

**Houston Society for the
Prevention of Cruelty to Animals
and Subsidiary**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**


December 31, 2014 and 2013



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Houston Society for the Prevention of Cruelty to Animals
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December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston Society for the Prevention of Cruelty to Animals
Houston, Texas

We have audited the accompanying consolidated financial statements of Houston Society for the Prevention of Cruelty to Animals and subsidiary (collectively, the "Organization") which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Houston Society for the Prevention of Cruelty to Animals and subsidiary as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of functional expenses on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating information on pages 20 through 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, activities, and changes in net assets of the individual entities, and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
September 23, 2015

Houston Society for the Prevention of Cruelty to Animals Consolidated Statements of Financial Position

<i>December 31,</i>	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 11,456,806	\$ 11,661,716
Pledges receivable, current	373,446	469,492
Other receivables	99,432	613,302
Prepaid expenses	128,300	71,283
Total current assets	12,057,984	12,815,793
Property and equipment		
Land	7,005,836	7,005,836
Buildings and improvements	3,679,092	3,668,607
Property improvements	1,248,491	1,246,391
Furniture and equipment	1,608,381	1,486,617
Accumulated depreciation	(3,765,146)	(3,477,760)
Property and equipment, net	9,776,654	9,929,691
Long-term assets		
Marketable securities	17,946,778	16,275,825
Pledges receivable, noncurrent	435,000	360,000
Total long-term assets	18,381,778	16,635,825
Total assets	\$ 40,216,416	\$ 39,381,309

The accompanying notes are an integral part of these consolidated financial statements.

**Houston Society for the Prevention of Cruelty to Animals
Consolidated Statements of Financial Position (Continued)**

<i>December 31,</i>	2014	2013
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 291,861	\$ 205,817
Accrued payroll and benefits	149,324	135,483
Note payable, current	296,222	296,222
Total current liabilities	737,407	637,522
Long-term liabilities		
Deferred revenue	137,637	144,400
Note payable	3,184,038	3,480,230
Total long-term liabilities	3,321,675	3,624,630
Total liabilities	4,059,082	4,262,152
Commitments and contingencies		
Net assets		
Unrestricted	23,777,847	22,984,177
Temporarily restricted	11,479,222	11,234,715
Permanently restricted	900,265	900,265
Total net assets	36,157,334	35,119,157
Total liabilities and net assets	\$ 40,216,416	\$ 39,381,309

The accompanying notes are an integral part of these consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals Consolidated Statement of Activities and Changes in Net Assets

For the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Adoptions	\$ 901,449	\$ -	\$ -	\$ 901,449
Admissions	354,929	-	-	354,929
Contributions	1,735,191	60,276	-	1,795,467
Online contributions	646,738	-	-	646,738
Direct mail	1,725,505	300	-	1,725,805
Trusts and bequests	843,528	-	-	843,528
Foundations	121,680	25,000	-	146,680
Capital campaign	-	453,476	-	453,476
Fundraising	801,807	219,820	-	1,021,627
Investment income	1,260,684	8,104	-	1,268,788
Fees for services	287,136	-	-	287,136
Other	545,583	-	-	545,583
Net assets released from restrictions	522,469	(522,469)	-	-
Total revenue	9,746,699	244,507	-	9,991,206
Expenses				
Program services	7,649,032	-	-	7,649,032
Management and general	483,178	-	-	483,178
Fundraising	820,819	-	-	820,819
Total expenses	8,953,029	-	-	8,953,029
Changes in net assets	793,670	244,507	-	1,038,177
Net assets at beginning of year	22,984,177	11,234,715	900,265	35,119,157
Net assets at end of year	\$ 23,777,847	\$ 11,479,222	\$ 900,265	\$ 36,157,334

The accompanying notes are an integral part of these consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals Consolidated Statement of Activities and Changes in Net Assets

