

**Financial Statements
and Independent Auditor's
Report**

PALM VALLEY ANIMAL CENTER

December 31, 2014

**LONG CHILTON, LLP
Certified Public Accountants
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PALM VALLEY ANIMAL CENTER
December 31, 2014

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Independent Auditor's Report

To the Board of Directors
Palm Valley Animal Center

We have audited the accompanying financial statements of Palm Valley Animal Center (a nonprofit organization), which comprise the statement of assets, liabilities and net assets - modified cash basis, as of December 31, 2014, and the related statement of revenues, expenses and other changes in net assets - modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 from 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 assets, liabilities and net assets of Palm Valley Animal Center as of December 31, 2014, and its revenues, expenses, and other changes in net assets basis for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 (Basis of accounting) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses – modified cash basis on page 12 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.


Long Chilton, LLP
Certified Public Accountants

McAllen, TX
July 28, 2015

PALM VALLEY ANIMAL CENTER
STATEMENT OF ASSETS, LIABILITIES, AND NET
ASSETS - MODIFIED CASH BASIS
December 31, 2014

Current assets		
Cash and cash equivalents	\$	1,792,408
Cash restricted		539,342
Certificates of deposit		<u>409,904</u>
Total current assets		<u>2,741,654</u>
Property and equipment		
Vehicles		140,342
Fixtures and equipment		452,007
Buildings and improvements		1,539,417
Land, additions and improvements		<u>364,196</u>
Total property and equipment		2,495,962
Less: accumulated depreciation		<u>(1,235,724)</u>
Net property and equipment		<u>1,260,238</u>
Other assets		
Investments		320,939
Investment in bingo partnership		<u>19,115</u>
Total other assets		<u>340,054</u>
Total assets	\$	<u><u>4,341,946</u></u>
Current liabilities		
Accrued expenses	\$	6
Note payable		<u>5,345</u>
Total current liabilities		5,351
Long-term note payable		<u>20,046</u>
Total liabilities		<u>25,397</u>
Net Assets		
Unrestricted		3,777,207
Temporarily restricted		482,125
Permanently restricted		<u>57,217</u>
Total net assets		<u>4,316,549</u>
Total liabilities and net assets	\$	<u><u>4,341,946</u></u>

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

PALM VALLEY ANIMAL CENTER
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN
NET ASSETS - MODIFIED CASH BASIS
For The Year Ended December 31, 2014

Changes in unrestricted net assets	
Revenues, support, and gains (losses):	
Program services	\$ 2,201,618
Public contributions	231,172
Bingo fundraising activity	22,642
Other fundraising activities	88,205
Investment income	17,167
Net unrealized gains and losses on investments	<u>20,440</u>
Total revenues, support, and gains (losses)	<u>2,581,244</u>
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>19,520</u>
Total unrestricted revenues	<u>2,600,764</u>
Expenses:	
Program services	2,272,028
Support Services	
General and administrative	132,172
Other fundraising activities	<u>105,608</u>
Total support services	<u>237,780</u>
Total expenses	<u>2,509,808</u>
Increase in unrestricted net assets	<u>90,956</u>
Changes in temporarily restricted net assets	
Donations	409,145
Net assets released from restrictions	<u>(19,520)</u>
Increase in temporarily restricted net assets	<u>389,625</u>
Changes in permanently restricted net assets	
Donations	<u>57,217</u>
Increase in permanently restricted net assets	<u>57,217</u>
Increase in net assets	537,798
Net assets at beginning of year	<u>3,778,751</u>
Net assets at end of year	<u>\$ 4,316,549</u>

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

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – Palm Valley Animal Center (the “Center”) is a Texas nonprofit corporation organized in Edinburg, Texas to provide humane care and treatment for all animals needing protection in Hidalgo County and the surrounding area, return lost animals to their owners, provide euthanasia when necessary, reduce the unwanted animal population by programs such as spaying and neutering deemed appropriate and practical, and educate the public in proper care and responsibility for animals.

Basis of accounting – The accompanying financial statements have been prepared on the modified cash basis of accounting. Under that basis, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles primarily because the Center has not recognized accounts receivable for program service revenues, unconditional promises to give and accounts payable to vendors and their related effects on earnings in the accompanying financial statements.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Codification (ASC) 958-205 (Not for Profit Entities – Presentation of Financial Statements). In accordance with ASC 958-205, the Center is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The organization received donated cash as temporarily restricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or a part of the income earned on any related investments for general or specific purposes.

Use of estimates – Management uses estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents – Cash and cash equivalents include all interest bearing deposits, money market funds, and highly liquid investments with an original maturity of less than three months.

Investments – Investments are principally comprised of mutual funds and debt securities. Fair market value is based on the last sale price on the last business day of the year or on the most current traded date subsequent to year end. As required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Center reports investments at fair value with gains and losses included in the statements of activities.

