

**HUMANE SOCIETY OF SAN ANTONIO**

**Audited Financial Statements**

**December 31, 2009**

**AKIN, DOHERTY, KLEIN & FEUGE, P. C.**  
*Certified Public Accountants*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Table of Contents**  
**December 31, 2009 and 2008**

|                                       | <u>Page</u> |
|---------------------------------------|-------------|
| <b>Audited Financial Statements</b>   |             |
| Report of Independent Auditors        | 1           |
| Statements of Financial Position      | 2           |
| Statements of Activities              | 4           |
| Statements of Cash Flows              | 6           |
| Notes to Audited Financial Statements | 7           |



Thomas A. Akin  
David J. Doherty  
Howard H. Klein, Jr.  
Joseph V. Feuge, II  
Scott C. Kopecky  
Joseph A. Hernandez

Certified Public Accountants  
  
Registered with AICPA and  
Public Company Accounting  
Oversight Board

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors  
Humane Society of San Antonio  
San Antonio, Texas

We have audited the accompanying statements of financial position of Humane Society of San Antonio as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society of San Antonio as of December 31, 2009 and 2008, and its activities and cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

Akin, Doherty, Klein & Feuge P.C.  
Akin, Doherty, Klein & Feuge, P. C.  
San Antonio, Texas  
May 7, 2010

HUMANE SOCIETY OF SAN ANTONIO  
 Statements of Financial Position  
 December 31, 2009 and 2008

|  | <u>2009</u>                 | <u>2008</u>                 |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>                            |                             |                             |
| Current Assets:                          |                             |                             |
| Cash and cash equivalents                | \$ 287,709                  | \$ 220,894                  |
| Contributions receivable                 | 204,559                     | 755,003                     |
| Other receivables                        | 4,813                       | 3,726                       |
| Inventory                                | 2,168                       | 2,600                       |
| Prepaid expenses and other assets        | <u>33,894</u>               | <u>27,381</u>               |
| Total current assets                     | 533,143                     | 1,009,604                   |
| Other Assets:                            |                             |                             |
| Investments                              | 6,596,274                   | 6,900,487                   |
| Endowment investments                    | 771,104                     | -                           |
| Assets held in charitable gift annuities | 197,676                     | 180,449                     |
| Contributions receivable, long-term      | 50,000                      | 353,000                     |
| Property and equipment, net              | 4,991,390                   | 5,106,199                   |
| Land held for sale                       | <u>10,251</u>               | <u>30,845</u>               |
| Total other assets                       | <u>12,616,695</u>           | <u>12,570,980</u>           |
| <br>                                     |                             |                             |
| <b>Total Assets</b>                      | <u><u>\$ 13,149,838</u></u> | <u><u>\$ 13,580,584</u></u> |

*See notes to audited financial statements.*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**

|   | <u>2009</u>                 | <u>2008</u>                 |
|---|-----------------------------|-----------------------------|
| <b>LIABILITIES AND NET ASSETS</b>           |                             |                             |
| Liabilities:                                |                             |                             |
| Accounts payable and accrued expenses       | \$ 99,381                   | \$ 153,037                  |
| Long-term debt, current portion             | 27,975                      | 177,240                     |
| Liabilities under charitable gift annuities | <u>142,298</u>              | <u>131,385</u>              |
| Total current liabilities                   | 269,654                     | 461,662                     |
| Long-Term Liabilities:                      |                             |                             |
| Long-term debt, net of current portion      | 1,769,784                   | 2,506,823                   |
| Obligation under interest rate swaps        | <u>-</u>                    | <u>388,808</u>              |
| Total long-term liabilities                 | 1,769,784                   | 2,895,631                   |
| Net Assets:                                 |                             |                             |
| Unrestricted                                | 10,021,240                  | 8,916,817                   |
| Temporarily restricted                      | <u>1,089,160</u>            | <u>1,306,474</u>            |
| Total net assets                            | <u>11,110,400</u>           | <u>10,223,291</u>           |
| <br>  |                             |                             |
| <b>Total Liabilities and Net Assets</b>     | <u><u>\$ 13,149,838</u></u> | <u><u>\$ 13,580,584</u></u> |

*See notes to audited financial statements.*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Statement of Activities**  
**Year Ended December 31, 2009**

