



Humane Society of North Texas

Financial Statements

As of and For the Years Ended
December 31, 2017 and 2016

Humane Society of North Texas

Financial Statements

As of and For the Years Ended December 31, 2017 and 2016

Humane Society of North Texas

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Independent Auditor's Report

The Board of Directors
Humane Society of North Texas
Fort Worth, Texas

We have audited the accompanying financial statements of the Humane Society of North Texas, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Humane Society of North Texas as of December 31, 2017 and 2016 and the changes in net assets, cash flows, and functional expenses for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP
October 16, 2018

Financial Statements

Humane Society of North Texas

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 960,576	\$ 1,930,632
Pledges receivable	56,743	176,308
Interest receivable	14,371	22,468
Prepaid expenses	5,133	15,370
Investments	17,711,364	16,022,018
Beneficial interest in charitable trusts	1,663,051	1,724,938
Mineral interest	213,245	178,919
Land, buildings, and equipment, net	1,566,770	1,697,152
Total assets	\$ 22,191,253	\$ 21,767,805
Liabilities and Net Assets		
Accounts payable	\$ 58,688	\$ 114,353
Accrued liabilities	137,877	174,389
Total liabilities	196,565	288,742
Commitments and contingencies		
Net assets		
Unrestricted:		
Undesignated	15,275,975	15,008,403
Designated	5,688,642	5,537,254
Total unrestricted	20,964,617	20,545,657
Permanently restricted	1,030,071	933,406
Total net assets	21,994,688	21,479,063
Total liabilities and net assets	\$ 22,191,253	\$ 21,767,805

See accompanying notes to financial statements.

Humane Society of North Texas

Statements of Activities

Years Ended December 31,

	2017			2016		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Support and revenue						
Public support	\$ 2,799,798	\$ -	\$ 2,799,798	\$ 1,868,535	\$ -	\$ 1,868,535
Bequests	59,967	-	59,967	2,419,789	-	2,419,789
Program revenue	934,102	-	934,102	1,029,286	-	1,029,286
Interest and dividend income	391,365	-	391,365	481,770	-	481,770
Realized gain (loss) on investments and beneficial interest in charitable trusts, net	321,217	7,209	328,426	308,514	(7,851)	300,663
Unrealized gain on investments and beneficial interest in charitable trusts, net	1,578,648	89,456	1,668,104	20,021	19,862	39,883
Income from mineral interest	166,766	-	166,766	70,791	-	70,791
Total support and revenue	6,251,863	96,665	6,348,528	6,198,706	12,011	6,210,717
Expenses						
Program services:						
Animal care	4,328,703	-	4,328,703	3,619,351	-	3,619,351
Cruelty investigations	533,542	-	533,542	451,941	-	451,941
Education	196,859	-	196,859	161,432	-	161,432
Total program services	5,059,104	-	5,059,104	4,232,724	-	4,232,724
General and administrative	507,323	-	507,323	454,199	-	454,199
Fundraising	266,476	-	266,476	210,033	-	210,033
Total expenses	5,832,903	-	5,832,903	4,896,956	-	4,896,956
Increase in net assets	418,960	96,665	515,625	1,301,750	12,011	1,313,761
Net assets at beginning of year	20,545,657	933,406	21,479,063	19,243,907	921,395	20,165,302
Net assets at end of year	\$ 20,964,617	\$ 1,030,071	\$ 21,994,688	\$ 20,545,657	\$ 933,406	\$ 21,479,063

See accompanying notes to financial statements.

