

HOPALONG ANIMAL RESCUE

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2005**

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Independent Auditors' Report

Board of Directors
Hopalong Animal Rescue

We have audited the accompanying statement of financial position of Hopalong Animal Rescue (Hopalong), a California corporation, as of December 31, 2005, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Hopalong's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hopalong Animal Rescue as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Bregante + Company LLP

February 15, 2006

HOPALONG ANIMAL RESCUE
STATEMENT OF FINANCIAL POSITION

December 31, 2005

ASSETS

Assets:

Cash and cash equivalents	\$ 85,087
Investments	1,000,223
Property and equipment, net of accumulated depreciation of \$7,857	31,330
Contributions receivable	7,335
Other asset	<u>3,000</u>
 Total assets	 <u><u>\$ 1,126,975</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued liabilities	\$ 23,289
Accrued vacation	<u>15,536</u>
 Total liabilities	 38,825

Net assets:

Unrestricted	1,055,904
Temporarily restricted	<u>32,246</u>
 Total net assets	 <u>1,088,150</u>
 Total liabilities and net assets	 <u><u>\$ 1,126,975</u></u>

See accompanying notes and auditors' report.

HOPALONG ANIMAL RESCUE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenue:			
Donations	\$ 101,349	\$ -	\$ 101,349
Donated materials and services	94,026	-	94,026
Adoption contributions	79,023	-	79,023
Foundation grant	-	82,900	82,900
Dog training fees	7,721	-	7,721
Fundraising events	64,147	-	64,147
Planned giving/bequests	-	75	75
Investment income, net of investment fee	56,122	-	56,122
Unrealized loss on investments	(1,000)	-	(1,000)
Net assets released from restrictions	<u>51,479</u>	<u>(51,479)</u>	<u>-</u>
Total support and revenue	452,867	31,496	484,363
Expenses:			
Program services	591,660	-	591,660
Management and administrative	42,195	-	42,195
Fundraising and development	<u>101,401</u>	<u>-</u>	<u>101,401</u>
Total expenses	<u>735,256</u>	<u>-</u>	<u>735,256</u>
Changes in net assets	(282,389)	31,496	(250,893)
Net assets, beginning of year	<u>1,338,293</u>	<u>750</u>	<u>1,339,043</u>
Net assets, end of year	<u>\$ 1,055,904</u>	<u>\$ 32,246</u>	<u>\$ 1,088,150</u>

See accompanying notes and auditors' report.

HOPALONG ANIMAL RESCUE

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

Cash flows from operating activities:	
Changes in net assets	\$ (250,893)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	4,613
Unrealized loss on investments	1,000
(Increase) decrease in assets:	
Other asset	2,381
Contributions receivable	(7,335)
Increase in liabilities:	
Accounts payable and accrued liabilities	13,493
Accrued vacation	<u>8,056</u>
Total adjustments	<u>22,208</u>
Net cash used by operating activities	<u>(228,685)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(22,967)
Net change in investments	<u>69,376</u>
Net cash provided by investing activities	<u>46,409</u>
Net decrease in cash and cash equivalents	(182,276)
Cash and cash equivalents, beginning of year	<u>267,363</u>
Cash and cash equivalents, end of year	<u>\$ 85,087</u>

See accompanying notes and auditors' report.

HOPALONG ANIMAL RESCUE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2005

	<u>Program services</u>	<u>Management and administrative</u>	<u>Fundraising and development</u>	<u>Total</u>
Salaries	\$ 208,529	\$ 13,584	\$ 22,028	\$ 244,141
Veterinary and animal expenses	86,561	-	-	86,561
Donated materials and services	94,026	-	-	94,026
Outside services	36,751	1,374	24,234	62,359
Payroll taxes and employee benefits	52,126	3,396	5,506	61,028
Occupancy	36,657	1,737	4,306	42,700
Fundraising expense	-	-	37,910	37,910
Printing	19,159	908	2,251	22,318
Professional fees	-	18,341	-	18,341
Equipment	12,585	-	-	12,585
Office supplies	10,549	500	1,239	12,288
Telephone	8,101	384	952	9,437
Office expenses	5,962	1,052	700	7,714
Utilities	6,582	312	773	7,667
Depreciation	3,960	188	465	4,613
Insurance	3,944	126	312	4,382
Travel	2,638	125	310	3,073
Training and development	2,230	106	262	2,598
Postage and delivery	1,300	62	153	1,515
 Total	 <u>\$ 591,660</u>	 <u>\$ 42,195</u>	 <u>\$ 101,401</u>	 <u>\$ 735,256</u>

See accompanying notes and auditors' report.

HOPALONG ANIMAL RESCUE

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A -- Description of organization

Hopalong Animal Rescue (Hopalong) is a non-profit organization that was formed in 1993 and incorporated in 1996. Its mission is to eliminate the euthanasia of cats and dogs through rescue, spay/neuter and education programs. Hopalong rescues and re-homes abandoned companion animals that would otherwise face euthanasia at local shelters or abandonment and starvation on city streets. Hopalong's programs include Rescue, Fostering and Adoption, Hopalong Animal Rescue Pet Survivor Program (HARPS), Spay/Neuter Services, Owner Assistance Services, and Community Outreach and Education. Hopalong responded to the crisis caused by Hurricanes Katrina and Rita by taking teams to New Orleans to help with animal search and rescue efforts, bringing back dozens of animals to the Bay Area. Hopalong plans to continue to help devastated Animal Rescue groups in the Gulf Coast Area cope with the large numbers of lost and abandoned animals in 2006.

Hopalong provides bite prevention and humane education to children and youth at schools and community centers as they will be the next generation of animal caregivers and can contribute greatly to improving animal care.

