

# **SPCA of Texas**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



**SPCA of Texas**  
**December 31, 2016 and 2015**

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## Independent Auditor's Report

Board of Directors  
SPCA of Texas  
Dallas, Texas

We have audited the accompanying financial statements of the SPCA of Texas (SPCA), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and 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.

### ***Auditor's 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 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 SPCA'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 SPCA'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 SPCA as of December 31, 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.

***Other Matter***

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses listed in the table of contents are presented for purposes of additional analysis and are 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.

**BKD, LLP**

Dallas, Texas  
May 31, 2017

**SPCA of Texas**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

**Assets**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,200,942	\$ 3,481,779
Accounts receivable, net	21,778	18,104
Inventories	343,645	289,687
Prepaid expenses	116,250	96,616
Investments	11,980,478	11,656,365
Annuities receivable	1,067,526	1,186,568
Contributions receivable, net	131,463	727,276
Property and equipment, net	<u>18,034,401</u>	<u>18,087,135</u>
Total assets	<u>\$ 34,896,483</u>	<u>\$ 35,543,530</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 444,330	\$ 387,603
Accrued expenses	508,933	479,828
Deferred revenue	<u>148,086</u>	<u>32,836</u>
Total liabilities	<u>1,101,349</u>	<u>900,267</u>

**Net Assets**

Unrestricted		
Board designated	9,390,550	9,715,511
Undesignated	22,511,200	22,331,136
Temporarily restricted	713,599	1,416,831
Permanently restricted	<u>1,179,785</u>	<u>1,179,785</u>
Total net assets	<u>33,795,134</u>	<u>34,643,263</u>
Total liabilities and net assets	<u>\$ 34,896,483</u>	<u>\$ 35,543,530</u>

**SPCA of Texas**  
**Statement of Activities**  
**Year ended December 31, 2016**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Receiving	\$ 12,650	\$ -	\$ -	\$ 12,650
Adoption	628,762	-	-	628,762
Surgery and patient care	2,327,495	-	-	2,327,495
Merchandise sales	147,223	-	-	147,223
Contributions	2,932,180	124,407	-	3,056,587
In-kind services and materials	1,957,708	-	-	1,957,708
Direct mail programs	1,431,082	-	-	1,431,082
Special events, gross	1,009,555	-	-	1,009,555
Memorials and bequests	2,719,315	635,000	-	3,354,315
Investment return	684,139	5,267	-	689,406
Miscellaneous revenues	167,685	-	-	167,685
Gain on sale of assets	319,633	-	-	319,633
Net assets released from restrictions	1,467,906	(1,467,906)	-	-
	<u>15,805,333</u>	<u>(703,232)</u>	<u>-</u>	<u>15,102,101</u>
<b>Total revenues, gains and other support</b>				
	15,805,333	(703,232)	-	15,102,101
<b>Expenses</b>				
Rees-Jones Animal Care Center	3,384,748	-	-	3,384,748
Martin Spay/Neuter & Wellness Clinic	1,717,209	-	-	1,717,209
Perry Animal Care Center	1,944,091	-	-	1,944,091
Perry Spay/Neuter & Wellness Clinic	600,230	-	-	600,230
Spencer Spay/Neuter & Wellness Clinic	1,183,621	-	-	1,183,621
Community relations (volunteer)	429,724	-	-	429,724
Customer care center	312,684	-	-	312,684
Animal cruelty investigations unit	1,060,949	-	-	1,060,949
Education	178,830	-	-	178,830
Animal behavior	193,427	-	-	193,427
Communications	2,204,072	-	-	2,204,072
Special events costs of direct benefits to donors	136,230	-	-	136,230
Development	1,307,330	-	-	1,307,330
Management and general	1,297,085	-	-	1,297,085
	<u>15,950,230</u>	<u>-</u>	<u>-</u>	<u>15,950,230</u>
<b>Total expenses</b>				
	15,950,230	-	-	15,950,230
<b>Change in Net Assets</b>	(144,897)	(703,232)	-	(848,129)
<b>Net Assets, Beginning of Year</b>	<u>32,046,647</u>	<u>1,416,831</u>	<u>1,179,785</u>	<u>34,643,263</u>
<b>Net Assets, End of Year</b>	<u>\$ 31,901,750</u>	<u>\$ 713,599</u>	<u>\$ 1,179,785</u>	<u>\$ 33,795,134</u>