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Totals</u>        |
|--|----------------------|-----------------------------------|----------------------|
| <b>Support and Revenues</b>  |                      |                                   |                      |
| Program fees   | \$ 712,670           | \$ -                              | \$ 712,670           |
| Bequests / special donations                                       | 280,118              | -                                 | 280,118              |
| Memberships / contributions  | 1,226,424            | 5,270                             | 1,231,694            |
| Loss on sale of assets   | (9,428)              | -                                 | (9,428)              |
| Other income   | 1,824                | -                                 | 1,824                |
| Special events, net of expenses of \$12,231                        | 66,370               | -                                 | 66,370               |
| Total support and revenues   | <u>2,277,978</u>     | <u>5,270</u>                      | <u>2,283,248</u>     |
| <b>Expenses</b>  |                      |                                   |                      |
| Program services:  |                      |                                   |                      |
| Salaries and benefits  | 1,144,951            | -                                 | 1,144,951            |
| Occupancy and maintenance expense                                  | 179,492              | -                                 | 179,492              |
| Depreciation   | 213,904              | -                                 | 213,904              |
| Animal care  | 365,753              | -                                 | 365,753              |
| Education  | 1,886                | -                                 | 1,886                |
| Interest expense   | 179,316              | -                                 | 179,316              |
| Total program services   | <u>2,085,302</u>     | <u>-</u>                          | <u>2,085,302</u>     |
| Fundraising expenses   | 201,087              | -                                 | 201,087              |
| Administrative:  |                      |                                   |                      |
| Salaries and benefits  | 166,072              | -                                 | 166,072              |
| Administrative   | 172,244              | -                                 | 172,244              |
| Professional   | 58,317               | -                                 | 58,317               |
| Travel, meetings, and other  | 43,228               | -                                 | 43,228               |
| Total administrative   | <u>439,861</u>       | <u>-</u>                          | <u>439,861</u>       |
| Total expenses   | 2,726,250            | -                                 | 2,726,250            |
| <b>Investment Income (Expense)</b>                                 |                      |                                   |                      |
| Interest and dividends, net of fees                                | 200,394              | 22,560                            | 222,954              |
| Realized and unrealized gains (losses)<br>on investment securities | 970,493              | 90,823                            | 1,061,316            |
| Total investment income  | <u>1,170,887</u>     | <u>113,383</u>                    | <u>1,284,270</u>     |
| Changes in Value of Interest Rate Swaps                            | 81,808               | -                                 | 81,808               |
| Changes in Value of Split Interest Agreements                      | <u>-</u>             | <u>(35,967)</u>                   | <u>(35,967)</u>      |
| Change in Net Assets   | 804,423              | 82,686                            | 887,109              |
| Net assets released from restrictions                              | 300,000              | (300,000)                         | -                    |
| Net assets at beginning of year                                    | <u>8,916,817</u>     | <u>1,306,474</u>                  | <u>10,223,291</u>    |
| <b>Net Assets at End of Year</b>                                   | <u>\$ 10,021,240</u> | <u>\$ 1,089,160</u>               | <u>\$ 11,110,400</u> |

*See notes to audited financial statements.*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Statement of Activities**  
**Year Ended December 31, 2008**