For the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Adoptions	\$ 922,903	\$ -	\$ -	\$ 922,903
Admissions	332,287	-	-	332,287
Contributions	1,399,206	41,600	-	1,440,806
Online contributions	597,948	-	-	597,948
Direct mail	1,696,678	-	-	1,696,678
Trusts and bequests	747,743	253,936	-	1,001,679
Foundations	129,600	-	-	129,600
Capital campaign	-	1,023,563	-	1,023,563
Fundraising	826,116	175,490	-	1,001,606
Investment income	1,402,160	(87,500)	-	1,314,660
Fees for services	211,385	-	-	211,385
Other	303,517	5,000	-	308,517
Net assets released from restrictions	725,890	(725,890)	-	-
Total revenue	9,295,433	686,199	-	9,981,632
Expenses				
Program services	6,731,837	-	-	6,731,837
Management and general	509,615	-	-	509,615
Fundraising	783,074	-	-	783,074
Total expenses	8,024,526	-	-	8,024,526
Net operating income	1,270,907	686,199	-	1,957,106
Non-operating expense				
Loss on sale of property	(1,921,414)	-	-	(1,921,414)
Changes in net assets	(650,507)	686,199	-	35,692
Net assets at beginning of year	23,620,423	10,517,412	900,265	35,038,100
Consolidation of subsidiary	14,261	31,104	-	45,365
Net assets at end of year	\$ 22,984,177	\$ 11,234,715	\$ 900,265	\$ 35,119,157

The accompanying notes are an integral part of these consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2014	2013
Operating activities		
Changes in net assets	\$ 1,038,177	\$ 35,692
Adjustments to reconcile changes in net assets to net assets provided by operating activities		
Donated stock	(205,184)	(620,333)
Net realized and unrealized gains on investments	(1,064,037)	(989,317)
Loss on sale of property	-	1,921,414
Depreciation	287,386	298,777
Changes in operating assets and liabilities		
Pledges receivable	21,046	(224,576)
Other receivables	513,870	(136,316)
Prepaid expenses	(57,017)	33,052
Accounts payable	86,044	49,016
Accrued payroll and benefits	13,841	51,736
Deferred revenue	(6,763)	94,400
Net cash provided by operating activities	627,363	513,545
Investing activities		
Proceeds from sales of investments	6,603,468	32,207,860
Purchases of investments	(7,005,200)	(25,237,222)
Proceeds from sale of property	-	1,957,814
Purchases of property and equipment	(134,349)	(126,296)
Net cash (used in) provided by investing activities	(536,081)	8,802,156
Financing activities		
Repayment of long-term debt	(296,192)	(74,048)
Net change in cash and cash equivalents	(204,910)	9,241,653
Cash and cash equivalents at beginning of year	11,661,716	2,420,063
Cash and cash equivalents at end of year	\$ 11,456,806	\$ 11,661,716

The accompanying notes are an integral part of these consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals Consolidated Statements of Cash Flows (Continued)

<i>For the years ended December 31,</i>	2014	2013
Supplemental cash flow information		
Cash paid for interest	\$ 110,924	\$ 116,416
Supplemental disclosure of noncash investing and financing activities		
Recognition of assets and liabilities due to consolidation of subsidiary		
Cash	\$ -	\$ 120,947
Prepaid Expenses	\$ -	\$ 348
Property and equipment	\$ -	\$ 30,008
Accounts Payable	\$ -	\$ 3,108

The accompanying footnotes are an integral part of these consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

NOTE 1: ORGANIZATION AND NATURE OF BUSINESS

The consolidated financial statements of Houston Society for the Prevention of Cruelty to Animals (collectively, the "Organization") includes Houston Society for the Prevention of Cruelty to Animals (the "Houston SPCA") and its wholly owned subsidiary, The Wildlife Center of Texas ("The Wildlife Center"). As of January 1, 2013, the Houston SPCA consolidated its wholly-owned subsidiary. The impact of this reporting change increased changes in net assets for the year ended December 31, 2013 by \$6,083. All significant inter-entity balances and transactions have been eliminated.

The Houston SPCA was founded in 1924 and is the oldest and largest animal protection agency in the Gulf Coast area, providing sheltering, adoption, humane education, and cruelty relief services to more than 50,000 animals a year.

The Wildlife Center was formed in 1992 to meet the increasing need for wildlife assistance in the Greater Houston and Upper Gulf Coast. The mission of The Wildlife Center is to care for injured, ill, and orphaned wildlife through rehabilitation, public education, and release.

The Organization is funded primarily by donations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization's consolidated financial records have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets: Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

Temporarily Restricted Net Assets: Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. Temporarily restricted net assets are released to unrestricted net assets when a purpose restriction is accomplished or a time restriction ends.

