

**SECOND CHANCE CENTER FOR ANIMALS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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## INDEPENDENT AUDITORS' REPORT

To Management and the Board of Directors of  
Second Chance Center for Animals

We have audited the accompanying financial statements of Second Chance Center for Animals (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### **Managements' 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 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.

### **Basis for Qualified Opinion**

As explained in Note 4 to the financial statements, the investment in oil and mineral rights that the Second Chance Center for Animals received by gift are recorded at their tax assessed values on the date of gift in the financial statements. Accounting principles generally accepted in the United States of America require gifts of oil and mineral rights to be recorded at their fair values. The effects on the accompanying financial statements of the recording of oil and mineral rights at their tax assessed values on the date of gift rather than at their fair values has not been determined.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Second Chance Center for Animals as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Guest, Schutte & Cospers  
Flagstaff, Arizona

June 9, 2016

**SECOND CHANCE CENTER FOR ANIMALS  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015**

ASSETS

<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 84,025
Investments	81,577
Prepaid expenses	<u>745</u>
Total Current Assets	166,347
 <b>PROPERTY AND EQUIPMENT</b>	
Net of accumulated depreciation	99,352
 <b>OTHER ASSETS</b>	
Investments in oil and mineral rights	<u>768,580</u>
Total Assets	<u><u>\$ 1,034,279</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 8,765
Accrued payroll expenses	12,740
Customer deposits	<u>750</u>
Total Current Liabilities	<u>22,255</u>
Total Liabilities	22,255
 <b>NET ASSETS</b>	
Unrestricted	1,012,024
Temporarily restricted	<u>-</u>
Total Net Assets	<u>1,012,024</u>
Total Liabilities and Net Assets	<u><u>\$ 1,034,279</u></u>

See Accompanying Notes and Independent Auditors' Report

**SECOND CHANCE CENTER FOR ANIMALS  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 376,343	\$ 4,472	\$ 380,815
Donations in-kind	257,678	-	257,678
Grants	4,450	-	4,450
Interest income	810	-	810
Other income	1,425	-	1,425
Program revenue	96,211	-	96,211
Rental income	10,020	-	10,020
Retail sales	2,914	-	2,914
Royalty income	123,977	-	123,977
Net assets released from restrictions	<u>8,443</u>	<u>(8,443)</u>	<u>-</u>
Total Revenues and Other Support	882,271	(3,971)	878,300
Expenses and Losses			
Program services	829,642	-	829,642
Support services	97,981	-	97,981
Fundraising	88,169	-	88,169
Investment loss, net	<u>2,635</u>	<u>-</u>	<u>2,635</u>
Total Expenses and Losses	<u>1,018,427</u>	<u>-</u>	<u>1,018,427</u>
Decrease in Net Assets	(136,156)	(3,971)	(140,127)
Net Assets - Beginning of Year	<u>1,148,180</u>	<u>3,971</u>	<u>1,152,151</u>
Net Assets - End of Year	<u>\$ 1,012,024</u>	<u>\$ -</u>	<u>\$ 1,012,024</u>

See Accompanying Notes and Independent Auditors' Report

**SECOND CHANCE CENTER FOR ANIMALS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash Flows From Operating Activities	
Decrease in net assets	\$ (140,127)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation expense	25,211
(Increase) decrease in:	
Prepaid expenses	3,016
Increase (decrease) in:	
Accounts payable	3,248
Accrued payroll expenses	(185)
Customer deposits	750
Net Cash Used by Operating Activities	<u>(108,087)</u>
 Cash Flows From Investing Activities	
Purchases of property and equipment	(2,170)
Purchases of investments	(10,469)
Investment earnings reinvested	2,635
Net Cash Used by Investing Activities	<u>(10,004)</u>
 Decrease in Cash	(118,091)
 Cash and cash equivalents - Beginning of Year	<u>202,116</u>
 Cash and cash equivalents - End of Year	<u><u>\$ 84,025</u></u>

See Accompanying Notes and Independent Auditors' Report

**SECOND CHANCE CENTER FOR ANIMALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Second Chance Center for Animals (“the Center”) have been prepared in accordance with accounting principles generally accepted in the United States of America. The Center records financial transactions using the accrual method. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of Activities