Humane Society of North Texas

Statements of Cash Flows

<i>Years ended December 31,</i>	2017	2016
Cash flows from operating activities		
Increase in net assets	\$ 515,625	\$ 1,313,761
Adjustments to reconcile the increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	248,311	297,239
Realized and unrealized (gain) loss on investments and beneficial interest in charitable trusts, net	(1,996,530)	(340,546)
Donated land	-	(73,451)
Donated mineral interest	(34,326)	(38,919)
Changes in assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	119,565	105,874
Interest receivable	8,097	6,662
Prepaid expenses	10,237	2,909
Increase (decrease) in:		
Accounts payable	(55,665)	(23,523)
Accrued liabilities	(36,512)	59,069
Net cash provided by (used in) operating activities	(1,221,198)	1,309,075
Cash flows from investing activities		
Proceeds from sale of investments	5,636,741	6,015,727
Purchases of investments	(5,267,670)	(7,090,960)
Purchase of land, buildings, and equipment	(117,929)	(84,198)
Net cash provided by (used in) investing activities	251,142	(1,159,431)
Cash flows from financing activities	-	-
Increase in cash and cash equivalents	(970,056)	149,644
Cash and cash equivalents at beginning of year	1,930,632	1,780,988
Cash and cash equivalents at end of year	\$ 960,576	\$ 1,930,632

See accompanying notes to financial statements.

Humane Society of North Texas

Statement of Functional Expenses

Year Ended December 31,

2017

	Program Services				Total Program Services	General and Administrative			Fundraising	Total				
	Animal Care	Cruelty Investigations	Education											
Salaries and contract labor	\$	1,819,030	\$	238,521	\$	117,301	\$	2,174,852	\$	171,177	\$	102,853	\$	2,448,882
Employee benefits		243,038		32,405		9,722		285,165		24,952		13,934		324,051
Payroll taxes		200,064		26,234		12,901		239,199		18,827		11,312		269,338
Total personnel-related expenses		2,262,132		297,160		139,924		2,699,216		214,956		128,099		3,042,271
Advertising and promotion		-		-		-		-		-		59,492		59,492
Bank and investment fees		-		-		-		-		142,648		-		142,648
Contract services		361,783		19,041		-		380,824		-		-		380,824
Equipment		-		-		-		-		-		-		-
Insurance		46,623		6,113		3,006		55,742		4,387		2,636		62,765
Maintenance and repairs		86,718		-		-		86,718		10,840		985		98,543
Miscellaneous		43,968		-		-		43,968		-		-		43,968
Occupancy costs		111,591		-		-		111,591		34,530		5,127		151,248
Office expense		108,597		14,557		4,949		128,103		11,209		6,260		145,572
Printing and postage		-		-		46,497		46,497		-		46,495		92,992
Supplies		888,074		104,479		-		992,535		52,240		-		1,044,793
Telephone		44,298		5,537		-		49,853		5,537		-		55,372
Seminars and training		18,679		2,075		-		20,754		-		-		20,754
Utilities		123,858		15,482		-		139,340		15,481		-		154,821
Vehicle and travel		44,262		44,267		-		88,529		-		-		88,529
Total expenses before depreciation		4,140,583		508,711		194,376		4,843,670		491,828		249,094		5,584,592
Depreciation		188,120		24,831		2,483		215,434		15,495		17,382		248,311
Total	\$	4,328,703	\$	533,542	\$	196,859	\$	5,059,104	\$	507,323	\$	266,476	\$	5,832,903

See accompanying notes to financial statements.

