

LIFESAVERS, INC.

FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	4 - 5
Statements of Activities	6
Statements of Functional Expenses.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9 - 15

COBB, DOERFLER & ASSOCIATES, CPA
A PROFESSIONAL CORPORATION
1039 WEST AVENUE J
LANCASTER, CALIFORNIA 93534

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Lifesavers, Inc.
Lancaster, California

We have audited the accompanying financial statements of Lifesavers, Inc. (a nonprofit California corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 the 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 Lifesavers, Inc. as of June 30, 2016 and 2015, 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.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA
January 9, 2017

LIFESAVERS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash	\$ 294,124	\$ 570,629
Accounts receivable	1,050	-0-
Inventory	19,944	20,064
Prepaid expenses	23,559	12,550
Employee advances	<u>-0-</u>	<u>396</u>
 Total Current Assets	 <u>338,677</u>	 <u>603,639</u>
 PROPERTY, PLANT AND EQUIPMENT		
Land	1,840,581	1,840,581
Buildings and improvements	1,734,252	1,715,693
Machinery and equipment	448,851	389,715
Office equipment	14,632	14,099
Furniture and fixtures	21,358	22,608
Horse equipment	8,198	8,198
Accumulated depreciation	<u>(1,135,200)</u>	<u>(1,035,113)</u>
 Total Plant and Equipment	 <u>2,932,672</u>	 <u>2,955,781</u>
 Total Assets	 <u>\$ 3,271,349</u>	 <u>\$ 3,559,420</u>

LIFESAVERS, INC.
STATEMENTS OF FINANCIAL POSITION - continued
June 30, 2016 and 2015

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Notes payable	\$ 61,932	\$ 58,057
Accounts payable	143,828	113,191
Accrued payroll	5,522	13,159
Accrued vacation	2,809	3,231
Payroll taxes and related liabilities payable	<u>2,550</u>	<u>1,463</u>
 Total Current Liabilities	 <u>216,641</u>	 <u>189,101</u>
 LONG TERM LIABILITIES		
Notes payable	<u>277,544</u>	<u>339,476</u>
 Total Long Term Liabilities	 <u>277,544</u>	 <u>339,476</u>
 Total Liabilities	 <u>494,185</u>	 <u>528,577</u>
 NET ASSETS		
Unrestricted	<u>2,777,164</u>	<u>3,030,843</u>
 Total Net Assets	 <u>2,777,164</u>	 <u>3,030,843</u>
 Total Liabilities and Net Assets	 <u>\$ 3,271,349</u>	 <u>\$ 3,559,420</u>

LIFESAVERS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	For the Year Ended June 30, 2016			For the Year Ended June 30, 2015		
	Unrestricted	Temporarily		Unrestricted	Temporarily	
		Restricted	Total		Restricted	Total
SUPPORT AND REVENUES						
Contributions - direct mailing	\$ 1,169,471	\$ -0-	\$ 1,169,471	\$ 1,359,155	\$ -0-	\$ 1,359,155
Contributions - other	836,416	41,870	878,286	1,365,796	140,339	1,506,135
Program revenues	3,625	-0-	3,625	24,328	-0-	24,328
Dividends and interest	30	-0-	30	3,174	-0-	3,174
Gain on sale of fixed assets	-0-	-0-	-0-	(69,644)	-0-	(69,644)
Miscellaneous	4,588	-0-	4,588	4,246	-0-	4,246
Release of restricted net assets	41,870	(41,870)	-0-	140,339	(140,339)	-0-
	<u>2,056,000</u>	<u>-0-</u>	<u>2,056,000</u>	<u>2,827,394</u>	<u>-0-</u>	<u>2,827,394</u>
EXPENSES AND LOSSES						
Program services	1,586,977	-0-	1,586,977	1,567,587	-0-	1,567,587
Support services						
Management and general	215,862	-0-	215,862	166,767	-0-	166,767
Fundraising	504,956	-0-	504,956	400,335	-0-	400,335
	<u>2,307,795</u>	<u>-0-</u>	<u>2,307,795</u>	<u>2,134,689</u>	<u>-0-</u>	<u>2,134,689</u>
Loss on disposal of fixed assets	1,884	-0-	1,884	-0-	-0-	-0-
	<u>1,884</u>	<u>-0-</u>	<u>1,884</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenses and Losses	<u>2,309,679</u>	<u>-0-</u>	<u>2,309,679</u>	<u>2,134,689</u>	<u>-0-</u>	<u>2,134,689</u>
Increase (Decrease) in Net Assets	(253,679)	-0-	(253,679)	692,705	-0-	692,705
Net Assets - beginning	2,950,399	-0-	2,950,399	2,257,694	-0-	2,257,694
Net Assets - ending	<u>\$ 2,696,720</u>	<u>\$ -0-</u>	<u>\$ 2,696,720</u>	<u>\$ 2,950,399</u>	<u>\$ -0-</u>	<u>\$ 2,950,399</u>

LIFESAVERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015 (Restated)

	2016				2015 (Restated)			
	Support Services				Support Services			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Officer salary	\$ 26,960	\$ 26,960	\$ 13,479	\$ 67,399	\$ 29,152	\$ 29,152	\$ 14,576	\$ 72,880
Other salaries and wages	288,845	39,274	-0-	328,119	191,721	27,148	-0-	218,869
Employee benefits	<u>117,826</u>	<u>29,456</u>	<u>7,752</u>	<u>155,034</u>	<u>61,463</u>	<u>15,667</u>	<u>4,056</u>	<u>81,186</u>
Total Salaries and Related Costs:	433,631	95,690	21,231	550,552	282,336	71,967	18,632	372,935
Direct mail expense	261,812	18,864	419,620	700,296	367,800	38,322	329,477	735,599
Feed	469,588	-0-	-0-	469,588	452,496	-0-	-0-	452,496
Rescue expenses	12,749	-0-	-0-	12,749	63,337	-0-	-0-	63,337
Depreciation	97,170	15,818	-0-	112,988	95,319	15,112	-0-	110,431
Veterinarian expenses	15,976	-0-	-0-	15,976	24,441	-0-	-0-	24,441
Horse transportation	1,100	-0-	-0-	1,100	1,056	-0-	-0-	1,056
Facility lease	3,087	-0-	-0-	3,087	6,550	-0-	-0-	6,550
Interest	31,718	-0-	-0-	31,718	33,822	-0-	-0-	33,822
Meals and travel	9,289	2,158	-0-	11,447	9,044	2,163	-0-	11,207
Auto and trailer expenses	30,857	13,224	-0-	44,081	7,904	3,387	-0-	11,291
Office expense	28,552	12,236	-0-	40,788	21,520	9,223	-0-	30,743
Other fundraising expenses	-0-	-0-	64,105	64,105	-0-	-0-	52,226	52,226
Ranch maintenance	78,173	-0-	-0-	78,173	69,625	-0-	-0-	69,625
Property taxes	7,627	-0-	-0-	7,627	5,301	-0-	-0-	5,301
Insurance	40,035	3,481	-0-	43,516	16,391	1,430	-0-	17,821
Farrier	16,996	-0-	-0-	16,996	30,355	-0-	-0-	30,355
Educational	97	-0-	-0-	97	6,076	-0-	-0-	6,076
Legal and accounting	-0-	32,160	-0-	32,160	-0-	9,196	-0-	9,196
Licenses and fees	-0-	15,646	-0-	15,646	-0-	12,352	-0-	12,352
Security	18,920	-0-	-0-	18,920	-0-	-0-	-0-	-0-
Utilities	14,746	3,686	-0-	18,432	13,820	3,455	-0-	17,275
Wild Horse Warriors program	-0-	-0-	-0-	-0-	28,104	-0-	-0-	28,104
Other expenses	-0-	2,899	-0-	2,899	2,332	160	-0-	2,492
Contributions	500	-0-	-0-	500	25,000	-0-	-0-	25,000
Advertising and promotion	9,795	-0-	-0-	9,795	3,816	-0-	-0-	3,816
Gift shop cost of goods sold	2,148	-0-	-0-	2,148	1,014	-0-	-0-	1,014
Horse equipment	<u>2,411</u>	<u>-0-</u>	<u>-0-</u>	<u>2,411</u>	<u>128</u>	<u>-0-</u>	<u>-0-</u>	<u>128</u>
Total	<u>\$ 1,586,977</u>	<u>\$ 215,862</u>	<u>\$ 504,956</u>	<u>\$ 2,307,795</u>	<u>\$ 1,567,587</u>	<u>\$ 166,767</u>	<u>\$ 400,335</u>	<u>\$ 2,134,689</u>

See accompanying notes and Independent Auditor's Report.