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements – The Fair Value Measurements and Disclosures Topic of FASB Accounting Standards Codification defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for those instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Contributed services – Contributions of services are recognized at fair value of those services if the services received (a) create or enhance nonfinancial 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. Contributed services that do not meet the above criteria are not recognized.

Donated services – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Donated services have been recorded in the financial statements as public contributions.

Property and equipment – Property and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Such donations are recorded as unrestricted unless the donor imposes specific restrictions. A capitalization threshold of \$1,000 is used. Depreciation is computed on the straight-line basis over its estimated useful life. Maintenance, repairs, and minor improvements are charged to expense as they are incurred. Improvements which materially increase the value of the property are capitalized. Upon retirement or direct sale of property or equipment, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded in revenue or expense.

Advertising – Advertising costs are expensed as they are incurred.

Income taxes – The Center is a non-profit organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. Form 990, the federal information return for exempt organizations, is filed annually with the Internal Revenue Service. The Center believes it has appropriate support for all tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, tax returns related to years ended December 31, 2011 through 2013 remain open for examination by taxing authorities.

Functional expenses - The cost of providing various program and supporting services has been summarized on a functional basis in the schedule of functional expenses – modified cash basis. Expenses that are identified with a specific program and support service are allocated directly according to their natural expenditure classification. Indirect expenses that are common to several functions are allocated among the programs benefited.

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

**NOTE 2 - CONCENTRATIONS OF CREDIT RISK RELATED TO CASH DEPOSITS/
CERTIFICATES OF DEPOSIT**

The Center maintains balances in two different financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2014, the Center's uninsured cash balance total \$1,459,718.

NOTE 3 - CERTIFICATES OF DEPOSIT

Certificates of deposit held by the Center bear interest ranging from 0.40% to 0.61% and have maturities of 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits and investments are stated at fair value and consist of the following at December 31, 2014:

	Cost	Fair Market Value	Appreciation (Depreciation)
Petty cash	\$ 1,000	\$ 1,000	\$ -
Cash and cash equivalents	725,642	725,642	-
Money market	1,605,108	1,605,108	-
Certificates of deposit	400,000	409,904	9,904
Government securities	126,522	127,213	691
Equity Securities	179,495	193,726	14,231
	<u>\$ 3,037,767</u>	<u>\$ 3,062,593</u>	<u>\$ 24,827</u>

Investment income for the year ended December 31, 2014, consists of the following:

Interest income	\$ 21,815
Oil royalties	584
Dividends	14,035
Loss on sale of securities	(15,852)
Loss on sale of forklift	(3,415)
Total investment income	<u>\$ 17,167</u>

Deposits and investments are presented in the Statement of assets, liabilities, and net assets – Modified cash basis at December 31, 2014 as:

Cash and cash equivalent	\$ 1,792,408
Cash restricted	539,342
Certificates of deposit	409,904
Investments	320,939
	<u>\$ 3,062,593</u>

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 - FAIR VALUE MEASUREMENTS

The reporting entity uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. The following description of the valuation methods and assumptions were used by the Center in estimating the fair value disclosures for financial assets. There have been no changes in methodologies used at December 31, 2014:

Investments – Valued at the fair value of shares quoted market prices held by the Center at fiscal year end.

The following table sets forth the level, within the fair value hierarchy, of the Center’s assets as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Investments	\$ 320,939	\$ -	\$ -	\$ 320,939
Total Assets at Fair Value	<u>\$ 320,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,939</u>

NOTE 6 - BINGO PARTNERSHIP AND OPERATIONS

The Center owns a 12.83% partnership interest in “El Bingo Grande Unit-McAllen”. The Center’s share of net bingo income for the year ended December 31, 2014 was \$19,115. From that, the Center reduced its income for out of pocket expenses in 2014 of \$1,869 and income tax expense of \$1,512.

NOTE 7 - PROPERTY AND EQUIPMENT

The Center spent \$19,520 in the construction of the new RGV PAWS Center. The Center had improvements for \$3,905 and it received air conditioners with a total cost of \$3,000.

NOTE 8 - DEPRECIATION

Depreciation expense included in program services for the year ended December 31, 2014 amounted to \$76,119. Depreciation expense included in general and administrative for the year ended December 31, 2014 amounted to \$3,806.

NOTE 9 – NOTE PAYABLE

In October 2014, the Center entered into a capital lease of a forklift for \$26,727 with Toyota Financial Services. The capital lease does not include interest and is payable in 60 monthly payments of \$445. The note payable balance at December 31, 2014 is \$25,391.

Future minimum payments required under the capital lease are:

	Amount
2015	\$ 5,345
2016	5,345
2017	5,345
2018	5,345
2019	<u>4,011</u>
	<u>\$ 25,391</u>

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 – NET ASSETS

Total temporarily restricted net assets of \$482,125 are related to funds provided by donors restricted to the construction of the RGV PAWS Facility.