Permanently Restricted Net Assets: Permanently restricted net assets include contributions that donors have restricted in perpetuity.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

Houston Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable and Other Receivables

Pledges receivable and unconditional promises to give are recorded when the Organization receives notification of the pledge or promise to give. Amounts that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Management considers all outstanding pledges receivable to be collectible. Accordingly, no allowance for doubtful accounts is considered necessary at December 31, 2014 and 2013.

Investments

Investments in marketable securities are recorded at fair value. Investment return includes interest, dividends, and realized and unrealized gains or losses. Investment return is reported in the consolidated statements of activities and changes in net assets as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with the donor-imposed restrictions.

Concentration of Credit Risk

At times throughout the year, the Organization may maintain certain bank accounts in excess of the Federal Deposit Insurance Corporation insured limits. The Organization has not experienced any losses from maintaining cash accounts in excess of the federally insured limit. Management believes that it is not exposed to any significant credit risk on cash accounts due the strength of the financial institutions in which the funds are held.

As of December 31, 2014 and 2013, pledges due from two donors accounted for 57% and one donor accounted for 43% of outstanding pledge receivables, respectively. As of December 31, 2014 and 2013, balances due from one university and an individual accounted for 83% and 75% of outstanding other receivables, respectively.

Property and Equipment

Property and equipment are recorded at cost if purchased, or in the case of donated property, at the estimated fair market value at the date of donation. The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed by use of the straight-line method for financial reporting purposes.

Depreciation is provided by the straight-line method over the following useful lives:

Building and improvements	30-40 years
Property improvements	20 years
Furniture and equipment	3-10 years

Houston Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Expenditures, which materially increase values or extend useful lives of property and equipment, are capitalized.

Impairment of Long-Lived Assets

The Organization's long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to long-lived assets at December 31, 2014 and 2013.

Deferred Revenue

Deferred revenue represents sponsorships for fundraising events set to occur in a future period. Deferred revenue is recognized as revenue in the year the fundraising event is held.

Compensated Absences

Compensated absences for sick, personal, and vacation time have not been accrued since they cannot be reasonably estimated. The Organization's policy is to recognize these costs when actually paid.

Fair Value Considerations

The Organization uses fair value to measure certain financial and nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Organization did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Organization's remaining financial instruments (primarily cash and cash equivalents, receivables, payables and borrowings) are carried in the accompanying consolidated financial statements at amounts which reasonably approximate fair value.

Houston Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Organization contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted net assets. When a donor stipulated time restriction ends or stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donated Materials and Services

The Organization recognizes donated materials and services at their fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense for donated materials is recognized as the item is used. The related expense for donated services is recognized in the period received if the services received create or enhance nonfinancial assets that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of unpaid volunteers make significant contributions of their time to develop the Organization's programs. The value of the contributed time is not reflected in these consolidated statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

Functional Expenses

The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on various determinations by management.

Advertising Costs

The Organization uses advertising through billboards to promote its programs in the area it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2014 and 2013, totaled \$188,965 and \$219,080, respectively.

Federal Income Taxes

The Houston SPCA and The Wildlife Center are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been made in these consolidated financial statements.

The Organization has determined there are no uncertain tax positions that require recognition or disclosure in the accompanying consolidated financial statements.

Houston Society for the Prevention of Cruelty to Animals

Notes to Consolidated Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the consolidated 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 amount of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of receivables, fair value of marketable securities, useful lives and recoverability of property and equipment, donated materials and allocation of expenses by function. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events through the date the consolidated financial statements were available for issuance on September 23, 2015. No matters were identified affecting the accompanying consolidated financial statements and related disclosures.

NOTE 3: PLEDGES RECEIVABLE

Pledges receivable consist of the following:

<i>December 31,</i>	2014	2013
Receivable in less than one year	\$ 373,446	\$ 469,492
Receivable in one to five years	435,000	360,000
	\$ 808,446	\$ 829,492

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.

Houston Society for the Prevention of Cruelty to Animals Notes to Consolidated Financial Statements

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

Level 3: Unobservable inputs that are supported by little or no market activity.

The Houston SPCA holds certain investments with UBS Financial Services, Inc. to be held for the exclusive benefit of the Houston SPCA. The Houston SPCA retains all rights to these funds and paid administrative fees totaling \$178,701 and \$154,036, for the years ended December 31, 2014 and 2013, respectively. Level 1 investments primarily consist of equity securities which are traded in active markets. Level 2 investments consist of corporate bonds and preferred securities which are valued using recent executed transactions and market price quotations and asset-backed securities which are valued by the custodian using pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads.