The Center was incorporated on March 31, 2008 as a private, nonprofit corporation under the laws of the state of Arizona and is funded by charitable donations and fees for services. The Center encompasses a 20,000 square foot, state-of-the art animal shelter and is located on 10 acres of land on Highway 89 in Flagstaff, Arizona. The Center operates for the purposes of protecting, rescuing, treating, sheltering, and advocating on behalf of animals. Through intervention strategies, targeted rescue, compassionate shelter, responsible adoptions, expert veterinary care, and positive animal training programs, Second Chance Center for Animals’ mission is to save the lives of homeless cats and dogs across Northern Arizona.

Programs:

Rescue Partner: Part of the Center’s unique mission is to “rescue from the rescues”. We partner with 38 organizations across Arizona, Colorado, New Mexico and Utah who transfer homeless dogs and cats to us for adoption.

Animal Shelter: Since 2004, more than 10,000 dogs and cats have found forever homes through the Center. Our state-of-the-art facility and knowledgeable staff make our 100% placement guarantee possible.

Intervention: We believe the safest place for an animal is in a home. Through our intervention programs, like behavior counseling and dog training, we often provide assistance to families in need that allows them to keep their pet.

Community Involvement: More than 200 volunteers contributed 7,205 hours of time and walked shelter dogs 2,371 miles in 2015. In addition to supporting the shelter, innovative programs like our Enrichment Garden and Loaned Hiker are a fun way to become involved.

Financial Statement Presentation

The Center reports 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.

Income Taxes

The Center is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201 of the Arizona Revised Statutes. Therefore, the accompanying financial statements contain no provision or liability for income taxes. Donations to the Center qualify for the charitable deduction under Internal Revenue Section 170(b)(1)(A).

The Center files information returns with the U.S. federal and Arizona state governments. With few exceptions, the Center is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2012 (federal) and 2011 (Arizona) as of the year ended December 31, 2015.

**SECOND CHANCE CENTER FOR ANIMALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions, Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions, support and revenue are considered to be unrestricted unless specifically restricted by the donor. As restrictions are met, these revenues become unrestricted and are then allowed to be expended.

Discounted or Donated Goods, Services, and Facilities

The Center values discounted or donated goods, services, and facilities at their fair market values at the date of the discount or donation. The Center received substantial support in the form of donated facilities valued in the amount of \$224,000 for the year ended December 31, 2015.

Many individuals volunteer their time and perform a variety of tasks that assist the Center, but these services do not meet the criteria for recognition as contributed services. During the year ended December 31, 2015 the Center received 7,205 volunteer hours.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Center considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. The Center had only bank accounts, money market accounts, and petty cash to be considered as cash and cash equivalents as of December 31, 2015.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities and Change in Net Assets.

Accounts Receivable

Accounts receivable are considered delinquent when the charges are 90 days past the billing date. If the delinquency remains unpaid past 90 days, the Board must give approval for the account balance to be written off. There were no accounts receivable and no allowance for doubtful accounts as of December 31, 2015.

Property and Equipment

Purchases of property and equipment of \$1,000 or more are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value on the date of donation. Such donations are reported as unrestricted contributions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 15 years.

Compensated Absences

Employees of the Center are entitled to paid-time-off (PTO) depending on their position and length of service. Accrued PTO at December 31, 2015 was deemed immaterial by management and therefore not reflected in the financial statements.

See Independent Auditors' Report

**SECOND CHANCE CENTER FOR ANIMALS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Advertising

The Center expenses non-direct response advertising costs as incurred. Advertising expense was \$12,221 for the year ended December 31, 2015.

Date of Management's Review

Management has reviewed events subsequent to December 31, 2015 up through the date the financial statements were available to be issued, June 9, 2016, to evaluate their effect on the fair presentation of the financial statements. As of the date the financial statements were available to be issued, there have been no events subsequent to December 31, 2015 that are required to be disclosed in order to present fairly the financial position and changes in net assets of the Center.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The total cash and cash equivalents held by the Center as of December 31, 2015 is as follows:

Cash on hand	\$ 200
Undeposited funds	21,306
Checking (unrestricted)	15,516
Checking (restricted)	-
Money market	47,003
	<u>\$ 84,025</u>

The Federal Deposit Insurance Corporation insures accounts up to \$250,000 per account, per institution. As of December 31, 2015, the Center did not maintain cash balances in excess of this amount.

