

SPCA of Texas

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



SPCA of Texas
December 31, 2017 and 2016

Contents

Independent Auditor's Report 1

Financial Statements

Statements of Financial Position 3
Statements of Activities.....4-5
Statements of Cash Flows 6
Notes to Financial Statements 7

Supplementary Information

Statements of Functional Expenses20-21

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, 2017 and 2016, 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, 2017 and 2016, 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
June 14, 2018

SPCA of Texas
Statements of Financial Position
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 7,159,496	\$ 3,200,942
Accounts receivable, net	16,138	21,778
Inventories	334,624	343,645
Prepaid expenses	99,739	116,250
Investments	12,388,284	11,980,478
Annuities receivable	889,316	1,067,526
Contributions receivable, net	980,053	131,463
Property and equipment, net	<u>17,576,098</u>	<u>18,034,401</u>
Total assets	<u>\$ 39,443,748</u>	<u>\$ 34,896,483</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 645,517	\$ 444,330
Accrued expenses	637,097	508,933
Deferred revenue	<u>1,845,739</u>	<u>148,086</u>
Total liabilities	<u>3,128,353</u>	<u>1,101,349</u>

Net Assets

Unrestricted		
Board designated	9,754,001	9,390,550
Undesignated	23,476,422	22,511,200
Temporarily restricted	1,905,187	713,599
Permanently restricted	<u>1,179,785</u>	<u>1,179,785</u>
Total net assets	<u>36,315,395</u>	<u>33,795,134</u>
Total liabilities and net assets	<u>\$ 39,443,748</u>	<u>\$ 34,896,483</u>

SPCA of Texas
Statement of Activities
Year Ended December 31, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Receiving	\$ 11,300	\$ -	\$ -	\$ 11,300
Adoption	508,077	-	-	508,077
Surgery and patient care	2,580,792	-	-	2,580,792
Merchandise sales	196,126	-	-	196,126
Contributions	9,658,023	2,142,133	-	11,800,156
In-kind services and materials	1,819,336	-	-	1,819,336
Direct mail programs	1,671,300	-	-	1,671,300
Special events, gross	1,053,569	-	-	1,053,569
Memorials and bequests	1,520,570	-	-	1,520,570
Investment return	1,556,321	11,790	-	1,568,111
Miscellaneous revenues	132,034	-	-	132,034
Gain on sale of assets	37,691	-	-	37,691
Net assets released from restrictions	962,335	(962,335)	-	-
	<u>21,707,474</u>	<u>1,191,588</u>	<u>-</u>	<u>22,899,062</u>
Total revenues, gains and other support				
Expenses				
Rees-Jones Animal Care Center	5,121,080	-	-	5,121,080
Martin Spay/Neuter & Wellness Clinic	2,749,038	-	-	2,749,038
Perry Animal Care Center	2,177,944	-	-	2,177,944
Perry Spay/Neuter & Wellness Clinic	927,569	-	-	927,569
Spencer Spay/Neuter & Wellness Clinic	1,818,800	-	-	1,818,800
Community relations (volunteer)	698,456	-	-	698,456
Customer care center	388,081	-	-	388,081
Animal cruelty investigations unit	1,058,646	-	-	1,058,646
Animal behavior	185,886	-	-	185,886
Communications	1,884,668	-	-	1,884,668
Special events costs of direct benefits to donors	155,100	-	-	155,100
Development	1,751,631	-	-	1,751,631
Management and general	1,461,902	-	-	1,461,902
	<u>20,378,801</u>	<u>-</u>	<u>-</u>	<u>20,378,801</u>
Total expenses				
Change in Net Assets	1,328,673	1,191,588	-	2,520,261
Net Assets, Beginning of Year	<u>31,901,750</u>	<u>713,599</u>	<u>1,179,785</u>	<u>33,795,134</u>
Net Assets, End of Year	<u>\$ 33,230,423</u>	<u>\$ 1,905,187</u>	<u>\$ 1,179,785</u>	<u>\$ 36,315,395</u>

