

Spay-Neuter Assistance Program, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2016 and 2015

Independent Auditors' Report

To the Board of Directors of
Spay-Neuter Assistance Program, Inc.:

We have audited the accompanying financial statements of Spay-Neuter Assistance Program, Inc. (SNAP), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and of cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility – 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 our audits 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 auditors' 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 financial position of SNAP as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – The accompanying financial statements have been prepared assuming that SNAP will continue as a going concern. As discussed in Note 7 to the financial statements, SNAP has experienced operating deficits which has required the use of their line of credit and certain restricted funds. This deficit in liquid net assets raises substantial doubt about SNAP’s ability to continue as a going concern. Management’s plans regarding this matter are described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

July 17, 2017

Spay-Neuter Assistance Program, Inc.

Statements of Financial Position as of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 185,314	\$ 603,529
Accounts receivable, net	82,726	96,516
Inventory	87,608	87,427
Prepaid expenses and other assets	75,647	76,820
Pledges receivable, net (<i>Note 2</i>)	134,347	177,056
Property, net (<i>Note 3</i>)	<u>659,822</u>	<u>724,282</u>
TOTAL ASSETS	<u>\$ 1,225,464</u>	<u>\$ 1,765,630</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 552,863	\$ 411,792
Accrued salaries and related expenses	164,798	164,249
Line of credit (<i>Note 6</i>)	<u>3,100</u>	<u> </u>
Total liabilities	<u>720,761</u>	<u>576,041</u>
Commitments (<i>Note 5</i>)		
Net assets:		
Unrestricted	370,356	1,012,533
Temporarily restricted (<i>Note 4</i>)	<u>134,347</u>	<u>177,056</u>
Total net assets	<u>504,703</u>	<u>1,189,589</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,225,464</u>	<u>\$ 1,765,630</u>

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Clinic fees	\$ 3,823,882		\$ 3,823,882
Product sales	983,672		983,672
Cost of product sold	(482,177)		(482,177)
Contributions	411,091	\$ 494,076	905,167
Other income	8,628		8,628
Total revenue	<u>4,745,096</u>	<u>494,076</u>	<u>5,239,172</u>
Net assets released from restrictions:			
Time restrictions	48,678	(48,678)	
Program expenditures	<u>488,107</u>	<u>(488,107)</u>	
Total	<u>5,281,881</u>	<u>(42,709)</u>	<u>5,239,172</u>
EXPENSES:			
Clinic services	5,129,945		5,129,945
Management and general	414,648		414,648
Fundraising	<u>379,465</u>		<u>379,465</u>
Total expenses	<u>5,924,058</u>		<u>5,924,058</u>
CHANGES IN NET ASSETS	(642,177)	(42,709)	(684,886)
Net assets, beginning of year	<u>1,012,533</u>	<u>177,056</u>	<u>1,189,589</u>
Net assets, end of year	<u>\$ 370,356</u>	<u>\$ 134,347</u>	<u>\$ 504,703</u>

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statement of Activities for the year ended June 30, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Clinic fees	\$ 4,251,078		\$ 4,251,078
Product sales	1,283,063		1,283,063
Cost of product sold	(623,896)		(623,896)
Contributions	438,251	\$ 230,453	668,704
Other income	<u>2,250</u>	<u> </u>	<u>2,250</u>
Total revenue	5,350,746	230,453	5,581,199
Net assets released from restrictions:			
Time restrictions	66,647	(66,647)	
Program expenditures	<u>372,341</u>	<u>(372,341)</u>	<u> </u>
Total	<u>5,789,734</u>	<u>(208,535)</u>	<u>5,581,199</u>
EXPENSES:			
Clinic services	5,514,264		5,514,264
Management and general	362,760		362,760
Fundraising	<u>393,916</u>	<u> </u>	<u>393,916</u>
Total expenses	<u>6,270,940</u>	<u> </u>	<u>6,270,940</u>
CHANGES IN NET ASSETS	(481,206)	(208,535)	(689,741)
Net assets, beginning of year	<u>1,493,739</u>	<u>385,591</u>	<u>1,879,330</u>
Net assets, end of year	<u>\$ 1,012,533</u>	<u>\$ 177,056</u>	<u>\$ 1,189,589</u>

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statements of Cash Flows for the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (684,886)	\$ (689,741)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	99,137	111,896
Changes in operating assets and liabilities:		
Accounts receivable	13,790	(10,267)
Inventory	(181)	(2,120)
Prepaid expenses and other assets	1,173	(38,545)
Pledges receivable	42,709	999,878
Accounts payable	141,071	(12,965)
Accrued salaries and related expenses	<u>549</u>	<u>21,101</u>
Net cash provided (used) by operating activities	<u>(386,638)</u>	<u>379,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(34,677)</u>	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on line of credit	57,500	22,200
Repayments of line of credit	<u>(54,400)</u>	<u>(22,200)</u>
Net cash provided by financing activities	<u>3,100</u>	<u>0</u>
NET CHANGE IN CASH	(418,215)	379,237
Cash, beginning of year	<u>603,529</u>	<u>224,292</u>
Cash, end of year	<u>\$ 185,314</u>	<u>\$ 603,529</u>

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Notes to Financial Statements for the years ended June 30, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Spay-Neuter Assistance Program, Inc. (SNAP) is a Texas nonprofit corporation that began operating in Houston, Texas in 1994 to provide spay and neuter services. SNAP exists to stop the destruction of healthy dogs and cats in animal shelters as a result of overpopulation. SNAP provides sterilization for dogs and cats at affordable prices or free for financially disadvantaged families, provides animal wellness services, and educates the public about animal overpopulation. The program includes clinics in Houston, Pasadena and San Antonio, Texas.