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Totals</u>        |
|--|---------------------|-----------------------------------|----------------------|
| <b>Support and Revenues</b>  |                     |                                   |                      |
| Program fees   | \$ 636,456          | \$ -                              | \$ 636,456           |
| Bequests / special donations                                       | 86,604              | -                                 | 86,604               |
| Memberships / contributions  | 930,906             | 810,419                           | 1,741,325            |
| Gain on sale of assets   | 10,000              | -                                 | 10,000               |
| Other income   | 37,634              | -                                 | 37,634               |
| Special events, net of expenses of \$38,012                        | <u>162,733</u>      | <u>-</u>                          | <u>162,733</u>       |
| Total support and revenues   | 1,864,333           | 810,419                           | 2,674,752            |
| <b>Expenses</b>  |                     |                                   |                      |
| Program services:  |                     |                                   |                      |
| Salaries and benefits  | 1,065,839           | -                                 | 1,065,839            |
| Occupancy and maintenance expense                                  | 219,940             | -                                 | 219,940              |
| Depreciation   | 215,919             | -                                 | 215,919              |
| Animal care  | 499,722             | -                                 | 499,722              |
| Education  | 13,788              | -                                 | 13,788               |
| Interest expense   | <u>186,648</u>      | <u>-</u>                          | <u>186,648</u>       |
| Total program services   | 2,201,856           | -                                 | 2,201,856            |
| Fundraising expenses   | 155,473             | -                                 | 155,473              |
| Administrative:  |                     |                                   |                      |
| Salaries and benefits  | 217,598             | -                                 | 217,598              |
| Administrative   | 156,714             | -                                 | 156,714              |
| Professional   | 69,269              | -                                 | 69,269               |
| Travel, meetings, and other  | <u>25,479</u>       | <u>-</u>                          | <u>25,479</u>        |
| Total administrative   | 469,060             | -                                 | 469,060              |
| Total expenses   | 2,826,389           | -                                 | 2,826,389            |
| <b>Investment Income (Expense)</b>                                 |                     |                                   |                      |
| Interest and dividends, net of fees                                | 251,188             | 2,395                             | 253,583              |
| Realized and unrealized gains (losses)<br>on investment securities | <u>(2,579,110)</u>  | <u>(80,002)</u>                   | <u>(2,659,112)</u>   |
| Total investment income  | (2,327,922)         | (77,607)                          | (2,405,529)          |
| Changes in Value of Interest Rate Swaps                            | (128,277)           | -                                 | (128,277)            |
| Changes in Value of Split Interest Agreements                      | <u>-</u>            | <u>(34,906)</u>                   | <u>(34,906)</u>      |
| Change in Net Assets   | (3,418,255)         | 697,906                           | (2,720,349)          |
| Net assets released from restrictions                              | 150,000             | (150,000)                         | -                    |
| Net assets at beginning of year                                    | <u>12,185,072</u>   | <u>758,568</u>                    | <u>12,943,640</u>    |
| <b>Net Assets at End of Year</b>                                   | <u>\$ 8,916,817</u> | <u>\$ 1,306,474</u>               | <u>\$ 10,223,291</u> |

*See notes to audited financial statements.*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

|   | <u>2009</u>        | <u>2008</u>       |
|---|--------------------|-------------------|
| <b>Operating Activities</b>   |                    |                   |
| Change in net assets  | \$ 887,109         | \$ (2,720,349)    |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: |                    |                   |
| Realized and unrealized (gain) loss on investment securities  | (1,061,316)        | 2,659,112         |
| (Gain) loss on change in value of interest rate swaps   | (81,808)           | 128,277           |
| (Gain) loss on sale of assets   | 9,428              | (10,000)          |
| Depreciation  | 213,904            | 215,920           |
| Change in operating assets and liabilities:   |                    |                   |
| Contributions receivable  | 853,444            | (475,332)         |
| Other receivables   | (1,087)            | (1,574)           |
| Inventory   | 432                | 2,896             |
| Prepaid expenses  | (6,513)            | 2,541             |
| Accounts payable and accrued expenses   | (53,657)           | (40,278)          |
| Deferred revenue  | -                  | (25,000)          |
| Net cash provided (used) by operating activities  | <u>759,936</u>     | <u>(263,787)</u>  |
| <b>Investing Activities</b>   |                    |                   |
| Purchases of property and equipment   | (99,094)           | (86,175)          |
| Net sales of investments  | 594,425            | 430,555           |
| Proceeds from sale of assets  | 11,166             | 40,000            |
| Net cash provided by investing activities   | <u>506,497</u>     | <u>384,380</u>    |
| <b>Financing Activities</b>   |                    |                   |
| Payments on long-term debt  | (886,304)          | (177,240)         |
| Payment for termination of interest rate swaps  | (307,000)          | -                 |
| Change in charitable gift (split interest) annuities  | (6,314)            | 102,515           |
| Net cash (used) by financing activities   | <u>(1,199,618)</u> | <u>(74,725)</u>   |
| Net change in cash and cash equivalents   | 66,815             | 45,868            |
| Cash and cash equivalents at beginning of year  | <u>220,894</u>     | <u>175,026</u>    |
| <b>Cash and Cash Equivalents at End of Year</b>   | <u>\$ 287,709</u>  | <u>\$ 220,894</u> |
| <b>Supplemental Disclosures</b>   |                    |                   |
| Interest paid in cash   | \$ 194,963         | \$ 185,778        |
| Income taxes paid in cash   | -                  | -                 |

*See notes to audited financial statements.*

**HUMANE SOCIETY OF SAN ANTONIO**  
**Notes to Audited Financial Statements**  
**December 31, 2009 and 2008**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Nature of Activities:* The Humane Society of San Antonio (the Society) is a not-for-profit corporation whose purpose is to provide effective means for the prevention of cruelty to animals in San Antonio, Bexar County and the surrounding area. The Humane Society receives unwanted or abandoned cats and dogs and places them in adoptive or foster homes. The Society provides temporary shelter until suitable homes are found. Revenue to support the Society's programs is primarily provided by contributions and grants from individuals, corporations and foundations located in Bexar County and the surrounding areas.

