



Animal Rescue Fund of the Hamptons, Inc.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

***FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Animal Rescue Fund of the Hamptons, Inc.
90 Daniels Hole Road
Wainscott, New York 11975

We have audited the accompanying financial statements of Animal Rescue Fund of the Hamptons, Inc. ("ARF," a not-for-profit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 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 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 ARF'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 ARF'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ARF as of December 31, 2014 and 2013, 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.

Corin & Associates LLP

Bohemia, New York

April 21, 2015

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,**

2014

2013

ASSETS		
Current Assets:		
Cash and cash equivalents (Note 6).....	\$ 2,314,893	\$ 2,313,643
Investments: (Notes 4, 6, 8, and 10)		
Unrestricted.....	4,807,144	4,576,980
Restricted.....	209,007	252,831
Pledges receivable, net of allowance (Notes 3, 6, 8, and 10).....	11,750	137,144
Current portion of mortgage receivable (Notes 7 and 8).....	8,088	7,618
Inventory (Note 5).....	57,871	55,444
Prepaid expenses and other current assets.....	3,098	3,098
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	7,411,851	7,346,758
Restricted investments (Notes 4, 6, 8, and 10).....	1,190,000	1,190,000
Mortgage receivable, net of current portion (Notes 7 and 8).....	105,283	114,068
Property and equipment, net of accumulated depreciation (Note 2).....	5,664,150	5,337,424
Land held for resale and security deposits, net of impairment charge (Note 11).....	6,740	183,062
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 14,378,024</u>	<u>\$ 14,171,312</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses.....	\$ 154,188	\$ 152,333
Payroll and related payables.....	91,552	100,035
	<hr/>	<hr/>
TOTAL LIABILITIES	245,740	252,368
Commitments and contingencies (Notes 3, 4, 6, 7, 8, 9, 10, and 11)		
Net Assets:		
Unrestricted:		
Board designated (Notes 8 and 10).....	6,428,021	6,832,645
Undesignated.....	6,191,885	5,521,782
Temporarily restricted (Notes 7, 8, and 10).....	322,378	374,517
Permanently restricted (Notes 8 and 10).....	1,190,000	1,190,000
	<hr/>	<hr/>
TOTAL NET ASSETS	14,132,284	13,918,944
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,378,024</u>	<u>\$ 14,171,312</u>

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions.....	\$ 1,466,484	\$ -	\$ -	\$ 1,466,484
Special events revenue, net of direct expenses of \$201,132.....	686,394	-	-	686,394
Donated goods (Note 5).....	412,954	-	-	412,954
Donated securities.....	-	-	-	-
Calendar sales, net of cost of goods sold of \$25,489.....	100,078	-	-	100,078
Thrift shop sales, net of cost of sales of \$410,527 (Note 5).....	-	-	-	-
TOTAL SUPPORT	2,665,910	-	-	2,665,910
Program Service Revenue				
Adoptions.....	179,111	-	-	179,111
Obedience training.....	36,160	-	-	36,160
Operation cat.....	43,249	-	-	43,249
Investment income/(loss) (Notes 4 and 10).....	300,878	(1,230)	-	299,648
Other income.....	14,754	-	-	14,754
Net assets released from restrictions (Notes 8 and 10).....	50,909	(50,909)	-	-
TOTAL REVENUE	625,061	(52,139)	-	572,922
TOTAL SUPPORT AND REVENUE	3,290,971	(52,139)	-	3,238,832
EXPENSES:				
Program services.....	2,310,435	-	-	2,310,435
Management and general.....	342,742	-	-	342,742
Fundraising.....	372,315	-	-	372,315
TOTAL EXPENSES	3,025,492	-	-	3,025,492
CHANGE IN NET ASSETS	265,479	(52,139)	-	213,340
Net assets, beginning of year.....	12,354,427	374,517	1,190,000	13,918,944
Net assets, end of year.....	\$ 12,619,906	\$ 322,378	\$ 1,190,000	\$ 14,132,284