Federal income tax status – SNAP is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Accounts receivable are net of an estimated allowance for uncollectible accounts based upon historical experience and known circumstances affecting the collectability of individual accounts. It is SNAP's policy to charge off uncollectible accounts receivable against the allowance when management determines that the receivable will not be collected. At June 30, 2016 and 2015, the allowance for uncollectible accounts was \$2,537 and \$1,959, respectively.

Inventory of flea protection and heartworm prevention products are reported at the lower of cost or market, with cost being determined on a first-in, first-out basis.

Pledges receivable due within one year are reported at net realizable value. Pledges receivable due in more than one year are discounted, if material, to estimate the present value of future cash flows. An allowance for uncollectible pledges is recorded based upon historical experience and known circumstances affecting the collectability of individual pledges.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. Property with a cost in excess of \$2,500 and an estimated useful life in excess of one year is capitalized. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Clinic fees and product sales are for services provided for animal medical procedures and for the sale of medical product supplies. Revenue is recognized when the services are performed or the product delivered.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted contributions. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In-kind contributions – Donated materials, use of facilities and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when 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. SNAP recognized in-kind clinic space totaling approximately \$53,000 in 2016 and 2015.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 155,049	\$ 195,799
Allowance for uncollectible pledges	<u>(20,702)</u>	<u>(18,743)</u>
Pledges receivable, net	<u>\$ 134,347</u>	<u>\$ 177,056</u>

At June 30, 2016, all pledges are expected to be collected within one year.

Concentration – At June 30, 2016, 32% of pledges receivable were due from one donor and at June 30, 2015, 91% of pledges receivable were due from two donors.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2016</u>	<u>2015</u>
Mobile clinics and trucks	\$ 636,429	\$ 636,429
Leasehold improvements	590,094	590,094
Medical equipment	344,748	310,071
Office equipment	53,436	53,436
Furniture and fixtures	<u>12,878</u>	<u>12,878</u>
Total depreciable property	1,637,585	1,602,908
Accumulated depreciation	<u>(977,763)</u>	<u>(878,626)</u>
Property, net	<u>\$ 659,822</u>	<u>\$ 724,282</u>

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Clinic programs	\$ 50,000	\$ 100,000
Restricted for use in future periods	<u>84,347</u>	<u>77,056</u>
Total temporarily restricted net assets	<u>\$ 134,347</u>	<u>\$ 177,056</u>

NOTE 5 – COMMITMENTS

SNAP leases office and clinic space under noncancellable leases and is committed to noncancellable web-hosting and communication service agreements and software subscriptions. Lease expense was approximately \$430,000 in 2016 and \$389,000 in 2015. Future minimum lease payments are as follows:

2017	\$ 395,392
2018	271,456
2019	191,397
2020	<u>51,058</u>
Total	<u>\$ 909,303</u>

NOTE 6 – LINE OF CREDIT

SNAP entered into a \$50,000 unsecured line of credit agreement with a bank, which bears interest at the Wall Street Journal prime plus 4.5%. At June 30, 2016, the rate of interest was 8%. There was \$3,100 outstanding on the line of credit at June 30, 2016.

NOTE 7 – MANAGEMENT'S PLANS

SNAP has experienced significant decreases in net assets for the last two years and has seen a decrease in the number of animals served. SNAP, in an effort to mitigate the decline, is taking a multi-faceted approach to increase the animals served and increase program revenues while reducing certain fixed occupancy costs. The service delivery model is being modified to provide free services in the standing clinics versus the mobile clinic. Additionally, wellness services for a fee will be offered in the mobile clinics as well as the standing clinics. In addition to revenue initiatives, SNAP has reduced staffing in the administrative offices and will be moving the administrative team into clinic locations to further reduce fixed expenses. Management believes this approach to increase revenue and decrease fixed operating costs will ensure SNAP's long-term viability.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to year end, the Executive Director obtained an \$80,000 personal loan to provide a loan to SNAP, which matures in December 2024. The loan is a fixed rate note with an interest rate of 15.99% to be repaid in 96 monthly payments of \$1,678. Additionally, the Executive Director provided a personal

loan to SNAP of \$50,000, which bears a 0% interest rate and is secured by liens on vehicles owned by SNAP to be repaid in 60 monthly payments. Additionally, the line of credit was utilized and approximately \$40,000 of additional amounts were drawn down subsequent to June 30, 2016.

Management has evaluated subsequent events through July 17, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