Humane Society of North Texas

Statement of Functional Expenses

Year Ended December 31,	2016							
	Program Services							
	Animal Care	Cruelty Investigations	Education	Total Program Services	General and Administrative	Fundraising	Total	
Salaries and contract labor	\$ 1,579,598	\$ 207,125	\$ 101,862	\$ 1,888,585	\$ 148,646	\$ 89,315	\$ 2,126,546	
Employee benefits	166,420	22,191	6,656	195,267	17,086	9,541	221,894	
Payroll taxes	101,659	13,330	6,556	121,545	9,566	5,748	136,859	
Total personnel-related expenses	1,847,677	242,646	115,074	2,205,397	175,298	104,604	2,485,299	
Advertising and promotion	-	-	-	-	-	36,395	36,395	
Bank and investment fees	-	-	-	-	140,295	-	140,295	
Contract services	262,032	13,791	-	275,823	-	-	275,823	
Equipment	-	1,164	582	1,746	4,074	-	5,820	
Insurance	66,487	8,718	4,287	79,492	6,257	3,759	89,508	
Maintenance and repairs	84,603	-	-	84,603	10,575	961	96,139	
Miscellaneous	19,440	-	-	19,440	-	-	19,440	
Occupancy costs	83,785	-	-	83,785	25,925	3,850	113,560	
Office expense	94,491	12,666	4,307	111,464	9,753	5,447	126,664	
Printing and postage	-	-	34,210	34,210	-	34,210	68,420	
Supplies	725,670	85,374	-	811,044	42,686	-	853,730	
Telephone	44,030	5,503	-	49,533	5,504	-	55,037	
Seminars and training	7,427	825	-	8,252	-	-	8,252	
Utilities	122,274	15,285	-	137,559	15,284	-	152,843	
Vehicle and travel	36,246	36,246	-	72,492	-	-	72,492	
Total expenses before depreciation	3,394,162	422,218	158,460	3,974,840	435,651	189,226	4,599,717	
Depreciation	225,189	29,723	2,972	257,884	18,548	20,807	297,239	
Total	\$ 3,619,351	\$ 451,941	\$ 161,432	\$ 4,232,724	\$ 454,199	\$ 210,033	\$ 4,896,956	

See accompanying notes to financial statements.

Humane Society of North Texas

Notes to the Financial Statements

1. Organization, Operations, and Summary of Significant Accounting Policies

Organization and Operations

The Humane Society of North Texas (the "Society"), founded in 1905, is a non-profit organization incorporated under the laws of the state of Texas. The purpose of the Society is the prevention of cruelty to animals and animal humane education. In accordance with its mission of promoting a humane and caring attitude toward all animals and to relieve suffering and prevent cruelty to animals, the Society provides protection and welfare to homeless, injured and abandoned animals in Tarrant County and six surrounding counties in Texas. Its services include adoptions, spay/neuter assistance, education, cruelty investigations, emergency rescues and lost and found functions. The Society is dedicated to providing a haven of care for all animals in need, and none are turned away. The Society's current programs include the following:

Animal Care

The Society provides for the general care and feeding of animals, surgery and medical care for animals and an adoption center for animals.

Cruelty Investigations

The Society provides for investigation of animal cruelty cases, animal seizures and civil and criminal prosecution of criminal acts toward animals.

Education

The Society provides for education of the general public through printing and mailing of newsletters and other materials for animal care, spay/neuter and general awareness of animals in need of adoption.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets

Net assets not subject to donor-imposed stipulations. Certain net assets have been designated by the Society's board of directors for specific purposes or programs. These net assets are not restricted by donors for purpose or the passage of time.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met by actions of the Society and/or the passage of time. At December 31, 2017 and 2016, there were no temporarily restricted net assets.

Humane Society of North Texas

Notes to Financial Statements

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be retained permanently. Generally, the donors of the assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed and/or time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. If the restrictions are met in the year of contribution, the amounts of temporarily restricted gifts are listed as unrestricted contributions.

Federal Income Taxes

The Society is a qualified non-profit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Society applied the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic 740 *Accounting for Uncertainty in Income Taxes* during the years ended December 31, 2017 and 2016. Under ASC topic 740 *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The ASC topic *Accounting for Uncertainty in Income Taxes* had no impact on the Society's financial statements. The Society does not believe there are any unrecognized tax benefits that should be recorded. For the years ended December 31, 2017 and 2016, there were no interest or penalties recorded or included in the statements of activities related to taxes.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The Society considers all amounts held in money market accounts, and underlying liquid investments with original maturities of three months or less at the date of acquisition to be cash equivalents unless such asset is unavailable for current use.

Pledges Receivable

Pledges receivable consists of amounts due from bequests. No allowance for doubtful collections or valuation allowance is recorded because management believes collection within one year is reasonably certain.