**SPCA of Texas**  
**Statement of Activities**  
**Year Ended December 31, 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Receiving	\$ 16,026	\$ -	\$ -	\$ 16,026
Adoption	543,003	-	-	543,003
Surgery and patient care	2,522,375	-	-	2,522,375
Merchandise sales	128,223	-	-	128,223
Contributions	2,115,349	709,483	-	2,824,832
In-kind services and materials	2,202,921	-	-	2,202,921
Direct mail programs	1,657,944	-	-	1,657,944
Special events, gross	902,154	-	-	902,154
Memorials and bequests	4,342,395	-	-	4,342,395
Investment return (loss)	(416,852)	7,304	-	(409,548)
Miscellaneous revenues	151,888	-	-	151,888
Net assets released from restrictions	877,165	(877,165)	-	-
	<u>15,042,591</u>	<u>(160,378)</u>	<u>-</u>	<u>14,882,213</u>
<b>Total revenues, gains and other support</b>				
<b>Expenses</b>				
Rees-Jones Animal Care Center	3,183,244	-	-	3,183,244
Martin Spay/Neuter & Wellness Clinic	1,421,931	-	-	1,421,931
Perry Animal Care Center	1,716,987	-	-	1,716,987
Perry Spay/Neuter & Wellness Clinic	1,075,696	-	-	1,075,696
Spencer Spay/Neuter & Wellness Clinic	1,261,181	-	-	1,261,181
Community relations (volunteer)	402,547	-	-	402,547
Customer care center	281,171	-	-	281,171
Animal cruelty investigations unit	1,044,393	-	-	1,044,393
Education	195,110	-	-	195,110
Animal behavior	213,965	-	-	213,965
Communications	2,185,607	-	-	2,185,607
Special events costs of direct benefits to donors	77,930	-	-	77,930
Development	1,366,651	-	-	1,366,651
Management and general	1,271,455	-	-	1,271,455
Loss on disposal of fixed assets	15,396	-	-	15,396
	<u>15,713,264</u>	<u>-</u>	<u>-</u>	<u>15,713,264</u>
<b>Total expenses and losses</b>				
<b>Change in Net Assets</b>	(670,673)	(160,378)	-	(831,051)
<b>Net Assets, Beginning of Year</b>	<u>32,717,320</u>	<u>1,577,209</u>	<u>1,179,785</u>	<u>35,474,314</u>
<b>Net Assets, End of Year</b>	<u>\$ 32,046,647</u>	<u>\$ 1,416,831</u>	<u>\$ 1,179,785</u>	<u>\$ 34,643,263</u>

**SPCA of Texas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ (848,129)	\$ (831,051)
Items not requiring (providing) cash		
Depreciation and amortization	1,176,170	1,084,259
(Gain) loss on disposal of fixed assets	(319,633)	15,396
Net realized and unrealized (gain) loss on investments	(364,457)	863,869
Net interest and dividends reinvested	(324,949)	(454,321)
Bad debt expense	19,413	15,393
Donated capital assets	(332,500)	(315,000)
Changes in		
Contributions and accounts receivable	143,976	394,375
Grants receivable	428,750	18,729
Annuities receivable	119,042	652,571
Inventories	(53,958)	44,872
Prepaid expenses	(19,634)	(32,660)
Accounts payable	56,727	(37,328)
Accrued expenses	29,105	44,392
Deferred revenue	115,250	1,850
	<u>(174,827)</u>	<u>1,465,346</u>
Net cash provided by (used in) operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	(1,457,239)	(205,410)
Proceeds from sale of property and equipment	985,936	12,551
Proceeds from sale of investments	3,980,000	3,127,520
Purchase of investments	<u>(3,614,707)</u>	<u>(2,256,474)</u>
	<u>(106,010)</u>	<u>678,187</u>
Net cash provided by (used in) investing activities		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(280,837)	2,143,533
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,481,779</u>	<u>1,338,246</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 3,200,942</u></u>	<u><u>\$ 3,481,779</u></u>
<b>Supplemental Information</b>		
<b>Noncash Activity</b>		
Contributions of in-kind goods and contributed services	\$ 1,957,708	\$ 2,202,921
Donated capital assets	332,500	315,000



