

Austin Pets Alive, Inc.
Financial Statements and
Independent Auditors' Report
December 31, 2018

Austin Pets Alive, Inc.

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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 statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2018, 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.

Change in Accounting Principle

As discussed in Note A10 to the financial statements, Austin Pets Alive, Inc. adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Jonathan Jack, LLC". The signature is written in a cursive, flowing style.

Austin, Texas
December 11, 2019

FINANCIAL STATEMENTS

Austin Pets Alive, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

Cash and cash equivalents	\$	904,897
Investments		4,545,826
Other receivables		54,917
Contributions receivable		3,401,321
Inventory		115,752
Prepaid expenses and other assets		168,201
Property and equipment		<u>589,176</u>
Total assets	\$	<u><u>9,780,090</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$	419,488
Deferred revenue		<u>27,918</u>
Total liabilities		<u>447,406</u>
Net assets		
Net assets without donor restrictions		2,173,991
Net assets with donor restrictions		<u>7,158,693</u>
Total net assets		<u>9,332,684</u>
Total liabilities and net assets	\$	<u><u>9,780,090</u></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, 2018

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Revenues			
Operating revenues			
Grants and contributions	\$ 5,453,445	\$ 971,853	\$ 6,425,298
Adoption fees	673,431	-	673,431
Special events	206,081	-	206,081
Return on investments	105,864	-	105,864
Annual conference	84,363	-	84,363
Other revenues	178,976	-	178,976
Total operating revenues	<u>6,702,160</u>	<u>971,853</u>	<u>7,674,013</u>
Thrift Store revenues			
Thrift Store sales	653,024	-	653,024
In-kind donations of inventory	722,152	-	722,152
Cost of goods sold	<u>(653,024)</u>	<u>-</u>	<u>(653,024)</u>
Net Thrift Store revenues	<u>722,152</u>	<u>-</u>	<u>722,152</u>
Net assets released			
from restrictions	<u>3,197,044</u>	<u>(3,197,044)</u>	<u>-</u>
Total revenues and other support	<u>10,621,356</u>	<u>(2,225,191)</u>	<u>8,396,165</u>
Expenses			
Program services	8,829,881	-	8,829,881
General and administrative	859,782	-	859,782
Fundraising	<u>1,197,731</u>	<u>-</u>	<u>1,197,731</u>
Total expenses	<u>10,887,394</u>	<u>-</u>	<u>10,887,394</u>
Change in net assets	(266,038)	(2,225,191)	(2,491,229)
Net assets, beginning of year	<u>2,440,029</u>	<u>9,383,884</u>	<u>11,823,913</u>
Net assets, end of year	<u>\$ 2,173,991</u>	<u>\$ 7,158,693</u>	<u>\$ 9,332,684</u>

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

Austin Pets Alive, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

	Program	General and	Fundraising		Total
	Services	Administrative	Thrift Store	Other	
Personnel	\$ 5,562,869	\$ 456,933	\$ 151,089	\$ 638,840	\$ 6,809,731
Occupancy	470,410	19,201	216,030	9,023	714,664
Pet food	629,911	-	-	-	629,911
Grants and contributions	430,118	-	-	-	430,118
Vaccines and medications	318,802	-	-	-	318,802
Contract labor	263,040	-	-	-	263,040
Insurance	76,890	85,889	8,228	1,331	172,338
Medical services	162,843	-	-	-	162,843
Conference expenses	157,616	-	-	-	157,616
Medical tests	123,118	-	-	-	123,118
Depreciation	100,488	8,254	-	14,269	123,011
Bank and credit card fees	-	111,850	-	-	111,850
Event expenses	-	-	-	105,049	105,049
Medical supplies	99,973	-	-	-	99,973
Supplies	73,852	15,499	3,757	6,090	99,198
Repairs and maintenance	76,098	6,244	2,469	8,326	93,137
Professional fees	65,482	26,916	-	-	92,398
Travel	65,416	11,542	-	-	76,958
Other expenses	152,955	117,454	6,643	26,587	303,639
Total expenses	<u>\$ 8,829,881</u>	<u>\$ 859,782</u>	<u>\$ 388,216</u>	<u>\$ 809,515</u>	<u>\$ 10,887,394</u>

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

Austin Pets Alive, Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ (2,491,229)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation	123,011
Realized and unrealized (gains) losses on investments	55,729
Increase in other receivables	(10,853)
Increase in contributions receivable	(786,890)
Increase in inventory	(69,128)
Increase in prepaid expenses and other assets	(120,424)
Decrease in accounts payable and accrued expenses	(5,683)
Decrease in deferred revenue	(16,079)
Net cash used by operating activities	<u>(3,321,546)</u>
Cash flows from investing activities:	
Sales/maturities (purchases) of investments	(4,601,555)
Purchases of property and equipment	<u>(248,242)</u>
Net cash used by investing activities	<u>(4,849,797)</u>
Cash flows from financing activities:	
Principal payments on note payable	<u>(2,808)</u>
Net cash used by financing activities	<u>(2,808)</u>
Net decrease in cash and cash equivalents	(8,174,151)
Cash and cash equivalents at beginning of year	<u>9,079,048</u>
Cash and cash equivalents at end of year	<u>\$ 904,897</u>
Amount paid during the year for:	
Income taxes	<u>\$ -</u>
Interest	<u>\$ 2,282</u>

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, 2018

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.

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. During 2011, the Organization created a program called American Pets Alive! to coordinate the Organization's annual conference. Attendees from around the United States come to the annual conference to learn the programs and tools to make their community No Kill. During 2016, established an Austin based Training Academy. The Training Academy consists of a number of learning opportunities that provide structured learning experiences for staff and volunteers from other shelters and rescues to come and learn about the innovative programs that the Organization has developed.