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions.....	\$ 812,703	\$ -	\$ -	\$ 812,703
Special events revenue, net of direct expenses of \$155,136.....	553,724	-	-	553,724
Donated goods (Note 5).....	440,491	-	-	440,491
Donated securities.....	31,703	-	-	31,703
Calendar sales, net of cost of goods sold of \$26,474.....	92,823	-	-	92,823
Thrift shop sales, net of cost of sales of \$457,705 (Note 5).....	-	-	-	-
TOTAL SUPPORT	1,931,444	-	-	1,931,444
Program Service Revenue				
Adoptions.....	207,882	-	-	207,882
Obedience training.....	38,290	-	-	38,290
Operation cat.....	45,894	-	-	45,894
Investment income (Notes 4 and 10).....	296,671	31,829	-	328,500
Other income.....	15,205	-	-	15,205
Net assets released from restrictions (Notes 8 and 10).....	129,890	(129,890)	-	-
TOTAL REVENUE	733,832	(98,061)	-	635,771
TOTAL SUPPORT AND REVENUE	2,665,276	(98,061)	-	2,567,215
EXPENSES:				
Program services.....	2,095,492	-	-	2,095,492
Management and general.....	372,928	-	-	372,928
Fundraising.....	376,310	-	-	376,310
TOTAL EXPENSES	2,844,730	-	-	2,844,730
CHANGE IN NET ASSETS	(179,454)	(98,061)	-	(277,515)
Net assets, beginning of year.....	12,533,881	472,578	1,190,000	14,196,459
Net assets, end of year.....	\$ 12,354,427	\$ 374,517	\$ 1,190,000	\$ 13,918,944

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Services	Management and General	Fundraising	Total
Salaries.....	\$ 1,031,076	\$ 105,751	\$ 185,065	\$ 1,321,892
Payroll taxes.....	98,809	10,134	17,735	126,678
Employee benefits (Note 9).....	159,214	16,330	28,577	204,121
Thrift shop commissions (Note 5).....	-	-	25,136	25,136
Advertising.....	35,549	2,239	11,923	49,711
Dues and subscriptions.....	1,335	9,751	-	11,086
Office supplies.....	-	16,262	8,289	24,551
Transportation.....	59,875	-	6,336	66,211
Telephone and internet.....	8,950	-	2,797	11,747
Insurance.....	8,558	49,011	-	57,569
Medical.....	114,371	-	-	114,371
Operation cat.....	69,846	-	-	69,846
Animal supplies.....	279,555	-	-	279,555
Utilities.....	34,866	11,985	7,627	54,478
Printing and postage.....	35,431	-	17,952	53,383
Repairs and maintenance.....	90,741	-	21,782	112,523
Equipment.....	3,581	549	-	4,130
Professional fees.....	-	22,509	-	22,509
Education expense.....	18,270	-	-	18,270
Contracted services.....	-	-	23,281	23,281
Licenses and fees.....	800	30,537	-	31,337
Depreciation (Note 2).....	191,002	22,471	11,235	224,708
Impairment charge (Note 11).....	-	-	-	-
Miscellaneous.....	68,606	45,213	4,580	118,399
Total expenses	<u>\$ 2,310,435</u>	<u>\$ 342,742</u>	<u>\$ 372,315</u>	<u>\$ 3,025,492</u>

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries.....	\$ 918,610	\$ 94,216	\$ 164,879	\$ 1,177,705
Payroll taxes.....	83,330	8,548	14,957	106,835
Employee benefits (Note 9).....	155,469	15,946	27,905	199,320
Thrift shop commissions (Note 5).....	-	-	29,642	29,642
Advertising.....	-	21,810	8,937	30,747
Dues and subscriptions.....	808	2,480	-	3,288
Office supplies.....	855	12,176	4,869	17,900
Transportation.....	32,191	-	21,428	53,619
Telephone and internet.....	8,406	-	2,617	11,023
Insurance.....	71,377	-	-	71,377
Medical.....	99,014	-	-	99,014
Operation cat.....	45,229	-	-	45,229
Animal supplies.....	220,348	-	-	220,348
Utilities.....	34,057	11,707	7,450	53,214
Printing and postage.....	34,786	-	14,355	49,141
Repairs and maintenance.....	144,170	-	16,124	160,294
Equipment.....	4,961	1,921	-	6,882
Professional fees.....	-	40,735	-	40,735
Education expense.....	753	-	-	753
Contracted services.....	-	-	1,030	1,030
Licenses and fees.....	775	28,359	-	29,134
Depreciation (Note 2).....	176,367	20,749	10,375	207,491
Impairment charge (Note 11).....	-	72,428	-	72,428
Miscellaneous.....	63,986	41,853	51,742	157,581
Total expenses	<u>\$ 2,095,492</u>	<u>\$ 372,928</u>	<u>\$ 376,310</u>	<u>\$ 2,844,730</u>