LIFESAVERS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015 (Restated)

	2016	2015 (Restated)
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (253,679)	\$ 692,705
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	112,988	110,431
Miscellaneous (gains) losses	1,884	69,644
In-kind donations	-0-	(134,500)
(Increase) Decrease in assets:		
Accounts receivable	(1,050)	623
Inventory	120	4,659
Contractor and employee advances	396	(305)
Prepaid expenses	(11,009)	(10,710)
Increase (Decrease) in liabilities:		
Accounts payable	30,637	72,732
Payroll taxes payable	1,087	(3,788)
Accrued vacation	(422)	3,231
Accrued payroll	(7,637)	6,083
	<u>(126,685)</u>	<u>810,805</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,640	13,978
Additions to property and equipment	(93,403)	(451,469)
	<u>(91,763)</u>	<u>(437,491)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Repayment of notes payable	(58,057)	(64,624)
	<u>(58,057)</u>	<u>(64,624)</u>
NET INCREASE IN CASH	(276,505)	308,690
CASH AT BEGINNING OF YEAR	<u>570,629</u>	<u>261,939</u>
CASH AT END OF YEAR	<u>\$ 294,124</u>	<u>\$ 570,629</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 31,718	\$ 33,822
Schedule of Noncash Investing and Financing Transactions:		
Repayment of note from proceeds of sale of vehicle	\$ -0-	\$ 39,357
Donation of residence	-0-	134,500
	<u>-0-</u>	<u>173,857</u>
Total Noncash Transactions	<u>\$ -0-</u>	<u>\$ 173,857</u>

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) **Nature of Activities** — Lifesavers, Inc. was formally organized in 1997 and provides refuge, training and adoption placement services for hundreds of horses in need. Lifesavers, Inc. specializes in the rescue of American Mustangs, horses that are the descendants of the horses introduced to the North American continent by early explorers.

Lifesavers, Inc. conducts its operations from two locations, a 46 acre ranch in east Lancaster, California, and a 1,000 acre sanctuary in Twin Oaks, California. The Organization can legally house in excess of 500 horses. Significant sources of revenue include voluntary donations through Lifesavers' direct mail campaign and from various programs. A description of the Organization's various programs can be found in Note B.

- 2) **Method of Accounting** — Lifesavers, Inc. maintains its books on the accrual basis of accounting and, accordingly, reflects all significant receivables, payables, and other liabilities.
- 3) **Basis of Presentation** — The Organization 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. As of June 30, 2016 and 2015, the Organization had no temporarily or permanently restricted net assets.
- 4) **Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- 5) **Cash and Cash Equivalents** — Lifesavers, Inc. considers all cash accounts and highly liquid investments with a maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair market value because of the short maturities of those financial instruments.
- 6) **Accounts Receivable** — Accounts receivable as of June 30, 2016 and 2015 consisted of credit card receivables, pledges receivable, and royalty receivables, and are stated at the amount management expects to collect from outstanding balances. As these balances are expected to be fully collectible within the current period, no allowances for doubtful accounts have been accrued as of June 30, 2016 and 2015, respectively.
- 7) **Inventories** — Inventories are stated at the lower of cost or market determined by the first-in, first-out method. See Note F for further disclosure of the major classes of inventory on hand and their related dollar values as of June 30, 2016 and 2015.
- 8) **Property, Plant and Equipment** — Property and equipment with a value greater than \$400 and a life expectancy greater than one year are capitalized at cost. In the case of donated items, assets are capitalized at fair market value. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Depreciation expense for the years ended June 30, 2016 and 2015 is \$112,988 and \$110,431, respectively.
- 9) **Compensated Absences** — It is the Lifesaver's policy to permit employees to accumulate a limited amount of earned but unused vacation. Any unused vacation is paid to employees upon separation from service. Unused vacation for the years ended June 30, 2016 and 2015 is \$2,809 and \$3,231, respectively.