Humane Society of North Texas

Notes to Financial Statements

Pledges are recognized as assets and contributions in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At December 31, 2017 and 2016, respectively, the Society is party to certain bequests for which amounts to be received are not reasonably estimable. Such bequests are not recorded until the gift is reasonably estimable.

Investments, Beneficial Interest in Charitable Trusts and Mineral Interest

Investments which are actively traded are stated at fair value based on quoted market prices. Increases and decreases in fair value are recognized as gains and losses in the period in which they occur.

The Society is the sole beneficiary of certain charitable trusts and is a party to one split-interest agreement. Such assets are stated at fair value based on the Society's share of investments held by the trust which are actively traded. Increases and decreases in fair value are recognized as gains and losses in the period in which they occur.

The Society is also a party to certain remainder trusts. Generally these agreements require payments to other beneficiaries throughout their lifetime before the Society will become the sole beneficiary of a portion of the remaining assets. Such assets are stated at fair value based on the value of investments held by the trust which are actively traded, discounted for the present value of expected future payments to other beneficiaries. The present value discount is calculated using life expectancy tables with discount rates which were approximately 2% for 2017 and 2016. Increases and decreases in fair value are recognized as gains and losses in the period in which they occur.

Mineral interest is reported at the initial fair value of the donated mineral interest. Changes to this initial value are only recorded if management concludes the carrying value of the asset is impaired. No impairment exists at December 31, 2017 or 2016.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at the date received if donated. The Society capitalizes all equipment greater than \$1,000 with useful lives greater than one year. Depreciation is provided over the estimated useful lives of the related assets on the straight-line basis.

Estimated useful lives are 10 to 30 years for the buildings and 3 to 25 years for equipment, including vehicles. Expenditures for repairs and maintenance are charged to expense as incurred, while expenditures for major renewals or betterments of buildings and equipment are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in the statements of activities.

Humane Society of North Texas

Notes to Financial Statements

Revenue Recognition

Contributions received are recorded when unconditional promises to give are received. Adoption of animals and service fee revenue is recorded at the time of the animal adoption or when goods or services are provided to customers. Interest and dividend income is recognized on the accrual basis as interest is earned and as the right to receive dividends is established. Income from mineral interest is recognized in the month earned.

Functional Expenses Allocation

The cost of providing various programs and supporting services has been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations of Credit Risk

The Society places its cash with quality financial institutions and, by policy, limits its amount of exposure to any one financial institution; however, at times the balances in accounts may exceed Federal Deposit Insurance Corporation insured limits. The investments and beneficial interest in trusts are valued at fair market value and are subject to market risk. Substantially all pledges receivable are due from two donors as of December 31, 2017 and 2016.

Impairment of Long-Lived Assets

The Society periodically reviews the carrying value of its long-lived assets, including land, buildings, and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. In management's opinion, no impairment of long-lived assets exists at December 31, 2017 or 2016.

Advertising and Promotion Costs

Advertising and promotion costs of \$59,492 and \$36,395 for the year ended December 31, 2017 and 2016 respectively, are expensed as incurred.

Humane Society of North Texas

Notes to Financial Statements

2. Investments

Investments at December 31, 2017 and 2016 consisted of the following:

<i>December 31,</i>	2017		
	Cost	Estimated Fair Value	Unrealized Gain
Cash equivalents	\$ 321,369	\$ 321,369	\$ -
Marketable equity securities	4,269,726	6,064,242	1,794,516
Hedge funds	495,749	502,180	6,431
Bonds and United States treasury notes	453,311	457,000	3,689
Mutual funds	9,802,924	10,366,573	563,649
Total investments	\$ 15,343,079	\$ 17,711,364	\$ 2,368,285