**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

The SPCA of Texas (SPCA) is dedicated to providing every animal exceptional care and a loving home. Incorporated by the Texas State Charter on September 22, 1938, the SPCA of Texas is over 75 years old but traces its roots to the late nineteenth century. In 1993, the Dallas SPCA, based in Dallas County, and the Humane Society of Texas, based in Collin County, merged to become the SPCA of Texas.

The SPCA is the leading animal welfare agency in North Texas. The not-for-profit, 501 (c)(3) organization operates two animal shelters, three spay/neuter clinics and an animal rescue center, all located in Dallas and Collin Counties. The SPCA's adoption program, including the two shelters and a vibrant mobile/offsite adoptions program, finds homes for more than 6,000 animals each year. The SPCA does not euthanize animals for lack of space and does not place time limits on animals housed in SPCA shelters.

The SPCA's three public veterinary clinics provide high-quality pet care at affordable prices and collaborates with pet owners who would otherwise not be able to afford those services. These clinics work together with community partners to spay or neuter, vaccinate and provide wellness care for tens of thousands of animals each year.

Additionally, the SPCA maintains an Animal Cruelty Investigations Unit, which answers over 4,000 calls concerning animal cruelty and neglect every year, and rescues more than 2,000 each year, from several North Texas counties and beyond.

A robust Volunteer program assists in many ways in the shelter and the community, including animal care, animal behavior and enrichment, foster care, animal photography, administrative support and more. A dedicated Humane Education department offers camps, school visits and shelter education tours for children. Additionally, SPCA Behavior staff and trained volunteers provide animal critical behavioral care on a daily basis, including behavior assessments, socialization and obedience training and play and enrichment.

Giving to the SPCA is an investment. As a four star-rated charity on Charity Navigator, donors can be confident in good governance, sound fiscal management and commitment to accountability and transparency. The SPCA's four signature events—including Paws Cause; Strut Your Mutt, the Race to End Animal Cruelty; Fur Ball; and Home for the Holidays/Bark + Build—and a host of fundraising programs make the organization's animal care work possible. Giving opportunities include general giving, honor and memorial gifts, foundation gifts, corporate sponsorships, charitable bequests, affinity programs and more.

The SPCA is not affiliated with the American Society for the Prevention of Cruelty to Animals or any other humane society, and does not receive general operating funds from city, state or federal government.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

SPCA considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016, SPCA's cash accounts exceeded federally insured limits by approximately \$2,708,000.

***Investments and Investment Return***

Investments in all debt securities and equity securities having a readily determinable fair value are carried at fair value. Other investments are valued at lower of cost or fair value. Investment return includes dividends and interest and realized and unrealized gains and losses on investments carried at fair value.

***Contributions and Other Receivables***

Receivables are due primarily from foundations and individuals related to gift pledges and are stated at the amount management expects to collect from outstanding balances. The SPCA provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Receivables outstanding more than 90 days are generally considered past due. The SPCA writes off receivables when deemed uncollectible. The allowance for doubtful accounts at December 31, 2016 and 2015, were \$15,000 and \$12,000, respectively.

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Donated property and equipment are stated at fair value as of the date of the donation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	7 – 31.50 years
Leasehold improvements	7 – 31.50 years
Equipment	5 – 15 years
Motor vehicles	5 – 7 years

***Long-lived Asset Impairment***

The SPCA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2016 and 2015.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the SPCA has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the SPCA in perpetuity.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts having donor stipulations where the entire amount is released in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended December 31, 2016 and 2015, contribution revenue recognized from contributed legal services was \$146,624 and \$339,698, respectively.

***In-kind Contributions***

In addition to receiving cash contributions, the SPCA receives in-kind contributions from various donors. It is the policy of the SPCA to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2016 and 2015, \$1,811,084 and \$1,863,223, respectively, were received as in-kind contributions.

