



SPAIN PRICE READER  
& THOMPSON, P.C.  
ACCOUNTANTS & BUSINESS CONSULTANTS

**Houston Humane Society**  
**Financial Statements and**  
**Supplementary Information**  
**For the Years Ended December 31, 2015 and 2014**

HOUSTON HUMANE SOCIETY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Houston Humane Society  
Houston, Texas

We have audited the accompanying financial statements of Houston Humane Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

**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 the 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 auditors consider 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 Houston Humane Society as of December 31, 2015 and 2014, 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.

A handwritten signature in black ink, appearing to read "Spain Price Reader &amp; Thompson, P.C.", is written over a horizontal line.

Houston, Texas  
August 9, 2016

HOUSTON HUMANE SOCIETY  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2015 AND 2014

	2015	2014
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 3,472,097	\$ 3,296,019
Investments	2,179,366	2,176,604
Other current assets	-	20,997
Inventory	20,821	22,857
	5,672,284	5,516,477
 <u>Endowment investments</u>		
Investments	838,163	838,163
 <u>Property and equipment</u>		
Automobiles	163,187	137,909
Furniture and fixtures	351,742	311,685
Computer equipment	152,651	140,394
Machinery and equipment	565,078	555,200
Construction in progress	623,126	-
Buildings and land	9,827,857	9,765,425
	11,683,641	10,910,613
Less accumulated depreciation and amortization	3,095,115	2,890,408
	8,588,526	8,020,205
	\$ 15,098,973	\$ 14,374,845

See accompanying notes and independent accountants' report.

HOUSTON HUMANE SOCIETY  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2015 AND 2014

	2015	2014
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 200,459	\$ 55,783
Accrued expenses	22,145	15,599
	222,604	71,382
 <u>Net assets</u>		
Unrestricted	14,023,089	13,459,064
Temporarily restricted	15,117	6,236
Permanently restricted	838,163	838,163
	14,876,369	14,303,463
	\$ 15,098,973	\$ 14,374,845

See accompanying notes and independent accountants' report.

HOUSTON HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<u>Revenues and other support</u>				
Contributions	\$ 1,730,462	\$ 68,245	\$ -	\$ 1,798,707
Special events, net of costs of direct benefit to donors of \$16,995	164,915	-	-	164,915
Merchandise sales	20,588	-	-	20,588
Service fees	3,309,823	-	-	3,309,823
Interest and dividend income	2,302	110,159	-	112,461
Other income	6,168	-	-	6,168
Net loss on investments	(148,811)	15,632	-	(133,179)
Net assets released from restrictions:				
Appropriation for expenditure	125,791	(125,791)	-	-
Satisfaction of donor restrictions	59,364	(59,364)	-	-
	5,270,602	8,881	-	5,279,483
<u>Expenses</u>				
Program service:				
Shelter	1,289,140	-	-	1,289,140
Spay/Neuter Clinic	2,389,644	-	-	2,389,644
Animals' Kingdom	50,785	-	-	50,785
Cruelty Rescue	277,883	-	-	277,883
Supporting services:				
Fund-raising	563,741	-	-	563,741
General and administrative	135,384	-	-	135,384
	4,706,577	-	-	4,706,577
Change in net assets	564,025	8,881	-	572,906
Net assets, beginning of year	13,459,064	6,236	838,163	14,303,463
Net assets, end of year	\$ 14,023,089	\$ 15,117	\$ 838,163	\$ 14,876,369

See accompanying notes and independent accountants' report.

