



ANIMAL RESCUE FUND OF THE HAMPTONS, INC.

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
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NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Animal Rescue Fund of the Hamptons, Inc.:

We have audited the accompanying financial statements of Animal Rescue Fund of the Hamptons, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to 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.

Auditor's 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 auditor's 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.

NawrockiSmith

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Rescue Fund of the Hamptons, Inc. 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.

Other Matters

Report on Comparative Information

The comparative information presented herein as of and for the year ended December 31, 2015 has been audited by a predecessor auditor. The predecessor auditor expressed an unmodified opinion on the financial statements in their report dated April 22, 2016.

Melville, New York
September 12, 2017

Nawrocki Smith LLP

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,282,048	\$ 2,868,004
Investments	4,555,309	4,106,092
Accounts receivable	27,366	-
Pledges receivable, net of allowance	3,000	3,000
Mortgage receivable, current portion	9,116	8,587
Inventory	<u>67,170</u>	<u>98,970</u>
Total current assets	6,944,009	7,084,653
FIXED ASSETS, net of accumulated depreciation of \$2,504,972 and \$2,251,324, respectively	4,896,331	4,927,952
CONSTRUCTION-IN-PROGRESS	1,707,221	1,518,971
MORTGAGE RECEIVABLE, net of current portion	87,413	96,615
RESTRICTED INVESTMENTS	1,190,000	1,190,000
SECURITY DEPOSITS	<u>6,740</u>	<u>6,740</u>
Total assets	<u>\$ 14,831,714</u>	<u>\$ 14,824,931</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	<u>\$ 203,119</u>	<u>\$ 209,477</u>
Total current liabilities	<u>203,119</u>	<u>209,477</u>
NET ASSETS:		
Unrestricted:		
Designated for fixed assets and construction-in-progress	6,603,552	6,446,923
Board designated for ARF Securing Our Future Campaign	4,527,411	5,048,393
Board designated for land planning fund	1,194,146	1,302,237
Board designated for capital expenditures	255,748	5,733
Undesignated	<u>752,078</u>	<u>424,820</u>
Total unrestricted	<u>13,332,935</u>	<u>13,228,106</u>
Temporarily restricted	105,660	197,348
Permanently restricted	<u>1,190,000</u>	<u>1,190,000</u>
Total net assets	<u>14,628,595</u>	<u>14,615,454</u>
Total liabilities and net assets	<u>\$ 14,831,714</u>	<u>\$ 14,824,931</u>

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT:								
Contributions	\$ 2,174,938	\$ -	\$ -	\$ 2,174,938	\$ 2,392,981	\$ 48,250	\$ -	\$ 2,441,231
Special events, net of direct expenses	599,488	-	-	599,488	792,626	-	-	792,626
Donated goods	438,100	-	-	438,100	553,048	-	-	553,048
Calendar sales, net of cost of goods sold	53,326	-	-	53,326	73,203	-	-	73,203
Total public support	3,265,852	-	-	3,265,852	3,811,858	48,250	-	3,860,108
REVENUES:								
Adoptions	247,324	-	-	247,324	201,933	-	-	201,933
Obedience training	72,960	-	-	72,960	53,180	-	-	53,180
Operation Cat	22,660	-	-	22,660	21,795	-	-	21,795
Investment income (loss)	433,335	-	-	433,335	(122,914)	(119,119)	-	(242,033)
Other income	19,733	-	-	19,733	15,468	-	-	15,468
Total revenues	796,012	-	-	796,012	169,462	(119,119)	-	50,343
Total public support and revenues	4,061,864	-	-	4,061,864	3,981,320	(70,869)	-	3,910,451
EXPENSES:								
Program services	3,058,628	-	-	3,058,628	2,554,314	-	-	2,554,314
Management and general	499,682	-	-	499,682	433,908	-	-	433,908
Fundraising	490,413	-	-	490,413	439,059	-	-	439,059
Total expenses	4,048,723	-	-	4,048,723	3,427,281	-	-	3,427,281
Excess (deficiency) of revenues over (under) expenses	13,141	-	-	13,141	554,039	(70,869)	-	483,170
Net assets released from restrictions	91,688	(91,688)	-	-	54,161	(54,161)	-	-
CHANGE IN NET ASSETS	104,829	(91,688)	-	13,141	608,200	(125,030)	-	483,170
NET ASSETS, BEGINNING OF YEAR	13,228,106	197,348	1,190,000	14,615,454	12,619,906	322,378	1,190,000	14,132,284
NET ASSETS, END OF YEAR	\$ 13,332,935	\$ 105,660	\$ 1,190,000	\$ 14,628,595	\$ 13,228,106	\$ 197,348	\$ 1,190,000	\$ 14,615,454