***Deferred Revenue***

Revenue from reimbursable costs on contracts are deferred and recognized over the periods when the contracted services are performed.

***Income Taxes***

The SPCA is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state franchise tax law. However, the SPCA is subject to federal income tax on any unrelated business taxable income.

The SPCA files tax returns in the U.S. federal jurisdiction. With a few exceptions, the SPCA is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on the relative payroll, headcount, square footage occupied and other methods.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 2: Investments and Investment Return**

Investments at December 31 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash deposits	\$ 820,132	\$ 662,736
Negotiable certificates of deposit	673,367	852,755
Corporate equities	1,190,395	1,535,293
Bond mutual funds	3,445,170	3,829,690
Equity mutual funds	<u>5,851,414</u>	<u>4,775,891</u>
	<u>\$ 11,980,478</u>	<u>\$ 11,656,365</u>

Total investment return (loss) is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 379,435	\$ 515,525
Management fees	(54,486)	(61,204)
Net realized and unrealized gains (losses) on investments reported at fair value	<u>364,457</u>	<u>(863,869)</u>
	<u>\$ 689,406</u>	<u>\$ (409,548)</u>

**Note 3: Annuities Receivable**

During 2013, SPCA became the beneficiary of two structured settlement annuities. The payment terms under the annuities are as follows:

- Monthly payments of approximately \$12,700 through June 30, 2020
- Lump-sum payment of \$500,000 on July 30, 2015
- Lump-sum payment of \$500,000 on July 30, 2020

The annuities cannot be assigned or used as collateral on a loan.

At December 31, 2016 and 2015, an annuities receivable of \$1,067,526 and \$1,186,568, respectively, is recorded in the accompanying statements of financial position related to these two arrangements.

Discounting to net present value is not material to the accompanying financial statements as a whole.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 4: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>December 31, 2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 10,213	\$ 121,250	\$ -	\$ 131,463
	<b>December 31, 2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ -	\$ 722,776	\$ -	\$ 722,776
Due in one to five years	-	4,500	-	4,500
	\$ -	\$ 727,276	\$ -	\$ 727,276

Discounting to net present value is not material to the accompanying financial statements as a whole.

**Note 5: Property and Equipment**

Property and equipment at December 31 consisted of:

	<b>2016</b>	<b>2015</b>
Land	\$ 1,916,817	\$ 2,247,816
Buildings and leasehold improvements	20,059,816	19,437,130
Equipment	2,411,937	2,193,948
Motor vehicles	1,532,650	941,797
	25,921,220	24,820,691
Less accumulated depreciation and amortization	(7,886,819)	(6,733,556)
	\$ 18,034,401	\$ 18,087,135

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 6: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Spay/neuter clinics	\$ 373,920	\$ -
Rescue center improvements and expenses	168,128	260,977
Puppy mill campaign	73,419	916,489
Shelter Program	48,746	146,536
Community pet program	46,000	-
Miscellaneous	3,386	92,829
	<u>\$ 713,599</u>	<u>\$ 1,416,831</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at December 31 are restricted to:

	<u>2016</u>	<u>2015</u>
David Ivan Perry Fund	\$ 765,000	\$ 765,000
Baggarly Fund	414,785	414,785
	<u>\$ 1,179,785</u>	<u>\$ 1,179,785</u>

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished		
Puppy mill program expenses	\$ 511,825	\$ 490,000
Shelter program expenses	320,499	29,175
Spay/neuter clinic program expenses	264,887	-
Rescue center improvements and expenses	259,095	342,729
Miscellaneous program expenses	111,600	15,261
	<u>\$ 1,467,906</u>	<u>\$ 877,165</u>

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 7: Endowments**

The SPCA's endowments consist of funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors has interpreted the State of Texas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the SPCA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the SPCA in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the SPCA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the SPCA and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from investment income and appreciation or depreciation of investments
- Other resources of the SPCA
- Investment policies of the SPCA



**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

The composition of net assets by type of endowment fund at December 31, 2016 and 2015, was:

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,179,785	\$ 1,179,785
Board-designated endowment funds	9,390,550	-	-	9,390,550
	<u>\$ 9,390,550</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,570,335</u>

