined contribution retirement plan covering substantially all eligible employees. The Foundation matches contributions equal to \$.50 on the dollar for the first 6% of salary contributed. Employees must be 21 years of age and have six months of continuous service to be eligible. Retirement expense for the year ended December 31, 2016 was \$21,207.

NOTE 8 – Concentrations

At December 31, 2016, 84% of accounts receivable was due from one payer. In addition, during the year ending December 31, 2016, the Foundation derived 83% of its revenue from three corporate sponsors and one foundation, and all of the contributions in-kind from one donor.

NOTE 9 – Correction of an Error

When preparing the financial statements for the year ended December 31, 2016, it was noted that income tax expenses recognized in the year ended December 31, 2015 that related to the December 31, 2016. The change in reporting of such transactions represents a prior period accounting error which has been accounted for prospectively via adjustment of the opening net asset balances on the December 31, 2016 Statement of Financial Position. Activities for the year ended December 31, 2016 are unaffected by the correction of the prior period error.