The values of assets measured at fair value on a recurring basis are as follows:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2014				
Corporate stocks	\$ 13,638,266	\$ -	\$ -	\$ 13,638,266
Corporate bonds	-	1,683,321	-	1,683,321
Preferred securities	-	44,328	-	44,328
Asset-backed securities	-	1,371,475	-	1,371,475
U.S. government or agency obligations	1,209,388	-	-	1,209,388
	\$ 14,847,654	\$ 3,099,124	\$ -	\$ 17,946,778
December 31, 2013				
Corporate stocks	\$ 11,293,832	\$ -	\$ -	\$ 11,293,832
Corporate bonds	-	2,803,066	-	2,803,066
Asset-backed securities	-	1,574,182	-	1,574,182
U.S. government or agency obligations	604,745	-	-	604,745
	\$ 11,898,577	\$ 4,377,248	\$ -	\$ 16,275,825

Houston Society for the Prevention of Cruelty to Animals Notes to Consolidated Financial Statements

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

The following summarizes the investment return in the consolidated statements of activities and changes in net assets:

<i>December 31,</i>	2014	2013
Interest and dividend income	\$ 543,879	\$ 578,311
Management and consulting fees	(339,128)	(252,968)
Net realized and unrealized gains	1,064,037	989,317
	\$ 1,268,788	\$ 1,314,660

Investments are exposed to various risks such as interest rate risk, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position and the consolidated statements of activities and changes in net assets.

NOTE 5: LONG-TERM DEBT

The Houston SPCA entered into a note payable agreement with JP Morgan Chase totaling \$4,176,900 in a prior year. The loan is collateralized by 5.3 acres of land located at 7007 Katy Rd. During 2011, the loan was refinanced at the current principal amount of \$3,850,500 with an annual interest rate of 3%. Interest only payments were due monthly through October 2013 at which point monthly principal and interest payments totaling \$24,683 are due. The loan matures August 1, 2018, when a balloon payment of approximately \$2.4 million is due.

The following is a summary of future minimum principal payments of note payable:

<i>Year ending December 31,</i>	
2015	\$ 296,222
2016	296,192
2017	296,192
2018	2,591,654
	\$ 3,480,260

NOTE 6: NET ASSETS RELEASED FROM RESTRICTIONS

Net assets totaling \$522,469 and \$725,890 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors for the years ended December 31, 2014 and 2013, respectively.

Houston Society for the Prevention of Cruelty to Animals Notes to Consolidated Financial Statements

NOTE 7: TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	2014	2013
Capital campaign	\$ 9,993,352	\$ 9,683,543
Caldwell Trust Endowment	1,381,986	1,215,815
Restricted to periods ending after December 31	-	253,936
Programs	103,884	81,421
	\$ 11,479,222	\$ 11,234,715

NOTE 8: ENDOWMENT

The Organization has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The Organization is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) which has been enacted by the State of Texas. The management of the Organization has interpreted TUPMIFA 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 the 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) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is available for expenditure and appropriated by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Organization considers the following factors in making determination to appropriate accumulated donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and 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 and objectives of the Organization

The Organization's Walter O. Caldwell, Jr. Fund Endowment ("Endowment") is held with UBS. It was the Board of Directors' objective not to be involved in the day-to-day investing of funds and to rely on the expertise of the UBS and their investment policy, objectives and guidelines. Under this policy, the endowment assets are invested in accordance with the investment policies approved by the Board of Directors.

Houston Society for the Prevention of Cruelty to Animals Notes to Consolidated Financial Statements

NOTE 8: ENDOWMENT (Continued)

Endowment net assets consisted of the following:

<i>December 31,</i>	2014	2013
Temporarily restricted net assets	\$ 1,381,986	\$ 1,215,815
Permanently restricted net assets	900,265	900,265
	\$ 2,282,251	\$ 2,116,080

Changes in endowment net assets are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	\$ 1,014,070	\$ 900,265	\$ 1,914,335
Investment return			
Investment income	50,807	-	50,807
Net appreciation	166,278	-	166,278
Other charges - fees paid	(15,340)	-	(15,340)
Endowment net assets, December 31, 2013	\$ 1,215,815	\$ 900,265	\$ 2,116,080
Investment return			
Investment income	63,898	-	63,898
Net appreciation	124,693	-	124,693
Other charges - fees paid	(22,420)	-	(22,420)
Endowment net assets, December 31, 2014	\$ 1,381,986	\$ 900,265	\$ 2,282,251

