

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

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

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CONTENTS

	Page
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

ERICKSON DEMEL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

7800 N MOPAC, SUITE 105

AUSTIN, TEXAS 78759

Board of Directors
The Humane Society of Austin and Travis County, Inc.
Austin, Texas

Independent Auditor's Report

We have audited the accompanying statements of financial position of The Humane Society of Austin and Travis County, Inc. as of December 31, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. 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 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 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 audits provide a reasonable basis for our opinion.

As described in Note B to the financial statements, errors were discovered during the current year relating to the timing of recognizing certain items in the financial statements for 2008. Accordingly, the 2008 financial statements have been restated to correct the errors.

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. at December 31, 2009 and 2008 and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Erickson Demel & Co., P.C.

Certified Public Accountants

November 30, 2010

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2009	2008 (Restated)
Cash and Cash Equivalents	\$ 1,079,468	\$ 992,191
Contributions Receivable	205,692	196,660
Marketable Securities	22,580	19,080
Prepaid Expenses	16,165	3,570
Other Investments	46,210	30,698
Inventory	18,461	15,766
Property and Equipment, Net	1,097,318	1,026,115
	<u>\$ 2,485,894</u>	<u>\$ 2,284,080</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 78,713	\$ 88,849
Deferred Revenue	50	3,165
	<u>78,763</u>	<u>92,014</u>

NET ASSETS

Unrestricted	2,212,679	1,908,643
Temporarily Restricted	156,154	258,135
Permanently Restricted	38,298	25,288
	<u>2,407,131</u>	<u>2,192,066</u>
	<u>\$ 2,485,894</u>	<u>\$ 2,284,080</u>

See notes to financial statements

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31,	
	2009	2008 (Restated)
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted Support		
Contributions	\$ 2,201,067	\$ 1,898,767
Donated Goods and Services	84,790	130,303
Direct Benefit to Donors	(48,230)	(42,020)
Total Unrestricted Support, Net	<u>2,237,627</u>	<u>1,987,050</u>
Other Unrestricted Revenues		
Program Revenue	229,932	228,847
Investment Income	10,920	17,615
	<u>240,852</u>	<u>246,462</u>
Amounts Released From Restrictions	<u>237,303</u>	<u>38,489</u>
Total Unrestricted Support and Other Revenues	<u>2,715,782</u>	<u>2,272,001</u>
Expenses		
Program Services	1,893,523	1,865,362
Management and General	228,182	176,956
Fund Raising	290,041	305,879
Total Expenses	<u>2,411,746</u>	<u>2,348,197</u>
Change in Unrestricted Net Assets	<u>304,036</u>	<u>(76,196)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	135,322	222,250
Amounts Released From Restrictions	<u>(237,303)</u>	<u>(38,489)</u>
Change in Temporarily Restricted Net Assets	<u>(101,981)</u>	<u>183,761</u>

See notes to financial statements

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

STATEMENTS OF ACTIVITIES - CONTINUED

	Year Ended December 31,	
	2009	2008 (Restated)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>13,010</u>	<u>25,288</u>
Change in Permanently Restricted Net Assets	<u>13,010</u>	<u>25,288</u>
CHANGE IN NET ASSETS	215,065	132,853
Net Assets at Beginning of Year	<u>2,192,066</u>	<u>2,059,213</u>
Net Assets at End of Year	<u>\$ 2,407,131</u>	<u>\$ 2,192,066</u>

See notes to financial statements

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2009	2008
		(Restated)
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CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 215,065	\$ 132,853
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Contribution of Securities	-	(13,608)
Depreciation	73,703	66,217
(Gain) Loss on Investments, Net	(6,748)	5,763
Change in Operating Assets and Liabilities:		
Contributions Receivable	(9,032)	(158,171)
Prepaid Expenses	(12,595)	(2,235)
Inventory	(2,695)	(15,766)
Accounts Payable and Accrued Expenses	(10,136)	8,525
Deferred Revenue	(3,115)	(28,165)
	<hr/>	<hr/>
Cash Provided by (Used In) Operating Activities	244,447	(4,587)
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CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(12,264)	(25,288)
Additions to Property and Equipment	(144,906)	(25,151)
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Cash Used In Investing Activities	(157,170)	(50,439)
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Net Change in Cash and Cash Equivalents	87,277	(55,026)
Cash and Cash Equivalents at Beginning of Period	992,191	1,047,217
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Cash and Cash Equivalents at End of Period	\$ 1,079,468	\$ 992,191
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See notes to financial statements