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

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor imposed stipulations.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

4. Cash and Cash Equivalents

The Organization classifies as cash and cash equivalents all checking, savings, and money market accounts and all highly liquid investments maturing within three months of purchase.

5. Investments

Investments are stated at their readily determinable fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

6. 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 net assets with donor restrictions to net assets without donor restrictions at that time.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Revenue Recognition

Contributions received are recorded as increases in net assets without donor restrictions or as increases in net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. As purpose or time restrictions are satisfied, net assets are reclassified to net assets without donor restrictions. The Organization's policy is to report support with restrictions satisfied in the year of receipt as contributions without restrictions.

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

8. 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.

9. 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.

10. Recently Adopted Accounting Principles

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE B - TAX EXEMPT STATUS

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3). The Organization is 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.

NOTE C - INVESTMENTS

Investments comprised the following at December 31, 2018:

Corporate bonds	\$ 4,518,864
U.S. Treasury bill	<u>26,962</u>
	<u>\$ 4,545,826</u>

Return on investments comprised the following for the year ended December 31, 2018:

Interest and dividends	\$ 161,593
Realized and unrealized gains (losses), net	<u>(55,729)</u>
	<u>\$ 105,864</u>

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques that measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements). The Organization's investments are all reported using Level 1 measures.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable comprised the following at December 31, 2018:

Contributions receivable	\$ 2,514,907
Promised use of facilities	<u>886,414</u>
	<u>\$ 3,401,321</u>

Due to the immaterial amounts of discounts calculated, no discounts to present value have been recorded as of December 31, 2018. No allowances for uncollectible promises are considered necessary.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE D - CONTRIBUTIONS RECEIVABLE - CONTINUED

At December 31, 2018, collection of the contributions receivable balance (other than the promised use of facilities) was expected as follows:

Due within one year	\$	2,413,540
Due in one to five years		101,367
Due in more than five years		<u>-</u>
Contributions receivable	\$	<u>2,514,907</u>

During May 2011, the Organization executed a lease agreement where it received the free use of 1,126 square feet of donated facilities at Tarrytown Center. 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. In April 2015, another lease agreement was executed where the Organization received an additional 2,534 square feet of donated facilities at the Tarrytown Center for a period of forty two (42) months. In October 2018, an amendment was executed to extend all the Tarrytown Center lease termination dates to October 31, 2023. The primary use of these donated facilities is for the adoption of homeless dogs and cats.

During May 2012, the Organization entered into an Amended and Restated Temporary License Agreement with the City of Austin to operate the Town Lake Animal Center site (TLAC). An amendment was executed in May 2015 that extended the term of the Agreement twenty-four months, until May 23, 2017, with the right to extend the term for three additional twelve month periods. 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.

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 net assets with donor restrictions. Expense should be recognized in the periods the facilities are used. Therefore, the Organization recognized contributions of \$1,079,595 for the free use of facilities during the year ended December 31, 2018. Contributions receivable are amortized as facilities expense on a straight line basis over respective terms. The Organization recognized donated facilities expense of \$323,396 during the year ended December 31, 2018.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31, 2018:

Leasehold improvements	\$	575,430
Furniture and equipment		230,366
Website		99,895
Vehicles		98,337
New facilities development		<u>66,991</u>
		1,071,019
Less accumulated depreciation		<u>(481,843)</u>
	\$	<u>589,176</u>

Depreciation expense totaled \$123,011 for the year ended December 31, 2018.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31, 2018:

Training Academy	\$	2,978,631
Hurricane Harvey relief		2,350,845
Promised use of facilities		886,414
Capital campaign		235,054
Executive Leader Fellowships		200,000
American Pets Alive scholarships		189,700
Other purposes		<u>318,049</u>
	\$	<u>7,158,693</u>

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE G - LEASE COMMITMENTS

The Organization leases space for its Thrift Store operations at two locations: Burnet Road and Oltorf Street in Austin, Texas. The term of the lease agreement for the Burnet Road location is sixty months and commenced in August 2018. The term of the lease agreement for the Oltorf Street location was fourteen months and commenced February 2018. As of December 31, 2018, future minimum lease payments under these operating leases were as follows:

Years ending December 31,	Minimum Lease Payments
2019	\$ 147,904
2020	122,404
2021	122,404
2022	122,404
2023	71,402
thereafter	-

Rent expense for the leased Thrift Store facilities totaled \$191,859 for the year ended December 31, 2018.

NOTE H - CONCENTRATIONS

At December 31, 2018, contributions receivable included \$2,250,000 promised by one donor.

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 maximum deposit insurance amount (\$250,000). The Organization's uninsured cash balances totaled approximately \$425,000 at December 31, 2018.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE I - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The following reflects the Organization's financial assets, reduced by amounts not available for general use within one year because of Board designations and donor-imposed restrictions, as of December 31, 2018:

Cash and cash equivalents	\$	904,897
Investments		4,545,826
Other receivables		54,917
Contributions receivable due within one year, excluding promised facilities		<u>2,413,540</u>
Total financial assets		7,919,180
Less donor imposed restrictions:		
Subject to expenditure for specified purposes		<u>(6,170,912)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>1,748,268</u></u>

NOTE J - SUBSEQUENT EVENTS

In February 2019, the Organization executed a facilities operating lease agreement for its Thrift Store operations on Oltorf Street. The term of the lease agreement is 36 months and commenced in April 2019. Monthly rent includes base rent of \$8,755, which increases over the term of the lease to \$9,288.

Subsequent events have been evaluated through December 11, 2019, the date the financial statements were available to be issued.