Total permanently restricted net assets of \$57,217 are related to funds provided by donors restricted to match contributions to be received from Edinburg Foundation, Inc.

NOTE 11 – EDINBURG FOUNDATION INC MATCHING GRANT

During the year, the Center was awarded a Matching Endowment Grant from Edinburg Foundation, Inc. The Foundation will provide \$50,000 per year for five years to be matched by the Center to establish an operating endowment for the construction, repair, and/or maintenance of buildings or improvements housing the Center. The endowment is allowed to spend only the earnings and no more than 20% of the principal per year unless there is a bona fide emergency expenditures needed for repair, maintenance or improvements. The endowment account was not open at the bank as of December 31, 2014.

NOTE 12 - BORROWED MONEY

The Center can borrow up to 90%, 70% and 50% of the value of government securities, corporate bonds and stocks, respectively, held at its brokerage investment firm. Borrowings are secured by the investment portfolio and there are no established maturity dates on amounts borrowed. The interest rate applied to the extension of credit varies based on the amount borrowed. At December 31, 2014 there was no amount outstanding.

NOTE 13 – IN-KIND DONATIONS

The Fair value of in-kind donations included as public contributions in the financial statements and the corresponding program expenses for the year ended December 31, 2014 was \$15,905 for printing of quarterly magazine and for marketing services.

NOTE 14 - PROGRAM SERVICES REVENUE

Program services revenue for the year ended December 31, 2014 consists of the following:

City and county fees	\$ 1,950,310
Adoptions	169,326
Animal claims	46,285
Rabies fees	18,045
Animal Disposal	9,920
Miscellaneous fees and charges	<u>7,732</u>
	<u>\$ 2,201,618</u>

NOTE 15 – ECONOMIC DEPENDENCY

The Center's major customers are comprised of three municipalities and Hidalgo County. These major customers account for approximately 76% of the Center's service revenues for the year ended December 31, 2014.

PALM VALLEY ANIMAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 16 - LEASING TRANSACTIONS

The Center has an employee leasing agreement with a third party to provide staff leasing services. Under the agreement, the Center's staff personnel are leased from the third party. Leasing payments are based on gross payroll cost plus a labor burden of 11.48%. The leasing agreement may be terminated at any time upon 30 day written notice.

NOTE 17 - SUBSEQUENT EVENT

For purposes of reporting on subsequent events, management has considered events occurring up to July 28, 2015; the date the report was available to be issued.

As of July 2015, the Center has received commitments for about \$800K as part of the capital campaign for the construction of the RGV PAWS facility.

Money from Electric Transmission Texas, LLC in the amount of \$460,344 was received in lieu of damages and easement on the PAWS Land in April 2015. Also, Construction on The Laurie P. Andrews PAWS Center began in June 2015.

During July 2015, the Center was in the process of establishing an endowment fund to hold the Edinburg matching fund donations as well as the contributions the Center collects each year as part of the endowment, and it was in the process of opening a bank account to hold these funds.

SUPPLEMENTARY INFORMATION

PALM VALLEY ANIMAL CENTER
SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
For The Year Ended December 31, 2014

	Program Services	Support Services		Total
		General and Administrative	Other Fundraising	
Advertising	\$ 21,604	\$ -	\$ -	\$ 21,604
Animal disposal	50,462	-	-	50,462
Automobile	22,898	-	-	22,898
Bank and other charges	3,534	-	1,515	5,049
Depreciation	72,313	3,806	-	76,119
Donations	4,511	-	-	4,511
Dues and subscriptions	1,369	-	-	1,369
Food for animals	35,592	-	-	35,592
Insurance	36,713	9,178	-	45,891
Janitorial	26,288	-	-	26,288
Leased employees and related expenses	1,425,349	88,970	84,901	1,599,220
Meals	2,987	-	-	2,987
Medical and euthanasia supplies	174,248	-	-	174,248
Miscellaneous	7,252	-	-	7,252
Occupancy	47,192	2,484	-	49,676
Office expense	56,074	6,230	-	62,304
Personnel development	3,385	-	-	3,385
Postage	8,479	1,663	942	11,084
Printing	7,336	-	-	7,336
Professional fees	20,676	10,550	18,250	49,476
Repairs and maintenance	45,568	8,041	-	53,609
Rescue program expense	6,193	-	-	6,193
Shelter supplies and equipment	78,281	-	-	78,281
Tax and licenses	-	1,250	-	1,250
Uniforms	5,081	-	-	5,081
Veterinary	108,644	-	-	108,644
	<u>\$ 2,272,028</u>	<u>\$ 132,172</u>	<u>\$ 105,608</u>	<u>\$ 2,509,808</u>

See auditor's report on supplementary information.