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Accounting

The Humane Society of Austin and Travis County, Inc. (Society) is a non-profit community service agency. The Society provides dog and cat adoption services, animal behavior modification, and public information and humane education in Austin and Travis County. Except as explained in the following notes, assets, liabilities, revenues and expenses, are recognized on the accrual basis of accounting.

Program Services

The Society's major programs include adoption, owner surrender, neutering, and humane education. Approximately 3,000 unwanted dogs and cats are taken in by the Society each year. The animals are evaluated for health and temperament, and if adoptable, accepted and placed in the Pet Adoption Center. The Society's neutering program is designed to address the issue of pet overpopulation in Austin, Texas. The humane education program teaches children and adults about interaction between people and pets. Presentations and educational support materials include the services of the Society, responsible pet ownership, pet needs, safety for and around animals, and pet overpopulation.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

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.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Donated Services and Goods

During the years ended December 31, 2009 and 2008, a substantial number of volunteers donated 39,538 and 34,607 hours, respectively, to the Society's program services and fund raising campaigns. No amounts have been recognized in the statement of activities because the criteria for recognition of such volunteer efforts under FASB ASC 958 have not been satisfied. Donated professional services are reflected in the statement of activities at their fair value.

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Cash Equivalents

For purposes of the statement of cash flows, the Society considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values, and all investments in debt securities are measured at fair value in the statement of financial position (see Note C). Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. During the years ended December 31, 2009 and 2008 all investment income was unrestricted.

Depreciation

The Society follows the practice of capitalizing all major expenditures for buildings and equipment; the fair market value of donated assets is similarly capitalized. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and files an information return for income tax reporting purposes. The Society adopted the provisions of FASB ASC 740-10-15-2AA, *Accounting for Uncertainty in Income Taxes*, on January 1, 2009.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Society to concentrations of credit and market risk consist primarily of cash equivalents. Cash equivalents are maintained at high-quality financial institutions and credit exposure is not limited to any one institution. The Society's balances at these financial institutions may at times exceed federally insured limits; however, the Society has not experienced any losses on its cash equivalents.

Functional Expenses

The costs of providing the various programs, fund raising and other activities have been summarized on a functional basis; accordingly, certain costs have been allocated among the programs and fund raising activities.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the presentation used in the current year.

Fair Value Measurements

Effective January 1, 2008, the entity adopted FASB ASC 820, *Fair Value Measurements*, which established a framework for measuring fair value and requires enhanced disclosures about fair value measurements. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value Measurements - Continued

FASB ASC 820 also requires disclosure about fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1 – quoted prices are available in active markets for identical assets and liabilities;

Level 2 – quoted prices are available in active markets for similar assets and liabilities, and the value of the asset or liability can be estimated using other inputs that are observable in the market; or

Level 3 – the value of the asset or liability is based on at least one unobservable input, and reflects an association’s own assumptions about the market value of the asset or liability, such as discounted cash flows models or valuations.

The determination of where assets and liabilities fall within the hierarchy is based upon the lowest level of input that is significant to the fair value measurements.

