



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

**Houston Humane Society**  
**Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

## 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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, and the changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, Houston Humane Society adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit*, as of and for the years ended December 31, 2019 and 2018. Our opinion is not modified with respect to this matter.

*Spain, Rice, Reader & Thompson P.C.*

Houston, Texas  
November 18, 2020

HOUSTON HUMANE SOCIETY  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 2,060,554	\$ 2,651,617
Investments	10,606,485	8,622,419
Prepaid expenses	15,332	-
	<u>12,682,371</u>	<u>11,274,036</u>
<u>Property and equipment</u>		
Automobiles	214,772	201,497
Furniture and fixtures	389,587	382,937
Computer equipment	180,420	152,651
Machinery and equipment	1,106,285	1,024,616
Buildings and land	<u>11,972,371</u>	<u>11,972,371</u>
	13,863,435	13,734,072
Less accumulated depreciation and amortization	<u>4,219,728</u>	<u>3,859,712</u>
	<u>9,643,707</u>	<u>9,874,360</u>
<u>Endowment investments</u>		
Investments	<u>838,163</u>	<u>838,163</u>
	<u>\$ 23,164,241</u>	<u>\$ 21,986,559</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 159,609	\$ 158,983
Accrued expenses	<u>37,093</u>	<u>84,891</u>
	<u>196,702</u>	<u>243,874</u>
<u>Net assets</u>		
Without donor restrictions	20,113,958	18,802,723
With donor restrictions	<u>2,853,581</u>	<u>2,939,962</u>
	<u>22,967,539</u>	<u>21,742,685</u>
	<u>\$ 23,164,241</u>	<u>\$ 21,986,559</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<u>Revenues and other support</u>			
Contributions	\$ 2,669,129	\$ 141,541	\$ 2,810,670
Special events, net of costs of direct benefit to donors of \$16,982	91,420	-	91,420
Merchandise sales	24,745	-	24,745
Service fees	3,738,393	-	3,738,393
Interest and dividend income	232,458	26,990	259,448
Other income	9,515	-	9,515
Net loss on investments	441,330	86,068	527,398
Net assets released from restrictions:			
Appropriation for expenditure	113,058	(113,058)	-
Satisfaction of donor restrictions	227,922	(227,922)	-
	<u>7,547,970</u>	<u>(86,381)</u>	<u>7,461,589</u>
<u>Expenses</u>			
Program service:			
Shelter	1,952,192	-	1,952,192
Spay/Neuter Clinic	3,433,678	-	3,433,678
Cruelty Rescue	229,525	-	229,525
Supporting services:			
Fund-raising	443,936	-	443,936
General and administrative	177,404	-	177,404
	<u>6,236,735</u>	<u>-</u>	<u>6,236,735</u>
Change in net assets	1,311,235	(86,381)	1,224,854
Net assets, beginning of year	<u>18,802,723</u>	<u>2,939,962</u>	<u>21,742,685</u>
Net assets, end of year	<u>\$ 20,113,958</u>	<u>\$ 2,853,581</u>	<u>\$ 22,967,539</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<u>Revenues and other support</u>			
Contributions	\$ 1,817,911	\$ 117,844	\$ 1,935,755
Special events, net of costs of direct benefit to donors of \$2,755	89,676	-	89,676
Merchandise sales	18,415	-	18,415
Service fees	3,459,861	-	3,459,861
Interest income	107,631	29,342	136,973
Other income	7,045	-	7,045
Net gain on investments	(405,237)	108,211	(297,026)
Net assets released from restrictions:			
Appropriation for expenditure	137,553	(137,553)	-
Satisfaction of donor restrictions	522,665	(522,665)	-
	<u>5,755,520</u>	<u>(404,821)</u>	<u>5,350,699</u>
<u>Expenses</u>			
Program service:			
Shelter	1,846,598	-	1,846,598
Spay/Neuter Clinic	3,007,803	-	3,007,803
Cruelty Rescue	354,164	-	354,164
Supporting services:			
Fund-raising	444,241	-	444,241
General and administrative	193,766	-	193,766
	<u>5,846,572</u>	<u>-</u>	<u>5,846,572</u>
Change in net assets	(91,052)	(404,821)	(495,873)
Net assets, beginning of year	<u>18,893,775</u>	<u>3,344,783</u>	<u>22,238,558</u>
Net assets, end of year	<u><u>\$ 18,802,723</u></u>	<u><u>\$ 2,939,962</u></u>	<u><u>\$ 21,742,685</u></u>

See accompanying notes and independent auditors' report.



