

**PROVERBS 12:10 ANIMAL RESCUE AND ADOPTION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Proverbs 12:10 Animal Rescue and Adoption

Report on the Financial Statements

We have audited the accompanying financial statements of Proverbs 12:10 Animal Rescue and Adoption (a not-for-profit public charity, the "Organization"), which comprise the statement of financial position as of December 31, 2016, 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.

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.

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, 2016 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.

September 25, 2017

PROVERBS 12:10 ANIMAL RESCUE AND ADOPTION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

Assets

| | |
|-----------------------------------|-------------------------|
| Current assets: | |
| Cash | \$ 22,008 |
| Grants receivable | 4,750 |
| Total current assets | <u>26,758</u> |
| Non current assets: | |
| Transportation equipment, at cost | 37,550 |
| Accumulated depreciation | <u>(4,360)</u> |
| Total non current assets | <u>33,190</u> |
| Total Assets | <u><u>\$ 59,948</u></u> |

Liabilities and Net Assets

| | |
|----------------------------------|-------------------------|
| Current liabilities: | |
| Accounts payable | \$ 10,821 |
| Accrued liabilities | 4,040 |
| Total current liabilities | <u>14,861</u> |
| Net assets: | |
| Unrestricted | <u>45,087</u> |
| Total Liabilities and Net Assets | <u><u>\$ 59,948</u></u> |

See notes to the financial statements.

**PROVERBS 12:10 ANIMAL RESCUE AND ADOPTION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Unrestricted Net Assets

Public Support and Other Revenues

| | |
|---------------|---------------|
| Contributions | \$ 432,857 |
| Adoption Fees | 147,895 |
| Grants | <u>19,750</u> |

| | |
|---|----------------|
| Total Public Support and Other Revenues | <u>600,502</u> |
|---|----------------|

Functional Expenses

| | |
|------------------------|---------------|
| Program services | 463,049 |
| Management and general | 75,198 |
| Fundraising | <u>32,603</u> |

| | |
|---------------------------|----------------|
| Total Functional Expenses | <u>570,850</u> |
|---------------------------|----------------|

| | |
|----------------------------|----------------|
| Loss on disposal of assets | <u>(2,613)</u> |
|----------------------------|----------------|

| | |
|--|--------|
| Increase in Unrestricted Net Assets | 27,039 |
|--|--------|

| | |
|---------------------------------------|---------------|
| Net Assets - Beginning of Year | <u>18,048</u> |
|---------------------------------------|---------------|

| | |
|---------------------------------|-------------------------|
| Net Assets - End of Year | <u><u>\$ 45,087</u></u> |
|---------------------------------|-------------------------|

See notes to the financial statements.

PROVERBS 12:10 ANIMAL RESCUE AND ADOPTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services | Management and General | Fundraising | Total |
|----------------------------|---------------------|------------------------------|-------------|------------|
| Wages and payroll expenses | \$ 106,720 | \$ 60,101 | \$ 22,283 | \$ 189,104 |
| Professional fees | - | 1,905 | - | 1,905 |
| Advertising and promotion | - | - | 10,320 | 10,320 |
| Office expenses | - | 4,536 | - | 4,536 |
| Occupancy | - | 5,618 | - | 5,618 |
| Travel | 3,318 | - | - | 3,318 |
| Depreciation | 3,240 | - | - | 3,240 |
| Insurance | - | 1,598 | - | 1,598 |
| Veterinary fees | 177,614 | - | - | 177,614 |
| Boarding | 66,455 | - | - | 66,455 |
| Training fees | 52,495 | - | - | 52,495 |
| Supplies | 26,222 | - | - | 26,222 |
| Miscellaneous | 26,985 | 1,440 | - | 28,425 |
| Totals | \$ 463,049 | \$ 75,198 | \$ 32,603 | \$ 570,850 |

See notes to the financial statements.

September 25, 2017

To Management and the Board of Directors
Proverbs 12:10 Animal Rescue and Adoption
Burns, TN

In planning and performing our audit of the financial statements of Proverbs 12:10 Animal Rescue and Adoption (the Organization) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Significant Deficiency: Reporting of Donations Made to Veterinary Offices

The Executive Director informed us that all donations made directly to veterinary offices are not being reported due to a lack of processes in place to identify and track such donations. A review of annual statements of activity from the most frequently used veterinary offices resulted in an adjustment of \$26,740 to record additional donations.

The Organization does not have a process in place to obtain and review veterinarians' statements and reconcile those statements to the reported revenue on a periodic (at least monthly) basis. A separate account should be used to facilitate that reconciliation.

The identified deficiency is not considered to be a material weakness.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Control Deficiency #1: Revenue Classification

In the course of performing our procedures, we identified revenue that was incorrectly comingled between donations, adoption fees, and grants. While the total revenue reported was materially correct, the classifications were materially misstated. Supporting schedules were provided or created to determine the correct classifications, and reclassification entries were recorded as appropriate based on those schedules and discussion with the Executive Director.