The following table sets forth the characterization within the hierarchy of those assets that are required to be measured at fair value on a recurring basis as of December 31, 2009:

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2009
Pooled Investments	\$ –	\$ –	\$ 40,918	\$ 40,918
Investment in Partnerships	–	–	5,292	5,292
Marketable Securities	22,580	–	–	22,580
	<u>\$ 22,580</u>	<u>\$ –</u>	<u>\$ 46,210</u>	<u>\$ 68,790</u>

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value Measurements - Continued

The following table sets forth the characterization within the hierarchy of those assets that are required to be measured at fair value on a recurring basis as of December 31, 2008:

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2008
Pooled Investments	\$ –	\$ –	\$ 25,288	\$ 25,288
Investment in Partnership	–	–	5,410	5,410
Marketable Securities	19,080	–	–	19,080
	<u>\$ 19,080</u>	<u>\$ –</u>	<u>\$ 30,698</u>	<u>\$ 49,778</u>

Certain financial instruments are carried at cost on the statements of financial position, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, contributions receivable, prepaid expenses, accounts payable and accrued expenses, and deferred revenue.

B. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the original December 31, 2008 financial statements, additional facts were discovered which have led to the correction of the following accounts:

	As Previously Reported	Corrected	Change
Contribution Receivable	\$ 87,229	\$ 196,660	\$ 87,229
Marketable Securities	19,079	46,489	27,410
Accounts Payable and Accrued Exp.	84,249	89,047	4,600
Net Assets - Unrestricted	1,913,243	1,908,643	(4,600)
Net Assets - Temporarily Restricted	148,704	258,135	109,431
Net Assets - Permanently Restricted	–	25,288	25,288
Expenses – Management and General	172,356	176,956	4,600
Temporarily Restricted Contributions	112,819	222,250	109,431
Permanently Restricted Contributions	–	25,288	25,288

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

C. CONTRIBUTIONS RECEIVABLE

Unconditional Promises to Give Contributions receivable consisted of the following:

	December 31,	
	2009	2008
Contributions Due in Less than One Year	\$ 178,460	\$ 196,660
Contributions Due in One to Five Years	30,000	–
	<u>208,460</u>	<u>196,660</u>
Less Discount to Net Present Value	(2,768)	–
	<u>\$ 205,692</u>	<u>\$ 196,660</u>

Discount rate used on long-term promises to give was 6% in 2009.

D. MARKETABLE SECURITIES AND INVESTMENT INCOME

Investment income consisted of the following:

	Year Ended December 31,	
	2009	2008
Interest and Dividends	\$ 4,178	\$ 23,378
Net Unrealized Gain	6,742	363
Net Unrealized Loss	–	(6,126)
	<u>\$ 10,920</u>	<u>\$ 17,615</u>

E. OTHER INVESTMENTS

The Society is the owner of income interests in three privately held limited partnerships. The Society expects future income and distributions from these partnerships to be minimal. The partnerships have been valued based on the expected discounted future material cash flows.

The Society also maintains the Austin Humane Society Every Animal Fund, a permanently restricted endowment fund managed by Austin Community Foundation. Income and net appreciation may be expended in accordance with the spending policy established by the Foundation. The investment consists of an undivided interest in the holdings of Austin Community Foundation. The fund is classified as Pooled Investments within the valuation hierarchy.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

F. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost when purchased and at fair market value when received as donations and consists of the following:

	December 31,	
	2009	2008
Land	\$ 156,424	\$ 156,424
Building and Improvements	1,167,262	1,162,194
Kennel Equipment	172,754	172,754
Surgical Equipment	2,839	2,839
Intangible Assets and Software	123,814	–
Furniture and Fixtures	323,259	307,235
Automotive Equipment	70,550	70,550
	<u>2,016,902</u>	<u>1,871,996</u>
Less Accumulated Depreciation	919,584	845,881
	<u>\$ 1,097,318</u>	<u>\$ 1,026,115</u>

G. RENTAL COMMITMENTS

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

H. RESTRICTED NET ASSETS

At December 31, 2009 and 2008, temporarily restricted net assets are available for the following purposes:

	2009	2008
Capital Improvements	\$ 20,832	\$ 35,885
Timing Restrictions	131,772	196,660
Purpose Restrictions	3,550	25,590
	<u>\$ 156,154</u>	<u>\$ 258,135</u>

At December 31, 2009 and 2008, permanently restricted net assets consisted of the Austin Humane Society Every Animal Fund.

I. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2010, the date which the financial statements were available to be issued.

