

Austin Pets Alive, Inc.
Financial Statements and
Independent Auditors' Report
December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in black ink that reads "DUNAGAN JACK LLP". The signature is stylized, with the first letters of each word being larger and more prominent.

Austin, Texas
September 12, 2018

FINANCIAL STATEMENTS

Austin Pets Alive, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 9,079,048	\$ 1,970,028
Investments	-	289,497
Other receivables	44,064	195,038
Contributions receivable (Note C)	2,614,431	769,967
Inventory	46,624	-
Prepaid expenses and other assets	47,777	53,618
Property and equipment (Note D)	<u>463,945</u>	<u>233,091</u>
Total assets	<u>\$ 12,295,889</u>	<u>\$ 3,511,239</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 425,171	\$ 258,157
Deferred revenue	43,997	-
Note payable	<u>2,808</u>	<u>8,229</u>
Total liabilities	<u>471,976</u>	<u>266,386</u>
Net assets		
Unrestricted	2,440,029	1,487,238
Temporarily restricted (Note E)	9,383,884	1,757,615
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>11,823,913</u>	<u>3,244,853</u>
Total liabilities and net assets	<u>\$ 12,295,889</u>	<u>\$ 3,511,239</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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 7,624,481	\$ 7,889,191	\$ -	\$ 15,513,672
Adoption fees	810,244	-	-	810,244
Thrift Store sales	318,768	-	-	318,768
Special events	220,560	-	-	220,560
Annual conference	213,187	-	-	213,187
Other revenues	202,654	-	-	202,654
Total revenues and gains	9,389,894	7,889,191	-	17,279,085
Net assets released from restrictions	262,922	(262,922)	-	-
Total revenues, gains, and other support	9,652,816	7,626,269	-	17,279,085
Expenses				
Program services	6,693,021	-	-	6,693,021
General and administrative	854,601	-	-	854,601
Fundraising	1,152,403	-	-	1,152,403
Total expenses	8,700,025	-	-	8,700,025
Change in net assets	952,791	7,626,269	-	8,579,060
Net assets, beginning of year	1,487,238	1,757,615	-	3,244,853
Net assets, end of year	\$ 2,440,029	\$ 9,383,884	\$ -	\$ 11,823,913

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

Austin Pets Alive, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 3,574,385	\$ 1,294,004	\$ -	\$ 4,868,389
Adoption fees	796,333	-	-	796,333
Annual conference	82,872	-	-	82,872
Special events	36,494	-	-	36,494
Other revenues	203,634	-	-	203,634
Total revenues and gains	4,693,718	1,294,004	-	5,987,722
Net assets released from restrictions	548,437	(548,437)	-	-
Total revenues, gains, and other support	5,242,155	745,567	-	5,987,722
Expenses				
Program services	4,346,714	-	-	4,346,714
General and administrative	470,881	-	-	470,881
Fundraising	524,390	-	-	524,390
Total expenses	5,341,985	-	-	5,341,985
Change in net assets	(99,830)	745,567	-	645,737
Net assets, beginning of year	1,587,068	1,012,048	-	2,599,116
Net assets, end of year	<u>\$ 1,487,238</u>	<u>\$ 1,757,615</u>	<u>\$ -</u>	<u>\$ 3,244,853</u>

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,

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 8,579,060	\$ 645,737
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	93,065	66,266
Loss on disposals of property and equipment	3,761	540
Decrease in other receivables	150,974	8,490
(Increase) decrease in contributions receivable	(1,844,464)	86,690
Increase in inventory	(46,624)	-
Decrease (increase) in prepaid expenses and other assets	5,841	(37,714)
Increase in accounts payable and accrued expenses	167,014	50,595
Increase in deferred revenue	43,997	-
Net cash provided by operating activities	7,152,624	820,604
Cash flows from investing activities:		
Sales/maturities (purchases) of investments	289,497	(289,497)
Purchases of property and equipment	(327,680)	(77,039)
Net cash used by investing activities	(38,183)	(366,536)
Cash flows from financing activities:		
Principal payments on note payable	(5,421)	(5,106)
Net cash used by financing activities	(5,421)	(5,106)
Net increase in cash and cash equivalents	7,109,020	448,962
Cash and cash equivalents at beginning of year	1,970,028	1,521,066
Cash and cash equivalents at end of year	\$ 9,079,048	\$ 1,970,028
Amount paid during the year for:		
Income taxes	\$ -	\$ -
Interest	\$ 689	\$ 654

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, 2017 and 2016

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, the Organization was awarded grants by one foundation to establish 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

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, 2017 and 2016

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Organization records investments using the guidance of FASB ASC 958-320, *Not-for-Profit Entities: Investments-Debt and Equity Securities*. Investments are stated at their readily determinable fair values in the statements 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 temporarily restricted net assets to unrestricted net assets at that time.

