

BRAZOS ANIMAL SHELTER, INC.

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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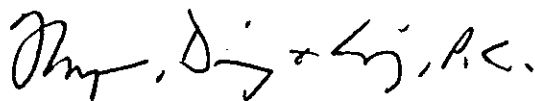
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Brazos Animal Shelter, Inc.

We have audited the accompanying statement of financial position of Brazos Animal Shelter, Inc. (a nonprofit organization) as of September 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated November 18, 2011, we expressed an unqualified opinion on those financial statements.

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 Brazos Animal Shelter, Inc. as of September 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



THOMPSON, DERRIG & CRAIG, PC
July 26, 2012

BRAZOS ANIMAL SHELTER, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2011 AND 2010

	2011	2010
Assets:		
Current assets		
Cash and cash equivalents	\$ 80,016	\$ 283,171
Investments in mutual funds	49,101	100,764
Accounts receivable	29,220	24,720
Prepaid assets	2,348	1,291
Total current assets	160,685	409,946
Property and equipment (net)	1,066,597	671,875
Other assets		
Restricted investments	44,982	44,982
Cash surrender value of life insurance	2,951	2,901
Total other assets	47,933	47,883
Total Assets	\$ 1,275,215	\$ 1,129,704
Liabilities:		
Current liabilities		
Accounts payable	\$ 36,417	\$ 25,620
Accrued expenses	29,909	21,440
Total current liabilities	66,326	47,060
Net Assets:		
Unrestricted	1,105,204	935,670
Temporarily restricted	58,703	101,992
Permanently restricted	44,982	44,982
Total net assets	1,208,889	1,082,644
Total Liabilities and Net Assets	\$ 1,275,215	\$ 1,129,704

See independent auditors' report and notes to financial statements.

BRAZOS ANIMAL SHELTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
WITH COMPARATIVE TOTALS FOR 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
Support and Revenue:					
Adoption	\$ 116,914	\$ -	\$ -	\$ 116,914	\$ 127,629
Impoundment	46,923	-	-	46,923	54,108
Surrender fees	22,820	-	-	22,820	27,874
Disposal services	6,773	-	-	6,773	5,093
Tags and microchips	261,349	-	-	261,349	271,361
Government contracts	523,188	-	-	523,188	256,885
Rabies quarantine fees	20,527	-	-	20,527	20,779
Contributions	75,753	68,629	-	144,382	228,490
In-kind contributions	188,694	-	-	188,694	128,336
Investment/Interest income	7,868	-	-	7,868	4,992
Miscellaneous income	18,435	-	-	18,435	12,060
Oil and gas royalties	38,483	-	-	38,483	94,532
Rental income	5,100	-	-	5,100	9,300
Loss on disposition of assets	(107,968)	-	-	(107,968)	
Investment gains(losses)	(2,794)	-	-	(2,794)	6,261
Assets released from restrictions	111,918	(111,918)	-	-	-
Total Support and Revenue	1,333,983	(43,289)	-	1,290,694	1,247,700
Expenses:					
Program services	927,472	-	-	927,472	809,201
General and administrative	209,765	-	-	209,765	182,835
Fundraising	27,212	-	-	27,212	67,046
Total Expenses	1,164,449	-	-	1,164,449	1,059,082
Change in net assets	169,534	(43,289)	-	126,245	188,618
Beginning net assets, restated	935,670	101,992	44,982	1,082,644	894,026
Ending net assets	\$ 1,105,204	\$ 58,703	\$ 44,982	\$ 1,208,889	\$ 1,082,644

See independent auditors' report and notes to financial statements.

