

CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)
REVIEWED FINANCIAL STATEMENTS
December 31, 2005 and 2004

**CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)**

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ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Capistrano Animal Rescue Effort
(A Not-For-Profit Organization)
San Juan Capistrano, California

We have reviewed the accompanying statements of financial position of Capistrano Animal Rescue Effort (a nonprofit organization) as of December 31, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Capistrano Animal Rescue Effort.

A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Flores & Johnston, CPAs
An Accountancy Corporation

Dana Point, California
May 11, 2006

**CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 157,148	\$ 216,068
Short-term investments	101,561	-
Total Current Assets	<u>258,709</u>	<u>216,068</u>
Property, Plant and Equipment		
Capitalized new shelter costs	10,116	7,656
Accumulated depreciation	-	-
Total Property, Plant and Equipment	<u>10,116</u>	<u>7,656</u>
Total Assets	\$ <u>268,825</u>	\$ <u>223,724</u>
Liabilities and Net Assets		
Total Liabilities	\$ -	\$ -
Net Assets		
Unrestricted		
Undesignated - Prior Periods	223,724	178,027
Undesignated - Current Period	45,101	45,697
Temporarily restricted	-	-
Permanently restricted	-	-
Total Net Assets	<u>268,825</u>	<u>223,724</u>
Total Liabilities and Net Assets	\$ <u>268,825</u>	\$ <u>223,724</u>

The accompanying notes and accountants' review report
are an integral part of these financial statements.

**CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains, and Other				
Contributions				
Adoption fees	\$ 16,437	\$ -	\$ -	\$ 16,437
Bricks	600	-	-	600
Investment return	1,096	-	-	1,096
Fundraising	57,569	-	-	57,569
Gifts	30,268	-	-	30,268
Membership and dues	8,341	-	-	8,341
Merchandise sales	845	-	-	845
Other	1,082	-	-	1,082
	116,238	-	-	116,238
Expenses				
Program services	50,796	-	-	50,796
Supporting services:				
Management and general	2,710	-	-	2,710
Fundraising	17,631	-	-	17,631
	71,137	-	-	71,137
Total Expenses	71,137	-	-	71,137
Change in net assets, monetary	45,101	-	-	45,101
In-Kind Transactions				
Revenues, Gains, and Other				
Contributed services	-	-	120,000	120,000
Expenses				
Program services from	-	-	120,000	120,000
Change in net assets, in-kind	-	-	-	-
Total change on net assets	45,101	-	-	45,101
Net assets, beginning of period	223,724	-	-	223,724
Net assets, end of period	\$ 268,825	\$ -	\$ -	\$ 268,825

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**CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other				
Contributions				
Adoption fees	\$ 14,985	\$ -	\$ -	\$ 14,985
Bricks	4,050	-	-	4,050
Investment return	1,257	-	-	1,257
Fundraising	48,277	-	-	48,277
Gifts	23,236	-	-	23,236
Membership and dues	5,200	-	-	5,200
Merchandise sales	816	-	-	816
Other	5,239	-	-	5,239
	103,060	-	-	103,060
Expenses				
Program services	39,973	-	-	39,973
Supporting services:				
Management and general	2,809	-	-	2,809
Fundraising	14,581	-	-	14,581
	57,363	-	-	57,363
Total Expenses	57,363	-	-	57,363
Change in net assets	45,697	-	-	45,697
Net assets, beginning of period	178,027	-	-	178,027
Net assets, end of period	\$ 223,724	\$ -	\$ -	\$ 223,724

The accompanying notes and accountants' review report
are an integral part of these financial statements.

**CAPISTRANO ANIMAL RESCUE EFFORT
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2005**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 200	\$ 200
Animal care	17,359	-	-	17,359
Animal shelter costs	3,232	-	-	3,232
Bank card refund	-	40	-	40
Bank charges	-	320	-	320
Credit card fees	-	65	-	65
Donations	-	-	25	25
Event expense	274	-	16,156	16,430
Insurance	-	2,013	-	2,013
Laboratory costs	2,456	-	-	2,456
Mailing	805	93	27	925
Pet supplies and services	24,935	-	-	24,935
Promotional	-	-	249	228
Refund	-	-	20	20
Sales tax	-	-	12	12
Subscriptions	-	20	-	20
Supplies	322	37	11	370
T-shirts	-	-	885	885
Tax	-	-	10	10
Utilities	788	91	27	906
Volunteer services	355	-	-	355
Water	270	31	9	310
TOTAL	\$ <u>50,796</u>	\$ <u>2,710</u>	\$ <u>17,631</u>	\$ <u>71,137</u>

The accompanying notes and accountants' review report
are an integral part of these financial statements.