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

2014

2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets..... \$ 213,340 \$ (277,515)

Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:

Depreciation expense.....	224,708	207,491
Unrealized loss/(gain) on investments.....	15,969	(168,313)
Realized (gain)/loss on investments.....	(33,249)	42,648
Donated goods.....	(412,954)	(440,491)
Donated securities.....	-	(31,703)

Changes in operating assets and liabilities:

Pledges receivable.....	125,394	-
Mortgage receivable.....	8,315	7,652
Inventory.....	410,527	457,855
Prepaid expenses and other current assets.....	-	45,746
Land held for resale and security deposits.....	176,322	72,428
Accounts payable and accrued expenses.....	1,855	13,387
Payroll and related payables.....	(8,483)	29,158

NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES 721,744 (41,657)

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of fixed assets.....	(551,434)	(103,648)
Purchases of investments.....	(715,313)	(629,480)
Reinvested investment income.....	(254,986)	(109,012)
Sales of investments.....	801,239	564,164

NET CASH USED IN INVESTING ACTIVITIES (720,494) (277,976)

Net change in cash and cash equivalents..... 1,250 (319,633)

Cash and cash equivalents, beginning of year..... 2,313,643 2,633,276

Cash and cash equivalents, end of year..... \$ 2,314,893 \$ 2,313,643

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Animal Rescue Fund of the Hamptons, Inc. (hereinafter "ARF") is presented to assist in understanding ARF's financial statements. The financial statements and notes are representations of ARF's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization: ARF was founded in 1974 and provides for the welfare of dogs and cats on the South Fork of Long Island through shelter and adoption services, medical care, spaying and neutering programs, community outreach, and humane education. ARF is a "no-kill" adoption center. ARF also provides services to people with life-threatening illnesses including HIV/AIDS, the homebound elderly, and victims of domestic abuse, under its People United with Pets ("PUP") program, to enable them to maintain their pets within their homes. The Operation Cat program is a trap/alter/release program to humanely reduce the feral cat population on the South Fork of Long Island.

Income Tax Status: ARF is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is publicly supported, as described in section 509(a). Donors may deduct contributions made to ARF within the requirements of the Internal Revenue Code.

ARF evaluated its activities for uncertain tax positions and has determined that there were no uncertain tax positions for 2014 and 2013.

ARF files an IRS Form 990 and respective state and local tax returns. These tax returns are subject to review and examination by Federal, State, and local taxing authorities. Tax returns for the years ended December 31, 2011, 2012, 2013, and 2014 are open for examination by these taxing authorities. ARF has determined that it has registered in all states where it is required to be registered.

Basis of Accounting: These financial statements are presented on the accrual basis of accounting. Revenue and support is recorded when earned and expenses are recorded when incurred.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board as they apply to not-for-profit organizations. ARF 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.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by action of ARF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

***NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by ARF. Generally, the donors of these assets permit ARF to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents: For financial statement purposes, ARF considers all highly liquid financial instruments with original maturities of three months or less from the date of purchase to be cash equivalents.

Receivables: Receivables are amounts pledged but not yet collected. No amounts were identified as uncollectible receivables for 2014 and 2013. As of both December 31, 2014 and 2013, the allowance for doubtful accounts totaled \$10,000.