**BRAZOS ANIMAL SHELTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
WITH COMPARATIVE TOTALS FOR 2010**

	Program	Support	Fundraising	Totals	
				2011	2010
Salaries	\$ 320,624	\$ 80,156	\$ -	\$ 400,780	\$ 391,306
Payroll taxes	23,340	5,835	-	29,175	28,909
Payroll related items	81,646	20,412	-	102,058	93,460
Advertising	49,433	-	13,149	62,582	91,367
Veterinary expenses	196,242	-	-	196,242	114,797
Fundraising	-	-	14,063	14,063	27,641
Spay / neuter expenses	61,386	-	-	61,386	66,429
Kennel supplies	54,091	-	-	54,091	37,638
Animal disposal	604	-	-	604	742
Computer expense	15,737	15,737	-	31,474	22,203
Insurance	2,972	2,971	-	5,943	5,535
Auto expense	6,516	6,516	-	13,032	11,466
Microchip expense	20,040	-	-	20,040	16,896
Education	828	-	-	828	9,494
Repairs and maintenance	9,624	3,208	-	12,832	11,164
Telephone and utilities	35,819	11,939	-	47,758	40,659
Directors and officers insurance	-	2,536	-	2,536	2,262
Cremation expense	3,788	-	-	3,788	1,876
Bank charges	-	8,249	-	8,249	7,346
Rent	420	420	-	840	1,236
Retail goods	1,688	-	-	1,688	2,700
Office expenses	4,260	12,781	-	17,041	18,487
Professional fees	12,129	36,387	-	48,516	25,948
Miscellaneous expenses	18,432	-	-	18,432	10,377
Total expenses before depreciation	919,619	207,146	27,212	1,153,978	1,039,938
Depreciation	7,853	2,618	-	10,471	19,144
TOTAL EXPENSES	\$ 927,472	\$ 209,765	\$ 27,212	\$ 1,164,449	\$ 1,059,082

See independent auditors' report and notes to financial statements.

BRAZOS ANIMAL SHELTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Cash Flows from Operating Activities:

	<u>2011</u>	<u>2010</u>
Change in net assets	\$ 126,245	\$ 188,618
Adjustments to reconcile change in net assets to		
Net cash provided by operating activities:		
Depreciation	10,471	19,144
Loss on disposition	107,968	-
Change in operating assets and payables:		
Accounts receivable	(4,500)	29,465
Prepaid expenses	(1,057)	309
Accounts payable	10,797	(55,008)
Accrued expenses	8,469	(1,130)
Net cash provided by operating activities	<u>258,393</u>	<u>181,398</u>

Cash Flows from Investing Activities:

Purchase of property and equipment	(513,162)	(3,302)
Net change investments	<u>51,614</u>	<u>29,589</u>
Net cash provided (used) by investing activities	<u>(461,548)</u>	<u>26,287</u>
Change in cash	(203,155)	207,685
Beginning cash	<u>283,171</u>	<u>75,486</u>
Ending cash	<u>\$ 80,016</u>	<u>\$ 283,171</u>

See independent auditors' report and notes to financial statements.

**BRAZOS ANIMAL SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

Note 1 – Summary of Significant Accounting Policies

Organization and nature of activities

The Brazos Animal Shelter, Inc. (the Shelter) is a nonprofit corporation, chartered in the State of Texas on October 31, 1980. The Shelter's purpose is to improve the quality of life for people and animals of the Brazos Valley through professional animal services. Counties served by the Shelter are Brazos, Burleson, Grimes, Leon, Madison, Robertson and Washington counties. The Shelter is supported by private donations, contracts with local governments, fundraising events, and fees for services. The Shelter has no stockholders or equity owners and is governed by a board of directors made up of community volunteers.

The mission of the Shelter is to enhance the human-animal bond, protect the health and safety of the public, act as leaders in the animal welfare industry, protect the health, safety, and well-being of animals, and to act as advocates for general animal welfare.

Basis of accounting

The financial statements of the Shelter have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Shelter's financial statements present information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The organization considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

Fair value of financial instruments

The carrying amounts of cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of those instruments.

See independent auditors' report.

BRAZOS ANIMAL SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies (Continued)

Fixed assets

Acquisitions of furniture and equipment in excess of \$1,000 are capitalized. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Public support, revenue, and pledges

Grants and other contributions of cash and other assets are considered to be available for unrestricted use unless specifically restricted by the donor. 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 activities as net assets released from restrictions.