HOUSTON HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<u>Revenues and other support</u>				
Contributions	\$ 1,995,546	\$ 45,459	\$ -	\$ 2,041,005
Special events, net of costs of direct benefit to donors of \$18,215	179,339	-	-	179,339
Merchandise sales	30,384	-	-	30,384
Service fees	3,286,506	-	-	3,286,506
Interest income	470	91,791	-	92,261
Other income	19,025	-	-	19,025
Net gain on investments	126,895	(68,980)	-	57,915
Net assets released from restrictions:				
Appropriation for expenditure	22,811	(22,811)	-	-
Satisfaction of donor restrictions	69,318	(69,318)	-	-
	<u>5,730,294</u>	<u>(23,859)</u>	<u>-</u>	<u>5,706,435</u>
<u>Expenses</u>				
Program service:				
Shelter	1,352,868	-	-	1,352,868
Spay/Neuter Clinic	2,271,692	-	-	2,271,692
Animals' Kingdom	63,919	-	-	63,919
Cruelty Rescue	384,287	-	-	384,287
Supporting services:				
Fund-raising	633,316	-	-	633,316
General and administrative	133,619	-	-	133,619
	<u>4,839,701</u>	<u>-</u>	<u>-</u>	<u>4,839,701</u>
Change in net assets	890,593	(23,859)	-	866,734
Net assets, beginning of year	<u>12,568,471</u>	<u>30,095</u>	<u>838,163</u>	<u>13,436,729</u>
Net assets, end of year	<u>\$ 13,459,064</u>	<u>\$ 6,236</u>	<u>\$ 838,163</u>	<u>\$ 14,303,463</u>

See accompanying notes and independent accountants' report.

HOUSTON HUMANE SOCIETY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 572,906	\$ 866,734
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	204,707	226,884
Net realized/unrealized loss on investments	133,179	(58,106)
(Increase) decrease in assets:		
Inventory	2,036	11,691
Prepaid expenses and other current assets	20,997	(20,997)
Increase (decrease) in liabilities:		
Accounts payable	144,676	(79,733)
Accrued expenses	6,546	5,191
	<u>1,085,047</u>	<u>951,664</u>
 <u>Cash flows from investing activities</u>		
Purchases of fixed assets	(268,179)	(92,127)
Construction in progress	(504,849)	-
Proceeds from sales of marketable securities	1,586,371	2,019,154
Purchases of marketable securities	<u>(1,722,312)</u>	<u>(1,904,025)</u>
	<u>(908,969)</u>	<u>23,002</u>
Net cash provided by (used in) investing activities		
Net increase in cash and cash equivalents	176,078	974,666
Cash and cash equivalents, beginning of year	<u>3,296,019</u>	<u>2,321,353</u>
Cash and cash equivalents, end of year	<u>\$ 3,472,097</u>	<u>\$ 3,296,019</u>

See accompanying notes and independent accountants' report.



HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 1: Nature of activities and significant accounting policies

Nature of activities

The Houston Humane Society (the "Organization") is a nonprofit organization incorporated July 1958. The Organization, through leadership, education and action, seeks to prevent cruelty to all living creatures, relieve the suffering of animals, and provide educational programs to the general public regarding animal welfare. The Organization is located in Houston, Texas and provides animal care services for several surrounding counties. The Organization's primary sources of revenues are public and private contributions and service fees (clinic and shelter services).

Significant accounting policies

Basis of accounting

The Organization presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently on behalf of the Organization. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents exclude permanently restricted cash and cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as either temporarily restricted or permanently restricted, depending upon the nature of the donor restriction when received. Temporarily restricted support is reclassified to unrestricted net assets upon expiration of the restriction.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 1: Nature of activities and significant accounting policies (continued)

Significant accounting policies (continued)

Contributions (continued)

Unconditional promises to give are recorded when received. Unconditional promises to give due in the next years are reflected as current contributions receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue.

Management determines the amount necessary to provide as an allowance for uncollectible promises to give based on its evaluation of potential uncollectible contributions receivable at year-end. No allowance for uncollectible promises to give was considered necessary at December 31, 2015 and 2014.

Investments

Investments are composed of equity securities, fixed income bond funds and certificates of deposit and are recorded at fair market value. The realized and unrealized gains and losses on these investments are reflected in the statement of activities.

Inventory

Inventory consists of finished goods held for resale through the Organization's retail outlet. Inventory is valued using the lower of cost or market applied on the first-in, first-out (FIFO) method.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairments were indicated in 2015 or 2014.

Property and equipment

Donated furniture and equipment owned by the Organization is recorded at fair market value at date of contribution. All purchased furniture and equipment is recorded at historical cost.

