

TEXAS HUMANE HEROES  
a dba of  
HUMANE HEROES, INC.  
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

TEXAS HUMANE HEROES  
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# Allman & Associates, Inc.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Texas Humane Heroes, a dba of Humane Heroes, Inc.  
Leander, Texas

We have audited the accompanying financial statements of Texas Humane Heroes, a dba of Humane Heroes, Inc. (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

### **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 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 auditors' 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 Texas Humane Heroes, a dba of Humane Heroes, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Allman & Associates, Inc.*

Austin, Texas  
May 6, 2016

TEXAS HUMANE HEROES  
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STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 197,560	\$ 111,228
Accounts receivable	15,212	7,464
Prepaid expenses	900	450
Total current assets	213,672	119,142
Fixed assets:		
Land, building and improvements	1,237,942	1,206,953
Furniture and equipment	143,928	143,928
Vehicles	22,419	22,419
Less accumulated depreciation	(395,822)	(363,610)
Net fixed assets	1,008,467	1,009,690
Loan fees, net of amortization	6,437	4,421
Total assets	\$ 1,228,576	\$ 1,133,253
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 10,317	\$ 19,422
Accrued salaries	21,516	21,346
Accrued employee leave	5,923	2,976
Lines of credit	57,640	55,457
Deferred revenue	187	-
Current portion of long-term debt	6,803	6,499
Total current liabilities	102,386	105,700
Long-term debt	190,187	196,856
Total liabilities	292,573	302,556
Net assets:		
Unrestricted	936,003	825,697
Temporarily restricted	-	5,000
Total net assets	936,003	830,697
Total liabilities and net assets	\$ 1,228,576	\$ 1,133,253

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

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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Grants and contracts	\$ 149,982	\$ -	\$ 149,982
Fees for adoption, boarding, clinic and other services	488,557	-	488,557
Contributions	523,899	-	523,899
Special events	70,499	-	70,499
Other income	29,224	-	29,224
	1,262,161	-	1,262,161
Satisfaction of temporary restrictions	5,000	(5,000)	-
	1,267,161	(5,000)	1,262,161
Total revenues	1,267,161	(5,000)	1,262,161
Expenses:			
Program services - animal operations	997,109	-	997,109
Management and general	42,837	-	42,837
Fundraising	116,909	-	116,909
	1,156,855	-	1,156,855
Total expenses	1,156,855	-	1,156,855
Change in net assets	110,306	(5,000)	105,306
Beginning net assets	825,697	5,000	830,697
	825,697	5,000	830,697
Ending net assets	\$ 936,003	\$ -	\$ 936,003

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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Grants and contracts	\$ 42,976	\$ -	\$ 42,976
Fees for adoption, boarding, clinic and other services	426,743	-	426,743
Contributions	678,694	5,000	683,694
Contributed goods and services	82,591	-	82,591
Special events	24,364	-	24,364
Other income	-	-	-
	<u>1,255,368</u>	<u>5,000</u>	<u>1,260,368</u>
Satisfaction of temporary restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,255,368</u>	<u>5,000</u>	<u>1,260,368</u>
Expenses:			
Program services - animal operations	999,023	-	999,023
Management and general	36,004	-	36,004
Fundraising	123,031	-	123,031
Total expenses	<u>1,158,058</u>	<u>-</u>	<u>1,158,058</u>
Change in net assets before other items	97,310	5,000	102,310
Beginning net assets	<u>728,387</u>	<u>-</u>	<u>728,387</u>
Ending net assets	<u>\$ 825,697</u>	<u>\$ 5,000</u>	<u>\$ 830,697</u>

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STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

Expense Category	Program Services		Supporting Services		Totals
	Animal Operations	Management and General	Fundraising		
Personnel costs	\$ 656,291	\$ 14,584	\$ 58,337	\$	729,212
Contract services	51,587	583	-		52,170
Administrative	16,245	539	1,674		18,458
Information systems and technology	12,765	425	1,526		14,716
Facilities	52,968	1,125	48		54,141
Transportation	5,304	-	367		5,671
Animal supplies and operations	143,056	13	-		143,069
Marketing and fundraising	4,068	105	43,340		47,513
Organizational expenses	26,801	24,497	8,396		59,694
Depreciation	28,024	966	3,221		32,211
Totals	\$ 997,109	\$ 42,837	\$ 116,909	\$	1,156,855

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STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