HOUSTON HUMANE SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Shelter Expenses	Spay/Neuter Clinic	Cruelty Rescue	Fund-Raising	General and Administrative	Total
<u>Salaries and related expenses</u>						
Salaries	\$ 972,402	\$ 1,264,575	\$ 142,424	\$ 68,499	\$ 34,560	\$ 2,482,460
Payroll taxes and benefits	159,602	120,084	11,132	5,951	3,005	299,774
	<u>1,132,004</u>	<u>1,384,659</u>	<u>153,556</u>	<u>74,450</u>	<u>37,565</u>	<u>2,782,234</u>
<u>Operating expenses</u>						
Accounting	21,368	40,263	1,047	7,049	12,305	82,032
Advertising	14,412	14,239	363	51	-	29,065
General education and publicity	60,167	59,641	-	-	-	119,808
Bank charges	34,546	56,585	7,149	2,822	17,842	118,944
Contracted services	50,279	227,332	5,796	20,535	-	303,942
Cost of sales	207,685	1,227,178	3,309	-	-	1,438,172
Insurance	55,624	198,425	10,535	35,278	52,917	352,779
Maintenance and repairs	16,603	48,192	16,018	-	-	80,813
Office equipment	11,711	20,069	3,894	3,894	-	39,568
Postage	147	661	88	82,470	-	83,366
Printing	-	-	-	174,380	-	174,380
Supplies - office	5,827	7,733	1,933	3,867	-	19,360
Supplies - other	6,298	22,003	47	3,230	-	31,578
Telephone	4,839	12,097	2,419	2,277	1,138	22,770
Travel, education and seminars	2,574	5,922	1,888	1,385	2,078	13,847
Utilities	59,675	11,318	252	8,382	4,190	83,817
Other expenses	47,234	20,364	10,124	1,150	1,752	80,624
Loss on asset disposal	-	-	-	-	11,207	11,207
Disaster relief expenses	3,399	532	182	-	-	4,113
Special events	-	-	-	869	-	869
	<u>602,388</u>	<u>1,972,554</u>	<u>65,044</u>	<u>347,639</u>	<u>103,429</u>	<u>3,091,054</u>
Total operating expenses and salaries before depreciation	1,734,392	3,357,213	218,600	422,089	140,994	5,873,288
Depreciation and amortization	217,800	76,465	10,925	21,847	36,410	363,447
	<u>\$ 1,952,192</u>	<u>\$ 3,433,678</u>	<u>\$ 229,525</u>	<u>\$ 443,936</u>	<u>\$ 177,404</u>	<u>\$ 6,236,735</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Shelter Expenses	Spay/Neuter Clinic	Cruelty Rescue	Fund-Raising	General and Administrative	Total
<u>Salaries and related expenses</u>						
Salaries	\$ 1,055,433	\$ 1,189,909	\$ 107,349	\$ 95,224	\$ 48,504	\$ 2,496,419
Payroll taxes and benefits	134,333	106,755	6,908	7,018	4,218	259,232
	<u>1,189,766</u>	<u>1,296,664</u>	<u>114,257</u>	<u>102,242</u>	<u>52,722</u>	<u>2,755,651</u>
<u>Operating expenses</u>						
Accounting	19,619	38,674	349	6,511	11,497	76,650
Advertising	10,539	10,956	-	-	-	21,495
General education and publicity	70,008	70,236	-	-	-	140,244
Bank charges	36,886	60,748	7,464	6,364	12,911	124,373
Contracted services	17,545	214,996	143,457	12,048	-	388,046
Cost of sales	79,583	850,533	8,929	-	-	939,045
Insurance	80,425	194,959	10,606	38,132	57,197	381,319
Maintenance and repairs	32,244	102,440	32,079	22	-	166,785
Office equipment	10,619	19,735	3,991	3,664	-	38,009
Postage	352	1,532	180	68,421	-	70,485
Printing	-	-	-	147,076	-	147,076
Supplies - office	7,081	8,172	1,869	3,799	-	20,921
Supplies - other	5,150	18,025	3	2,572	-	25,750
Telephone	4,637	11,593	2,318	2,182	1,091	21,821
Travel, education and seminars	4,394	6,758	-	1,487	2,231	14,870
Utilities	53,677	11,345	249	7,679	3,839	76,789
Other expenses	35,251	18,852	17,537	2,041	3,050	76,731
Loss on asset disposal	-	-	-	-	15,902	15,902
Disaster relief expenses	9,174	1,600	878	-	-	11,652
Special events	-	-	-	20,005	-	20,005
	<u>477,184</u>	<u>1,641,154</u>	<u>229,909</u>	<u>322,003</u>	<u>107,718</u>	<u>2,777,968</u>
Total operating expenses and salaries before depreciation	1,666,950	2,937,818	344,166	424,245	160,440	5,533,619
Depreciation and amortization	179,648	69,985	9,998	19,996	33,326	312,953
	<u>\$ 1,846,598</u>	<u>\$ 3,007,803</u>	<u>\$ 354,164</u>	<u>\$ 444,241</u>	<u>\$ 193,766</u>	<u>\$ 5,846,572</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 1,224,854	\$ (495,873)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	363,447	312,953
Net realized/unrealized loss on investments	(527,398)	297,026
Loss on disposal of assets	29,386	15,901
(Increase) decrease in assets:		
Inventory	-	639
Due from insurance	-	14,243
Prepaid expenses	(15,332)	-
Increase (decrease) in liabilities:		
Accounts payable	626	(53,156)
Accrued expenses	(47,798)	41,121
Net cash provided by operating activities	<u>1,027,785</u>	<u>132,854</u>
<u>Cash flows from investing activities</u>		
Purchases of fixed assets	(162,180)	(465,128)
Proceeds from sales of marketable securities	5,530,752	2,303,913
Purchases of marketable securities	<u>(6,987,420)</u>	<u>(8,555,602)</u>
Net cash used in investing activities	<u>(1,618,848)</u>	<u>(6,716,817)</u>
Net increase (decrease) in cash and cash equivalents	(591,063)	(6,583,963)
Cash and cash equivalents, beginning of year	<u>2,651,617</u>	<u>9,235,580</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,060,554</u></u>	<u><u>\$ 2,651,617</u></u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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 presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and follows the guidance of the Financial Accounting Standards Board ("FASB") related to financial statements of not-for-profit organizations. Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The Organization had net assets without donor restrictions of \$20,113,958 and \$18,802,723 as of December 31, 2019 and 2018, respectively.