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- 10) **Donated Services** — No amounts have been reflected in the financial statements for donated services. Lifesavers, Inc. generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Lifesavers with specific programs.
- 11) **Donated Assets** — Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.
- 12) **Expense Allocation** — The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- 13) **Income Taxes** — Lifesavers, Inc. is exempt from Federal and California income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d), respectively.

NOTE B — MAJOR PROGRAMS

The Organization's programs consist of the following:

Sanctuary — Located at Lifesavers' 1,000 acre site in Twin Oaks, California, Sanctuary is intended to provide a permanent, natural habitat home for rescued mustangs. Sanctuary allows many of the Organization's mustangs – those who are less adoptable or not well-suited to life in captivity – to live out their lives in an environment that is as close as possible to freedom on the range.

Healing — Healing programs developed around wild horse gentling are offered to American Veterans who suffer from PTSD and other debilitating war related injuries.

Adoption — Adopters may choose from foals, young mares and geldings, and even trained saddle horses. The Organization's staff works to prepare horses for adoption by first teaching them basic ground skills such as haltering, leading, standing quiet for handling, and trailer loading. Lifesavers helps prospective adopters find the horse that will be right for them, and provides education to ensure that the adopter will be successful with the horse. In the event that an adopter becomes unable to continue caring for their adopted equine, the adopter agrees to return it to Lifesavers; in this way, Lifesavers ensures that none of their rescued horses will need to be rescued a second time.

Though Lifesavers frequently takes in pregnant mares and sometimes has foals available for adoption, Lifesavers is a non-breeding facility and works to educate horse owners about the consequences of unnecessary horse breeding and the resulting "unwanted horse" crisis.

Rescue — Mustangs come to Lifesavers from a variety of sources and for many different reasons. Some come from government agencies responsible for wild horse management, such as the Bureau of Land Management and the Nevada Department of Agriculture. Other horses are surrendered by their owners who had adopted or purchased them and later realize they don't have the time, knowledge or resources to properly train or care for a horse. Many of the horses purchased come from public auctions to prevent them from being purchased by "killer buyers," who buy and sell unwanted horses for meat.

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE B — MAJOR PROGRAMS – continued

Education — In hopes of building a future in which no horse needs to be rescued, Lifesavers offers a number of educational programs and clinics designed to support the horse-owning public. Clinics offered include basic horse care, safe handling, working with obstacles, saddle-starting and overcoming fears, as well as workshops providing an introduction to the concepts and practices of natural horsemanship. Lifesavers also offers Wild Horse Boot Camp, an exciting hands-on experience in which participants learn to safely and effectively gentle, handle and train a wild horse under the supervision and guidance of experienced clinicians.

In addition to these hands-on learning opportunities, Lifesavers occasionally offers free public events such as equine health and safety fairs, natural horse care seminars, open house events and training demonstrations.

NOTE C — CONCENTRATIONS

Cash Balances — Lifesavers, Inc. maintains cash balances at several financial institutions located throughout the country. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 and 2015, the Organization’s uninsured cash balances totaled \$-0- and \$160,900, respectively.

Revenues — During the years ended June 30, 2016 and 2015, Lifesavers derived \$1,169,471 and \$1,359,155 or 57% and 47%, respectively, of its revenues through its direct mail campaign conducted by Fundraising Strategies (see Note L). Any significant interruptions or impairment of campaign revenues would have a significant adverse impact on the Organization.