7. 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.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Functional Expenses

Expenses are categorized by function in the statements 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.

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.

NOTE C - CONTRIBUTIONS RECEIVABLE

The contributions receivable balance comprised the following at December 31,

	2017	2016
Contributions receivable	\$ 2,484,216	\$ 456,356
Promised use of facilities	130,215	313,611
	<u>\$ 2,614,431</u>	<u>\$ 769,967</u>

Due to the immaterial amounts of discounts calculated, no discounts to present value have been recorded as of December 31, 2017 or 2016. No allowances for uncollectible promises are considered necessary.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE C - CONTRIBUTIONS RECEIVABLE - CONTINUED

At December 31, 2017, collection of the contributions receivable balance (other than the promised use of facilities) was expected as follows:

Due within one year	\$ 1,375,833
Due in one to five years	1,108,383
Due in more than five years	<u>-</u>
Contributions receivable	<u>\$ 2,484,216</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 August 2015, a fourth amendment to this lease was executed to extend the termination date to May 31, 2018. 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. 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 temporarily restricted net assets. Expense should be recognized in the periods the facilities are used. Therefore, the Organization recognized contributions of \$140,000 for the free use of facilities during each of the years ended December 31, 2017 and 2016. Contributions receivable are amortized as facilities expense on a straight line basis over respective terms. The Organization recognized facilities expense of \$323,396 during each of the years ended December 31, 2017 and 2016.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31,

	2017	2016
Leasehold improvements	\$ 463,800	\$ 171,537
Furniture and equipment	193,649	161,993
Vehicles	98,337	98,337
New facilities development	66,991	66,991
	822,777	498,858
Less accumulated depreciation	(358,832)	(265,767)
	<u>\$ 463,945</u>	<u>\$ 233,091</u>

Depreciation expense totaled \$93,065 and \$66,266 for the years ended December 31, 2017 and 2016, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31,

	2017	2016
Training Academy	\$ 4,430,088	\$ 770,803
Hurricane Harvey relief	4,041,147	-
Capital campaign	235,054	235,054
American Pets Alive scholarships	165,000	-
Rebuild ringworm ward	141,180	144,380
Promised use of facilities	130,215	313,611
Other purposes	241,200	293,767
	<u>\$ 9,383,884</u>	<u>\$ 1,757,615</u>

Restrictions on temporarily restricted net assets totaling \$262,922 and \$548,437 were satisfied during the years ended December 31, 2017 and 2016, respectively.

Austin Pets Alive, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE F - CONCENTRATIONS

The Organization recognized \$4,725,950 and \$1,253,130 in contributions from one foundation during the years ended December 31, 2017 and 2016, respectively. Of these amounts, \$4,304,950 and \$1,062,250, respectively, were restricted for the Training Academy program. At December 31, 2017, contributions receivable included \$2,250,000 promised by this same foundation.

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 had uninsured cash balances of approximately \$8,600,000 and \$1,600,000 at December 31, 2017 and 2016, respectively.

NOTE G - SUBSEQUENT EVENTS

In February 2018, the Organization executed a facilities operating lease agreement for its Thrift Store operations. The term of the lease agreement is sixty months and commenced in August 2018. Monthly rent includes base rent (which starts at \$7,500 and increases to \$8,441 over the term) and a pro rata share of other facilities operating expenses.

The Organization receives the free use of facilities at Tarrytown Center under three operating lease agreements. In 2018, the Organization executed amendments to extend the terms of all three lease agreements until October 31, 2023.

Subsequent events have been evaluated through September 12, 2018, the date the financial statements were available to be issued.