Net assets with donor restrictions– Net assets subject to donor-imposed stipulations. Net assets with donor-imposed restrictions include net assets that are either (i) restricted until the donor-imposed stipulation has been met through the passage of time and/or by actions of the Board of Directors, or (ii) expected to be maintained in perpetuity. When a purpose restriction is accomplished or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions. The Organization had net assets with donor restrictions of \$2,853,581 and \$2,939,962 as of December 31, 2019 and 2018, respectively.

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 restricted cash and cash equivalents.

Contributions

Contributions received are recorded as contributions without donor restrictions and contributions with donor restrictions depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of the restrictions.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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

Significant accounting policies (continued)

Contributions (continued)

Endowment contributions and investments are restricted by the donor. Investment earnings available for distribution are recorded in net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions.

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts 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, 2019 and 2018.

Investments

Investments are composed of equity mutual and index funds, 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.

Impairment of long-lived assets

The Organization 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 2019 or 2018.

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, 2019 AND 2018

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, 2019 and 2018 were \$363,447 and \$312,953, respectively.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Recent Accounting Standards

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional and unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Organization is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

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, 2019 and 2018 totaled to \$230,658 and \$38,123, respectively, for food and supplies.

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.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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

Significant accounting policies (continued)

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.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$29,065 and \$21,495 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 2:** Adoption of accounting standards

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities in order to provide more relevant information about the resources (and changes in those resources) to donors, grantors, creditors, and other users. The changes include more qualitative and quantitative requirements about its liquidity, financial performance, and cash flows. The adoption of ASU 2016-14 is reflected through the classification of net assets in two groups (i.e., net assets with donor restrictions and net assets without donor restrictions) based on the existence or absence of donor-imposed restrictions, as well as more qualitative and quantitative requirements about its liquidity, financial performance and cash flows.

In November 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The School early adopted ASU 2016-18 for the fiscal year ended December 31, 2019 using a retrospective transition method for each period presented. There is no restricted cash in fiscal years ended December 31, 2019 and 2018.

HOUSTON HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

NOTE 2: Adoption of accounting standards (continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled to those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB issued ASU No. 2015-14 which delayed the effective date of ASU No. 2014-09 by one year (effective for annual periods beginning after December 15, 2018). Management does not anticipate that the standard will have a material impact on the financial statements as there are no contracts that would be affected, other than enhanced disclosures related to the disaggregation of revenues from contracts with customers, performance obligations and any significant judgments.

NOTE 3: 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 organization's 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.