Income tax status

The organization is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code 501(c)(3). The Shelter believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The information returns remain open and subject to review by taxing jurisdictions for three years after they are filed.

Note 2 – Restrictions on Net Assets

Temporarily restricted net assets consist of donor-restricted funds to be used for future expenses and capital expansion. Permanently restricted net assets consists of funds accumulated for the purpose of generating revenue for the spay/neuter outreach program.

Note 3 – Donated Services and Support

The value of donated services and materials included as contributions and corresponding expenses for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Fundraising	\$ 26,334	\$ 67,046
Vet and vet tech services	144,981	61,290
Website fees	2,610	-
Drugs and supplies	14,769	-
	<u>\$ 188,694</u>	<u>\$ 128,336</u>

See independent auditors' report.

BRAZOS ANIMAL SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

Note 3 – Donated Services and Support (continued)

In addition, the Shelter received free rent from the City of Bryan for the Finfeather Road property where the Shelter's main operation was located during the year ended September 30, 2011. The lease term was from July 1, 2001 through June 30, 2011. Because of difficulties in establishing the rental value of the property, no contribution has been recorded.

The organization also received donated services from numerous volunteers performing non-professional functions. The value of these services is not reflected in the accompanying financial statements because they do not meet the criteria for recognition.

Note 4 – Property and Equipment

Property and equipment at September 30, 2011 and 2010 consisted of the following:

	2011	2010
Land - Leonard Road	\$ 181,587	\$ 181,587
Buildings - Leonard Road	875,104	371,815
Leasehold improvements - Finfeather	-	236,919
Kennels	40,718	151,350
Furniture, fixtures & office equipment	20,322	42,359
Production equipment	-	109,079
Vehicles	24,458	24,458
	1,142,189	1,117,567
Less: accumulated depreciation	(75,592)	(445,692)
Net property and equipment	\$ 1,066,597	\$ 671,875

Note 5 – Retirement Plan

The Shelter has a qualified annuity plan under Internal Revenue Code 403(b) covering substantially all employees. Any full-time employee of the Shelter is eligible to participate in the plan after thirty days of service. The Shelter matches employee contributions up to seven percent of their covered salary. The Shelter contributed \$20,092 and \$20,774 to the plan for the years ended September 30, 2011 and 2010, respectively. The Shelter board decided to terminate the plan in March 2012.

See independent auditors' report.

**BRAZOS ANIMAL SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

Note 6 – Commitments

The Shelter rents a copier for \$220 per month in a lease agreement that ends in October 2014. Future lease payments under these agreements are as follows:

2012	\$	2,640
2013	\$	2,640
2014	\$	2,640

Note 7 – Investments

Short-term investments consist primarily of stocks and money market funds. The fair value of investments is estimated based on quoted market prices as of the last trading day for the Shelter's fiscal years. The fair values as ending September 30, 2011 and 2010 are as follows.

	2011	2010
Money Market	\$ 1,758	\$ 2,278
Stocks	94,083	143,468
	\$ 95,841	\$ 145,746

Investment return for the years ended September 30, 2011 and 2010 is summarized as follows:

	2011	2010
Interest and dividends	\$ 7,868	\$ 4,992
Realized gains (losses)	(901)	(3,017)
Unrealized gains (losses)	(1,893)	9,278
	\$ 5,074	\$ 11,253

Note 8 – Investments (continued)

FASC 820-10-65, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted market prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Shelter uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Shelter measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

See independent auditors' report.

BRAZOS ANIMAL SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

Level 1 – The fair value of securities and other investment instruments is based on quoted net asset values of the shares held at year end.

	<u>2011</u>	<u>2010</u>
Level 1:		
Investments	<u>95,841</u>	<u>145,746</u>
	<u>\$ 95,841</u>	<u>\$ 145,746</u>

Note 9 – Date of Management Review

Management has evaluated subsequent events through July 26, 2012, the date the financial statements were available to be issued.

See independent auditors' report.