

Austin Pets Alive, Inc.
Financial Statements and
Independent Auditors' Report
December 31, 2014 and 2013

Austin Pets Alive, Inc.

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Dunagan★Jack LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Austin Pets Alive, Inc.

We have audited the accompanying financial statements of Austin Pets Alive, Inc. (a Texas nonprofit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities 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.

Auditors' 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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Austin Pets Alive, Inc. as of December 31, 2014 and 2013, 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.



Austin, Texas
September 11, 2015

FINANCIAL STATEMENTS

Austin Pets Alive, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 1,477,684	\$ 1,633,158
Other receivables	173,214	129,032
Contributions receivable (Note D)	560,915	392,915
Other assets	6,595	3,134
Property and equipment (Note E)	<u>192,064</u>	<u>161,401</u>
Total assets	<u>\$ 2,410,472</u>	<u>\$ 2,319,640</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 119,936	\$ 86,288
Agency liability	24,000	-
Notes payable (Note F)	<u>21,787</u>	<u>33,457</u>
Total liabilities	<u>165,723</u>	<u>119,745</u>
Net assets		
Unrestricted	1,650,134	1,806,980
Temporarily restricted (Note G)	594,615	392,915
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>2,244,749</u>	<u>2,199,895</u>
Total liabilities and net assets	<u>\$ 2,410,472</u>	<u>\$ 2,319,640</u>

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

Austin Pets Alive, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 2,461,982	\$ 321,615	\$ -	\$ 2,783,597
Adoption fees	742,013	-	-	742,013
Other revenues	135,319	-	-	135,319
Total revenues and gains	3,339,314	321,615	-	3,660,929
Net assets released from restrictions	119,915	(119,915)	-	-
Total revenues, gains, and other support	3,459,229	201,700	-	3,660,929
Expenses				
Program services	2,988,082	-	-	2,988,082
General and administrative	367,702	-	-	367,702
Fundraising	260,291	-	-	260,291
Total expenses	3,616,075	-	-	3,616,075
Change in net assets	(156,846)	201,700	-	44,854
Net assets, beginning of year	1,806,980	392,915	-	2,199,895
Net assets, end of year	\$ 1,650,134	\$ 594,615	\$ -	\$ 2,244,749

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

Austin Pets Alive, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 3,512,558	\$ 392,915	\$ -	\$ 3,905,473
Adoption fees	604,962	-	-	604,962
Other revenues	134,375	-	-	134,375
Total revenues and gains	4,251,895	392,915	-	4,644,810
Net assets released from restrictions	124,415	(124,415)	-	-
Total revenues, gains, and other support	4,376,310	268,500	-	4,644,810
Expenses				
Program services	2,483,037	-	-	2,483,037
General and administrative	308,421	-	-	308,421
Fundraising	266,086	-	-	266,086
Total expenses	3,057,544	-	-	3,057,544
Change in net assets	1,318,766	268,500	-	1,587,266
Net assets, beginning of year	488,214	124,415	-	612,629
Net assets, end of year	\$ 1,806,980	\$ 392,915	\$ -	\$ 2,199,895

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

Austin Pets Alive, Inc.

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 44,854	\$ 1,587,266
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	53,750	51,939
Loss on disposal of property and equipment	1,438	-
Increase in contributions receivable	(168,000)	(345,000)
Increase in other receivables	(44,182)	(129,032)
Increase in other assets	(3,461)	(2,819)
Increase in accounts payable and accrued expenses	33,648	11,744
Increase in agency liability	24,000	-
Net cash (used) provided by operating activities	(57,953)	1,174,098
Cash flows from investing activities:		
Purchases of property and equipment	(85,851)	(32,169)
Net cash used by investing activities	(85,851)	(32,169)
Cash flows from financing activities:		
Principal payments on notes payable	(11,670)	(9,275)
Net cash used by financing activities	(11,670)	(9,275)
Net (decrease) increase in cash and cash equivalents	(155,474)	1,132,654
Cash and cash equivalents at beginning of year	1,633,158	500,504
Cash and cash equivalents at end of year	\$ 1,477,684	\$ 1,633,158
Amount paid during the year for:		
Income taxes	\$ -	\$ -
Interest	\$ 1,055	\$ 2,269

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

NOTES TO FINANCIAL STATEMENTS

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

Austin Pets Alive, Inc. (Organization) is organized under the Non-Profit Corporation Act of the State of Texas as a 501(c)(3) organization. The Organization promotes and provides the resources, education, and programs needed to eliminate the killing of companion animals in Austin, Texas. The Organization receives its funding primarily from grants, individual donations, and pet adoption fees. The Organization has been the leading force in getting Austin to become the largest "No Kill City" in the U.S. A No Kill City is defined as a community that saves over 90% of the animals that enter all the shelters in that community. The Organization works with the City's only shelter that must kill dogs and cats if more come in than the shelter can find homes. The Organization prevents those animals from being killed by taking them into the Organization's shelter, as well as advocating for adoption, fostering, and volunteering. The Organization currently has the largest foster program in the country which increases the total capacity for temporary housing of animals.

During 2011, the Organization created a program called American Pets Alive! to help other communities create and manage programs to make other cities No Kill. Other communities frequently contact the Organization for consultation and recommendations on how they can institute No Kill programs. The Organization provides resources, training, and conferences to assist others in attaining a No Kill status. In 2014, 16 states were represented at the annual American Pets Alive! conference in Austin.

2. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

3. Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. 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.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Cash Equivalents

The Organization considers its checking accounts, savings accounts, sweep investment accounts, and money market deposit accounts to be cash equivalents.