NOTE 9: DEFINED CONTRIBUTION PLAN

The Organization provides a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the plan, eligible employees may contribute up to eighty-five percent of their salary but not to exceed the legal limit. The Organization's match is equal to one hundred percent of employee contributions up to three percent of participant compensation. Organization contributions totaled \$50,497 and \$33,537 for the years ended December 31, 2014 and 2013, respectively.

NOTE 10: CONDITIONAL PROMISES TO GIVE

During 2014, Houston SPCA received conditional promises to give of \$1,677,000. Payments of these funds are contingent upon breaking ground for construction of the new adoption center, which is anticipated to occur in early 2016. Since these represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met.



SUPPLEMENTARY INFORMATION

Houston Society for the Prevention of Cruelty to Animals Consolidated Schedule of Functional Expenses

<i>For the year ended December 31, 2014</i>	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Salaries	\$ 3,427,886	\$ 235,215	\$ 93,631	\$ 3,756,732
Benefits, training, and taxes	588,515	69,094	14,724	672,333
Total personnel expenses	4,016,401	304,309	108,355	4,429,065
Health care and supplies	1,382,519	2,732	-	1,385,251
Contract veterinary and deputy services	127,636	-	-	127,636
Education and community outreach	296,294	-	552,765	849,059
Technology and other administrative support	158,854	140,116	121,027	419,997
Maintenance and security	487,068	-	-	487,068
Insurance	221,451	16,962	8,525	246,938
Depreciation	287,386	-	-	287,386
Property taxes	28,333	-	-	28,333
Interest expense	110,924	-	-	110,924
Other expenses	32,852	-	-	32,852
Utilities	375,728	13,453	30,147	419,328
Vehicles	123,586	5,606	-	129,192
Total expenses	\$ 7,649,032	\$ 483,178	\$ 820,819	\$ 8,953,029

Houston Society for the Prevention of Cruelty to Animals Consolidated Schedule of Functional Expenses

<i>For the year ended December 31, 2013</i>	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Salaries	\$ 3,136,829	\$ 199,929	\$ 94,965	\$ 3,431,723
Benefits, training, and taxes	481,366	78,198	15,266	574,830
Total personnel expenses	3,618,195	278,127	110,231	4,006,553
Health care and supplies	918,887	1,144	-	920,031
Contract veterinary and deputy services	160,948	-	-	160,948
Education and community outreach	279,447	-	501,830	781,277
Technology and other administrative support	125,380	195,713	140,074	461,167
Maintenance and security	401,414	-	-	401,414
Insurance	207,501	17,171	7,822	232,494
Depreciation	298,777	-	-	298,777
Property taxes	32,551	-	-	32,551
Interest expense	116,416	-	-	116,416
Other expenses	34,603	-	-	34,603
Utilities	418,851	15,069	23,117	457,037
Vehicles	118,867	2,391	-	121,258
Total expenses	\$ 6,731,837	\$ 509,615	\$ 783,074	\$ 8,024,526

Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Financial Position

<i>December 31, 2014</i>	Houston SPCA	Wildlife Center of Texas	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 11,384,494	\$ 72,312	\$ -	\$ 11,456,806
Pledges receivable, current	329,473	43,973	-	373,446
Other receivables	99,432	-	-	99,432
Due from affiliate	94,227	-	(94,227)	-
Prepaid expenses	127,736	564	-	128,300
Total current assets	12,035,362	116,849	(94,227)	12,057,984
Property and equipment				
Land	7,005,836	-	-	7,005,836
Buildings and improvements	3,679,092	-	-	3,679,092
Property improvements	1,248,491	-	-	1,248,491
Furniture and equipment	1,524,538	83,843	-	1,608,381
Accumulated depreciation	(3,712,649)	(52,497)	-	(3,765,146)
Property and equipment, net	9,745,308	31,346	-	9,776,654
Long-term assets				
Marketable securities	17,946,778	-	-	17,946,778
Pledges receivable, noncurrent	435,000	-	-	435,000
Total long-term assets	18,381,778	-	-	18,381,778
Total assets	\$ 40,162,448	\$ 148,195	\$ (94,227)	\$ 40,216,416