*Basis of Presentation:* The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets:* Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets:* Net assets subject to donor-imposed stipulations that will be met by actions of the Society and / or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets:* Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Society. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets at December 31, 2009 and 2008.

*Donations:* Gifts are reported as restricted support if they are received with donor stipulations that limit their use. Gifts of equipment and other similar assets are reported at estimated fair value as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions received with donor restrictions whose restrictions are met in the same reporting period are generally reported as unrestricted support.

*Donated Services and Materials:* The Society receives donated services and materials from a variety of sources. These services and materials are reported as contribution revenues and animal care and other expenses in the Statement of Activities, and totaled approximately \$81,000 in 2009 and \$93,000 in 2008.

The Society also receives substantial assistance from volunteers who contribute their personal time to assist in a number of areas. See Note I.

*Expense Allocations:* The Society's expenses are allocated to program services or administrative according to the functional nature of the expense.

*Special Events:* Costs associated with Special Events are netted against the related revenues.

*Advertising:* Advertising and marketing costs are expensed as incurred and totaled approximately \$31,000 in 2009 and \$37,000 in 2008.

*Cash and Cash Equivalents:* Cash and cash equivalents consist of cash on hand, demand deposits held by financial institutions, and any equivalent securities with a maturity of three months or less.

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

*Contributions Receivable:* Legally enforceable pledges and contributions, less an allowance for uncollectible amounts, are recorded as receivables in the year made unless the pledge or contribution is dependent upon the occurrence of a specified future and uncertain event to bind the promisor. Conditional pledges and contributions are recognized when the conditions upon which they depend are substantially met or when the possibility that the condition will not be met is remote.

*Inventories:* Inventory is valued at the lower of cost or market determined on a specific identification basis.

*Investments:* Investments are reported at fair market value determined by quoted market price, a Level 1 input. As defined by generally accepted accounting principles, Level 1 inputs are quoted market prices in an active market for identical assets. Investment interest and dividends are reported net of fees of approximately \$56,000 in 2009 and \$66,000 in 2008.

*Endowment Investments:* Endowments are donor restricted and are non-current assets under their stipulated terms. Generally, endowment investments with donor-imposed restrictions are classified as temporarily or permanently restricted (depending on the nature of the endowment terms) and Board designated endowment investments are classified as unrestricted. There are no Board designated endowments at December 31, 2009 and 2008.

*Assets Held in Charitable Gift Annuities:* The Society has established seven charitable gift annuities. Under the terms of these agreements, the Society makes distributions to the donors for the life of the donors. Upon the death of the donors, assets remaining in the charitable gift annuities will be transferred to the Society. The Society records the assets held in charitable gift annuities at their fair market values based on current quoted market prices and records a liability under the charitable gift annuities based on the estimated discounted value of the amounts due to the donors based on the Internal Revenue Service annuity and mortality tables.

*Property and Equipment:* Property and equipment is stated at historical cost or estimated fair value at date of donation. Expenditures for betterments that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related asset (generally three to seven years for furniture, equipment and vehicles, and 15 to 30 years for buildings and improvements).

*Income Taxes:* The Society is a not-for-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, and is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Accordingly, donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Society is not subject to the Texas margin tax.

*Employee Benefit Plan:* The Society has a 403(b) plan that covers substantially all employees. Employees may contribute a percentage of their annual compensation as allowed by the federal tax code. The Society matches a portion of employees' contributions. The Society's contribution to the Plan was approximately \$11,000 in 2009 and \$14,000 in 2008.

*Derivatives and Hedging Activities:* The Society had an interest rate swap related to its long-term debt which qualified for hedge accounting. The Society terminated the swap in 2009.

*Concentrations of Credit Risk:* Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and investments. The Society places its cash and investments in certificates of deposit, Government Securities and high-rated corporate equities, and limits the amount of credit exposure, although it may from time to time have investments in excess of that insured by the FDIC and SIPC. The Society periodically assesses the financial condition of the institutions holding the investments and believes that the risk of loss due to a failure of the institution is minimal.

**HUMANE SOCIETY OF SAN ANTONIO**  
**Notes to Audited Financial Statements**  
**December 31, 2009 and 2008**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*Use of Estimates:* The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 the reporting period. Actual results could differ from those estimates.