Depreciation of property and equipment is provided using both straight-line and accelerated methods over the following useful lives:

<u>Assets</u>	<u>Years</u>
Automobiles	5
Furniture and fixtures	5 - 15
Computer equipment	3 - 7
Machinery and equipment	5 - 7
Buildings and improvements	15 - 39

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 1: Nature of activities and significant accounting policies (continued)

Significant accounting policies (continued)

Property and equipment (continued)

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization expense for the years ended December 31, 2015 and 2014 were \$204,707 and \$226,884, respectively.

Donated materials and services

The Organization records donated materials as contribution revenue in the period received at fair market value at the date of the gift. Contributed services of professionals are recognized as in-kind contribution revenue at their estimated fair value if they require specialized skills which would need to be purchased if they were not donated. In-kind donations included in contribution revenue at December 31, 2015 and 2014 totaled to \$100,974 and \$149,691, respectively, for food, rent and commissions.

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and program activities. These donated services do not meet the criteria for recognition required by accounting principles generally accepted in the United States of America and are not reflected in the accompanying financial statements.

Functional allocation of expenses

The costs of the Organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal income tax

The Organization has been granted tax-exempt status by the Internal Revenue Service under Internal Revenue Code Section 501(c)(3). The Organization has unrelated business taxable income but sustains losses and has a net operating loss carryover. Accordingly, the Organization's financial statements do not include a provision for Federal income taxes.

In 2009, the Organization implemented the provisions of ASC Topic 740-10, *Income Taxes* which clarifies the accounting for uncertainty in income taxes. The Organization concluded there were no uncertain tax positions that result in material unrecognized tax benefits.

Use of estimates

The preparation of the Organization's 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 revenue and expenses during each reporting period. Actual results could differ from those estimates.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 1: Nature of activities and significant accounting policies (continued)

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$19,422 and \$14,124 for the years ended December 31, 2015 and 2014, respectively.

NOTE 2: Investments

In accordance with accounting guidance, fair value is defined as the price that the Organization would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. Various inputs are used in determining the value of the investments. A three tier hierarchy of inputs is used to establish a classification of fair value measurements and disclosure. The three tier hierarchy of inputs is summarized below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Level 1 inputs- The fair value of the organizations mutual funds, common stocks, corporate bonds, and fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

Level 2 inputs- The fair value of certificates of deposit is based on yields for security of comparable maturity, quality, and type as obtained from market makers, which are observable inputs other than the quoted market prices.

Level 3 inputs- The fair value of hedge funds, real estate backed investments, and commodities are determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 1,268,167	\$ -	\$ -	\$ 1,268,167
Fixed income taxable bond funds	553,070	-	-	553,070
Hedge funds	-	-	292,868	292,868
Alternative investments	-	-	903,425	903,425
	<u>\$ 1,821,237</u>	<u>\$ -</u>	<u>\$ 1,196,293</u>	<u>\$ 3,017,530</u>

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 2: Investments (continued)

Significant unobservable inputs (level 3) December 31, 2015:

	<u>Hedge funds</u>	<u>Alternative investments</u>
Beginning balance, December 31, 2014	\$ 141,880	\$ 959,592
Total gains or losses (realized/unrealized) included In changes in net assets	(10,253)	(39,270)
Purchases, sales, issuances, and settlements	161,241	(16,897)
Ending balance, December 31, 2015	<u>\$ 292,868</u>	<u>\$ 903,425</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 1,590,112	\$ -	\$ -	\$ 1,590,112
Fixed income taxable bond funds	323,183	-	-	323,183
Hedge funds	-	-	141,880	141,880
Alternative investments	-	-	959,592	959,592
	<u>\$ 1,913,295</u>	<u>\$ -</u>	<u>\$ 1,101,472</u>	<u>\$ 3,014,767</u>

Significant unobservable inputs (level 3) December 31, 2014:

	<u>Hedge funds</u>	<u>Alternative investments</u>
Beginning balance, December 31, 2013	\$ 157,147	\$ 1,016,786
Total gains or losses (realized/unrealized) included In changes in net assets	1,044	13,168
Purchases, sales, issuances, and settlements	(16,311)	(70,362)
Ending balance, December 31, 2014	<u>\$ 141,880</u>	<u>\$ 959,592</u>

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Equity securities	\$ 652,941	\$ -	\$ 273,210	\$ 926,151
Fixed income taxable bond funds	380,946	-	172,124	553,070
Hedge funds	435,770	-	199,114	634,884
Alternative investments	623,211	-	280,214	903,425
	<u>\$ 2,092,868</u>	<u>\$ -</u>	<u>\$ 924,662</u>	<u>\$ 3,017,530</u>

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

**NOTE 2:** Investments (continued)

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Equity securities	\$ 1,089,505	\$ -	\$ 500,607	\$ 1,590,112
Fixed income taxable bond funds	100,912	-	222,271	323,183
Hedge funds	97,622	-	44,258	141,880
Alternative investments	657,316	-	302,276	959,592
	<u>\$ 1,945,355</u>	<u>\$ -</u>	<u>\$ 1,069,412</u>	<u>\$ 3,014,767</u>

**NOTE 3:** Endowment

The Organization's endowment consists of a memorial fund in the name of Royce Clark and Gordon Watson at JPMorgan Chase Bank, N.A. The income from the fund is restricted to the funding of special events and other non-routine expenditures.

Interpretation of relevant law

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the 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 Organization 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

Endowment net assets consist of the following at December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment Fund	<u>\$ 129,622</u>	<u>\$ -</u>	<u>\$ 838,163</u>	<u>\$ 967,785</u>

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 3: Endowment (continued)

Changes in endowment net assets for the years ended December 31, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ 154,463	\$ -	\$ 838,163	\$ 992,626
Contributions	-	-	-	-
Investment income	-	91,791	-	91,791
Unrealized and realized losses	-	(68,980)	-	(68,980)
Amounts appropriated for expenditure	<u>22,303</u>	<u>(22,811)</u>	<u>-</u>	<u>(508)</u>
Endowment net assets, December 31, 2015	176,766	-	838,163	1,014,929
Contributions	-	-	-	-
Investment income	-	110,159	-	110,159
Unrealized and realized losses	-	15,632	-	15,632
Amounts appropriated for expenditure	<u>(47,144)</u>	<u>(125,791)</u>	<u>-</u>	<u>(172,935)</u>
	<u>\$ 129,622</u>	<u>\$ -</u>	<u>\$ 838,163</u>	<u>\$ 967,785</u>

Fund with deficiency

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. There was no deficiency as of December 31, 2015.

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that seek income and capital growth as well as preservation of principal. It is intended to have an average level of risk and may experience moderate levels of volatility.

Strategies employed for achieving objectives

To satisfy its investment objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization 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.

Spending policy

The Organization's spending policy is to spend all amounts above the permanently restricted endowment amount on expenditures allowed by the endowment. Typically, the Organization withdraws the excess amounts from the investment endowment assets once a year.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 4: Special events

Special events consist of revenues and expenses from the following:

	<u>2015</u>	<u>2014</u>
K-9 Fun Run	\$ 31,776	\$ 39,752
Companion Camp	67,175	60,218
No Ball	52,246	54,230
Par Fore Pets Golf Tournament	29,201	42,207
Car Auction	<u>1,511</u>	<u>1,147</u>
	181,909	197,554
Less direct benefits to donors	<u>(16,995)</u>	<u>(18,215)</u>
	<u>\$ 164,914</u>	<u>\$ 179,339</u>

NOTE 5: Temporarily restricted net assets

At December 31, 2015 and 2014, temporarily restricted net assets are available for the following:

	<u>2015</u>	<u>2014</u>
Dishwasher	\$ -	\$ 3,854
Floor scrubber	-	1,906
Grooming funds	-	476
Adoption Ambassador Program	2,500	-
Warm Blood Surgical Systems	1,700	-
BreakIn	3,108	-
Heartworm	<u>7,809</u>	<u>-</u>
	<u>\$ 15,117</u>	<u>\$ 6,236</u>



HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

NOTE 5: Temporarily restricted net assets (continued)

For the years ended December 31, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2015	2014
Grooming	\$ 476	\$ 524
Pets Mart Spay & Neuter Pit bulls	-	26,185
Heartworm	6,905	5,818
K-9 Fun Run	6,011	8,301
Dishwasher	3,853	21,146
Floor scrubber	1,906	2,344
Surgical equipment	5,926	5,000
BreakIn	11,237	-
Houston pet set-horse clinic	1,500	-
Kat play around	16,000	-
Spay and Neuter Clinic	500	-
Raider Case	5,050	-
	\$ 59,364	\$ 69,318

NOTE 6: Merchandise sales

Merchandise sales include items sold through the retail store, Animals' Kingdom, and the Organizations' clinic and shelter. The revenue generated from merchandise sales is available for program expenses.

NOTE 7: Related party transactions

From time to time, the organization purchases goods and services from businesses that are owned or operated by employees and or members of their respective board. There were no transactions during the years ended December 31, 2015 and 2014 that were material to the financial statements. These transactions are done at arm's length and at market rates (that are sometimes discounted). The board has in place an conflict of interest policy that requires disclosure of any Board member that may do business with the organization, and the board members are not allowed to participate on any purchase decisions by the organization involving their respective business.

The treasurer of the Board of Directors owns an accounting firm which provides monthly accounting, compilation services, and tax preparation for the Organization. Fees for these services totaled \$10,063 and \$8,949 for the years ended December 31, 2015 and 2014, respectively. A family member of the treasurer of the Board of Directors received fees for the sale of a software totaling \$4,098 and \$1,471 for the years ended December 31, 2015 and 2014, respectively.

Family members of the president of the Board of Directors received commissions for insurance sales and referrals related to the Organization's property, casualty, and health insurance policies. Fees for these services totaled \$7,279 and \$11,660 for the years ended December 31, 2015 and 2014, respectively.

HOUSTON HUMANE SOCIETY  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2015 AND 2014

NOTE 8: Operating leases

The Organization leases certain office equipment. Total lease expense amounted to \$12,901 and \$9,583 for the years ended December 31, 2015 and 2014, respectively.

Future minimum rental payments under the noncancelable operating leases are as follows:

For the Years Ending December 31,	Amount
2016	\$ 4,690
2017	4,690
2018	4,690
2019	782
	\$ 14,852

NOTE 9: Concentrations of credit risk

The Organization is subject to concentrations of credit risk primarily with respect to its cash and investments. As of December 31, 2015, the Organization had \$2,860,974, of cash over the Federal Deposit Insurance Corporation insured limit. It is the policy of the Organization's management to continually evaluate the underlying strength of its financial institutions.

Investments consist primarily of foreign and domestic corporate stocks, which could subject the Organization to losses in the event of general downturns in foreign or U.S. stock markets. The Organization has reduced its risk related to common stock through diversification into investments in a variety of industries.

NOTE 10: 403(b) Thrift Plan

The Organization has a 403(b) Thrift Plan to provide retirement benefits for its employees. Under the Plan, all employees are eligible to contribute pre-tax dollars to a retirement plan for their future benefit and include an employer-matching component. Participants employed two years or more who have attained age twenty-one will receive the lesser of (a) fifty percent (50%) of their contributions to the Plan or (b) five percent (5%) of their compensation received during that plan years. Employer contributions to the Plan were \$33,935 and \$27,032 for the years ended December 31, 2015 and 2014, respectively.

HOUSTON HUMANE SOCIETY  
 NOTES TO FINANCIAL STATEMENTS  
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NOTE 11: Deferred taxes

The Organization is required to file a Form 990-T related to one of their programs. The activity has sustained losses in the past that have resulted in a net operating loss of approximately \$358,162. Based on a tax rate of 35%, the following is a summary of the deferred taxes at December 31, 2015 and 2014:

	2015	2014
Deferred tax asset	\$ 135,926	\$ 125,357
Valuation allowance	(135,926)	(125,357)
	\$ -	\$ -

Management has determined that the valuation allowance should be the entire balance based on the continuing net operating losses of this program.