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

J. FUNCTIONAL EXPENSES

Functional expenses for the year ended December 31, 2009 consisted of the following:

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 1,012,586	\$ 140,993	\$ 128,176	\$ 1,281,755
Employee Benefits	75,314	10,487	9,533	95,334
Payroll Taxes, Etc.	74,384	10,357	9,416	94,157
Total Salaries and Related Expenses	1,162,284	161,837	147,125	1,471,246
Advertising	60,225	–	58,335	118,560
Auto and Travel	7,957	718	654	9,329
Bank and Credit Card	18,653	2,597	2,361	23,611
Dues and Subscriptions	3,952	550	500	5,002
Insurance – General	10,278	1,054	957	12,289
Insurance – Workmen's Compensation	5,365	–	–	5,365
Kennel Supplies	51,086	–	–	51,086
Licenses	10,700	1,490	1,354	13,544
Miscellaneous	462	–	213	675
Office Supplies and Postage	24,016	2,460	2,236	28,712
Product Costs	7,340	–	–	7,340
Professional Services	101,077	28,351	8,156	137,584
Public Appeal and Fund Raising Events	–	–	47,468	47,468
Repairs and Maintenance	26,924	–	–	26,924
Taxes – Other	4,806	–	–	4,806
Telephone	19,978	2,782	2,529	25,289
Training Programs and Seminars	20,276	10,367	–	30,643
Travel	407	768	1,020	2,195
Utilities	56,291	7,838	7,125	71,254
Veterinary Services	32,674	–	–	32,674
Veterinary Supplies	157,048	–	–	157,048
Volunteer Supplies	2,514	–	–	2,514
	622,029	58,975	132,908	813,912
Total Expenses Before Depreciation and Donated Supplies	1,784,313	220,812	280,033	2,285,158
Depreciation on Building and Equipment	58,225	7,370	8,108	73,703
Donated Supplies and Services	50,985	–	1,900	52,885
	\$ 1,893,523	\$ 228,182	\$ 290,041	\$ 2,411,746

THE HUMANE SOCIETY OF AUSTIN AND TRAVIS COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

J. FUNCTIONAL EXPENSES – Continued

Functional expenses for the year ended December 31, 2008 consisted of the following:

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 826,911	\$ 115,140	\$ 104,672	\$ 1,046,723
Employees Benefits	54,463	7,584	6,894	68,941
Payroll Taxes, Etc.	60,452	8,417	7,652	76,521
Total Salaries and Related Expenses	941,826	131,141	119,218	1,192,185
Advertising	129,612	–	–	129,612
Auto and Travel	7,559	554	504	8,617
Bank and Credit Card	14,238	1,739	1,642	17,619
Dues and Subscriptions	2,495	347	316	3,158
Insurance – General	11,293	925	841	13,059
Insurance – Workmen’s Compensation	938	–	–	938
Kennel Supplies	42,401	–	–	42,401
Licenses	6,430	895	814	8,139
Miscellaneous	5,771	–	643	6,414
Office Supplies and Postage	40,242	4,878	3,112	48,232
Product Costs	15,839	–	–	15,839
Professional Services	208,714	11,821	74,701	295,236
Public Appeal and Fund Raising Events	–	–	77,388	77,388
Repairs and Maintenance	32,545	–	–	32,545
Taxes – Other	1,727	4,777	310	6,814
Telephone	20,324	2,830	2,573	25,727
Training Programs and Seminars	24,677	3,436	7,984	36,097
Travel	1,024	–	3,456	4,480
Utilities	50,007	6,329	5,755	62,091
Veterinary Services	29,266	–	–	29,266
Veterinary Supplies	108,596	–	–	108,596
Volunteer Supplies	1,744	–	–	1,744
	755,442	38,531	180,039	974,012
Total Expenses Before Depreciation and Donated Supplies	1,697,268	169,672	299,257	2,166,197
Depreciation on Building and Equipment	52,311	7,284	6,622	66,217
Donated Supplies and Services	115,783	–	–	115,783
	\$ 1,865,362	\$ 176,956	\$ 305,879	\$ 2,348,197