*Subsequent Events:* Subsequent events have been evaluated by management through the date of the report of the independent auditors. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

*New Accounting Pronouncements:* Management is not aware of any new accounting pronouncements that have been released, and are not yet effective, which will have a significant impact to its financial position or results of operations in future periods.

*Reclassifications:* Certain reclassifications have been made to the prior year's financial statements in order to conform to the current presentation.

**NOTE B – CONTRIBUTIONS RECEIVABLE**

Contributions receivable are as follows at December 31:

|                                  | <u>2009</u>       | <u>2008</u>         |
|----------------------------------|-------------------|---------------------|
| Receivable in less than one year | \$ 204,559        | \$ 755,003          |
| Receivable in one to five years  | <u>50,000</u>     | <u>353,000</u>      |
| Total contributions receivable   | <u>\$ 254,559</u> | <u>\$ 1,108,003</u> |

No allowance was deemed necessary as of December 31, 2009 and 2008.

**NOTE C – INVESTMENTS**

The Society's investments are held by Sendero Wealth Management and are comprised of the following:

|                           | <u>Market Value</u> |                   | <u>Total</u>        |
|---------------------------|---------------------|-------------------|---------------------|
|                           | <u>Unrestricted</u> | <u>Endowment</u>  |                     |
| <i>December 31, 2009</i>  |                     |                   |                     |
| Cash and equivalents      | \$ 241,418          | \$ 206,217        | \$ 447,635          |
| Equities and mutual funds | 5,473,989           | 564,887           | 6,038,876           |
| Bonds                     | <u>880,867</u>      | <u>-</u>          | <u>880,867</u>      |
|                           | <u>\$ 6,596,274</u> | <u>\$ 771,104</u> | <u>\$ 7,367,378</u> |
| <i>December 31, 2008</i>  |                     |                   |                     |
| Cash and equivalents      | \$ 353,462          | \$ -              | \$ 353,462          |
| Equities and mutual funds | 5,933,012           | -                 | 5,933,012           |
| Bonds                     | 100,636             | -                 | 100,636             |
| Government and agencies   | <u>513,377</u>      | <u>-</u>          | <u>513,377</u>      |
|                           | <u>\$ 6,900,487</u> | <u>\$ -</u>       | <u>\$ 6,900,487</u> |

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

NOTE D – ENDOWMENT INVESTMENTS

A rollforward of earnings and losses for endowment investment is as follows:

|  | Board-<br>Designated<br>Unrestricted | Donor Restricted          |                           | Total             |
|--|--------------------------------------|---------------------------|---------------------------|-------------------|
|  |                                      | Temporarily<br>Restricted | Permanently<br>Restricted |                   |
| Endowment funds at December 31, 2008       | \$ -                                 | \$ -                      | \$ -                      | \$ -              |
| Interest and dividends                     | -                                    | 20,210                    | -                         | 20,210            |
| Net realized and unrealized gains (losses) | -                                    | 50,894                    | -                         | 50,894            |
| Contributions                              | -                                    | 700,000                   | -                         | 700,000           |
| Endowment funds at December 31, 2009       | <u>\$ -</u>                          | <u>\$ 771,104</u>         | <u>\$ -</u>               | <u>\$ 771,104</u> |

Endowment investments consist of the following:

|                                      | Board-<br>Designated<br>Unrestricted | Donor Restricted          |                           | Total             |
|--------------------------------------|--------------------------------------|---------------------------|---------------------------|-------------------|
|                                      |                                      | Temporarily<br>Restricted | Permanently<br>Restricted |                   |
| Endowment funds at December 31, 2009 |                                      |                           |                           |                   |
| Donor-restricted endowment funds     | \$ -                                 | \$ 771,104                | \$ -                      | \$ 771,104        |
| Board-designated endowment funds     | -                                    | -                         | -                         | -                 |
| Total endowment funds                | <u>\$ -</u>                          | <u>\$ 771,104</u>         | <u>\$ -</u>               | <u>\$ 771,104</u> |

*Interpretation of Relevant Law:* The Board of Directors of the Society has interpreted the State of Texas 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. The donor has indicated that the Society may use both the income and corpus of the endowment for certain expenses related to the Society's veterinarian service program limited to certain annual spending rates to be determined by the Society's Board. Accordingly, the Society classifies as temporarily restricted net assets: (a) the original value of gifts to the temporary endowment, (b) the original value of subsequent gifts to the temporary endowment, and (c) accumulations to the temporary endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The funds will remain classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society. The following factors, among others, are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the 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 of the organization.