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,179,785	\$ 1,179,785
Board-designated endowment funds	9,715,511	-	-	9,715,511
	<u>\$ 9,715,511</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,895,296</u>

Changes in endowment net assets for the years ended December 31 was:

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 9,715,511	\$ -	\$ 1,179,785	\$ 10,895,296
Investment return				
Investment income	294,132	14,562	-	308,694
Net appreciation (depreciation)	355,246	(9,295)	-	345,951
Total investment return	649,378	5,267	-	654,645
Appropriation of endowment assets for expenditure	(3,500,000)	(5,267)	-	(3,505,267)
Board appropriations from unappropriated unrestricted net assets	2,525,661	-	-	2,525,661
	<u>\$ 9,390,550</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,570,335</u>

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 10,951,828	\$ -	\$ 1,179,785	\$ 12,131,613
Investment return				
Investment income	416,852	12,870	-	429,722
Net depreciation	(809,319)	(5,566)	-	(814,885)
Total investment return (loss)	(392,467)	7,304	-	(385,163)
Appropriation of endowment assets for expenditure	(2,275,000)	(7,304)	-	(2,282,304)
Board appropriations from unappropriated unrestricted net assets	1,431,150	-	-	1,431,150
	<u>\$ 9,715,511</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,895,296</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the SPCA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies as of December 31, 2016 and 2015.

The SPCA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the SPCA must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the SPCA's policies, as approved by the board of directors, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The SPCA expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the SPCA relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The SPCA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The SPCA's policy permits additions to or drawdowns of board-designated funds to achieve target cash balances in operating accounts. In establishing this policy, the SPCA considered the long-term expected return on its endowments. The SPCA's objective is to maintain the purchasing power of endowment assets held in perpetuity or for a specified term or purpose, as well as to provide additional real growth through new gifts and investment return.

**SPCA of Texas**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 8: Defined Contribution Plan**

The SPCA has a defined contribution plan for all employees meeting certain eligibility requirements. The SPCA will match employees' contributions up to 3% of employees' wages. The SPCA made contributions of \$71,583 and \$70,485 for the years ended December 31, 2016 and 2015, respectively.

**Note 9: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

**Recurring Measurements**

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2016</b>				
Negotiable certificates of deposit	\$ 673,367	\$ -	\$ 673,367	\$ -
Corporate equities	1,190,395	1,190,395	-	-
Bond mutual funds	3,445,170	3,445,170	-	-
Equity mutual funds	5,851,414	5,851,414	-	-
	<u>\$ 11,160,346</u>	<u>\$ 10,486,979</u>	<u>\$ 673,367</u>	<u>\$ -</u>

**SPCA of Texas**  
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	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2015</b>				
Negotiable certificates of deposit	\$ 852,755	\$ -	\$ 852,755	\$ -
Corporate equities	1,535,293	1,535,293	-	-
Bond mutual funds	3,829,690	3,829,690	-	-
Equity mutual funds	4,775,891	4,775,891	-	-
	<u>\$ 10,993,629</u>	<u>\$ 10,140,874</u>	<u>\$ 852,755</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The SPCA has no Level 3 investments at December 31, 2016 and 2015.

**Note 10: Significant Estimates and Concentrations**

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Contributions***

Approximately 23% of all contributions, direct mail and memorials and bequests were received from one donor in 2015. No individual donor gave more than 10% of total contributions during 2016.

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**Notes to Financial Statements**  
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***Investments***

The SPCA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

**Note 11: Subsequent Events**

Subsequent events have been evaluated through May 31, 2017, which is the date the financial statements were available to be issued.