**NOTE 3 - INVESTMENTS**

Investments are board-designated for general operating expenses and are invested in a long-term investment pool with the Flagstaff Community Foundation, which is an affiliate of the Arizona Community Foundation. No securities are held directly in the name of the Center. Investments in the pool are stated at fair value as reported by the custodian and consist of pooled investments of various securities – including stocks, bonds, and mutual funds in their Long Term Pool. The Center's allocated net investment loss on this pooled investment for the year ended December 31, 2015 was \$1,825. The investment earnings are net of annual administration fees of \$500 per year and investment fees. All earnings were reinvested in the pool. Components of investment return for the years ended December 31, 2015 are as follows:

Interest income	\$ 810
Realized gains, net	3,232
Unrealized gains (losses), net	(5,337)
Administrative and investment fees	<u>(530)</u>
Investment loss, net	<u>(2,635)</u>
	<u>\$ (1,825)</u>



**SECOND CHANCE CENTER FOR ANIMALS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 - INVESTMENTS IN OIL AND MINERAL RIGHTS**

The Center received oil and mineral rights as a bequest from a major donor in 2012. Due to the expense and complexity involved in determining the fair values of these assets, management has determined that obtaining appraisals was not practicable, nor cost effective. Accordingly, these assets were recorded on the date of the gift at their tax assessed values as provided by the counties in the state of Texas, who have taxing authority over the properties and oil mineral rights. Accordingly, an in-kind contribution of \$768,580 was recorded in 2012, and an investment in oil and mineral rights is reflected in the accompanying statement of financial position as of December 31, 2015. Gas and oil royalty income from these assets for the year ended December 31, 2015 was \$123,977.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2015 consists of the following:

Computer and office equipment	\$ 106,689
Leasehold improvements	221,931
Shelter and veterinary equipment	249,703
Vehicles	<u>99,266</u>
Total	677,589
Less accumulated depreciation	<u>(578,237)</u>
Property and equipment, net	<u>\$ 99,352</u>

Depreciation expense for the years ended December 31, 2015 was \$25,211.

**NOTE 6 - RESTRICTIONS ON NET ASSETS**

There were no temporarily or permanently restricted net assets as of December 31, 2015.

Temporarily restricted donations consist of contributions and grants that were restricted for spending for various purposes ranging from disaster relief equipment and supplies, capital improvements, and various program expenses. All temporarily restricted donations were expended for their intended purposes during 2015.

**SECOND CHANCE CENTER FOR ANIMALS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 7 - FAIR VALUE MEASUREMENTS**

The fair value of the pooled investments as discussed in the Investments footnote is measured on a recurring basis as reported by the custodian at December 31, 2015, the Arizona Community Foundation. The assets of the Center are designated as part of a Long Term Pool, which includes equities, fixed income, hedge funds, and private equities. Fair value is determined by reference to Level 2 inputs, which include significant other observable units, such as interest rates at commonly quoted intervals and other inputs not directly observable, but derived principally from or corroborated by observable market data.

The fair value of the investments in land and oil mineral rights is measured on a non-recurring basis at December 31, 2015, and is determined by reference to Level 3 inputs consisting of tax assessed values obtained from the respective taxing authorities on the date of gift. (Note 4)

Description	Level 1: Quoted Prices Active Markets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at 12/31/2015
AZ Community Foundation	\$ -	\$ 81,577	\$ -	\$ 81,577
Oil and Mineral Rights	-	-	768,580	768,580
Total	<u>\$ -</u>	<u>\$ 81,577</u>	<u>\$ 768,580</u>	<u>\$ 850,157</u>

**NOTE 8 - CASH FLOW INFORMATION**

There were no non-cash investing or financing activities during the year ended December 31, 2015. The Center did not pay any interest or income tax in the year ended December 31, 2015.

**NOTE 9 - RELATED PARTIES**

The Center has a lease agreement with the Robert T. Wilson Foundation to pay \$1 per year to lease the facility premises. One of the Center's board members also served on the board of the Foundation in 2015. The fair market value of the use of the facility premises is valued at \$224,000 for the year ended December 31, 2015.