SPCA of Texas
Statement of Activities
Year Ended December 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
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 (loss)	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>
Expenses				
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)	608,554	-	-	608,554
Customer care center	312,684	-	-	312,684
Animal cruelty investigations unit	1,060,949	-	-	1,060,949
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>
Change in Net Assets	(144,897)	(703,232)	-	(848,129)
Net Assets, Beginning of Year	<u>32,046,647</u>	<u>1,416,831</u>	<u>1,179,785</u>	<u>34,643,263</u>
Net Assets, End of Year	<u>\$ 31,901,750</u>	<u>\$ 713,599</u>	<u>\$ 1,179,785</u>	<u>\$ 33,795,134</u>

SPCA of Texas
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 2,520,261	\$ (848,129)
Items not requiring (providing) cash		
Depreciation and amortization	1,265,505	1,176,170
(Gain) loss on disposal of fixed assets	(37,691)	(319,633)
Net realized and unrealized (gain) loss on investments	(1,369,551)	(364,457)
Net interest and dividends reinvested	(198,560)	(324,949)
Bad debt expense	37,046	19,413
Donated capital assets	(18,000)	(332,500)
Changes in		
Contributions and accounts receivable	(988,746)	143,976
Grants receivable	108,750	428,750
Annuities receivable	178,210	119,042
Inventories	9,021	(53,958)
Prepaid expenses	16,511	(19,634)
Accounts payable	201,187	56,727
Accrued expenses	128,164	29,105
Deferred revenue	1,697,653	115,250
	<u>3,549,760</u>	<u>(174,827)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of property and equipment	(1,131,249)	(1,457,239)
Proceeds from sale of property and equipment	379,738	985,936
Proceeds from sale of investments	13,565,085	3,980,000
Purchase of investments	(12,404,780)	(3,614,707)
	<u>408,794</u>	<u>(106,010)</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash and Cash Equivalents	3,958,554	(280,837)
Cash and Cash Equivalents, Beginning of Year	<u>3,200,942</u>	<u>3,481,779</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,159,496</u>	<u>\$ 3,200,942</u>
Supplemental Information		
Noncash Activity		
Contributions of in-kind goods and contributed services	\$ 1,819,336	\$ 1,957,708
Donated capital assets	18,000	332,500

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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 almost 80 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, an animal rescue center, two mobile spay/neuter vehicles and a mobile adoption vehicle, 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 7,000 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 and two mobile spay/neuter vehicles provide high-quality pet care at affordable prices and collaborate 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 3,000 calls concerning animal cruelty and neglect every year, and rescues more than 3,000 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 and GuideStar Platinum charity, 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, 2017 and 2016

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, 2017, SPCA's cash accounts exceeded federally insured limits by approximately \$6,600,000.

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, 2017 and 2016, were \$13,000 and \$15,000, respectively.

Inventories

Inventories, consisting of supplies and gift shop merchandise, are stated at the lower of cost or market using the first-in, first-out method.

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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. 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, 2017 and 2016.

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.

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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.

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, 2017 and 2016, contribution revenue recognized from contributed legal services was \$109,183 and \$146,624, 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, 2017 and 2016, \$1,710,153 and \$1,811,084, 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.

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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.

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.

Note 2: Investments and Investment Return

Investments at December 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash deposits	\$ 1,312,692	\$ 820,132
Negotiable certificates of deposit	375,309	673,367
Corporate equities	3,855	1,190,395
Bond mutual funds	2,912,010	3,445,170
Equity mutual funds	<u>7,784,418</u>	<u>5,851,414</u>
	<u>\$ 12,388,284</u>	<u>\$ 11,980,478</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 252,335	\$ 379,435
Management fees	(53,775)	(54,486)
Net realized and unrealized gains on investments reported at fair value	<u>1,369,551</u>	<u>364,457</u>
	<u>\$ 1,568,111</u>	<u>\$ 689,406</u>

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, an annuities receivable of \$889,316 and \$1,067,526, 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.