NOTE D — CASH

Cash consists of the following:

	2016	2015
California Bank & Trust, Savings Account	\$ 139,368	\$ 319,402
California Bank & Trust, General Checking Account	20,154	33,411
California Bank & Trust, Sanctuary Account	29,511	58,087
California Bank & Trust, Saving Builder Account	56,088	-0-
First Virginia Community Bank-Escrow account	44,859	151,653
FRS-Postage account	3,189	1,953
Petty cash	955	5,114
PayPal, General	-0-	1,009
	<u>\$ 294,124</u>	<u>\$ 570,629</u>

At June 30, 2016 and 2015, Lifesavers had \$48,048 and \$153,606 respectively, of contractually restricted cash. The restricted cash is held in an escrow account at the First Virginia Community Bank by the Washington Intelligence Bureau and at various mail houses and is used by Fund Raising Strategies in its direct mail campaign. No amounts were shown as non-current as of June 30, 2016 and 2015, as all funds are expected to be used in the direct mail campaign in the current operating cycle.

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE E — ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2016	2015
Pledges receivable	\$ <u>1,050</u>	\$ <u>-0-</u>
	<u>\$ 1,050</u>	<u>\$ -0-</u>

NOTE F — INVENTORY

Inventory consists of the following:

	2016	2015
Merchandise	\$ 11,051	\$ 11,051
Direct Mail Campaign – general supplies	955	955
Direct Mail Campaign – fulfillment items	<u>7,938</u>	<u>8,058</u>
	<u>\$ 19,944</u>	<u>\$ 20,064</u>

NOTE G — PREPAID EXPENSES

Prepaid expenses consist of the following:

	2016	2015
Prepaid insurance	\$ 23,435	\$ 12,398
Miscellaneous expenses	<u>124</u>	<u>152</u>
	<u>\$ 23,559</u>	<u>\$ 12,550</u>

NOTE H – NOTES PAYABLE

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Luis and Rosalia Aceves – promissory note, monthly principal and interest payments of \$1,809, interest at 7% per annum. Due November 30, 2024. Note is secured by underlying real property.	\$ 17,357	\$ 52,717	\$ 70,074
Charles & Terri Church – promissory note, monthly principal and interest payments of \$1,510, interest at 5% per annum. Due June 1, 2019. Note is secured by underlying real property.	16,018	33,225	49,243
Sequoia Wilderness, LLC – promissory note, monthly interest and principal payments of \$3,584, interest at 7% per annum. Due November 30, 2024. Note is secured by underlying real property.	<u>28,557</u>	<u>191,602</u>	<u>220,159</u>
Total Notes Payable	<u>\$ 61,932</u>	<u>\$ 277,544</u>	<u>\$ 339,476</u>

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE H – NOTES PAYABLE–continued

Maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2017	\$ 61,932
2018	66,070
2019	69,179
2020	49,357
2021	37,754
Thereafter	<u>55,184</u>
	<u>\$ 339,476</u>

NOTE I — ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes during the years ended June 30, 2016 and 2015 as follows:

	2016	2015
Wells	\$ -0-	\$ 20,000
Pavement of new road	30,000	-0-
New truck	-0-	55,000
Wild Horse Warrior	11,870	43,917
Fencing	<u>-0-</u>	<u>21,422</u>
Total Net Assets Released from Restriction	<u>\$ 41,870</u>	<u>\$ 140,339</u>

NOTE J – FACILITY LEASE AGREEMENT

On January 2, 2015, Lifesavers entered into a lease with Lynn Cox to lease a home in Caliente, CA for the purposes of housing the site manager for the Sanctuary program. The lease is a seventeen month lease and under the terms of the lease the monthly lease payments are \$1,000 per month. Total rental expense incurred under the lease during the year ended June 30, 2016 and 2015 is \$5,000 and \$6,000, respectively. As of June 30, 2015 the future expected minimum lease payments for the year ended June 30, 2016 were expected to be \$11,000. However, at the option of the lessor and Lifesavers, the lease was voluntarily terminated prior to the full lease term in October of 2015.

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE K — DIRECT MAIL CAMPAIGN

For the years ended June 30, 2016 and 2015 Lifesavers, Inc. worked with Fundraising Strategies to educate the public and solicit donations using a direct mailing technique. Letters are composed by Jill Starr and Fundraising Strategies, and then distributed to individuals whose names appear on purchased mailing lists. Jill Starr approves all letters and disbursements. Lifesavers, Inc. employed the Washington Intelligence Bureau during the current year to receive and deposit all donations generated by this method.