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Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Financial Position (Continued)

<i>December 31, 2014</i>	Houston SPCA	Wildlife Center of Texas	Eliminations	Consolidated Total
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 288,618	\$ 3,243	\$ -	\$ 291,861
Accrued payroll and benefits	149,324	-	-	149,324
Due to affiliate	-	94,227	(94,227)	-
Note payable, current	296,222	-	-	296,222
Total current liabilities	734,164	97,470	(94,227)	737,407
Long-term liabilities				
Deferred revenue	137,637	-	-	137,637
Note payable	3,184,038	-	-	3,184,038
Total long-term liabilities	3,321,675	-	-	3,321,675
Total liabilities	4,055,839	97,470	(94,227)	4,059,082
Commitments and contingencies				
Net assets				
Unrestricted	23,750,789	27,058	-	23,777,847
Temporarily restricted	11,455,555	23,667	-	11,479,222
Permanently restricted	900,265	-	-	900,265
Total net assets	36,106,609	50,725	-	36,157,334
Total liabilities and net assets	\$ 40,162,448	\$ 148,195	\$ (94,227)	\$ 40,216,416

Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Financial Position

<i>December 31, 2013</i>	Houston SPCA	Wildlife Center of Texas	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 11,558,460	\$ 103,256	\$ -	\$ 11,661,716
Pledges receivable, current	403,702	65,790	-	469,492
Other receivables	613,302	-	-	613,302
Due from affiliate	148,534	-	(148,534)	-
Prepaid expenses	70,922	361	-	71,283
Total current assets	12,794,920	169,407	(148,534)	12,815,793
Property and equipment				
Land	7,005,836	-	-	7,005,836
Buildings and improvements	3,668,607	-	-	3,668,607
Property improvements	1,246,391	-	-	1,246,391
Furniture and equipment	1,414,324	72,293	-	1,486,617
Accumulated depreciation	(3,440,667)	(37,093)	-	(3,477,760)
Property and equipment, net	9,894,491	35,200	-	9,929,691
Long-term assets				
Marketable securities	16,275,825	-	-	16,275,825
Pledges receivable, noncurrent	360,000	-	-	360,000
Total long-term assets	16,635,825	-	-	16,635,825
Total assets	\$ 39,325,236	\$ 204,607	\$ (148,534)	\$ 39,381,309

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Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Financial Position (Continued)

<i>December 31, 2013</i>	Houston SPCA	Wildlife Center of Texas	Eliminations	Consolidated Total
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 201,192	\$ 4,625	\$ -	\$ 205,817
Accrued payroll and benefits	135,483	-	-	135,483
Due to affiliate	-	148,534	(148,534)	-
Note payable, current	296,222	-	-	296,222
Total current liabilities	632,897	153,159	(148,534)	637,522
Long-term liabilities				
Deferred revenue	144,400	-	-	144,400
Note payable	3,480,230	-	-	3,480,230
Total long-term liabilities	3,624,630	-	-	3,624,630
Total liabilities	4,257,527	153,159	(148,534)	4,262,152
Commitments and contingencies				
Net assets				
Unrestricted	22,968,233	15,944	-	22,984,177
Temporarily restricted	11,199,211	35,504	-	11,234,715
Permanently restricted	900,265	-	-	900,265
Total net assets	35,067,709	51,448	-	35,119,157
Total liabilities and net assets	\$ 39,325,236	\$ 204,607	\$ (148,534)	\$ 39,381,309

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Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Activities and Changes in Net Assets