## **Supplementary Information**

**SPCA of Texas**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2016**

	Rees-Jones Animal Care Center	Martin S/N Wellness Clinic	Perry Animal Care Center	Perry S/N Wellness Clinic	Spencer S/N Wellness Clinic	Community Relations (Volunteer)	Customer Care Center (Call Center)	Animal Cruelty Investigations Unit	Education	Animal Behavior	Communications	Special Events Costs of Direct Benefits to Donors	Development	Management and General	Total
Salaries and wages	\$ 1,291,001	\$ 614,080	\$ 949,733	\$ 252,517	\$ 476,830	\$ 287,690	\$ 209,552	\$ 658,654	\$ 95,824	\$ 121,211	\$ 321,170	\$ -	\$ 317,764	\$ 505,095	\$ 6,101,121
Employee benefits	230,972	98,935	186,810	28,521	84,344	44,512	37,265	91,259	12,857	30,263	51,076	-	70,727	194,153	1,161,694
Contract labor	12,212	111,409	61,665	17,974	15,024	-	13,782	27,948	3,220	-	1,915	-	4,590	4,613	274,352
Payroll taxes	94,898	45,704	68,074	18,755	36,069	21,074	15,551	49,104	7,375	9,057	21,236	-	20,756	34,854	442,507
<b>Total salaries and related expenses</b>	<b>1,629,083</b>	<b>870,128</b>	<b>1,266,282</b>	<b>317,767</b>	<b>612,267</b>	<b>353,276</b>	<b>276,150</b>	<b>826,965</b>	<b>119,276</b>	<b>160,531</b>	<b>395,397</b>	<b>-</b>	<b>413,837</b>	<b>738,715</b>	<b>7,979,674</b>
Professional fees	27,062	24,155	20,000	9,020	16,955	3,581	2,349	9,266	2,164	1,615	4,489	-	104,033	41,609	266,298
Operating supplies	354,071	469,595	236,577	164,483	296,630	836	-	38,665	4,346	10,355	4,284	-	4,108	9,014	1,592,964
Postage and printing	992	10,821	422	3,767	4,441	848	-	2,081	522	424	303	-	61,782	923	87,326
Occupancy costs	143,369	18,035	54,242	6,426	15,551	1,385	691	1,441	3,998	-	2,275	-	2,022	41,206	290,641
Telephone/communications	12,571	9,648	14,369	9,935	19,434	3,489	6,075	11,603	1,988	1,421	3,376	-	4,886	4,571	103,366
Equipment rental	26,670	15,449	17,491	7,889	15,117	992	651	2,566	599	447	1,243	-	28,815	11,525	129,454
Insurance	70,487	17,207	46,400	10,816	23,593	9,414	4,843	29,794	1,186	4,036	4,339	-	5,429	30,841	258,385
Bank charges and service fees	28,469	19,245	21,105	6,853	12,536	3,713	2,946	8,242	2,089	1,500	4,279	-	66,768	29,868	207,613
Staff expenses	16,852	12,592	14,509	4,316	16,168	25,922	1,368	23,382	723	1,137	11,977	-	11,515	8,115	148,576
Repairs and maintenance	190,439	29,502	33,331	4,826	17,155	1,823	909	1,896	5,263	-	3,102	-	3,974	56,964	349,184
Vehicle expenses	6,147	2,827	8,463	345	1,076	386	32	33,157	625	603	1,870	-	3,469	43,035	102,035
Promotion, exhibit and other	-	-	-	-	-	-	-	1,159	8,089	2,636	1,724,581	136,230	344,338	103	2,217,136
Training and seminars	5,662	10,136	2,716	6,325	5,905	90	-	9,474	315	2,701	2,640	-	3,444	1,478	50,886
Advertising	3,952	3,528	2,921	1,317	2,476	523	343	1,353	316	236	656	-	15,194	6,077	38,892
Computer costs	26,940	16,327	11,429	7,347	13,062	6,531	6,531	8,163	1,633	1,633	4,898	-	6,531	9,796	120,821
Merchandise	37,197	28,361	14,199	1,935	9,717	-	-	-	-	-	-	-	-	-	91,409
Dues and subscriptions	1,262	8,077	-	4,341	3,852	1,269	1,194	692	478	43	11,886	-	1,773	32,491	67,358
Supplies	23,474	9,080	9,789	421	6,956	1,196	370	3,685	663	267	726	-	3,273	13,832	73,732
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-	19,413	19,413
Mail solicitation	54,645	48,775	40,385	18,214	34,235	7,230	4,744	18,710	4,370	3,262	9,065	-	210,066	84,017	537,718
Miscellaneous	1,566	3,905	1,605	914	3,753	227	-	21,382	-	580	1,202	-	1,865	4,180	41,179
<b>Total expenses other than salaries and related expenses</b>	<b>1,031,827</b>	<b>757,265</b>	<b>549,953</b>	<b>269,490</b>	<b>518,612</b>	<b>69,455</b>	<b>33,046</b>	<b>226,711</b>	<b>39,367</b>	<b>32,896</b>	<b>1,797,191</b>	<b>136,230</b>	<b>883,285</b>	<b>449,058</b>	<b>6,794,386</b>
<b>Total expenses before depreciation and amortization</b>	<b>2,660,910</b>	<b>1,627,393</b>	<b>1,816,235</b>	<b>587,257</b>	<b>1,130,879</b>	<b>422,731</b>	<b>309,196</b>	<b>1,053,676</b>	<b>158,643</b>	<b>193,427</b>	<b>2,192,588</b>	<b>136,230</b>	<b>1,297,122</b>	<b>1,187,773</b>	<b>14,774,060</b>
Depreciation and amortization	723,838	89,816	127,856	12,973	52,742	6,993	3,488	7,273	20,187	-	11,484	-	10,208	109,312	1,176,170
<b>Total expenses</b>	<b>\$ 3,384,748</b>	<b>\$ 1,717,209</b>	<b>\$ 1,944,091</b>	<b>\$ 600,230</b>	<b>\$ 1,183,621</b>	<b>\$ 429,724</b>	<b>\$ 312,684</b>	<b>\$ 1,060,949</b>	<b>\$ 178,830</b>	<b>\$ 193,427</b>	<b>\$ 2,204,072</b>	<b>\$ 136,230</b>	<b>\$ 1,307,330</b>	<b>\$ 1,297,085</b>	<b>\$ 15,950,230</b>