Hopalong offers spay/neuter services to community members who cannot afford to pay for the surgeries. In addition to the many kittens, puppies and adult cats and dogs rescued, Hopalong also provides medical care to a number of special-needs animals.

Hopalong rescued over 1,250 animals, spayed/neutered 115 community animals and also provided education to over 190 children during 2005. This was possible due to the organization's many generous volunteers and donors. In addition, many of the volunteers and corporate partners also assisted Hopalong to leverage over one million dollars of in-kind goods and services creating the critical resources needed to save so many lives.

NOTE B -- Summary of significant accounting policies

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Financial statement presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. The financial activities are classified into three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

See auditors' report.

HOPALONG ANIMAL RESCUE

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2005

NOTE B -- Summary of significant accounting policies (continued)

Financial statement presentation (continued)

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. Hopalong has no permanently restricted net assets at December 31, 2005.

Support and revenue recognition

Hopalong recognizes grants and donor contributions upon the earlier of receipt or when an agreement has been executed. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted net assets and are then reclassified to unrestricted net assets when the restrictions have been satisfied. Unconditional promises to give are recorded as promises are made. Conditional promises to give are not included as contributions until such time as the conditions are substantially met.

Property and equipment

Property and equipment are recorded at cost, or if donated, at estimated value at the time of receipt. Depreciation is computed on the straight-line method over an estimated useful life of five years. Hopalong generally capitalizes assets with an original cost over \$500.

Cash and cash equivalents

Hopalong's cash and cash equivalents balance consists of amounts held in checking and money market fund accounts at two financial institutions. For purposes of the Statement of Cash Flows, Hopalong considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

See auditors' report.

HOPALONG ANIMAL RESCUE

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2005

NOTE B -- Summary of significant accounting policies (continued)

Income taxes

Hopalong is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California. Accordingly, no provision for income taxes has been reflected in these financial statements.

Hopalong has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to deduct the maximum charitable contribution allowed by law.

Donated materials and services

Donated materials and certain contributed services required to be recognized are recorded at their fair value at the date of donation. During the year ended December 31, 2005, significant donated materials and services included animal food and supplies, store window spaces and veterinary services. In addition, a substantial number of individuals have donated significant amounts of their time to foster the animals in Hopalong's care or help them directly or indirectly in other ways. Hopalong considers these resources essential to its mission, as the cost of rescue and prevention work would increase exponentially for Hopalong without the generous dedication of its volunteers. Based on management records, approximately 300 volunteers fostered animals and 275 volunteers provided support in other critical ways. A dollar valuation of their effort is not reflected in the financial statements since it does not meet the criteria for recognition under generally accepted accounting principles. However, management estimates the value of volunteer services for fostering dogs and cats to be approximately \$1,224,000 and other volunteer hours for transportation, shelter, office support, grooming, etc. to be approximately \$221,000. These estimates are based in part on the Independent Sectors Annual Research study that determines a dollar value per volunteer hour.

Use of estimates

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

See auditors' report.

HOPALONG ANIMAL RESCUE

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2005

NOTE B -- Summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing various program services and supporting activities of Hopalong are shown on the Statement of Functional Expenses. Expenses that can be identified with a specific program are allocated directly to the function benefited. Certain costs such as occupancy, office supplies, telephone and others have been allocated among the program services and supporting activities benefited based on management's estimate.

NOTE C -- Investments

The investments are managed on a discretionary basis by a professional investment management firm on the basis of an investment policy statement adopted by the Board of Directors.

Hopalong maintains accounts with Charles Schwab. Investments consist mainly of mutual funds carried at fair value. As of December 31, 2005, the investments are as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Bond funds	\$ 356,068	\$ 353,601	\$ (2,467)
Equity funds	<u>530,909</u>	<u>646,622</u>	<u>115,713</u>
Total investments	<u>\$ 886,977</u>	<u>\$ 1,000,223</u>	113,246
Unrealized gain in prior years			<u>114,246</u>
Unrealized loss during the year ended December 31, 2005			<u>\$ (1,000)</u>

The components of investment income are as follows:

Dividend and capital gain distribution income	\$ 67,876
Investment fee	<u>(11,754)</u>
Investment income, net of investment fee	<u>\$ 56,122</u>

See auditors' report.

HOPALONG ANIMAL RESCUE

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2005

NOTE D -- Retirement plan

Hopalong provides retirement benefits to its qualifying employees who have one year of service and are twenty-one years of age or older. Hopalong contributes five percent of each eligible employee's gross salary to the retirement plan. All contributions are fully vested. Hopalong contributed \$10,814 for the year ended December 31, 2005.

NOTE E -- Commitments and contingencies

Hopalong leases its office facilities in Oakland, California under an operating lease expiring September 30, 2007. Future minimum payments required under the lease are as follows:

<u>Years Ending December 31,</u>	
2006	\$ 36,000
2007	<u>27,000</u>
	<u>\$ 63,000</u>

NOTE F -- Concentration of credit risk

Cash and cash equivalents along with investments are financial instruments which potentially subject Hopalong to a concentration of credit risk. Cash, cash equivalents and investments in the financial institutions' accounts may, at times, exceed federally insured limits provided by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). Hopalong has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

NOTE G -- Subsequent event

In February 2006, Hopalong prepared to file an Agreement of Merger with Second Chance Rescue of Marin with the California Secretary of State following approval of the merger by both organizations' Boards of Directors. Second Chance Rescue has been a respected and frequent partner in animal rescue and welfare activities with Hopalong in the past, including a joint rescue mission to the Gulf Coast Area last year after hurricanes Katrina and Rita devastated the area. By joining forces, the two organizations are looking to increase their effectiveness in helping to improve the welfare and the lives of companion animals in the Bay Area.

See auditors' report.