<i>December 31,</i>	2016		
	Cost	Estimated Fair Value	Unrealized Gain (Loss)
Cash equivalents	\$ 2,214,991	\$ 2,214,991	\$ -
Marketable equity securities	4,964,815	5,714,938	750,123
Hedge funds	446,225	436,797	(9,428)
Bonds and United States treasury notes	722,400	649,783	(72,617)
Mutual funds	7,002,591	7,005,509	2,918
Total investments	\$ 15,351,022	\$ 16,022,018	\$ 670,996

A reconciliation of the change in unrealized gain on investments is provided as follows:

<i>For the Year Ended December 31,</i>	2017	2016
Unrealized gain, beginning of year	\$ 670,996	\$ 225,693
Change in value of investments during the year	1,697,289	445,303
Unrealized gain, end of year	\$ 2,368,285	\$ 670,996

Total unrealized gain (loss) on investments and beneficial interest in charitable trusts is as follows:

<i>For the Year Ended December 31,</i>	2017	2016
Change in value of investments during the year	\$ 1,697,289	\$ 445,303)
Change in value of beneficial interest in charitable trusts during the year	(29,185)	(405,420)
Unrealized gain on investments and beneficial interest in charitable trusts	\$ 1,668,104	\$ 39,883

Humane Society of North Texas

Notes to Financial Statements

3. Beneficial Interest in Charitable Trusts

The Society has been named as a beneficiary in the following trusts:

December 31,	2017	2016
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The Society is the sole beneficiary of two trusts whose investments consist primarily of bonds and United States Treasury notes. The trustees distributes earnings to the Society which can be used for general purposes. Although the trusts are intended to be perpetual, one of the trusts expressly permits the trustee, in its sole discretion, to terminate the trust and distribute its assets to the Society. The second trust does not expressly permit such termination, but the Society reflects both trusts as unrestricted based on the conclusion that the permanent nature of the trust is an intention rather than restriction. The Society does not expect the trusts to liquidate within the next year and, accordingly, these assets are not available for current use.

\$ 1,495,670	\$ 1,570,453
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The Society maintains one-sixth interest in a trust with a fair market value of approximately \$651,588 and \$618,000 for the years ended December 31, 2017 and 2016, respectively. The trust consists primarily of cash and mutual funds. The Society will receive interest-only distributions on a periodic basis until such time as the trustee determines that the assets of the trust are no longer sufficient to warrant the continued administration of the trust, at which time the trustee will terminate the trust and distribute its assets to the beneficiaries. The Society does not expect the trust to liquidate within the next year and, accordingly, these assets are not available for current use.

108,598	103,063
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The Society records its interest as a beneficiary of five trusts created by an individual estate. The Society recognizes their remainder interest based upon the estimated present value of the assets in the trust. In a previous year, two of the five trusts were dissolved due to the primary beneficiary's death. The Society does not expect the remaining trusts to liquidate within the next year and, accordingly, these assets are not available for current use.

58,783	51,422
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\$ 1,663,051	\$ 1,724,938
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Humane Society of North Texas

Notes to Financial Statements

4. Fair Value Measurements

ASC topic 820 *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic 820 *Fair Value Measurements and Disclosures* are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 or 2016.

Marketable Equity Securities and Hedge Funds

The fair values of marketable equity securities and hedge funds are based on quoted market price and are classified in level 1 of the fair value hierarchy.

Bonds and United States Treasury Notes

Bonds and United States Treasury Notes have observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. However, they do not have quoted market prices in an active market. Therefore, these assets are classified in level 2 of the fair value hierarchy.

Mutual Funds (Registered Investment Companies)

The fair value of Mutual Funds (registered investment companies) are valued based on exchange listed prices at the close of each business day and are classified in Level 1 of the fair value hierarchy.