Note 4: Contributions Receivable

Contributions receivable consisted of the following:

	2017	2016
Unconditional contributions expected to be collected in		
Due within one year	\$ 230,053	\$ 131,463
Due in one to five years	750,000	-
	\$ 980,053	\$ 131,463

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, 2017 and 2016

Note 5: Property and Equipment

Property and equipment at December 31 consisted of:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,696,513	\$ 1,916,817
Buildings and leasehold improvements	20,176,617	20,059,816
Equipment	2,635,390	2,411,937
Motor vehicles	<u>1,950,407</u>	<u>1,532,650</u>
	26,458,927	25,921,220
Less accumulated depreciation and amortization	<u>(8,882,829)</u>	<u>(7,886,819)</u>
	<u>\$ 17,576,098</u>	<u>\$ 18,034,401</u>

Note 6: Net Assets

Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Disaster preparedness and relief efforts	\$ 1,240,009	\$ -
Rescue center improvements and expenses	316,794	168,128
Spay/neuter clinics	147,142	373,920
Community pet program	131,846	46,000
Shelter Program	69,396	48,746
Miscellaneous	<u>-</u>	<u>76,805</u>
	<u>\$ 1,905,187</u>	<u>\$ 713,599</u>

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are restricted to:

	<u>2017</u>	<u>2016</u>
David Ivan Perry Fund	\$ 765,000	\$ 765,000
Baggarly Fund	<u>414,785</u>	<u>414,785</u>
	<u>\$ 1,179,785</u>	<u>\$ 1,179,785</u>

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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.

	2017	2016
Purpose restrictions accomplished		
Disaster preparedness and relief efforts	\$ 316,698	\$ -
Spay/neuter clinic program expenses	226,779	264,887
Rescue center improvements and expenses	226,334	259,095
Community pet program	88,859	-
Puppy mill program expenses	73,419	511,825
Shelter program expenses	22,544	320,499
Miscellaneous program expenses	7,702	111,600
	<u>\$ 962,335</u>	<u>\$ 1,467,906</u>

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

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

- Expected total return from investment income and appreciation or depreciation of investments
- Other resources of the SPCA
- Investment policies of the SPCA

The composition of net assets by type of endowment fund at December 31, 2017 and 2016, was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,179,785	\$ 1,179,785
Board-designated endowment funds	9,754,001	-	-	9,754,001
	<u>\$ 9,754,001</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,933,786</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 9,390,550	\$ -	\$ 1,179,785	\$ 10,570,335
Investment return				
Investment income	180,923	9,647	-	190,570
Net appreciation	1,345,062	2,143	-	1,347,205
Total investment return	1,525,985	11,790	-	1,537,775
Appropriation of endowment assets for expenditure	(2,200,000)	(11,790)	-	(2,211,790)
Board appropriations from unappropriated unrestricted net assets	1,037,466	-	-	1,037,466
	<u>\$ 9,754,001</u>	<u>\$ -</u>	<u>\$ 1,179,785</u>	<u>\$ 10,933,786</u>

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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 (loss)	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>

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, 2017 and 2016.

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, 2017 and 2016

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 \$78,256 and \$71,583 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Negotiable certificates of deposit	\$ 375,309	\$ -	\$ 375,309	\$ -
Corporate equities	3,855	3,855	-	-
Bond mutual funds	2,912,010	2,912,010	-	-
Equity mutual funds	7,784,418	7,784,418	-	-
	<u>\$ 11,075,592</u>	<u>\$ 10,700,283</u>	<u>\$ 375,309</u>	<u>\$ -</u>

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
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>

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, 2017.

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, 2017 and 2016.

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

No individual donor gave more than 10% of total contributions during 2017 or 2016.

SPCA of Texas
Notes to Financial Statements
December 31, 2017 and 2016

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 June 14, 2018, 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, 2017