CAPISTRANO ANIMAL RESCUE EFFORT
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2004

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	-	-	280	280
Animal care	14,381	-	-	14,381
Animal shelter costs	490	-	-	490
Bank card refund	-	40	-	40
Bank charges	-	1,369	-	1,369
Credit card fees	-	178	-	178
Donations	-	-	100	100
Event expense	-	-	13,324	13,324
Insurance	-	961	-	961
Laboratory costs	996	-	-	996
Licenses and fees	1,092	-	-	1,092
Mailing	118	14	4	136
Medical	300	-	-	300
Membership	-	-	100	100
Pet supplies and services	20,645	-	-	20,645
Postage	689	79	24	792
Printing	-	63	63	126
Sales tax	-	-	565	565
Supplies	86	10	3	99
T-shirts	-	-	80	80
Tax	-	-	10	10
Utilities	361	41	12	414
Volunteer services	348	-	-	348
Water	467	54	16	537
TOTAL	\$ 39,973	\$ 2,809	\$ 14,581	\$ 57,363

The accompanying notes and accountants' review report
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CAPISTRANO ANIMAL RESCUE EFFORT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 45,101	\$ 45,697
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
(Increase)/decrease in operating assets		
Other assets	<u>-</u>	<u>-</u>
Net Cash Provided By Operating Activities	45,101	45,697
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	(101,561)	(7,656)
Payments for new shelter costs		
Other	<u>(2,460)</u>	<u>10,082</u>
Net Cash (Used By) Investing Activities	<u>(104,021)</u>	<u>2,426</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(58,920)	48,123
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>216,068</u>	<u>167,945</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>157,148</u>	\$ <u>216,068</u>

The accompanying notes and accountants' review report are an integral part of these financial statements.

CAPISTRANO ANIMAL RESCUE EFFORT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Capistrano Animal Rescue Effort ("the Organization") was incorporated in the State of California as a nonprofit public benefit corporation on August 16, 2000 with its' office located at 31681 El Camino Real, San Juan Capistrano, California. The Organization provides charitable and educational assistance to the general public by establishing and maintaining a facility for the pro-humane care and treatment of the domestic animals of the surrounding area. In addition, the Organization provides shelter and medical care for stray, abandoned or owner relinquished animals. The organization's mission is to protect the welfare and promote the humane treatment of animals and provide qualified adoptive homes for the homeless domestic animals in their care.

Basis of Accounting

The financial statements of the Organization have been prepared on the modified cash basis of accounting. Accordingly, revenue and support is recorded when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

The Organization capitalizes all property and equipment costing over \$1,000 if purchased, and a fair value of \$1,000 at date of donation if received by contribution. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, 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. Accordingly, the Organization's net assets have been grouped into the following classes:

Permanently restricted net assets - Contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that the resources must be maintained permanently by the Organization.

Temporarily restricted net assets - Contributions and other inflows whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization, such as usage for specific programs.

See accountants' review report.

CAPISTRANO ANIMAL RESCUE EFFORT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Unrestricted net assets - Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income, and other inflows of assets whose use by the Organization is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors of the Organization in agreement with any use restrictions as certain property and equipment needed by the Organization for operations of its chartered purpose.

Expense Allocation / Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. A description of the various categories of functional expenses is noted is as follows:

- Program Services generally include goods and services distributed to beneficiaries, customers, or members to fulfill the purpose a mission of the organization.
- Management and General activities include general oversight, business management, general record keeping, budgeting, finance and other management and administrative activities.
- Fund Raising activities include publicizing and conducting fund-raising campaigns, maintaining donor mailing lists, conducting special fund-raising events, preparing and distributing activities involved in the solicitation of contributions from individuals, foundations, government agencies, etc.