Humane Society of North Texas

Notes to Financial Statements

Beneficial Interest in Charitable Trusts

The fair values of beneficial interest in charitable trusts, excluding the one remainder trust, are based the Society's share of the underlying assets held by the trust, which are primarily cash, mutual funds and bonds and United States treasury notes. The Society classifies these items as Level 2. The fair value of the one remainder trust is based on significant unobservable inputs including estimates of future cash flows and present value discount rates and is therefore classified in level 3 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Society's assets measured at fair value on a recurring basis as of December 31, 2017:

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Marketable equity securities:				
Banks and finance	\$ 836,237	\$ -	\$ -	\$ 836,237
Basic materials	112,962	-	-	112,962
Consumer	576,562	-	-	576,562
Defense	183,714	-	-	183,714
Energy	204,630	-	-	204,630
Healthcare	468,011	-	-	468,011
Industrial Commodities	408,860	-	-	408,860
Technology	859,171	-	-	859,171
Utilities	36,705	-	-	36,705
Services	83,895	-	-	83,895
Other	2,795,676	-	-	2,795,676
Bonds and United States treasury notes	-	457,001	-	457,001
Mutual funds:				
Small growth	289,654	-	-	289,654
Small value	1,514,526	-	-	1,514,526
Real estate	366,075	-	-	366,075
Diversified emerging markets	410,021	-	-	410,021
Foreign large growth	300,061	-	-	300,061
Foreign large blend	292,705	-	-	292,705
Foreign small/mid growth	285,812	-	-	285,812
Mid cap growth	1,498,200	-	-	1,498,200
Mid cap blend	2,733,291	-	-	2,733,291
Bond fund	3,057,678	-	-	3,057,678
Beneficial interest in charitable trusts	-	1,604,268	58,783	1,663,051
Total assets at fair value	\$ 17,314,446	\$ 2,061,269	\$ 58,783	\$ 19,434,498

Humane Society of North Texas

Notes to Financial Statements

The following table sets forth by level, within the fair value hierarchy, the Society's assets measured at fair value on a recurring basis as of December 31, 2016:

Assets at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Marketable equity securities:				
Banks and finance	\$ 790,996	\$ -	\$ -	\$ 790,996
Basic materials	337,581	-	-	337,581
Consumer	256,889	-	-	256,889
Energy, oil and gas, and utilities	11,125	-	-	11,125
Healthcare	545,424	-	-	545,424
Industrial commodities	416,962	-	-	416,962
Services	886,667	-	-	886,667
Technology	714,756	-	-	714,756
Other	2,191,335	-	-	2,191,335
Bonds and United States treasury notes	-	649,783	-	649,783
Mutual funds:				
Large growth	515,194	-	-	515,194
Foreign large blend	269,714	-	-	269,714
Foreign small/mid growth	250,319	-	-	250,319
Small value	243,262	-	-	243,262
Mid value	668,764	-	-	668,764
Small growth	394,913	-	-	394,913
Mid growth	370,606	-	-	370,606
Taxable bonds	3,954,041	-	-	3,954,041
Real estate	338,696	-	-	338,696
Beneficial interest in charitable trusts	-	1,673,516	51,422	1,724,938
Total assets at fair value	\$ 13,157,244	\$ 2,323,299	\$ 51,422	\$ 15,531,965

The changes in values for assets reported as Level 3 for the years ending December 31, are as follows:

December 31,	2017	2016
Value at beginning of year	\$ 51,422	\$ 49,449
Change in value of assets held in trust	7,361	1,973
Value at end of year	\$ 58,783	\$ 51,422

Humane Society of North Texas

Notes to Financial Statements

5. Donor Designated and Board Designated Endowments

The Society's endowments consist of two donor-restricted funds and one fund designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Society has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("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 this interpretation, the Society 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 (d) and all realized and unrealized gains and losses on investments of permanently restricted gifts in accordance with applicable donor gift instruments. 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 Society in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Society, and (7) the Society's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Society has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for Society operations supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which meets the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities and mutual funds that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions for operations. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Society has a policy of appropriating for distribution each year all interest earned on its donor designated endowment funds.