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,409,711	\$ 144,585	\$ 253,025	\$ 1,807,321	\$ 1,094,693	\$ 112,276	\$ 196,483	\$ 1,403,452
Animal supplies	400,035	-	-	400,035	316,404	-	-	316,404
Employee benefits	250,503	25,693	44,961	321,157	146,982	15,075	26,381	188,438
Depreciation	215,600	25,365	12,683	253,648	201,759	23,736	11,868	237,363
Payroll taxes	144,578	14,829	25,950	185,357	112,103	11,498	20,121	143,722
Miscellaneous	96,274	70,394	7,701	174,369	108,751	79,517	8,699	196,967
Medical	129,952	-	-	129,952	135,836	-	-	135,836
Repairs and maintenance	81,762	-	26,723	108,485	54,944	-	17,958	72,902
Insurance	16,329	85,755	-	102,084	10,755	56,483	-	67,238
Advertising	76,402	-	7,599	84,001	96,629	-	9,611	106,240
Utilities	46,133	15,858	10,091	72,082	38,490	13,231	8,419	60,140
Education	57,750	-	-	57,750	58,591	-	-	58,591
Professional fees	-	51,796	-	51,796	-	51,675	-	51,675
Contracted services	-	-	45,991	45,991	-	-	71,549	71,549
Operation Cat	45,044	-	-	45,044	72,794	-	-	72,794
Licenses and fees	1,443	38,685	-	40,128	1,506	40,373	-	41,879
Transportation	32,028	-	4,211	36,239	30,728	-	4,040	34,768
Printing and postage	17,608	-	15,552	33,160	32,254	-	28,489	60,743
Thrift shop commissions	-	-	25,774	25,774	-	-	20,500	20,500
Equipment	19,990	4,024	-	24,014	13,278	2,673	-	15,951
Office supplies	1,139	12,389	9,436	22,964	1,514	16,472	12,546	30,532
Telephone and internet	14,395	715	716	15,826	24,086	-	2,395	26,481
Dues and subscriptions	1,952	9,594	-	11,546	2,217	10,899	-	13,116
Total	\$ 3,058,628	\$ 499,682	\$ 490,413	\$ 4,048,723	\$ 2,554,314	\$ 433,908	\$ 439,059	\$ 3,427,281

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 13,141	\$ 483,170
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	253,648	237,363
Unrealized (gain) loss on investments	(406,781)	577,958
Realized gain on investments	(450)	(76,694)
Increase in accounts receivable	(27,366)	-
Decrease in pledges receivable, net of allowance	-	8,750
(Increase) decrease in inventory	31,800	(41,099)
Decrease in prepaid expenses and other current assets	-	3,098
Decrease in accounts payable and accrued expenses	(6,358)	(36,263)
	<u>(142,366)</u>	<u>1,156,283</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments on mortgage receivable	8,673	8,169
Purchase of investments	(603,395)	(977,944)
Sale of investments	561,409	1,386,739
Purchase of fixed assets	(410,277)	(1,020,136)
	<u>(443,590)</u>	<u>(603,172)</u>
Net cash used by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(585,956)	553,111
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,868,004</u>	<u>2,314,893</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,282,048</u>	<u>\$ 2,868,004</u>

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

ANIMAL RESCUE FUND OF THE HAMPTONS, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Nature of organization

The Animal Rescue Fund of the Hamptons, Inc. ("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.

(2) Summary of significant accounting policies:

The accompanying financial statements include the assets, liabilities, revenues and expenses of ARF. The following is a summary of significant accounting policies followed by ARF.

Financial statement presentation -

The accompanying financial statements are generally presented under the accrual basis of accounting, and include the accounts of ARF's programs, administration and fundraising. ARF presents its financial statements in accordance with U.S. generally accepted accounting principles that require ARF's financial statements distinguish between unrestricted, temporarily restricted, and permanently restricted net assets and changes in net assets. ARF's net assets consist of the following:

Unrestricted - net assets which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of ARF.

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 and Changes in Net Assets as net assets released from restrictions.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained in perpetuity 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.

ARF follows U.S. generally accepted accounting principles regarding Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and Enhanced Disclosures for All Endowment Funds, which require a portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets to be classified as temporarily restricted net assets until appropriated for expenditure.

As required by U.S. generally accepted accounting principles, ARF has also presented Statements of Cash Flows for the years ended December 31, 2016 and 2015.

Revenue and expense 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. 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 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.

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, have been offset against the revenue earned in the Statements of Activities and Changes in Net Assets. 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.

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets and the Statements of 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.

Cash and cash equivalents -

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents, including money market funds.

Investments -

Investments are stated at fair value for the period presented. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") on fair value measurements also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Inventory -

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

Fixed assets -

Fixed assets are capitalized at cost or, if donated, at fair market value as of the date of receipt. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

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

Impairment of long-lived assets and long-lived assets to be disposed of -

ARF follows the provisions of the FASB ASC on accounting for the impairment or disposal of long-lived assets which require that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. These principles did not have a material impact on the ARF's financial position, results of activities or liquidity during the years ended December 31, 2016 and 2015.