The Center also received material cash contributions from the Center's board members and their various businesses and trusts during the year ended December 31, 2015.

**NOTE 10 - OPERATING LEASE**

As discussed in the related parties footnote, the Center had a commercial lease agreement with the Robert T. Wilson Foundation for the facility premises with a five year term that began on April 1, 2008. On May 1, 2014, the lease agreement was extended for a period of ten years, unless terminated sooner by agreement of the parties. Annual rental payments under the lease are \$1 per year. The fair market value of the use of the facility premises is valued at \$224,000 for the year ended December 31, 2015.

**SECOND CHANCE CENTER FOR ANIMALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 11 - CONCENTRATION RISK**

During the year December 31, 2015, the Center received in-kind donations of animal foods from Nestle Purina Pet Care Company valued at \$25,563. These in-kind donations comprise approximately 98% of total animal food program expense for the year ended December 31, 2015.

Also, as discussed in the related parties footnote, the Center receives rental of the facility premises as an in-kind donation valued at \$224,000 per year from the Robert T. Wilson Foundation, which amounted to 26% of total support and revenue for the year ended December 31, 2015.

Without these in-kind donations of goods and facilities, the Center's operating budget would be severely impacted. However, management has no reason to believe that their relationship with these organizations will be discontinued in the near future.

Revenues from a bequest of oil and gas mineral rights from a former board member comprised 14% of total support and revenue for the year ended December 31, 2015.

As discussed in the related parties footnote, the Center receives material cash donations from certain board members through personal contributions and through these board members' various businesses and trusts. Total cash donations received from the board members in the form of personal, business, and trust contributions for the years ended December 31, 2015 amounted to approximately 3% of total support and revenue for the year ended December 31, 2015. These donations are primarily used to help pay for salaries and wage expenses, fencing and grounds maintenance, legal fees and other various program and support service expenses.

**NOTE 12 - USE OF ESTIMATES**

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

**SECOND CHANCE CENTER FOR ANIMALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 13 - FUNCTIONAL EXPENSES**

Program services, support services and fundraising expenses for the year ended December 31, 2015 are as follows:

	Program Services	Support Services	Fundraising	Total
Advertising	\$ 11,913	\$ -	\$ 308	\$ 12,221
Animal food	26,071	-	-	26,071
Bank and credit card fees	3,303	375	75	3,753
Computer maintenance contract	8,486	964	193	9,643
Depreciation expense	22,186	2,521	504	25,211
Dues, subscriptions and books	1,551	176	35	1,762
Employee benefits	27,074	4,165	3,471	34,710
Equipment lease	328	-	-	328
Fun-fund expense	695	79	16	790
Insurance	13,506	1,535	307	15,348
Licenses and fees	7,894	897	179	8,970
Medical supplies and services	21,126	-	-	21,126
Meals and entertainment	406	46	9	461
Miscellaneous	2,025	189	56	2,270
Office expense	4,070	462	93	4,625
Operating supplies	5,193	204	41	5,438
Payroll service fees	609	93	78	780
Payroll taxes	26,044	4,007	3,339	33,390
Postage and delivery	9,682	-	9,682	19,364
Printing	21,307	-	21,307	42,614
Professional fees	2,710	-	-	2,710
Rent, facility	197,120	22,400	4,480	224,000
Repairs and maintenance	21,084	2,370	474	23,928
Royalty production taxes	11,239	1,277	255	12,771
Salaries and wages	318,715	49,033	40,861	408,609
Security	243	28	5	276
Small tools and equipment	2,466	280	56	2,802
Special events	6,430	122	86	6,638
Telephone and communications	17,806	2,024	405	20,235
Training, development and awards	1,509	227	179	1,915
Travel	1,956	222	45	2,223
Utilities	24,532	2,788	557	27,877
Vehicle expense	2,422	275	55	2,752
Workers' compensation	7,941	1,222	1,018	10,181
	<u>\$ 829,642</u>	<u>\$ 97,981</u>	<u>\$ 88,169</u>	<u>\$ 1,015,792</u>

See Independent Auditors' Report