

**THE HUMANE SOCIETY OF
AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)**

**Financial Statements for the
Eighteen Months Ended June 30, 2011 and
Independent Auditors' Report**





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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society):

We have audited the accompanying statement of financial position of The Humane Society of Austin and Travis County, Inc. (dba Austin Humane Society) (the "Society") as of June 30, 2011, and the related statements of activities and cash flows for the eighteen months ended June 30, 2011. These financial statements are the responsibility of the Society's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Austin and Travis County, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the eighteen months ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of functional expenses for the eighteen months ended June 30, 2011 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Locke + Ritter LLP

November 10, 2011

Affiliated Companies

ML&R PERSONNEL SOLUTIONS LLC

"The Resource for Direct Hire & Project Staffing"

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS:

Cash and cash equivalents	\$ 1,073,672
Investments	638,694
Contributions receivable	73,495
Accounts receivable	2,532
Prepaid expenses	22,832
Inventory	13,180
Property and equipment, net	<u>1,142,747</u>
TOTAL ASSETS	<u>\$ 2,967,152</u>

LIABILITIES AND NET ASSETS:

LIABILITIES:

Accounts payable	\$ 23,038
Accrued liabilities	<u>84,711</u>
Total liabilities	<u>107,749</u>

NET ASSETS:

Unrestricted	2,765,127
Temporarily restricted	<u>94,276</u>
Total net assets	<u>2,859,403</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,967,152</u>
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See notes to financial statements.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)

STATEMENT OF ACTIVITIES
EIGHTEEN MONTHS ENDED JUNE 30, 2011

CHANGES IN UNRESTRICTED NET ASSETS:

REVENUES:

Contributions	\$ 3,014,569
Donated goods and services	217,344
Special event revenue	451,869
Less direct benefit to donor cost	(65,086)
Program revenue	446,709
Investment income, net	6,510
Total unrestricted revenues	<u>4,071,915</u>
Net assets released from restrictions	<u>109,829</u>
Total unrestricted revenues and net assets released from restrictions	<u>4,181,744</u>

EXPENSES:

Program services	2,910,513
Management and general	498,979
Fundraising	239,804
Total expenses	<u>3,649,296</u>
Change in unrestricted net assets	<u>532,448</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:

Contributions	67,951
Net assets released from restrictions	<u>(109,829)</u>
Change in temporarily restricted net assets	<u>(41,878)</u>

CHANGE IN NET ASSETS

490,570

NET ASSETS, beginning of period

2,368,833

NET ASSETS, end of period

\$ 2,859,403

See notes to financial statements.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)

STATEMENT OF CASH FLOWS
EIGHTEEN MONTHS ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 490,570
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	146,820
Donated property and equipment	(7,857)
Loss on disposal of property and equipment	1,342
Gain on investments, net	(5,797)
Changes in assets and liabilities:	
Contributions receivable	132,197
Prepaid expenses	(6,667)
Inventory	5,281
Accounts payable	(4,140)
Accrued liabilities	33,126
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Net cash provided by operating activities	784,875

CASH FLOWS FROM INVESTING ACTIVITIES:

Net sales of investments	209,672
Purchases of property and equipment	(185,734)
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Net cash provided by investing activities	23,938

NET CHANGE IN CASH AND CASH EQUIVALENTS	808,813
CASH AND CASH EQUIVALENTS, beginning of period	264,859
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CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,073,672</u>

See notes to financial statements.

**THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)**

**NOTES TO FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2011**

1. NATURE OF OPERATIONS

Incorporated in 1953, The Humane Society of Austin & Travis County (dba Austin Humane Society) (the "Society") is a non-profit community service agency that offers comprehensive, humane, life-saving animal services, transforming the lives of animals and those who love them. Because the organization believes homeless animals deserve a chance to thrive in a loving environment, they offer innovative, nationally recognized programs that save the lives of thousands of dogs and cats each year. The Society's approach to addressing animal homelessness encompasses both finding animals homes through adoption as well as preventing future homelessness through spay/neuter programs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected, and expenses are recognized when the obligation is incurred regardless of when paid. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - These types of net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Temporarily restricted net assets - These types of net assets are subject to donor-imposed stipulations, which limit their use by the Society to a specific purpose and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Permanently restricted net assets - These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by the Society. There were no permanently restricted net assets as of June 30, 2011.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents - Cash equivalents include time deposits and all highly liquid instruments with original maturities of three months or less.

Investments - Investments are recorded at fair market value based on quoted market prices. Any changes in market value are reported in the financial statements as net unrealized and realized gain or losses on investments.

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned. Delinquent account receivable invoices do not accrue interest. The Society continually monitors each customer's credit worthiness individually and recognizes allowances for estimated bad debts on customer accounts that are no longer estimated to be collectible. The Society regularly adjusts any allowance for subsequent collections and final determination that an account receivable is no longer collectible. The Society expects accounts receivable at year end to be fully collectible.

Inventory - Inventory, which consists primarily of medical supplies, is valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

Property and Equipment - Acquisitions of property in excess of \$500 are capitalized. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost. Depreciation expense is calculated using the straight-line method and the following estimated useful lives:

Building and improvements	7-40 years
Intangible assets and software	3-5 years
Kennel equipment	5-7 years
Furniture and fixtures	5-10 years
Automotive equipment	4-5 years
Surgical equipment	5-10 years

Contributions - Contributions received and unconditional promises to give are measured at their fair values and are reported as revenue. The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods.