**SPCA of Texas**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2015**

	Rees-Jones Animal Care Center	Martin S/N Wellness Clinic	Perry Animal Care Center	Perry S/N Wellness Clinic	Spencer S/N Wellness Clinic	Community Relations (Volunteer)	Customer Care Center (Call Center)	Animal Cruelty Investigations Unit	Education	Animal Behavior	Communications	Special Events Costs of Direct Benefits to Donors	Development	Management and General	Total
Salaries and wages	\$ 1,159,933	\$ 567,023	\$ 853,876	\$ 448,245	\$ 529,950	\$ 275,045	\$ 199,161	\$ 646,605	\$ 116,558	\$ 139,866	\$ 221,162	-	\$ 277,992	\$ 509,320	\$ 5,944,736
Employee benefits	211,496	89,252	147,444	68,978	82,784	44,517	26,801	90,833	11,737	25,315	36,749	-	33,899	162,392	1,032,197
Contract labor	4,983	33,633	4,875	25,739	21,906	-	8,872	42,698	-	-	2,677	-	18,886	-	164,269
Payroll taxes	85,765	42,746	62,268	33,188	38,886	20,352	14,827	48,379	8,699	11,768	15,234	-	19,223	38,960	440,295
<b>Total salaries and related expenses</b>	<b>1,462,177</b>	<b>732,654</b>	<b>1,068,463</b>	<b>576,150</b>	<b>673,526</b>	<b>339,914</b>	<b>249,661</b>	<b>828,515</b>	<b>136,994</b>	<b>176,949</b>	<b>275,822</b>	<b>-</b>	<b>350,000</b>	<b>710,672</b>	<b>7,581,497</b>
Professional fees	38,744	31,097	28,930	24,880	29,404	5,452	3,196	14,321	3,464	2,825	6,021	-	178,690	64,488	431,512
Operating supplies	431,024	381,927	232,320	333,823	314,945	-	-	8,116	2,170	12,370	1,630	-	5,885	17,564	1,741,774
Postage and printing	2,425	9,752	870	6,363	8,540	2,899	8	554	1,010	58	145	-	51,723	1,239	85,586
Occupancy costs	121,076	15,024	55,406	5,622	17,457	1,170	583	1,217	3,377	-	1,921	-	1,723	25,629	250,205
Telephone/communications	11,303	7,344	13,469	9,164	15,692	3,240	5,399	11,540	1,707	1,189	3,624	-	4,441	4,110	92,222
Equipment rental	22,036	11,976	7,230	14,715	20,980	741	434	1,947	471	384	819	-	24,293	8,767	114,793
Insurance	65,186	13,656	48,077	12,387	20,537	9,191	4,843	27,119	1,183	4,092	4,522	-	5,892	26,786	243,471
Bank charges and service fees	25,067	14,475	18,218	10,565	13,580	3,627	2,522	7,986	2,087	2,117	3,570	-	67,877	27,927	199,618
Staff expenses	32,049	4,897	9,850	10,176	5,926	10,858	1,483	21,523	1,775	1,664	14,191	-	17,501	16,285	148,178
Repairs and maintenance	176,562	27,355	31,187	4,499	15,608	1,706	851	3,189	4,924	-	2,801	-	2,890	55,967	327,539