Expense Category	Program Services		Supporting Services		Totals
	Animal Operations	Management and General	Fundraising		
Personnel costs	\$ 603,644	\$ 19,761	\$ 71,260	\$ 694,665	
Contract services	89,317	801	-	90,118	
Administrative	13,766	2,535	3,961	20,262	
Information systems and technology	15,102	6	2,374	17,482	
Facilities	50,806	1,254	298	52,358	
Transportation	5,724	-	-	5,724	
Animal supplies and operations	144,106	-	-	144,106	
Marketing and fundraising	1,072	404	38,672	40,148	
Organizational expenses	43,947	10,188	2,683	56,818	
Depreciation	31,539	1,055	3,783	36,377	
Totals	\$ 999,023	\$ 36,004	\$ 123,031	\$ 1,158,058	

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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows in operating activities:		
Change in net assets	\$ 105,306	\$ 102,310
Adjustments to reconcile change in net assets to net cash flows in operating activities:		
Depreciation and amortization	32,212	36,377
Fixed assets contributed	-	(178,100)
(Increase) decrease in operating assets:		
Accounts receivable	(7,748)	6,502
Prepaid expenses	(450)	(67)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(5,988)	2,500
Deferred revenue	187	-
	123,519	(30,478)
Net cash flows in operating activities		
Cash flows in investing activities		
Purchases of fixed assets	(30,989)	(3,301)
Net cash flows in investing activities	(30,989)	(3,301)
Cash flows in financing activities		
Proceeds from lines of credit	472	68,231
Payment on lines of credit	-	(50,296)
Proceeds from mortgage note	-	205,000
Repayment of principal	(6,670)	(145,813)
Net cash flows in financing activities	(6,198)	77,122
Increase (decrease) in cash and cash equivalents	86,332	43,343
Cash and cash equivalents:		
Beginning of year	111,228	67,885
End of year	\$ 197,560	\$ 111,228
Supplemental Data:		
Interest paid during the year	\$ 12,906	\$ 12,954
Income taxes paid during the year	\$ -	\$ -

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Texas Humane Heroes, a dba of Humane Heroes, Inc. (hereafter referred to as Texas Humane Heroes) is presented to assist in understanding Texas Humane Heroes' financial statements. The financial statements and notes are representations of Texas Humane Heroes' management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

**Nature of Activities**

Humane Heroes, Inc. was incorporated in 1979 in Texas, originally under the name of the Williamson County Humane Society, Inc. In October 2014, the name was changed to Humane Heroes, Inc. and it currently operates under the dba Texas Humane Heroes. Texas Humane Heroes promotes the humane treatment of animals throughout Texas, with a vision of a home for every pet. Texas Humane Heroes operates multi-site No Kill animal adoption centers focused on eliminating pet homelessness throughout Texas.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in conformity with GAAP. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, regardless of when cash is disbursed.

**Financial Statement Presentation**

Financial statement presentation follows the recommendation of the "Financial Statements of Not-For-Profit Organizations" section of the Accounting Standards Codification (ASC). Under the ASC, Texas Humane Heroes is required to report information regarding its financial position and activities according to three classes of net assets as applicable.

Unrestricted Net Assets:

Unrestricted net assets result from operating revenues, unrestricted contributions, dividends and interest income less expenses incurred in operations.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation (continued)**

Temporarily Restricted Net Assets:

Support that is restricted by the donor is recorded as an increase in temporarily restricted net assets. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Texas Humane Heroes had temporarily restricted net assets of \$0 and \$5,000 for the years ended December 31, 2015 and 2014, respectively.

Permanently Restricted Net Assets:

Net assets that are subject to donor-imposed stipulations are maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. Texas Humane Heroes had no permanently restricted net assets at December 31, 2015 or 2014.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, Texas Humane Heroes considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. At December 31, 2015 and 2014, Texas Humane Heroes' bank deposits did not exceed the federal insured limits.

**Fixed Assets**

Purchased fixed assets are recorded at cost if the estimated useful life of the item is five years or greater and the cost of the items is over \$2,000. Donations of fixed assets are recorded as support at their estimated fair value at the time of donation. Depreciation of fixed assets is computed using the method allowed by the IRS (modified accelerated cost recovery system or straight-line) over the estimated useful lives which are generally three to seven years for furniture and equipment and 39 years for buildings. Work-in-progress is recorded at cost and is not depreciated until the asset is placed in use. Loan fees are recorded at cost and amortized over five years. For the years ended December 31, 2015 and 2014, depreciation expense was \$32,212 and \$36,377, respectively.

**Accounts Receivable**

Texas Humane Heroes records accounts receivable on the accrual basis. Texas Humane Heroes does not record an allowance for uncollectible accounts and instead uses the

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable (continued)**

direct write-off method. Texas Humane Heroes does not require collateral for its receivables and is subject to credit risk.