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**NOTE 3: Investments (continued)**

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, 2019:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,739,742	\$ -	\$ 5,739,742
U.S. Treasury notes	2,030,007	-	-	2,030,007
Equity mutual and index funds	444,628	-	-	444,628
Equity securities	2,281,677	-	-	2,281,677
Fixed income taxable bond funds	948,594	-	-	948,594
	<u>\$ 5,704,906</u>	<u>\$ 5,739,742</u>	<u>\$ -</u>	<u>\$ 11,444,648</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,118,113	\$ -	\$ 5,118,113
U.S. Treasury notes	1,117,966	-	-	1,117,966
Equity mutual and index funds	730,332	-	-	730,332
Equity securities	1,562,450	-	-	1,562,450
Fixed income taxable bond funds	931,721	-	-	931,721
	<u>\$ 4,342,469</u>	<u>\$ 5,118,113</u>	<u>\$ -</u>	<u>\$ 9,460,582</u>

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2019:

	Without Restrictions	With Restrictions	Total
Certificates of deposit	\$ 5,739,742	\$ -	\$ 5,739,742
U.S. Treasury notes	2,030,007	-	2,030,007
Equity mutual and index funds	-	444,628	444,628
Equity securities	1,748,021	533,656	2,281,677
Government Bonds	948,594	-	948,594
	<u>\$ 10,466,364</u>	<u>\$ 978,284</u>	<u>\$ 11,444,648</u>

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**NOTE 3: Investments (continued)**

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2018:

	Without Restrictions	With Restrictions	Total
Certificates of deposit	\$ 5,118,113	\$ -	\$ 5,118,113
U.S. Treasury notes	1,117,966	-	1,117,966
Equity mutual and index funds	-	730,332	730,332
Equity securities	1,415,481	146,969	1,562,450
Government Bonds	931,721	-	931,721
	<u>\$ 8,583,281</u>	<u>\$ 877,301</u>	<u>\$ 9,460,582</u>

**NOTE 4: Liquidity and availability of financial resources**

The following reflects the Organization's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the financial position date. Amounts not available include amounts restricted for a donor specified purpose.

	2019	2018
Financial assets, at year-end	\$ 13,520,534	\$ 12,112,199
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	2,853,581	2,939,962
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,666,953</u>	<u>\$ 9,172,237</u>

The Organization is substantially supported by individual contributors in the form of one-time donations, bequests which usually come from individuals who have previously adopted animals from the Organization or have another personal connection to the Organization, and fundraising events held at various times throughout the year. Other revenue sources include in-kind contributions from sponsor companies and other restricted contributions from major donors.

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**NOTE 5: 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- (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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment Fund	<u>\$ 151,603</u>	<u>\$ 838,163</u>	<u>\$ 989,766</u>

Endowment net assets consist of the following at December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment Fund	<u>\$ 40,582</u>	<u>\$ 838,163</u>	<u>\$ 878,745</u>

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**NOTE 5: Endowment** (continued)

Changes in endowment net assets for the years ended December 31, 2019 and 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ 96,328	\$ 838,163	\$ 934,491
Contributions	-	-	-
Investment income	-	29,342	29,342
Unrealized and realized losses	-	108,211	108,211
Amounts appropriated for expenditure	<u>(55,746)</u>	<u>(137,553)</u>	<u>(193,299)</u>
Endowment net assets, December 31, 2018	40,582	838,163	878,745
Contributions	-	-	-
Investment income	-	26,990	26,990
Unrealized and realized gains	-	86,068	86,068
Amounts appropriated for expenditure	<u>111,021</u>	<u>(113,058)</u>	<u>(2,037)</u>
Endowment net assets, December 31, 2019	<u>\$ 151,603</u>	<u>\$ 838,163</u>	<u>\$ 989,766</u>

**Fund with deficiency**

From time to time, the fair value of assets associated with individual endowment funds with donor restrictions 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, 2019.

**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.

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**NOTE 5: Endowment** (continued)

Spending policy

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

**NOTE 6: Special events**

Special events consist of revenues and expenses from the following:

	2019	2018
K-9 Fun Run	\$ 22,430	\$ 22,901
Companion Camp	56,051	45,782
Young Adult Professionals	3,493	-
Par Fore Pets Golf Tournament	23,986	23,748
Car Auction	2,442	-
	<hr/>	<hr/>
	108,402	92,431
Less direct benefits to donors	(16,982)	(2,755)
	<hr/>	<hr/>
	\$ 91,420	\$ 89,676

**NOTE 7 Net assets with donor restrictions**

At December 31, 2019 and 2018, net assets with donor restrictions are available for the following:

	2019	2018
PSC-Isolation building	\$ -	\$ 11,630
Benfield Foundation- ultrasound machine	15,000	-
Hurricane Harvey Disaster Recovery	1,981,055	2,090,169
Hamill Foundation- x-ray machine	19,363	-
Endowment	838,163	838,163
	<hr/>	<hr/>
	\$ 2,853,581	\$ 2,939,962

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NOTE 7    Net assets with donor restrictions (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:

	2019	2018
Hamill Foundation - x-ray machine	\$ 39,638	\$ -
Hamill-outside shed	-	24,486
Heartworm	9,139	29,565
ACU/Raider Case	56,135	-
Hurricane Harvey	109,113	357,556
Grooming Fund	60	100
Spay and Neuter Clinic	60	5,000
Grimes County seizure	-	11,908
Food/Supply	1,792	50
Monty's Task Force	25	25
105 animals seizure	-	2,045
Sponsor a Pet	-	120
Special Needs Fund	330	375
Livestock Fund	-	300
Pet Transportation Fund	-	820
PSC-Isolation building	11,630	34,000
PSC-Equipment	-	49,500
Warm Blood Surgical Systems	-	1,700
Raider Case	-	5,115
	<u>\$ 227,922</u>	<u>\$ 522,665</u>

NOTE 8:    Merchandise sales

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

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NOTE 9: 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, 2019 and 2018 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 a 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 \$11,967 and \$13,772 for the years ended December 31, 2019 and 2018, respectively. A family member of the treasurer of the Board of Directors received fees for the sale of a software and services totaling \$1,753 and \$4,954 for the years ended December 31, 2019 and 2018, 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 \$12,232 and \$14,814 for the years ended December 31, 2019 and 2018, respectively.

The secretary of the Board of Directors owns a veterinarian clinic which provided veterinarian services to the organization and was paid \$22,000 and \$20,500 for the years ended December 31, 2019 and 2018, respectively, for these services.

A Board of Directors member received payment of \$72,000 for consulting services offered for the year ended December 31, 2019.

NOTE 10: Operating leases

The Organization leases certain office equipment. Total lease expense amounted to \$13,667 and \$20,091 for the years ended December 31, 2019 and 2018, respectively.

Future minimum rental payments under the noncancelable operating leases are as follows at December 31:

2020	\$ 13,824
2021	13,824
2022	13,824
2023	2,206
2024	-
	<u>\$ 43,678</u>

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**NOTE 11: 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, 2019, the Organization had \$1,590,449 of cash over the Federal Deposit Insurance Corporation insured limit. The Organization also deposits cash in money market funds accounts that invest in U.S. government or other highly rated securities but are not insured by FDIC. At December 31, 2019, uninsured balances held in money market funds accounts totaled \$153,388. It is the policy of the Organization's management to continually evaluate the underlying strength of its financial institutions.

Investments consist primarily of certificates of deposit, 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 12: 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. During the year ended December 31, 2019, the Organization amended the plan document and contributions (based on years of service) will be based on a table ranging from 50% - 120% limited to 10% of compensation. Employer contributions to the Plan were \$4,457 and \$34,193 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 13: 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 \$340,216. Based on a tax rate of 37%, the following is a summary of the deferred taxes at December 31, 2019 and 2018:

	2019	2018
Deferred tax asset	\$ 125,880	\$ 76,642
Valuation allowance	(125,880)	(76,642)
	<u>\$ -</u>	<u>\$ -</u>

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

**NOTE 14: 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.



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**NOTE 15: Subsequent events**

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic, resulting in economic uncertainties affecting the Organization's risks. The Organization has services and donations that might be impacted by this global pandemic. The effect on the Organization's financial results in the future cannot be reasonably estimated at this time.

On April 30, 2020, the Organization was granted a loan from a bank in the amount of \$564,530, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The loan, which was in the form of a note dated April 30, 2020 issued by the Organization, matures on April 30, 2022 and bears interest at a rate of .98% per annum, payable monthly commencing on October 30, 2020. The note may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations. The Organization intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 (PPFPA) was signed into law. The PPFPA amended the PPP loan and the Coronavirus Aid, Relief, and Economic Security Act, as originally made. Under the new law, the borrowers may choose to apply for forgiveness of qualifying expenses incurred during a 24-week "covered period" after their loan was disbursed. In addition, the deferral period, during which no payments of principal or interest are required, has been extended to the earlier of the bank receiving proceeds from forgiveness from the Small Business Administration or ten months after the end of the "covered period".

The Organization has evaluated subsequent events through the issuance of the financial statements, which occurred on November 18, 2020.