Fair Value Measurements: ARF follows fair value measurements as prescribed under accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. The fair value hierarchy is categorized into three levels. The implementation of fair value measurement did not have an effect on ARF's financial statements.

Inventory: Inventory consists of donated goods held for resale that are carried at their estimated resale values.

Property, Equipment, and Depreciation: Property and equipment are stated at original cost or at estimated fair market value, if donated. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation expense is computed using the straight-line method over each asset's estimated useful life or the shorter of the lease term or estimated useful life with respect to building improvements. Estimated useful lives are as follows:

Buildings	40 years
Building improvements	40 years
Equipment and fixtures	5-10 years
Vehicles	5 years

Special Events: ARF holds fundraising events to provide additional support for its operations. Revenue from these events is recorded at the time the event takes place. Costs incurred for which a donor receives a direct benefit, exchange transactions, have been offset against the revenue earned in the statements of activities. Other costs related to the event for which the donor does not receive a direct benefit are included within fundraising costs in the statements of functional expenses.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

***NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition: ARF recognizes revenue from foundation and other grants in the period these grants are pledged. Revenue from the sale of calendars is recorded when calendars are sold. Adoption fees are recognized at the time a pet is adopted.

Revenue Recognition on Thrift Store Sales: Donated goods are recorded at estimated resale value. When sold, revenue is recorded with a corresponding charge to cost of sales for an identical amount. Revenue is recorded net of applicable sales tax.

Contributions: Contributions are recognized when the donor makes a promise to give to ARF that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Assets: Donated marketable securities and other noncash donations are recorded as contributions, at their estimated fair values, at their dates of donation.

Donated Services: ARF benefits from volunteer services in program, fundraising, and administrative duties from board members and other volunteers. Even though these donated services are valuable to ARF, and help to advance ARF's mission, no amounts have been reflected in the financial statements for such contributed services inasmuch as such services do not meet the criteria for recognition in the financial statements nor do they create or enhance nonfinancial assets.

Functional Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon an analysis of personnel time and space utilized for the related activities.

Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of ARF.

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 the reported amounts of assets and liabilities and disclosures 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 could differ from those estimates.

Advertising: ARF uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences: Pursuant to the personnel manual implemented by ARF, vacation and holiday time is accumulated on an ongoing basis. The accumulated leave accrual at December 31, 2014 and 2013 amounted to \$3,523 and \$25,091, respectively, which is included within payroll and related payables in the accompanying statements of financial position.

Events Occurring After Report Date: ARF has evaluated events and transactions that occurred between January 1, 2015 and April 21, 2015, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land.....	\$ 384,432	\$ 384,432
Buildings and improvements.....	6,230,844	6,230,844
Equipment and fixtures.....	169,048	160,216
Vehicles.....	387,205	210,609
	<u>7,171,529</u>	<u>6,986,101</u>
Less: accumulated depreciation.....	(2,013,961)	(1,789,252)
Construction in progress.....	506,582	140,575
Total.....	<u>\$ 5,664,150</u>	<u>\$ 5,337,424</u>

Construction in progress pertains to the early phase of the renovations to the adoption building medical wing and for the construction of the training building and cat and dog sanctuary buildings. The construction is expected to be completed in 2015.

NOTE 3 - RECEIVABLES

ARF records receivables for pledges when a qualified donor makes a commitment to provide funding to ARF. There were no new pledge contributions received during the years ended December 31, 2014 and 2013.

Management continuously monitors these receivables, and writes them down as necessary when it becomes apparent that collectability is not likely based upon historical collections, donors' intent, and donors' financial wherewithal to pay. No amounts were deemed uncollectable during the years ended December 31, 2014 and 2013. At December 31, 2014 and 2013, pledges receivables consisted entirely of the ARF Endowment Fund pledges.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 4 - INVESTMENTS

ARF presents investment in the statements of financial position at fair value. ARF utilizes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

- Level 1: Level 1 instruments are valued using observable inputs that reflect quoted prices for identical assets or liabilities in active markets that ARF has the ability to access at the measurement date. Level 1 assets include highly liquid U.S. Treasury securities and exchange traded equity securities.
- Level 2: Level 2 instruments are valued using observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most debt securities and some preferred stocks are model priced by vendors using observable inputs and are classified within Level 2.
- Level 3: Level 3 instruments are valued using valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities such as highly structured and/or lower quality asset-backed securities ("ABS") and commercial mortgage-backed securities ("CMBS"). Because Level 3 fair values, by their nature, contain unobservable market inputs as there is no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent ARF's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

All of the investments held by ARF are considered Level 1 investments because they are regularly traded and have quoted prices in active markets.

