Financial Statements and Independent Auditor's Report

PALM VALLEY ANIMAL CENTER

December 31, 2015

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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, 2015, 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, 2015, and its revenues, expenses, and other changes in net assets 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 13 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

Long Chilton, LLP
Certified Public Accountants

McAllen, TX
October 31, 2016

PALM VALLEY ANIMAL CENTER
STATEMENT OF ASSETS, LIABILITIES, AND NET
ASSETS - MODIFIED CASH BASIS
December 31, 2015

Current assets			
Cash and cash equivalents		$	1,438,102
Prepaid expenses			76
	Total current assets		1,438,179
Property and equipment			
Vehicles			140,343
Fixtures and equipment			787,390
Buildings and improvements			1,536,185
Construction in progress			1,210,789
Land, additions and improvements			364,196
	Total property and equipment		4,038,903
Less: accumulated depreciation			(1,327,464)
	Net property and equipment		2,711,439
Other assets			
Endowment			198,203
Investments			503,070
Investment in bingo partnership			19,938
	Total other assets		721,211
	Total assets	$	4,870,827
Current liabilities			
Accrued expenses		$	6
Current portion of long term debt			5,345
	Total current liabilities		5,351
Long-term debt			14,701
	Total liabilities		20,052
Net Assets			
Unrestricted			4,652,572
Permanently restricted			198,203
	Total net assets		4,850,775
	Total liabilities and net assets	$	4,870,827

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, 2015

Changes in unrestricted net assets		
Revenues, support, and gains (losses):		
Program services	$	1,991,429
Public contributions		248,472
Bingo fundraising activitiy		17,009
Other fundraising activities		100,492
Investment income		34,365
Other income		460,344
Total revenues, support, and gains (losses)		2,852,111
Net assets released from restrictions:		
Satisfaction of program restrictions		832,460
Total unrestricted revenues		3,684,571
Expenses:		
Program services		2,600,198
Support Services		
General and administrative		131,475
Other fundraising activities		77,533
Total support services		209,008
Total expenses		2,809,206
Increase in unrestricted net assets		875,365
Changes in temporarily restricted net assets		
Donations		350,335
Net assets released from restrictions		(832,460)
Decrease in temporarily restricted net assets		(482,125)
Changes in permanently restricted net assets		
Donations		142,783
Restricted investment income		(1,797)
Increase in permanently restricted net assets		140,986
Increase in net assets		534,227
Net assets at beginning of year		4,316,549
Net assets at end of year	$	4,850,775

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

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. In May of 2016, the Center began operating activities at its new RGV Paws facility.

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.

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.

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. Amortization is computed on the straight-line basis over eight years. 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 respective accounts, and any gain or loss is recorded in revenue or expense.

Advertising – Advertising costs are expensed as they are incurred. Total advertising costs incurred for 2015 amounted to $7,355.

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. The Center's tax returns for 2015, 2014, and 2013 remain open to examination by the Internal Revenue Service.

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.

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, 2015, the Center's uninsured cash balance total $606,278.

NOTE 3 – INVESTMENT SECURITIES – FAIR VALUE AND UNREALIZED GAIN

Investment securities are presented at fair value to more accurately reflect their current values. All investments held by the Center are considered to have level 1 inputs and are therefore included within the level 1 hierarchy.

Fair values of investments held by the Center consist of the following at December 31, 2015:

	Cost	Fair Market Value	Appreciation (Depreciation)
Government securities	$ 264,305	261,134	(3,171)
Equity Securities	235,642	241,936	6,294
	$ 499,947	$ 503,070	$ 3,123

Investment income for the year ended December 31, 2015 consists of the following:

Interest income	$ 24,903
Oil royalties	412
Dividends	7,007
Unrealized gain/(loss)	(2,324)
Gain on sale of assets	5,831
Subtotal	35,830
Less: Investment Expenses	(3,263)
Total Investment Income	$ 32,567

On the Statement of Revenues, Expenses, Other Changes in Net Assets, investment income is presented as follows:

Investment income, unrestricted	$34,365
Investment income, restricted	(1,797)
	$32,567

NOTE 4 - BINGO PARTNERSHIP AND OPERATIONS

The Center owns a 15.25% partnership interest in "El Bingo Grande Unit-McAllen". The Center's share of net bingo income for the year ended December 31, 2015 was $17,365. From that, the Center reduced its income for out of pocket expenses in 2015 of $356.

NOTE 5 – DEPRECIATION AND AMORTIZATION

Depreciation expense included in program services for the year ended December 31, 2015 amounted to $86,460. Depreciation expense included in general and administrative for the year ended December 31, 2015 amounted to $4,551. Amortization expense included in program services for the year ended December 31, 2015 amounted to $729.

NOTE 6 – Long Term Debt

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, 2015 is $20,046.

Future minimum payments required under the capital lease are:

	Amount
2016	$ 5,345
2017	5,345
2018	5,345
2019	4,011
	$ 20,046

In August 2015, the Center signed a promissory note with Texas Regional Bank for $2,000,000 with a 4.25% of interest. As of December 31, 2015, the Center has not received any proceeds and therefore the balance at year end is zero.