Humane Society of North Texas

Notes to Financial Statements

The bylaws of the Society require that by simple majority of those Board members present, the Board may vote to expend income and capital gains earned on its board designated endowment assets. The Board may not expend the corpus of such assets unless such expenditure is made for new buildings or for improvements to existing structures. Any such vote to expend corpus shall require a written proposal, signed by at least two-thirds of the Board members present at a duly called meeting to the Board, which is entered into the minutes for that meeting. Such proposal must then be approved by at least two-thirds of the Board members present at the duly called meeting of the Board.

Funds with Deficiencies

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 TUPMIFA requires the Society to retain as a fund of perpetual duration. The aggregate deficiency at December 31, 2017 and 2016 was \$70,732 and \$61,212, respectively. The Society expects these deficiencies in fund balances to be restored based on future investment earnings and adjustments to amounts appropriated from the endowment funds.

The Society's endowment net asset composition by type of fund as of December 31, 2017 and 2016 is as follows:

2017					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Grand Total	
Donor-restricted endowment funds	\$ (70,732)	\$ -	\$ 1,030,071	\$	959,339
Board-designated funds functioning as an endowment	5,688,642	-	-		5,688,642
Total funds at December 31, 2017	\$ 5,617,910	\$ -	\$ 1,030,071	\$	6,647,981

2016					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Grand Total	
Donor-restricted endowment funds	\$ (61,212)	\$ -	\$ 933,406	\$	872,194
Board-designated funds functioning as an endowment	5,537,254	-	-		5,537,254
Total funds at December 31, 2016	\$ 5,476,042	\$ -	\$ 933,406	\$	6,409,448

Humane Society of North Texas

Notes to Financial Statements

Changes in Endowment Net Assets

The following discloses changes in total endowment fund net assets for the years ended December 31, 2017 and 2016:

<i>For the Year Ended December 31,</i>		2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets	
Endowment net assets, beginning of year	\$ 5,476,042	\$ -	\$ 933,406	\$ 6,409,448	
Net realized and unrealized gains	436,322	-	96,665	532,987	
Interest and dividend income	114,695	-	-	114,695	
Donations and board designations	187,564	-	-	187,564	
Amounts appropriated for expenditure	(596,713)	-	-	(596,713)	
Endowment net assets, end of year	\$ 5,617,910	\$ -	\$ 1,030,071	\$ 6,647,981	

<i>For the Year Ended December 31,</i>		2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets	
Endowment net assets, beginning of year	\$ 4,432,888	\$ -	\$ 921,395	\$ 5,354,283	
Net realized and unrealized gains	123,348	17,761	12,011	153,120	
Interest and dividend income	103,762	-	-	103,762	
Donations and board designations	2,378,212	-	-	2,378,212	
Amounts appropriated for expenditure	(1,562,168)	(17,761)	-	(1,579,929)	
Endowment net assets, end of year	\$ 5,476,042	\$ -	\$ 933,406	\$ 6,409,448	

Humane Society of North Texas

Notes to Financial Statements

6. Land, Buildings, and Equipment

The composition of land, buildings, and equipment at December 31 is as follows:

<i>December 31,</i>	2017	2016
Land	\$ 553,509	\$ 553,509
Buildings and improvements	2,667,101	2,622,780
Office equipment	92,592	85,585
Shelter equipment	488,402	486,232
Vehicles	562,993	504,185
Assets not yet placed in service	5,622	-
	4,370,219	4,252,291
Less accumulated depreciation	(2,803,449)	(2,555,139)
	\$ 1,566,770	\$ 1,697,152

7. Commitments and Contingencies

The Society leases certain equipment and office space under non-cancelable operating leases. Rental expense for all leases was \$126,595 and \$108,554 for 2017 and 2016, respectively. Future minimum lease payments under lease commitments for the years ended December 31 are as follows:

2018	\$ 99,955
2019	90,341
2020	36,614
2021	2,372
	\$ 229,282

8. Subsequent Events

Management evaluated subsequent events through October 16, 2018 which is the date the financial statements were available to be issued.