For the years ended June 30, 2016 and 2015, expenses related to the direct mail campaign totaled \$700,296 and \$735,599 respectively, or 60% and 54% of the total direct mail campaign contribution revenue. Net contributions received from this fundraising operation were \$469,175 and \$623,556, respectively, for the years ended June 30, 2016 and 2015. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis

Since the goals of the Organization's direct mail campaign are both educational and fundraising in nature, the costs of conducting these campaigns are considered joint costs that are not directly attributable to either the program or the fundraising component of the activities. Those joint costs were allocated as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Program Services	\$ 261,812	\$ 367,800
Management and General	18,864	38,322
Fundraising	<u>419,620</u>	<u>329,477</u>
	<u>\$ 700,296</u>	<u>\$ 735,599</u>

NOTE L — ADVERTISING

Lifesavers, Inc. uses advertising to promote its horse rescue program among the audiences it serves. The production costs of advertising are expensed as incurred. During 2016 and 2015, advertising costs totaled \$9,795 and \$3,816, respectively.

NOTE M — RELATED PARTY DISCLOSURES

Jill Starr as the Founder, President and Executive Director years resided for 17 years at her personal ranch in Lancaster, CA and ran the operations of Lifesavers, Inc. from there until 2006 when Jill Starr sold her personal ranch to Lifesavers, Inc. at fair market value and relocated her residence to Caliente, California. Since her move, Lifesavers, Inc. has developed a secondary operating location there that is intended to allow wild horses to live in a natural habitat.

From 2006 through May of 2015, Jill traveled back and forth between Lifesavers properties, which are 103 miles apart. When Jill was at the Lancaster property overseeing its operations, she would stay at the ranch there in order to save the cost on lodging. She also worked out of the office located on the property. When she would return to Caliente, California where the Sanctuary operation is, Jill resided and worked out of her own home.

Additionally, company vehicles have been in use since the beginning of the organization as ranch vehicles and are used for hauling hay, horses, and equipment. Consequently, through September of 2015 there was always a town vehicle available for Jill to use for errands such as banking, small item transport, and for travel between both Lifesavers' locations.

LIFESAVERS, INC.
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2016 and 2015

NOTE M — RELATED PARTY DISCLOSURES – continued

On February 9, 2008, the board voted to hire Karen Fromel, a Director on the board and sister of the President Jill Starr, as the organization’s grant writer. In her capacity as the Director of Development and as the Grant Writer, Karen has raised hundreds of thousands of dollars in grant awards for Lifesavers. During 2015 Karen also became the President of Lifesavers, and acted as the interim Executive Director of Lifesavers during a portion of the 2015-16 fiscal year. As compensation for her services during the years ended June 30, 2016 and 2015, she received \$63,177 and \$55,921, respectively, in compensation for services provided to the Organization. As of June 30, 2016, her annual salary was set at \$64,000.

NOTE N — SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 9, 2017, the date the financial statements were available to be issued. During this review no subsequent events were noted.

NOTE O – RESTATEMENT

In the year ended June 30, 2015, Lifesavers sold property previously purchased in South Dakota due to its decision to discontinue operations in that state. However, due to an accounting error, the sale of the property was not properly recorded in the year of the sale resulting in the overstatement of Land on the Statement of Financial Position and in the understatement of losses on the sale of the property in the Statement of Activities. Accordingly, adjustments were made in the current period to reflect the sale in the financial statements for the year ended June 30, 2015 as follows:

Statement of Financial Position:

Land – Before Adjustment	\$ 1,840,581
Adjustment to Record Sale of Property	<u>(80,444)</u>
Land – After Adjustment	<u>\$ 1,760,137</u>

Statement of Activities:

Gain on sale of Fixed Assets – Before Adjustment	\$ 10,800
Adjustment to Record Sale of Property	<u>(80,444)</u>
Gain on sale of Fixed Assets – After Adjustment	<u>\$ (69,644)</u>