An effective control environment should include periodic (preferably monthly) reconciliation of supporting schedules to the revenue accounts with timely resolution of any differences.

Control Deficiency #2: Sequential Check Numbers

In the course of our review of cash disbursements and bank reconciliations, we noted that check numbers were not sequentially used. Use of sequential check numbers is a cash internal control that permits complete monitoring of all outstanding checks and facilitates identification of lost or stolen checks.

Control Deficiency #3: Invoice Retention

As part of our testing procedures, we review supporting documentation of cash disbursements, such as invoices and receipts. While expenses receipts were maintained, periodic invoices were not readily available for all vendors, such as kennels and trainers. Supporting documentation for all expenditures should be maintained as evidence of proper expenses and for reconciliation purposes.

This communication is intended solely for the information and use of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC

Proverbs 12:10 Animal Rescue
Statement of Functional Expenses
For the Year Ended December 31, 2016

| | Program and Services | Management and General | Fundraising | Total |
|----------------------------|----------------------------|------------------------------|------------------|-------------------|
| Wages and payroll expenses | \$ 106,720 | \$ 60,101 | \$ 22,283 | \$ 189,104 |
| Professional fees | - | 1,905 | - | 1,905 |
| Advertising and promotion | - | - | 10,320 | 10,320 |
| Office expenses | - | 4,536 | - | 4,536 |
| Occupancy | - | 5,618 | - | 5,618 |
| Travel | 3,318 | - | - | 3,318 |
| Depreciation | 3,240 | - | - | 3,240 |
| Insurance | - | 1,598 | - | 1,598 |
| Veterinary fees | 177,614 | - | - | 177,614 |
| Boarding | 66,455 | - | - | 66,455 |
| Training fees | 52,495 | - | - | 52,495 |
| Supplies | 26,222 | - | - | 26,222 |
| Miscellaneous | 26,985 | 1,440 | - | 28,425 |
| Totals | <u>\$ 463,049</u> | <u>\$ 75,198</u> | <u>\$ 32,603</u> | <u>\$ 570,850</u> |
| Allocation | 81% | 13% | 6% | 100% |

From: Michelle Balsley <mbalsley@bcpas.com>

To: Lavonne Redferrin (ranimalfriend@aol.com) <ranimalfriend@aol.com>

Subject: Comparison of Functional Expenses

vs. Other Rescues

Date: Sun, Oct 8, 2017 12:08 pm

Attachments: Comparable Functional Expenses Allocations.pdf (106K)

Hi Lavonne, here is a sample of animal rescues in TN that I was able to find on-line. You can see that the average of their program expenses is right at 81%. There were a few that I excluded because they were extreme outliers. Others didn't allocate at all for some reason, so I excluded those as well. The sample is also somewhat judgmental in that I tried to use TN organizations of similar size that provide similar services, but that's based on their own Guidestar descriptions.

These numbers are all from 2015 990s because not everyone has filed their 2016 990s yet and I didn't want to skew the results by mixing years. That being said, the ones that have filed their 2016 990s seem to be trending higher, generally around 88%, for their program services. Those were county humane societies though, who may have more volunteer services that keep their salary amounts lower, it's hard to say.

As far as the differences in the fundraising column, there is a lot of judgment involved in many organizations in what qualifies as "Management & General" versus "Fundraising." I recommend focusing on the program services number.

When you share this with the finance committee, please include my commentary from this email so that they can better understand the sources of the numbers to draw their own conclusions. Please also be clear that this information is separate and distinct from our audit opinion – we opine on your financial statements taken as a whole and cannot speak to the validity of the other organizations' financial statements. The purpose of providing this analysis to assist in providing the context that your board is requesting.

Please let me know if you have any questions about this or if you need anything else.

Michelle D. Balsley, CPA, CIA, CGMA

Assistant Quality Control Director

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Selected TN Animal Rescue Non Profit Organizations
Statements of Functional Expenses
Source: 2015 Forms 990 (guidestar.org)

| | Program Services | Mgmt & General | Fundraising | Total |
|--|------------------|----------------|----------------|------------------|
| Companion Pet Rescue and Transport of W TN | 665,212 74% | 231,490 26% | - 0% | 896,702 |
| Sullivan County Bluff City Kingsport Animal Control Center | 626,281 81% | 86,502 11% | 57,358 7% | 770,141 |
| Sevier County Humane Society | 404,118 87% | 33,678 7% | 27,480 6% | 465,276 |
| Happy Tales Humane | 337,586 83% | 51,716 13% | 17,963 4% | 407,265 |
| Humane Society of Lincoln County | 237,916 89% | 27,993 11% | - 0% | 265,909 |
| Total | 2,271,113 | 431,379 | 102,801 | 2,805,293 |
| Average of Sample Organizations | 81% | 15% | 4% | |
| Proverbs 12:10 (2016) | 81% | 13% | 8% | |
| Proverbs 12:10 Above (Below) Average | 0% | -2% | 4% | |