In September 2015, the Center opened a line of credit with Frost Bank for $250,000 with an initial interest rate of 3.25%. As of December 31, 2015, the Center has not received any proceeds and therefore the balance at year end is zero.

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

In the prior year, the Center was awarded a Matching Endowment Grant from Edinburg Foundation, Inc. The Foundation provided $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. At year's end, the Center has $198,203 in an endowment fund which consists of the following transactions:

Beginning Balance	$ 57,217
Contributions	142,783
Investment Income	(1,797)
Ending balance	$ 198,203

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS *(Continued)*

There is a deficiency of $1,797 in the required balance for the permanent endowment due mainly to $5,446 of unrealized losses. The permanent endowment is kept in a separate bank account. In the current year, no amounts were designated for expenditure.

Effective September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs Texas charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Directors has interpreted Texas' adoption of UPMIFA as requiring the Center to adopt investment and spending policies that preserve the fair value of the original gift as of the date of the gift, absent donor stipulations to the contrary. Although the Center has a long-term fiduciary duty to the donor (and others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of restricted purposes of the endowment, if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Center in a manner consistent with the purpose or time restriction, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be permanently restricted as a result of explicit donor stipulations.

The objectives of the investment policy for the endowment assets are to protect the principal of the funds against permanent loss, to generate a sufficient return to provide sustainable funding for current needs and to grow the principal of the endowment to protect from inflation. Risk parameters are specified to prohibit total equity investments from exceeding 80 percent of assets with no single position exceeding 5 percent. The annual spending objective is to use no more than 5% of the market value average. Approval of 80% of the Board is re1quired if principal invasion is required to meet the spending objective.

NOTE 8 - 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, 2015 there was no amount outstanding.

NOTE 9 – 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, 2015 was $17,836 for printing of quarterly magazine and for marketing services.

NOTE 10 - PROGRAM SERVICES REVENUE

Program services revenue for the year ended December 31, 2015 consists of the following:

City and county fees	$ 1,693,051
Adoptions	216,066
Animal claims	45,246
Rabies fees	19,421
Animal Disposal	6,759
Miscellaneous fees and charges	10,886
	$ 1,991,429

NOTE 11 – ECONOMIC DEPENDENCY

The Center's major customers are comprised of four municipalities and Hidalgo County. These major customers account for approximately 74% of the Center's service revenues for the year ended December 31, 2015.

NOTE 12 - 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 13 – OPERATING LEASES

The Center has a non-cancelable operating lease for a copier that expires in 2019. Future minimum lease payments under operating consist of the following:

	Minimum Lease Payments
2016	$ 19,128
2017	19,128
2018	19,128
2019	19,128
	$ 76,512

NOTE 14 - SUBSEQUENT EVENT

For purposes of reporting on subsequent events, management has considered events occurring up to October 31, 2016; the date the report was available to be issued.

NOTE 14 - SUBSEQUENT EVENT *(Continued)*

In March of 2016, the Center received a $100,000 grant from the Meadows Foundation for construction of a new shelter and programs designed to increase live release dates.

As of May 2016, the Center opened its new RGV Paws facility and capitalized $2,362,215 of building expenses. To help cover the cost of the new facility, the Center received and used $1,500,000 of the $ 2,000,000 available from the promissory note mentioned in Note 6 in March 2016. In addition, the line of credit for $250,000 mentioned in Note 6 was also used by the Center in June 2016.

SUPPLEMENTARY INFORMATION

PALM VALLEY ANIMAL CENTER
SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
For The Year Ended December 31, 2015

	Program Services	Support Services: General and Administrative	Support Services: Other Fundraising	Total
Advertising	$ 7,355	$ -	$ -	$ 7,355
Animal disposal	48,761	-	-	48,761
Automobile	33,205	-	-	33,205
Bank and other charges	4,727	-	1,527	6,254
Depreciation	87,973	3,767	-	91,740
Donations	3,425	-	-	3,425
Dues and subscriptions	1,540	-	-	1,540
Food for animals	39,152	-	-	39,152
Insurance	30,731	7,683	-	38,414
Janitorial	31,699	-	-	31,699
Leased employees and related expenses	1,525,339	88,172	74,635	1,688,147
Meals	8,267	-	-	8,267
Medical and euthanasia supplies	246,725	-	-	246,725
Miscellaneous	16,659	-	-	16,659
Occupancy	50,435	2,654	-	53,089
Office expense	61,877	6,875	-	68,752
Personnel development	1,855	-	-	1,855
Postage	10,286	2,057	1,371	13,714
Printing	42,836	-	-	42,836
Professional services	15,050	11,150	-	26,200
Repairs and maintenance	48,528	8,564	-	57,091
Rescue program expense	7,948	-	-	7,948
Shelter supplies and equipment	85,731	-	-	85,731
Tax and licenses	-	553	-	553
Uniforms	4,061	-	-	4,061
Veterinary	186,032	-	-	186,032
	$ 2,600,198	$ 131,475	$ 77,533	$ 2,809,206

See auditor's report on supplementary information.