NOTE 12: Commitments and contingencies

The Organization is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of the Organization's management, the liability, if any, for such contingencies will not have a material effect on the Organization's financial position.

NOTE 13: Subsequent events

The Organization has evaluated subsequent events through the issuance of the financial statements, which occurred on August 9, 2016.



SPAIN PRICE READER  
& THOMPSON, P.C.

ACCOUNTANTS & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees of  
Houston Humane Society

We have audited the financial statements of Houston Humane Society as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated August 9, 2016, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of function expenses are presented for the 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.

A handwritten signature in black ink, which appears to read "Spain Price Reader &amp; Thompson, P.C.", is written across the page.

Houston, Texas  
August 9, 2016

HOUSTON HUMANE SOCIETY  
SCHEDULES OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Shelter Expenses	Spay/Neuter Clinic	Animals' Kingdom	Cruelty Rescue	Fund-Raising	General and Administrative	Total 2015	Total 2014
<u>Salaries and related expenses</u>								
Salaries	\$ 648,935	\$ 887,637	\$ 12,758	\$ 97,938	\$ 100,605	\$ 33,526	\$ 1,781,399	\$ 1,764,864
Payroll taxes and benefits	92,646	62,660	850	7,228	7,029	2,915	173,328	189,094
	<u>741,581</u>	<u>950,297</u>	<u>13,608</u>	<u>105,166</u>	<u>107,634</u>	<u>36,441</u>	<u>1,954,727</u>	<u>1,953,958</u>
<u>Operating expenses</u>								
Accounting	14,802	24,784	1,305	66	5,460	8,190	54,607	55,338
Advertising	12,360	7,062	-	-	-	-	19,422	14,124
Bank charges	36,040	61,023	3,976	8,103	7,457	12,911	129,510	124,402
Contracted services	30,579	26,412	-	112,042	6,433	-	175,466	268,584
Cost of sales	106,373	1,014,219	4,451	2,278	-	-	1,127,321	1,124,661
Insurance	94,507	123,843	252	9,729	30,444	45,668	304,443	302,599
Maintenance and repairs	23,597	77,290	-	24,731	184	-	125,802	112,392
Office equipment	7,626	13,779	4	2,556	2,524	-	26,489	29,096
Postage	300	1,348	-	150	103,630	-	105,428	102,631
Printing	-	-	-	-	228,779	-	228,779	237,814
Rent	-	-	23,474	-	-	-	23,474	23,474
Supplies - office	4,100	6,665	-	1,338	2,559	-	14,662	13,748
Supplies - other	2,842	9,985	-	103	1,323	-	14,253	13,359
Telephone	4,888	3,901	859	2,443	1,422	712	14,225	20,547
Travel, education and seminars	2,729	4,022	-	233	931	1,396	9,311	5,017
Utilities	71,456	13,165	1,180	155	10,112	5,055	101,123	117,621
Other expenses	14,997	9,722	1,676	2,772	19,853	848	49,868	71,939
Freight	-	-	-	-	178	-	178	265
Special events	-	-	-	-	22,782	-	22,782	21,248
	<u>427,196</u>	<u>1,397,220</u>	<u>37,177</u>	<u>166,699</u>	<u>444,071</u>	<u>74,780</u>	<u>2,547,143</u>	<u>2,658,859</u>
Total operating expenses and salaries before depreciation	1,168,777	2,347,517	50,785	271,865	551,705	111,221	4,501,870	4,612,817
Depreciation and amortization	120,363	42,127	-	6,018	12,036	24,163	204,707	226,884
	<u>\$ 1,289,140</u>	<u>\$ 2,389,644</u>	<u>\$ 50,785</u>	<u>\$ 277,883</u>	<u>\$ 563,741</u>	<u>\$ 135,384</u>	<u>\$ 4,706,577</u>	<u>\$ 4,839,701</u>

See independent auditors' report on additional information.