Donated Goods and Services - Donated goods and services are reflected in the statement of activities at their fair value on the date of receipt. Donated services are recognized by the Society if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the eighteen months ended June 30, 2011, volunteers donated 136,823 hours to the Society's program services and fundraising campaigns. These services were not recognized in the financial statements because the criteria were not satisfied. Veterinary services of \$92,250, shelters supplies of \$103,974 and a donated vehicle of \$21,120 were recorded as donated goods and services during the eighteen months ended June 30, 2011.

Rental Commitments - The Society currently leases office equipment under month-to-month operating leases.

Income Tax Status - The Society is a nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except with respect to any unrelated business income.

Functional Allocation of Expenses - The expenses of the Society's various programs and supporting services have been allocated between program and supporting services based on estimates by management.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three general valuation techniques that may be used to measure fair value, as described below:

- A) **Market approach** - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) **Cost approach** - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) **Income approach** - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Within the three valuation techniques, fair value accounting requires characterization of the inputs used to determine fair value into a three-level fair value hierarchy as follows:

- Level 1 - These inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the Society has the ability to access. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - These inputs relate to adjusting information from similar items that are traded in active markets or from identical or similar items in markets that are not active.
- Level 3 - These inputs reflect the Society's own assumptions about the assumptions market participants would use in pricing the asset or liability.

3. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Society to credit risk consist of cash and cash equivalents, investments and receivables. The Society places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position. The Society does not maintain collateral for its receivables and does not believe significant risk existed at June 30, 2011.

4. INVESTMENTS

Investments are reported at fair value at June 30, 2011 as follows:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal money market fund	\$ 614,609	\$ -	\$ 614,609	\$ -
Private equity investment Limited partnerships	20,000 4,085	- -	- -	20,000 4,085
Total Investments	\$ 638,694	\$ -	\$ 614,609	\$ 24,085

Level 3 investments have been valued using the income approach. The Federal money market funds included as level 2 investments have been valued using the net asset value approach, which is a market approach. The fair value of the Federal money market fund was estimated based on the net asset value per share (or its equivalent) of the investment company. The Society may continue to purchase and liquidate Federal money market fund assets; however, the fund is closed to new investors and is not actively traded on an open exchange. As of June 30, 2011, the fair value of the following investments was measured using net asset values:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Federal money market fund	\$ 614,609	\$ -	Daily	Daily

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

Balance, January 1, 2010	\$ 25,292
Total gains or losses (realized/unrealized)	-
Sales	-
Purchases, issuance, and settlements	(1,207)
Balance, June 30, 2011	\$ 24,085

For the eighteen months ended June 30, 2011 investment income consisted of the following:

Interest and dividends	\$ 2,044
Net unrealized gain	5,797
Investment expense	(1,331)
	\$ 6,510

5. AUSTIN COMMUNITY FOUNDATION ENDOWMENT FUND

In 2008, the Society transferred funds to the Austin Community Foundation (the "Foundation") to establish the Austin Humane Society Every Animal Fund (the "Fund"). The Fund was established for the purpose of generating income, while corpus is preserved into perpetuity, to provide general support to the Society. The Fund's assets are not recorded in the statement of financial position of the Society as the Foundation reserves the power to modify any condition or restriction on distributions from the Fund. In addition, the Fund assets are irrevocably held by the Foundation. The Society is the beneficiary of distributions from the Fund and the current spending policy of the Foundation allows for 5% of the Fund's value to be made available for distribution. At June 30, 2011, the Fund had a market value of \$75,748.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011:

Land	\$ 156,424
Building and improvements	1,248,387
Intangible assets and software	215,422
Kennel equipment	151,272
Furniture and fixtures	115,822
Automotive equipment	80,881
Surgical equipment	3,306
	<u>1,971,514</u>
Less accumulated depreciation	(828,767)
Property and equipment, net	<u>\$ 1,142,747</u>

7. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2011, temporarily restricted net assets were available for the following purposes:

Timing restrictions	\$ 72,772
Capital improvements	9,553
Other	11,951
Total temporarily restricted net assets	<u>\$ 94,276</u>

8. RELATED PARTY TRANSACTIONS

Certain members of the Board of Directors of the Society contributed \$30,936 to the Society during the eighteen months ended June 30, 2011.

9. SUBSEQUENT EVENTS

The Society has evaluated subsequent events through November 10, 2011 (the date the financial statements were available to be issued) and no events have occurred from the statement of financial position date through that date that would impact the financial statements

SUPPLEMENTAL SCHEDULE

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.
(dba AUSTIN HUMANE SOCIETY)

SCHEDULE OF FUNCTIONAL EXPENSES
EIGHTEEN MONTHS ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,535,061	233,174	174,880	1,943,115
Office expenses	117,419	149,280	13,377	280,076
Medical supplies	268,119	-	-	268,119
Employee benefits	126,437	19,206	14,404	160,047
Payroll taxes	114,238	17,353	13,014	144,605
Occupancy	101,506	15,414	11,561	128,481
Other operating	71,757	25,314	3,126	100,197
Credit card and bank fees	16,383	29,136	1,866	47,385
Shelter supplies	46,594	-	-	46,594
Insurance	34,332	5,215	3,911	43,458
Other fees for services	32,172	4,887	3,665	40,724
Vet supplies	34,558	-	-	34,558
Training and development	20,409	-	-	20,409
Professional fees	16,385	-	-	16,385
Auto expense	16,299	-	-	16,299
Boutique	5,414	-	-	5,414
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses before donated goods and services and depreciation	2,557,083	498,979	239,804	3,295,866
Donated goods and services	206,610	-	-	206,610
Depreciation	146,820	-	-	146,820
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 2,910,513</u>	<u>498,979</u>	<u>239,804</u>	<u>3,649,296</u>