	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	Animal Behavior	Communications	Special Events Costs of Direct Benefits to Donors	Development	Management and General	Total
Salaries and wages	\$ 1,917,507	\$ 983,660	\$ 1,062,585	\$ 368,903	\$ 684,831	\$ 404,392	\$ 279,444	\$ 646,876	\$ 120,622	\$ 326,082	\$ -	\$ 489,106	\$ 540,093	\$ 7,824,101
Employee benefits	345,769	199,533	221,777	56,127	120,080	83,691	52,586	89,187	13,912	60,412	-	80,016	223,473	1,546,563
Contract labor	182,286	87,358	75,199	40,751	105,575	2,277	-	29,237	200	1,825	-	4,375	78,184	607,267
Payroll taxes	143,215	72,398	78,164	26,397	48,589	28,688	19,561	46,482	8,994	22,821	-	35,998	38,750	570,057
Total salaries and related expenses	2,588,777	1,342,949	1,437,725	492,178	959,075	519,048	351,591	811,782	143,728	411,140	-	609,495	880,500	10,547,988
Professional fees	40,472	36,214	19,249	13,011	17,563	5,968	1,937	7,858	1,486	4,909	-	160,072	43,129	351,868
Operating supplies	793,164	774,457	278,205	283,133	472,988	29,438	2,309	57,607	11,979	222	-	26,522	31,371	2,761,395
Postage and printing	1,377	12,728	533	866	1,144	1,646	-	986	49	415	-	76,725	7,744	104,213
Occupancy costs	146,556	27,566	54,973	6,421	19,267	5,875	782	5,099	-	2,398	-	2,780	31,811	303,528
Telephone/communications	11,347	16,674	10,795	7,696	14,508	3,781	5,482	12,257	2,353	3,081	-	4,529	3,583	96,086
Equipment rental	46,310	20,970	8,895	17,383	18,701	1,209	392	1,591	301	994	-	32,419	8,735	157,900
Insurance	80,946	18,090	27,501	5,446	9,914	8,469	2,405	22,317	890	2,399	-	3,545	34,144	216,066
Bank charges and service fees	48,515	39,717	23,972	12,983	17,653	6,829	3,077	8,942	2,221	5,674	-	142,167	40,914	352,664
Staff expenses	34,790	32,520	15,917	11,812	13,487	40,882	2,100	21,333	8,879	21,618	-	17,872	11,362	232,572
Repairs and maintenance	315,900	45,923	56,923	11,147	26,374	12,525	1,666	10,869	-	5,113	-	5,927	48,132	540,499
Vehicle expenses	10,544	8,892	11,212	377	1,219	445	-	33,317	436	1,187	-	3,880	49,043	120,552
Promotion, exhibit and other	1,084	505	-	-	-	6,959	-	471	1,360	1,390,875	155,100	316,030	3,332	1,875,716
Training and seminars	18,323	9,231	3,775	3,570	451	2,461	-	3,968	3,526	2,190	-	2,676	1,542	51,713
Advertising	6,220	104,537	2,958	2,000	101,671	917	298	1,208	228	754	-	24,600	6,628	252,019
Computer costs	38,760	34,680	14,280	9,180	16,320	8,160	8,160	10,200	4,080	6,120	-	10,200	12,240	172,380
Merchandise	59,398	13,129	19,682	1,243	6,792	-	-	-	-	-	-	-	-	100,244
Dues and subscriptions	6,201	8,633	2,212	3,656	4,786	414	-	936	534	2,967	-	5,071	36,379	71,789
Supplies	35,728	15,689	12,062	866	10,449	1,618	367	2,998	416	349	-	3,185	13,027	96,754
Bad debt expense	300	13,596	-	5,144	18,006	-	-	-	-	-	-	-	-	37,046
Mail solicitation	72,727	65,074	34,590	23,380	31,560	10,724	3,481	14,120	2,669	8,822	-	287,642	77,501	632,290
Miscellaneous	7,424	10,473	4,699	2,097	34	771	-	4,477	751	1,065	-	1,947	4,276	38,014
Total expenses other than salaries and related expenses	1,776,086	1,309,298	602,433	421,411	802,887	149,091	32,456	220,554	42,158	1,461,152	155,100	1,127,789	464,893	8,565,308
Total expenses before depreciation and amortization	4,364,863	2,652,247	2,040,158	913,589	1,761,962	668,139	384,047	1,032,336	185,886	1,872,292	155,100	1,737,284	1,345,393	19,113,296
Depreciation and amortization	756,217	96,791	137,786	13,980	56,838	30,317	4,034	26,310	-	12,376	-	14,347	116,509	1,265,505
Total expenses	\$ 5,121,080	\$ 2,749,038	\$ 2,177,944	\$ 927,569	\$ 1,818,800	\$ 698,456	\$ 388,081	\$ 1,058,646	\$ 185,886	\$ 1,884,668	\$ 155,100	\$ 1,751,631	\$ 1,461,902	\$ 20,378,801