Contributions

Under SFAS No. 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Income Taxes

The Organization is a not-for-profit organization exempt from federal and state income taxes under 501(c)(3) of the Internal revenue Code and California Revenue and Taxation Code Section 23701d. Income from normal operations is exempt from tax under except for unrelated business income which is taxable to the organization. For the year ended December 31, 2005, the Organization did not have any unrelated business income.

See accountants' review report.

**CAPISTRANO ANIMAL RESCUE EFFORT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004**

Investments

Under SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

NOTE 2 - CASH

The Organization believes that it is not in any significant credit risk on cash. The Organization maintains several bank accounts which, at times, may exceed the federally insured limit of \$100,000. At December 31, 2005 and 2004, the amount in excess of the federal limit was approximately \$1,056 and \$1,199 respectively. Since its inception, the Organization has not experienced any losses as a result of such balances.

Cash and cash equivalents at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
Cash - checking	\$ 66,030	\$ 24,485
Certificates of deposit	80,906	181,482
Money market funds	<u>10,212</u>	<u>10,101</u>
Total	<u>\$157,148</u>	<u>\$216,068</u>

NOTE 3 - INVESTMENTS

The Organization held \$101,561 at December 31, 2005 in certificates of deposit with original maturity dates of greater than three months. Short-term investments are stated at fair value.

Investment return consisted of interest and dividends received on the organizations' investments in cash and cash equivalents and certificates of deposit with maturities greater than three months. Investment return from interest and dividends at December 31, 2005 and 2004 were \$1,096 and \$1,257 respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

As of December 31, 2005, the Company incurred and capitalized "New Shelter Costs" in the amount of \$10,116 which consists primarily of planning and grading. Accordingly, no depreciation expense was recorded for 2005 since the costs relate to preparing land for development and the shelter has not been placed in service.

See accountants' review report.

**CAPISTRANO ANIMAL RESCUE EFFORT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004**

Property and equipment consist of the following:

	2005	2004
Capitalized new shelter costs	\$ <u>10,116</u>	\$ <u>7,656</u>

NOTE 5 – NEW ANIMAL CARE SHELTER FACILITY

The organization is currently constructing a new facility at an estimated total cost of approximately \$700,000. As of December 31, 2005, the estimated additional cost to complete the facility is approximately \$570,000. Actual costs incurred as of December 31, 2005 are \$10,116 with approximately \$120,000 in volunteer “in-kind” services consisting primarily of grading and fencing. The shelter is scheduled to be completed in mid to late 2007.

NOTE 6 - DESCRIPTION OF LEASING ARRANGEMENTS

The organization has negotiated the ground lease for its’ new facility at a rate of \$1 per year for the next 30 years. The organization’s management and operations facilities are currently provided by a member of the organization at no cost on a month-to-month basis. The fair value of the contributed office space was not estimated nor recognized in the financial statements of the organization as contributions due to the fact that it did not qualify for recognition under SFAS No. 116.

NOTE 7 – CONTRIBUTED “IN-KIND” SERVICES

Contributed “In-Kind” services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization.

The value of “In-Kind” services contributed to the organization and recorded as contributions in the financial statements for the year ended December 31, 2005 is estimated to be \$120,000 for grading and fencing services related to the new shelter facility.

Numerous volunteers have donated significant amounts of time to the organization’s program services and animal care assistance that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

NOTE 8 – REVENUES, GAINS, AND OTHER SUPPORT

The Organization receives various items of support including, but limited to, adoption fees, fundraising, membership programs and gift costs.

Adoption fees are fees charged upon the adoption of any animal to help pay for the certain veterinary costs including medicine and animal care. As of December 31, 2005, adoption fees are \$100 per animal for kittens and puppies under one year of age and \$90 for cats and dogs with ages one year and older. These fees are discounted for multiple adoptions or for adoptions by senior citizens.

Fundraising includes special events that are held throughout the year for the purpose of supporting the Organization’s intended purpose and program services.

See accountants’ review report.

**CAPISTRANO ANIMAL RESCUE EFFORT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004**

Membership and dues are contributions in classes ranging from \$15 per year for a junior or senior membership up to \$500 for a corporate membership.

In addition, the Organization offers kennel plaques and memorial bricks for donations in the amounts of \$500 and \$50 respectively.