5. Property and Equipment

Acquisitions of property and equipment are capitalized at cost, if purchased, or fair market value on the date of donation, if received as a gift. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, generally three to five years. 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 expiration of restrictions when the assets are placed into service as instructed by the donor, except that capital campaign related construction costs are reported as satisfactions when incurred. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

6. Revenue Recognition

The Organization records contributions using the guidance of FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Organization's policy is to report restricted support that is satisfied in the year of receipt as unrestricted.

Adoption fees are recognized upon placement with an adopting family, at which time payment is received.

7. Functional Expenses

Expenses are categorized by function in the statement of activities as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Estimates

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

9. Reclassifications

Certain 2013 amounts previously reported have been reclassified to be consistent with the 2014 presentation.

NOTE B - TAX EXEMPT STATUS

The Organization is generally exempt from income tax under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3). The Organization has been classified as a publicly supported charitable organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Therefore, no provision for federal income taxes has been reflected in these financial statements.

For federal income tax purposes, the Organization's tax years 2012 through 2014 remain open for possible examination by the Internal Revenue Service.

NOTE C - CONCENTRATIONS

Effective January 1, 2013, all of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, are insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000). The Organization's uninsured cash balances totaled \$150,751 and \$1,299,848 at December 31, 2014 and 2013, respectively.

One Foundation donated \$1.26 million to the Organization during the year ended December 31, 2013. This represented 32% of grants and contributions revenues for the year.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE D - CONTRIBUTIONS RECEIVABLE

The contributions receivable balance at December 31, 2014 and 2013 comprised the following:

	2014	2013
Donated facilities	\$ 320,915	\$ 392,915
Other contributions receivable	<u>240,000</u>	<u>-</u>
	<u>\$ 560,915</u>	<u>\$ 392,915</u>

Due to the immaterial amount of discount calculated, no discount to present value has been recorded as of December 31, 2014. No allowance for uncollectible promises is considered necessary. At December 31, 2014, collection of the other contributions receivable balance was expected as follows:

Due within one year	\$ 120,000
Due in one to five years	120,000
Due in more than five years	<u>-</u>
Other contributions receivable	<u>\$ 240,000</u>

During May 2011, the Organization executed a lease agreement where it received the free use of 1,126 square feet of donated facilities for a period of one year at Tarrytown Center. In September 2014, a third amendment to this lease was executed to extend the termination date to May 31, 2015. In October 2013, another lease agreement was executed where the Organization received an additional 2,837 square feet of donated facilities at the Tarrytown Center for a period of five (5) years. The primary use of both donated facilities is for the adoption of homeless dogs and cats.

On November 10, 2011, the Organization entered into a Temporary License Agreement with the City of Austin to operate the Town Lake Animal Center site (TLAC). On April 26, 2012, the City of Austin and the Organization entered into an Amended and Restated Temporary License Agreement which extended the term of the agreement until May 23, 2015. The Organization does not pay rent for the TLAC; however, it is responsible for repairs, maintenance, janitorial services, and utilities. The terms of the Amended and Restated License Agreement allow either party to terminate the Agreement upon ninety (90) days written notice. An amendment was executed in May 2015 that extended the term of the Agreement twenty-four months, until May 23, 2017.

According to generally accepted accounting principles, organizations that receive the free or discounted use of facilities, in which the donor retains legal title, for a specified period should report these promises as contributions receivable and as restricted support that increases temporarily restricted net assets. Expense should be recognized in the periods the facilities are used. Therefore,

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE D - CONTRIBUTIONS RECEIVABLE - CONTINUED

the Organization recognized contributions of \$170,996 and \$531,000 for the free use of facilities during the years ended December 31, 2014 and 2013, respectively. Contributions receivable are amortized as facilities expense on a straight line basis over respective lease terms. The Organization recognized facilities expense of \$242,996 and \$186,000 during the years ended December 31, 2014 and 2013, respectively.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31,

	2014	2013
Vehicles	\$ 98,337	\$ 98,337
Leasehold improvements	88,060	72,060
Furniture and equipment	81,962	84,852
New facilities development	66,991	-
	335,350	255,249
Less accumulated depreciation	(143,286)	(93,848)
	<u>\$ 192,064</u>	<u>\$ 161,401</u>

Depreciation expense totaled \$53,750 and \$51,939 for the years ended December 31, 2014 and 2013, respectively.

NOTE F - NOTES PAYABLE

In May 2012, the Organization purchased three vehicles used primarily to transport dogs and cats to and from adoption sites. The Organization obtained 100% financing for each vehicle over six year terms, with annual interest rates of 5.9%. Early principal payments have been made on some of the loans. At December 31, 2014, future principal payments were due as follows:

Years ending December 31,	Principal Payments
2015	\$ 8,402
2016	5,107
2017	5,417
2018	2,861
	<u>\$ 21,787</u>

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2014 and 2013:

	2014	2013
Promised use of facilities	\$ 320,915	\$ 392,915
Capital campaign	215,000	-
Other purposes	58,700	-
	<u>\$ 594,615</u>	<u>\$ 392,915</u>

Restrictions on temporarily restricted net assets totaling \$119,915 and \$124,415 were satisfied during the years ended December 31, 2014 and 2013, respectively. Satisfactions primarily comprised use of donated facilities.

NOTE H - SUBSEQUENT EVENTS

One of the Organization's highest priorities is to locate and secure property for a new shelter while remaining in continuous operation. Funds for this purpose are currently being raised through a Capital Campaign. Among other activities undertaken in connection with finding a new home, Organization representatives have attended numerous meetings with homeowner associations, Austin's City Council and City Council members, the City of Austin's Parks Department, and the City of Austin's Animal Services Department. The Organization has engaged legal counsel, engineers and architects to provide various services in connection with this project. As of September 11, 2015, no agreements have been executed for a permanent location.

Subsequent events have been evaluated through September 11, 2015, the date the financial statements were available to be issued.