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	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	\$ 383,514	\$ 209,552	\$ 658,654	\$ 121,211	\$ 321,170	\$ -	\$ 317,764	\$ 505,095	\$ 6,101,121
Employee benefits	230,972	98,935	186,810	28,521	84,344	57,369	37,265	91,259	30,263	51,076	-	70,727	194,153	1,161,694
Contract labor	12,212	111,409	61,665	17,974	15,024	3,220	13,782	27,948	-	1,915	-	4,590	4,613	274,352
Payroll taxes	94,898	45,704	68,074	18,755	36,069	28,449	15,551	49,104	9,057	21,236	-	20,756	34,854	442,507
Total salaries and related expenses	1,629,083	870,128	1,266,282	317,767	612,267	472,552	276,150	826,965	160,531	395,397	-	413,837	738,715	7,979,674
Professional fees	27,062	24,155	20,000	9,020	16,955	5,745	2,349	9,266	1,615	4,489	-	104,033	41,609	266,298
Operating supplies	354,071	469,595	236,577	164,483	296,630	5,182	-	38,665	10,355	4,284	-	4,108	9,014	1,592,964
Postage and printing	992	10,821	422	3,767	4,441	1,370	-	2,081	424	303	-	61,782	923	87,326
Occupancy costs	143,369	18,035	54,242	6,426	15,551	5,383	691	1,441	-	2,275	-	2,022	41,206	290,641
Telephone/communications	12,571	9,648	14,369	9,935	19,434	5,477	6,075	11,603	1,421	3,376	-	4,886	4,571	103,366
Equipment rental	26,670	15,449	17,491	7,889	15,117	1,591	651	2,566	447	1,243	-	28,815	11,525	129,454
Insurance	70,487	17,207	46,400	10,816	23,593	10,600	4,843	29,794	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	5,802	2,946	8,242	1,500	4,279	-	66,768	29,868	207,613
Staff expenses	16,852	12,592	14,509	4,316	16,168	26,645	1,368	23,382	1,137	11,977	-	11,515	8,115	148,576
Repairs and maintenance	190,439	29,502	33,331	4,826	17,155	7,086	909	1,896	-	3,102	-	3,974	56,964	349,184
Vehicle expenses	6,147	2,827	8,463	345	1,076	1,011	32	33,157	603	1,870	-	3,469	43,035	102,035
Promotion, exhibit and other	-	-	-	-	-	8,089	-	1,159	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	405	-	9,474	2,701	2,640	-	3,444	1,478	50,886
Advertising	3,952	3,528	2,921	1,317	2,476	839	343	1,353	236	656	-	15,194	6,077	38,892
Computer costs	26,940	16,327	11,429	7,347	13,062	8,164	6,531	8,163	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	1,747	1,194	692	43	11,886	-	1,773	32,491	67,358
Supplies	23,474	9,080	9,789	421	6,956	1,859	370	3,685	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	11,600	4,744	18,710	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
Total expenses other than salaries and related expenses	1,031,827	757,265	549,953	269,490	518,612	108,822	33,046	226,711	32,896	1,797,191	136,230	883,285	449,058	6,794,386
Total expenses before depreciation and amortization	2,660,910	1,627,393	1,816,235	587,257	1,130,879	581,374	309,196	1,053,676	193,427	2,192,588	136,230	1,297,122	1,187,773	14,774,060
Depreciation and amortization	723,838	89,816	127,856	12,973	52,742	27,180	3,488	7,273	-	11,484	-	10,208	109,312	1,176,170
Total expenses	\$ 3,384,748	\$ 1,717,209	\$ 1,944,091	\$ 600,230	\$ 1,183,621	\$ 608,554	\$ 312,684	\$ 1,060,949	\$ 193,427	\$ 2,204,072	\$ 136,230	\$ 1,307,330	\$ 1,297,085	\$ 15,950,230