For the year ended December 31, 2014

	Houston SPCA				Wildlife Center of Texas				Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenue										
Adoptions	\$ 901,449	\$ -	\$ -	\$ 901,449	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 901,449
Admissions	259,826	-	-	259,826	95,103	-	-	95,103	-	354,929
Contributions	1,472,212	54,434	-	1,526,646	262,979	5,842	-	268,821	-	1,795,467
Online contributions	646,738	-	-	646,738	-	-	-	-	-	646,738
Direct mail	1,725,505	300	-	1,725,805	-	-	-	-	-	1,725,805
Trusts and bequests	843,528	-	-	843,528	-	-	-	-	-	843,528
Foundations	102,365	25,000	-	127,365	19,315	-	-	19,315	-	146,680
Capital campaign	-	453,476	-	453,476	-	-	-	-	-	453,476
Fundraising	730,471	219,820	-	950,291	71,336	-	-	71,336	-	1,021,627
Investment income	1,260,684	8,104	-	1,268,788	-	-	-	-	-	1,268,788
Fees for services	287,136	-	-	287,136	-	-	-	-	-	287,136
Other	469,080	-	-	469,080	103,503	-	-	103,503	(27,000)	545,583
Net assets released from restrictions	504,790	(504,790)	-	-	17,679	(17,679)	-	-	-	-
Total revenue	9,203,784	256,344	-	9,460,128	569,915	(11,837)	-	558,078	(27,000)	9,991,206
Expenses										
Program services	7,161,963	-	-	7,161,963	514,069	-	-	514,069	(27,000)	7,649,032
Management and general	466,624	-	-	466,624	16,554	-	-	16,554	-	483,178
Fundraising	792,641	-	-	792,641	28,178	-	-	28,178	-	820,819
Total expenses	8,421,228	-	-	8,421,228	558,801	-	-	558,801	(27,000)	8,953,029
Changes in net assets	782,556	256,344	-	1,038,900	11,114	(11,837)	-	(723)	-	1,038,177
Net assets at beginning of year	22,968,233	11,199,211	900,265	35,067,709	15,944	35,504	-	51,448	-	35,119,157
Net assets at end of year	\$ 23,750,789	\$ 11,455,555	\$ 900,265	\$ 36,106,609	\$ 27,058	\$ 23,667	\$ -	\$ 50,725	\$ -	\$ 36,157,334

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Houston Society for the Prevention of Cruelty to Animals Consolidating Statements of Activities and Changes in Net Assets

For the year ended December 31, 2013

	Houston SPCA				Wildlife Center of Texas				Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenue										
Adoptions	\$ 922,903	\$ -	\$ -	\$ 922,903	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 922,903
Admissions	245,447	-	-	245,447	86,840	-	-	86,840	-	332,287
Contributions	1,137,231	16,600	-	1,153,831	261,975	25,000	-	286,975	-	1,440,806
Online contributions	597,948	-	-	597,948	-	-	-	-	-	597,948
Direct mail	1,696,678	-	-	1,696,678	-	-	-	-	-	1,696,678
Trusts and bequests	747,743	253,936	-	1,001,679	-	-	-	-	-	1,001,679
Foundations	97,250	-	-	97,250	32,350	-	-	32,350	-	129,600
Capital campaign	-	1,023,563	-	1,023,563	-	-	-	-	-	1,023,563
Fundraising	755,183	175,490	-	930,673	70,933	-	-	70,933	-	1,001,606
Investment income (loss)	1,402,160	(87,500)	-	1,314,660	-	-	-	-	-	1,314,660
Fees for services	211,385	-	-	211,385	-	-	-	-	-	211,385
Other	317,932	-	-	317,932	12,585	5,000	-	17,585	(27,000)	308,517
Net assets released from restrictions	700,290	(700,290)	-	-	25,600	(25,600)	-	-	-	-
Total revenue	8,832,150	681,799	-	9,513,949	490,283	4,400	-	494,683	(27,000)	9,981,632
Expenses										
Program services	6,319,065	-	-	6,319,065	439,772	-	-	439,772	(27,000)	6,731,837
Management and general	488,603	-	-	488,603	21,012	-	-	21,012	-	509,615
Fundraising	755,258	-	-	755,258	27,816	-	-	27,816	-	783,074
Total expenses	7,562,926	-	-	7,562,926	488,600	-	-	488,600	(27,000)	8,024,526
Net operating income	1,269,224	681,799	-	1,951,023	1,683	4,400	-	6,083	-	1,957,106
Non-operating expense										
Loss on disposal of property	(1,921,414)	-	-	(1,921,414)	-	-	-	-	-	(1,921,414)
Changes in net assets	(652,190)	681,799	-	29,609	1,683	4,400	-	6,083	-	35,692
Net assets at beginning of year	23,620,423	10,517,412	900,265	35,038,100	14,261	31,104	-	45,365	-	35,083,465
Net assets at end of year	\$ 22,968,233	\$ 11,199,211	\$ 900,265	\$ 35,067,709	\$ 15,944	\$ 35,504	\$ -	\$ 51,448	\$ -	\$ 35,119,157

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