Conditional asset retirement obligations -

The FASB ASC on accounting for conditional asset retirement and environmental obligations requires ARF to recognize a liability for the fair value of its legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. As of December 31, 2016 and 2015, ARF has met the provisions of and is in compliance with these requirements and no obligation currently exists.

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.

Income taxes -

ARF qualifies as a tax exempt not-for-profit organization under Internal Revenue Code ("IRC") Section 501(c)(3) and applicable New York State tax laws. Accordingly, no provision for federal or state income taxes is required.

Uncertainty in income taxes -

ARF has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by the applicable taxing authorities.

The use of estimates in preparation of financial statements -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

(3) Fair value measurement:

The FASB Fair Value Measurement standard clarifies the definition of fair value for financial reporting, establishes framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. ARF has adopted the standard for its financial assets and liabilities measured on a recurring and nonrecurring basis.

Fair Value Measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reported entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following methods and assumptions were used by ARF in addressing the fair value of financial instruments:

Cash and cash equivalents -

The carrying amounts reported in the Statements of Financial Position for cash and cash equivalents approximate those assets' fair values (which include money market funds).

Mutual funds -

Mutual funds consist primarily of equities, bonds and U.S. government securities.

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

ARF's financial instruments consist of mutual funds only. The fair value and historical cost of ARF's mutual funds as of December 31, 2016 and 2015 were as follows:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 5,745,309	\$ 5,612,434	\$ 5,296,092	\$ 5,441,086

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain 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 and Changes in Net Assets for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividend income	\$ 26,104	\$ 259,231
Realized gain	450	76,694
Unrealized gain (loss)	406,781	(577,958)
Total investment income (loss)	\$ 433,335	\$ (242,033)

(4) Fixed assets and construction-in-progress

Fixed assets as of December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Land	\$ 384,432	\$ 384,432
Buildings and improvements	6,273,387	6,230,844
Equipment and fixtures	216,664	176,795
Vehicles	526,820	387,205
	7,401,303	7,179,276
Less: Accumulated depreciation	2,504,972	2,251,324
Net fixed assets	\$ 4,896,331	\$ 4,927,952

Construction-in-progress pertains to renovations to the adoption building medical wing and for the construction of the training building and the cat and dog sanctuary buildings.

(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 2016 and 2015, ARF received \$438,100 and \$553,048, respectively, in donated items. 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, are either 3% or 5% of the weekly gross sales, net of sales tax. For the years ended December 31, 2016 and 2015, \$25,774 and \$20,500, respectively, was paid out in commissions.

(6) 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, 2016 and 2015 was \$96,529 and \$105,202, respectively. ARF is collecting monthly installments of \$1,229, including interest of 6%, with satisfaction of the mortgage in June 2025 or when the mortgage 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:

<u>Years Ending</u> <u>December 31,</u>	<u>Amount</u>
2017	\$ 9,116
2018	9,679
2019	10,276
2020	10,909
2021	11,582
Thereafter	44,967
	<u>\$ 96,529</u>

(7) Temporarily and permanently restricted net assets

Temporarily restricted net assets are available for or related to the following purposes:

	<u>2016</u>	<u>2015</u>
Sampson mortgage receivable	\$ 96,529	\$ 105,202
PUP program	9,131	6,082
To support ARF Endowment Fund	-	3,025
To support ARF programs	-	34,789
Medical wing renovations	-	48,250
	<u>\$ 105,660</u>	<u>\$ 197,348</u>

ARF has permanently restricted funds, the principal of which is restricted by the donors in perpetuity. Under the terms of the restriction, ARF can use the investment income for program and general operating expenses. ARF had the following permanently restricted funds as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
ARF Endowment Fund	\$ 1,000,000	\$ 1,000,000
Vandivert Fund	140,000	140,000
PUP program	<u>50,000</u>	<u>50,000</u>
	<u>\$ 1,190,000</u>	<u>\$ 1,190,000</u>

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 applicable law requires ARF to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016 and 2015.

ARF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift.

The UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, ARF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The changes in endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 1,190,000	\$ 1,190,000
Interest and dividends	26,104	-
Net investment loss	407,231	-
Transfers, net	<u>(433,335)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 1,190,000</u>	<u>\$ 1,190,000</u>

(8) 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, 2016 and 2016, ARF incurred 401(k) match expenses of \$50,746 and \$36,251, respectively. These amounts are included in employee benefits in the Statements of Functional Expenses.

(9) Concentrations of risk

ARF maintains cash and investments in several bank accounts which are insured by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"). From time to time, ARF may have cash on deposits with financial institutions that are in excess of FDIC and SIPC limits. ARF has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(10) Subsequent events

ARF has evaluated subsequent events through September 12, 2017, which is the date these financial statements were available to be issued, noting no matters which require disclosure in the financial statements.