Vehicle expenses	4,290	782	9,796	2,047	3,845	717	-	45,031	1,324	183	641	-	3,495	43,262	115,413
Promotion, exhibit and other	-	-	-	-	-	165	-	1,875	8,831	4,147	1,837,450	77,930	376,222	1,219	2,307,839
Training and seminars	916	8,062	1,106	1,786	1,944	3,500	-	12,495	249	1,672	4,193	-	3,709	2,153	41,785
Advertising	4,984	4,001	3,722	3,201	3,783	701	411	1,842	446	363	775	-	22,989	8,296	55,514
Computer costs	17,548	10,635	7,445	4,786	8,508	4,254	4,254	5,318	1,064	1,064	3,191	-	4,254	6,381	78,702
Merchandise	28,897	11,783	15,788	5,615	9,643	-	-	-	-	-	-	-	-	-	71,726
Dues and subscriptions	2,578	6,559	751	2,940	4,849	45	-	440	-	491	3,373	-	7,112	22,976	52,114
Supplies	18,448	5,663	10,257	1,307	6,091	1,153	344	3,391	440	890	1,476	-	4,541	10,001	64,002
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-	15,393	15,393
Mail solicitation	48,095	38,602	35,913	30,885	36,501	6,768	3,967	17,777	4,300	3,507	7,475	-	221,817	80,052	535,659
Miscellaneous	2,564	2,889	324	2,826	1,202	-	-	23,492	685	-	1,380	-	2,187	21,518	59,067
<b>Total expenses other than salaries and related expenses</b>	<b>1,053,792</b>	<b>606,479</b>	<b>530,659</b>	<b>487,587</b>	<b>539,035</b>	<b>56,187</b>	<b>28,295</b>	<b>209,173</b>	<b>39,507</b>	<b>37,016</b>	<b>1,899,198</b>	<b>77,930</b>	<b>1,007,241</b>	<b>460,013</b>	<b>7,032,112</b>
<b>Total expenses before depreciation and amortization</b>	<b>2,515,969</b>	<b>1,339,133</b>	<b>1,599,122</b>	<b>1,063,737</b>	<b>1,212,561</b>	<b>396,101</b>	<b>277,956</b>	<b>1,037,688</b>	<b>176,501</b>	<b>213,965</b>	<b>2,175,020</b>	<b>77,930</b>	<b>1,357,241</b>	<b>1,170,685</b>	<b>14,613,609</b>
Depreciation and amortization	667,275	82,798	117,865	11,959	48,620	6,446	3,215	6,705	18,609	-	10,587	-	9,410	100,770	1,084,259
<b>Total expenses before loss on disposal of fixed assets</b>	<b>\$ 3,183,244</b>	<b>\$ 1,421,931</b>	<b>\$ 1,716,987</b>	<b>\$ 1,075,696</b>	<b>\$ 1,261,181</b>	<b>\$ 402,547</b>	<b>\$ 281,171</b>	<b>\$ 1,044,393</b>	<b>\$ 195,110</b>	<b>\$ 213,965</b>	<b>\$ 2,185,607</b>	<b>\$ 77,930</b>	<b>\$ 1,366,651</b>	<b>\$ 1,271,455</b>	<b>15,697,868</b>
Loss on disposal of fixed assets															15,396
<b>Total expenses and losses</b>															<b>\$ 15,713,264</b>