The fair value and historical cost of ARF's financial instruments were as follows as of December 31, 2014:

	<u>Fair Value</u>	<u>Cost</u>
Stocks.....	\$ 4,869,190	\$ 4,478,475
Fixed income.....	1,258,599	1,263,567
Mutual funds.....	78,362	84,434
Total investments.....	<u>\$ 6,206,151</u>	<u>\$ 5,826,476</u>

The fair value and historical cost of ARF's financial instruments were as follows as of December 31, 2013:

	<u>Fair Value</u>	<u>Cost</u>
Stocks.....	\$ 4,414,018	\$ 4,018,278
Fixed income.....	1,506,665	1,479,783
Mutual funds.....	99,128	84,434
Total investments.....	<u>\$ 6,019,811</u>	<u>\$ 5,582,495</u>

ARF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 4 - INVESTMENTS (continued)

investment securities, it is at least reasonably possible that changes in the values of investment holdings could occur in the near term and that change could materially affect the amounts reported in the accompanying statements of financial position.

The following schedule summarizes the investment return included in the statements of activities for the years ended December 31,:

	<u>2014</u>	<u>2013</u>
Interest and dividend income.....	\$ 282,368	\$ 202,835
Realized gain/ (loss).....	33,249	(42,648)
Unrealized (loss)/ gain.....	(15,969)	168,313
Total investment income.....	<u>\$ 299,648</u>	<u>\$ 328,500</u>

NOTE 5 - INVENTORY

ARF has a thrift store in Sagaponack, New York to sell clothing, furniture, and other goods donated by the general public. ARF records all such donated items at their estimated fair values at the dates of donation and later resells such items for an amount that approximates their donated values. During 2014 and 2013, ARF received \$412,954 and \$440,491 in donated items, respectively. Thus, amounts for thrift store sales and cost of goods sold net to zero. Any unsold items are maintained within inventory at estimated fair value. ARF collects sales taxes from customers of this thrift store and remits these amounts to applicable taxing authorities.

Certain employees of the thrift store receive commissions that, depending on the position of the employee, is either 3% or 5% of the weekly gross sales net of sales tax. For the years ended December 31, 2014 and 2013, \$25,136 and \$29,642 were paid out in commission, respectively.

NOTE 6 - CONCENTRATIONS OF RISK

As of December 31, 2014 and 2013, approximately 60% and 85%, respectively, of ARF's pledges receivable was due from one donor.

ARF maintains cash and investments in several bank accounts which are insured by the Federal Deposit Insurance Corp and Securities Investor Protection Corporation. From time to time, ARF may have cash on deposits with financial institutions that are in excess of Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits.

NOTE 7 - ASSIGNED MORTGAGE RECEIVABLE

ARF received an assigned mortgage receivable in February 1996 with imposed donor restrictions. The value of the donated mortgage at the date of donation was \$203,550. The balance at December 31, 2014 and 2013 was \$113,371 and \$121,686, respectively. ARF is collecting monthly installments of \$1,229, including interest of 6%, with satisfaction of the

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 7 - ASSIGNED MORTGAGE RECEIVABLE (continued)

mortgage in June 2025 or when the mortgagee has transferred the underlying house that secures the mortgage.

