Spay-Neuter Assistance Program, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2018 and 2017 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, 2018 and 2017 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

March 6, 2019

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Spay-Neuter Assistance Program, Inc.

Statements of Financial Position as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 106,509	$ 121,957
Accounts receivable, net	54,072	101,392
Inventory	8,515	51,284
Prepaid expenses and other assets	44,447	54,237
Pledges receivable, net *(Note 2)*	47,796	130,747
Property, net *(Note 3)*	509,912	586,720
TOTAL ASSETS	$ 771,251	$ 1,046,337
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 743,854	$ 732,293
Accrued salaries and related expenses	118,649	133,111
Notes payable, net *(Note 6)*	122,729	177,352
Total liabilities	985,232	1,042,756
Commitments *(Note 5)*		
Net assets:		
Unrestricted	(256,778)	(127,166)
Temporarily restricted *(Note 4)*	42,797	130,747
Total net assets	(213,981)	3,581
TOTAL LIABILITIES AND NET ASSETS	$ 771,251	$ 1,046,337

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Clinic fees	$ 3,680,098		$ 3,680,098
Product sales	749,861		749,861
Cost of product sold	(357,888)		(357,888)
Contributions	687,438	$ 482,023	1,169,461
Other income	55,205		55,205
Total revenue	4,814,714	482,023	5,296,737
Net assets released from restrictions:			
Time restrictions	116,621	(116,621)	
Program expenditures	453,352	(453,352)	
Total	5,384,687	(87,950)	5,296,737
EXPENSES:			
Clinic services	4,807,623		4,807,623
Management and general	366,758		366,758
Fundraising	339,918		339,918
Total expenses	5,514,299		5,514,299
CHANGES IN NET ASSETS	(129,612)	(87,950)	(217,562)
Net assets, beginning of year	(127,166)	130,747	3,581
Net assets, end of year	$ (256,778)	$ 42,797	$ (213,981)

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Clinic fees	$ 3,751,358		$ 3,751,358
Product sales	965,021		965,021
Cost of product sold	(494,698)		(494,698)
Contributions	500,981	$ 383,645	884,626
Other income	2,412		2,412
Total revenue	4,725,074	383,645	5,108,719
Net assets released from restrictions:			
Time restrictions	77,213	(77,213)	
Program expenditures	310,032	(310,032)	
Total	5,112,319	(3,600)	5,108,719
EXPENSES:			
Clinic services	4,793,857		4,793,857
Management and general	392,276		392,276
Fundraising	423,708		423,708
Total expenses	5,609,841		5,609,841
CHANGES IN NET ASSETS	(497,522)	(3,600)	(501,122)
Net assets, beginning of year	370,356	134,347	504,703
Net assets, end of year	$ (127,166)	$ 130,747	$ 3,581

See accompanying notes to financial statements.

Spay-Neuter Assistance Program, Inc.

Statements of Cash Flows for the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (217,562)	$ (501,122)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	98,833	104,050
Changes in operating assets and liabilities:		
Accounts receivable	47,320	(18,666)
Inventory	42,769	36,324
Prepaid expenses and other assets	9,790	21,410
Pledges receivable	82,951	3,600
Accounts payable	11,561	179,430
Accrued salaries and related expenses	(14,462)	(31,687)
Net cash provided (used) by operating activities	61,200	(206,661)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(20,701)	(30,286)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on notes payable	19,900	204,300
Repayments of notes payable	(75,847)	(30,710)
Net cash provided (used) by financing activities	(55,947)	173,590
NET CHANGE IN CASH	(15,448)	(63,357)
Cash, beginning of year	121,957	185,314
Cash, end of year	$ 106,509	$ 121,957

Supplemental disclosure of cash flow information:

Interest paid	$17,757	$10,600

See accompanying notes to financial statements.

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, 2018 and 2017, the allowance for uncollectible accounts is $5,919 and $5,110, respectively.

Inventory of flea protection and heartworm prevention products are reported at the lower of cost or net realizable value, 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.

Debt issuance costs represent costs related to the issuance of notes payable and are amortized over the term of the debt. Accumulated amortization is $1,986 at June 30, 2018. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

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 is 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 2018 and 2017.

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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. SNAP is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2018	2017
Pledges receivable	$ 64,590	$ 166,180
Allowance for uncollectible pledges	(16,794)	(35,433)
Pledges receivable, net	$ 47,796	$ 130,747

At June 30, 2018, all pledges are expected to be collected within one year.

NOTE 3 – PROPERTY

Property consists of the following:

	2018	2017
Mobile clinics and trucks	$ 645,823	$ 636,429
Leasehold improvements	615,210	590,094
Medical equipment	344,749	344,749
Office equipment	53,436	53,436
Furniture and fixtures	20,855	19,935
Total depreciable property	1,680,073	1,644,643
Accumulated depreciation	(1,178,661)	(1,081,152)
Depreciable property, net	501,412	563,491
Construction in progress	8,500	23,229
Property, net	$ 509,912	$ 586,720

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Restricted for use in future periods	$ 42,797	$ 125,747
Clinic programs		5,000
Total temporarily restricted net assets	$ 42,797	$ 130,747

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 $488,000 in 2018 and $480,000 in 2017. Future minimum lease payments are as follows:

2019	$ 392,498
2020	233,062
2021	108,634
2022	77,144
2023	32,143
Total	$ 843,481

Additionally, SNAP has entered into agreements to reduce outstanding liabilities with its major vendors while continuing to receive needed products for operations.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	2018	2017
$90,000 loan from the executive director underwritten by a financing company. Fixed interest of 15.99%; monthly payments of $1,678, maturing in December 2024.	$ 81,087	$ 87,674
$50,000 unsecured line of credit with a bank that bears interest at the Wall Street Journal prime rate plus 4.5%. The rate at June 30, 2018 was 9.25%.	50,251	49,611
$50,000 non-interest bearing loan from the executive director; monthly payments of $834, maturing in July 2022.		50,000
Total	131,338	187,285
Less: Unamortized debt issuance costs	(8,609)	(9,933)
Total notes payable	$ 122,729	$ 177,352

Interest expense was $17,757 in 2018 and $10,600 in 2017.

Maturities of the notes payable are as follows:

2019	$ 57,970
2020	9,050
2021	10,608
2022	12,434
2023	14,575
2024	26,701
Total	$ 131,338

At June 30, 2018, an additional amount of $42,736 owed to the executive director for amounts advanced on her personal credit card is included in accounts payable.

NOTE 7 – MANAGEMENT'S PLANS

For several years, SNAP has navigated drastic changes in the low-cost veterinary care marketplace. SNAP is a leader in providing affordable spay/neuter surgery to the pets in our communities. The SNAP business model was formed around relying on revenue generated by low-cost wellness services to fund the gap between low-cost surgical pricing to the client and the expenses of the actual surgery. This model worked when there was little or no low-cost veterinary competition in the geographic areas of SNAP service. As the veterinary profession changed and grasped the concept of affordable wellness care, the landscape changed and in recent years, SNAP was faced with competition for the low-cost wellness services. The resulting decrease in wellness service numbers combined with a lack of control over expenses lead to the current deficit.

Over the last four years, SNAP management has focused on creating protocols and processes to closely monitor revenues and expenses and adjusted quickly to changing circumstances. Current emphasis includes reducing certain operating expenses as well as the primary focus of increasing contributions and fee revenue. The new protocols give SNAP the flexibility to respond to future industry stresses and continue to complete the mission of providing affordable and accessible spay/neuter and veterinary care in the community.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 6, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.