**Contributions**

Texas Humane Heroes receives contributions which 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. Temporarily restricted contributions whose restrictions are satisfied in the same period they are received are reported as unrestricted contributions.

**Income Taxes**

Texas Humane Heroes is exempt from federal income tax under Internal Revenue Code Section 501(a) as a Corporation described in Section 501(c)(3). Furthermore, the Internal Revenue Service has determined Texas Humane Heroes is a public charity and not a private foundation. Therefore, no provision for income taxes has been included in these financial statements.

Texas Humane Heroes has adopted the recognition requirements for uncertain income tax positions as required by GAAP, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. Texas Humane Heroes has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. Texas Humane Heroes believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on Texas Humane Heroes' financial position, changes in net assets or cash flows. Accordingly, Texas Humane Heroes has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2015 and 2014. Texas Humane Heroes is subject to income tax audits for the previous three years which are open. There are currently no audits for any tax periods in progress.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Expense Allocation**

Expenses are categorized by function in the statement of activities as either: (1) program services, (2) management and general, (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 that function.

**NOTE 2 – LINES OF CREDIT**

Texas Humane Heroes utilized three lines of credit and paid off two of these lines of credit during the year ended December 31, 2015.

Lines of credit in the amount of \$51,203 with a variable interest rate of 4.75%, and \$4,522 with a variable interest rate of 4.75% at date of payoff. At December 31, 2015 and 2014, the balance of these lines of credit was \$0 and \$50,935, and \$0 and \$4,522, respectively.

One new line of credit was opened in 2015 in the amount of \$100,000, with an interest rate of 4.75%. At December 31, 2015, the balance of this line of credit was \$57,640.

**NOTE 3 – NOTE PAYABLE**

Texas Humane Heroes obtained a note payable from a bank as of November 12, 2010. The original balance of the note was \$179,065. In August 2014, Texas Humane Heroes refinanced this note with a new balance of \$205,000. Principal and interest payments are required in monthly payments of \$1,308 including interest of 4.6% beginning September 27, 2014 until August 27, 2019, upon which all remaining principal and interest are due.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 3 – NOTE PAYABLE (CONTINUED)**

	<u>2015</u>	<u>2014</u>
Note payable balance at December 31,	\$ 196,990	\$ 203,355
Less current portion of long-term debt	<u>(6,803)</u>	<u>(6,499)</u>
Total long-term debt	<u><u>\$ 190,187</u></u>	<u><u>\$ 196,856</u></u>

The maturities of the note payable are as follows:

<u>Year Ending</u>	<u>Amount</u>
<u>December 31:</u>	
2016	\$ 6,823
2017	7,123
2018	7,458
2019	<u>175,586</u>
	<u><u>\$ 196,990</u></u>

Interest expense for the years ended December 31, 2015 and 2014 was \$12,906 and \$12,954, respectively.

**NOTE 4 – CONTRIBUTED GOODS AND SERVICES**

Texas Humane Heroes records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specific specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment. Texas Humane Heroes did not have any contributed goods or services for the years ended December 31, 2015 and 2014.

In addition, many individuals volunteer their time and perform a variety of tasks that assist Texas Humane Heroes with its program and support services. However, no amounts have been reflected in the financial statements for donated services because the criteria for recognition of such volunteer services have not been met.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 5 – DONATION OF LAND**

During 2014, Texas Humane Heroes received a bequest of land with an approximate fair value of \$178,100, and is included in land, building, and improvements on the statement of financial position.

**NOTE 6 – CONCENTRATIONS**

Texas Humane Heroes receives the majority of its revenues from grants and contracts, contributions and fundraising at approximately 59% and 64%, respectively, for the years ended December 31, 2015 and 2014. Texas Humane Heroes is dependent upon these funds in order to perform its program activities.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

The requirements of *Fair Value Measurements and Disclosures* of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (an exit price).

*Fair Value Measurements and Disclosures* also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 Inputs – Unobservable inputs for the asset or liability.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table represents assets and liabilities reported on the statement of financial position at their fair value as of December 31, 2015 and 2014 by level within the fair value measurement hierarchy.

Description	Amount	Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
<b>2015</b>				
Note payable	\$ 196,990	\$ -	\$ -	\$ 196,990
<b>2014</b>				
Note payable	\$ 203,355	\$ -	\$ -	\$ 203,355

The note payable is valued based on the note payable agreements described in Note 3.

The fair value of the Texas Humane Heroes' remaining current assets and current liabilities approximates the carrying amounts of such instruments due to their short maturity.

**NOTE 8 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Management evaluated subsequent events through the issuance date of the audit report, May 6, 2016, and there were no subsequent events to be disclosed.