These mortgage payments are restricted by the donor for building and grounds repairs and maintenance. Principal payments to be received for the mortgage balance are as follows for the years ending December 31,:

2015	\$ 8,088
2016	8,587
2017	9,116
2018	9,679
2019	10,276
Thereafter	<u>67,625</u>
Total principal	<u>\$ 113,371</u>

NOTE 8 - NET ASSETS

Board Designated

From time to time, ARF's Board of Directors designates certain net assets for specific purposes. Such net assets were designated as follows at December 31,:

	<u>2014</u>	<u>2013</u>
To support ARF Endowment Fund	\$ 4,879,185	\$ 4,881,176
To support ARF programs	41,878	35,538
PUP program.....	5,500	53,282
Capital endowment (building renovations).....	5,733	12,733
Reserve fund (general operations/reserves).....	3,311	11,648
Land planning fund (land planning and development).....	1,492,414	1,838,268
Total board designated net assets.....	<u>\$ 6,428,021</u>	<u>\$ 6,832,645</u>

Temporarily Restricted

Temporarily restricted net assets were available for the following purposes at December 31,:

	<u>2014</u>	<u>2013</u>
Sampson mortgage receivable.....	\$ 113,371	\$ 121,686
To support ARF Endowment Fund	143,065	185,822
To support ARF programs	43,080	39,783
PUP program.....	22,862	27,226
Total temporarily restricted net assets	<u>\$ 322,378</u>	<u>\$ 374,517</u>

Temporarily restricted net assets consisted of \$209,007 and \$252,831 of investments, and \$113,371 and \$121,686 of mortgage receivable at December 31, 2014 and 2013, respectively.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

***NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013***

NOTE 8 - NET ASSETS (continued)

During the year ended December 31, 2014, a total of \$50,909 was released from temporarily restricted net assets. Of this amount, \$42,594 from the endowment fund was used for general operating expenses, and \$8,315 of the Sampson mortgage payments was used towards maintenance of the adoption center.

During the year ended December 31, 2013, a total of \$129,890 was released from temporarily restricted net assets. Of this amount, \$76,492 from the endowment fund was used for general operating expenses, \$45,746 was used for fundraising expenses, and \$7,652 of the Sampson mortgage payments was used towards maintenance of the adoption center.

Permanently Restricted

ARF has permanently restricted funds, the Vandivert Fund, PUP, and a gift provided by the Joseph and Sylvia Slifka Foundation, Inc. for the ARF Endowment Fund, the principal of which is restricted by donors in perpetuity. Under the terms of the restriction, ARF can use the investment income from the Vandivert Fund and PUP fund for program expenses and investment income from the ARF Endowment Fund for general operating expenses. ARF had the following permanently restricted funds as of December 31,:

	<u>2014</u>	<u>2013</u>
PUP program	\$ 50,000	\$ 50,000
ARF Endowment Fund.....	1,000,000	1,000,000
Vandivert Fund.....	140,000	140,000
Total permanently restricted net assets	<u>\$ 1,190,000</u>	<u>\$ 1,190,000</u>

NOTE 9 - RETIREMENT PLAN

During January 2009, ARF started a 401(k) plan for its employees. All employees are eligible after one year of service to make contributions to the plan; however, employees over 21 years of age, who have completed one year of service, and who provided 1,000 hours of service to ARF in a year, are eligible to receive employer contributions. For employees that work a complete year, ARF will contribute 5% of the employee's annual gross salary. For the years ended December 31, 2014 and 2013, ARF incurred 401(k) match expenses of \$46,783 and \$48,323, respectively. These amounts are included in employee benefits in the statements of functional expenses.

NOTE 10 - ENDOWMENT

Effective, September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the provisions of which apply to the endowment funds existing on or established after that date.

The Endowment: As outlined in Note 8, ARF's endowments consist of individual donor-restricted funds that have been established for the Endowment Fund portion of the "Securing Our Future Campaign" and the Vandivert Fund. In addition, ARF has Board designated and

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 10 - ENDOWMENT (continued)

temporarily restricted endowments. ARF is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. ARF classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The portion of the donor-restricted endowment fund, principally consisting of unspent investment income that is not classified as permanently restricted net assets is classified as temporarily restricted net assets based on donor stipulations.

Endowment Net Asset Composition by Type of Fund: ARF's total endowment fund consists of the following at December 31,:

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets	\$ 1,190,000	\$ 1,190,000
Temporarily restricted net assets	209,007	252,831
Total donor restricted	<u>1,399,007</u>	<u>1,442,831</u>
Board designated net assets	6,428,021	6,832,645
Total endowment fund	<u>\$ 7,827,028</u>	<u>\$ 8,275,476</u>

The endowed balance consists principally of pledges received for the Securing Our Future Campaign, as well as a balanced investment portfolio.

Changes in Endowment Net Assets: The endowment had the following changes for the years ended December 31, 2014 and 2013:

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Board Designated</u>	<u>Total</u>
Endowment net assets, January 1, 2014.....	\$ 1,190,000	\$ 252,831	\$ 6,832,645	\$ 8,275,476
Interest and dividends.....	-	-	281,114	281,114
Net investment gain.....	-	(1,230)	19,764	18,534
Contributions.....	-	-	197,205	197,205
Amounts appropriated for expenditure.....	-	(42,594)	(902,707)	(945,301)
Change in endowment net assets.....	<u>-</u>	<u>(43,824)</u>	<u>(404,624)</u>	<u>(448,448)</u>
Endowment net assets, December 31, 2014.....	<u>\$ 1,190,000</u>	<u>\$ 209,007</u>	<u>\$ 6,428,021</u>	<u>\$ 7,827,028</u>
	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Board Designated</u>	<u>Total</u>
Endowment net assets, January 1, 2013.....	\$ 1,190,000	\$ 297,494	\$ 6,839,682	\$ 8,327,176
Interest and dividends.....	-	-	202,835	202,835
Net investment gain.....	-	31,829	93,836	125,665
Contributions.....	-	-	69,360	69,360
Amounts appropriated for expenditure.....	-	(76,492)	(373,068)	(449,560)
Change in endowment net assets.....	<u>-</u>	<u>(44,663)</u>	<u>(7,037)</u>	<u>(51,700)</u>
Endowment net assets, December 31, 2013.....	<u>\$ 1,190,000</u>	<u>\$ 252,831</u>	<u>\$ 6,832,645</u>	<u>\$ 8,275,476</u>

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires ARF to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 and 2013.

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 10 - ENDOWMENT (continued)

Return Objectives and Risk Parameters: ARF has adopted investment and spending strategies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, ARF relies on a total-return strategy in which investment returns are achieved through a balanced portfolio of equity based and fixed securities.

Spending Policy: ARF has a policy of spending the investment income generated from its temporarily and permanently restricted endowment funds for program and general operating expenses, which is allowable under the donor guidelines. At December 31, 2014 and 2013, ARF used a portion of the investment income towards program and general operating expenses.

Investment Policy: ARF has a formal investment policy to ensure that the endowment is appropriately invested in lower risk alternatives. ARF's investment portfolio is primarily invested in mutual funds, closed-end funds, and exchange traded funds. The portfolio risk is reduced by diversifying the portfolio among various asset types such as cash, bonds, domestic and international equities, and specialty investments such as dividend capture funds. ARF targets a conservative asset allocation that places a greater emphasis on the conservation of investment principal to achieve its long-term return objectives within prudent risk constraints.

NOTE 11 - LAND HELD FOR RESALE

During 2010, ARF received a bequest of a partial interest in a property with an estimated value to ARF on the date of contribution of \$248,750. It is anticipated that the property will be liquidated and ARF will receive its pro-rata share of the proceeds. The asset is recorded in land held for resale and security deposits in the accompanying statements of financial position.

During the year ended December 31, 2014, in connection with the plan of disposal, the property was sold and ARF received its pro-rata share of the proceeds in the amount of \$176,322. Consequently, ARF recorded an impairment loss of \$72,428, which represents the excess of the carrying value of the asset over the fair value, less cost to sell. The impairment loss is recorded as a separate line item impairment charge in the statement of functional expenses for the year ended December 31, 2013. The carrying value of the assets that are held for sale is separately presented in the statements of financial position in the caption land held for resale and security deposits.