*Return Objectives and Risk Parameters:* The Board has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that equal or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. Endowment funds, over time, are expected to provide a positive rate of return. Actual returns in any given year may vary from this amount.

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

NOTE D – ENDOWMENT NET ASSETS BY FUND - continued

*Strategies Employed for Achieving Objectives:* To satisfy its long-term rate-of-return objectives, the Society 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 Board targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy:* In accordance with the donor's stipulations, funds will be expended to fulfill the endowments purpose in accordance with the Society's reasonable annual endowment spending rate which the Society's Board shall determine from time to time. The annual spending rate is based on a target rate set as a percentage of the market value as of December 31, of the previous fiscal year. In determining this rate, the Board may consider, among other things, general economic conditions, the possible effect of inflation or deflation, and the expected total return from income and appreciation of investments in the fund.

NOTE E – ASSETS HELD IN CHARITABLE GIFT ANNUITIES

The Society is the residual beneficiary of seven charitable gift (split interest) annuities established and held at Comerica Bank & Trust. Payments from the charitable gift annuities are made to the donors during their lifetime.

Upon execution of the charitable gift annuities, the Society records an asset for the fair market value of charitable gift annuities, and a liability based upon the actuarial present value of amounts expected to be paid to the donors. The net of the gift annuities asset and liability is the remainder interest (i.e., the residual amount the Society expects to receive from the annuities). The present value is readjusted annually, with the value based on an actuarial calculation as summarized below:

| Gift annuities remainder interest expected to be received<br>(based on life expectancy tables) in: | <u>2009</u>      | <u>2008</u>      |
|--|------------------|------------------|
| Less than one year   | \$ -             | \$ -             |
| One to five years  | -                | -                |
| Over five years  | <u>55,378</u>    | <u>49,064</u>    |
| Total  | <u>\$ 55,378</u> | <u>\$ 49,064</u> |

The following table summarizes activity in the gift annuities for the years ended December 31:

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Charitable gift annuities assets at beginning of year | \$ 180,449        | \$ 277,242        |
| Contributions   | -                 | 10,000            |
| Annuity payments                                      | (30,370)          | (29,183)          |
| Change in value                                       | <u>47,597</u>     | <u>(77,610)</u>   |
| Charitable gift annuities assets at end of year       | <u>\$ 197,676</u> | <u>\$ 180,449</u> |

**HUMANE SOCIETY OF SAN ANTONIO**  
**Notes to Audited Financial Statements**  
**December 31, 2009 and 2008**

**NOTE F – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

|                                | <u>2009</u>         | <u>2008</u>         |
|--------------------------------|---------------------|---------------------|
| Land, Fredericksburg Road      | \$ 1,260,963        | \$ 1,260,963        |
| Office furniture and equipment | 145,225             | 126,648             |
| Shelter equipment              | 313,452             | 252,052             |
| Vehicles                       | 117,521             | 107,122             |
| Facility and equipment         | <u>4,614,878</u>    | <u>4,606,160</u>    |
| Total cost                     | 6,452,039           | 6,352,945           |
| Less accumulated depreciation  | <u>(1,460,649)</u>  | <u>(1,246,746)</u>  |
| Net property and equipment     | <u>\$ 4,991,390</u> | <u>\$ 5,106,199</u> |

**NOTE G – TEMPORARILY RESTRICTED NET ASSETS**

*Temporarily restricted* net assets consisted of the following at December 31:

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Charitable Gift Annuities, net of liabilities – see below | \$ 55,378           | \$ 49,064           |
| Cruelty Hotline Fund                                      | 7,678               | 7,410               |
| Contributions receivable (building fund)                  | 150,000             | 300,000             |
| Contributions receivable (veterinarian endowment fund)    | 100,000             | 800,000             |
| Veterinarian endowment                                    | 771,104             | -                   |
| Veterinary equipment                                      | 5,000               | -                   |
| Other building fund contributions received                | <u>-</u>            | <u>150,000</u>      |
| Total temporarily restricted net assets                   | <u>\$ 1,089,160</u> | <u>\$ 1,306,474</u> |

*Charitable Gift (Split Interest) Annuities:* The Society established a charitable gift annuity program in 2003, and through 2009 has received seven gift annuities. All annuities are held at Comerica Bank & Trust, and payments to the donor cease upon death. Gifts received through December 31, 2009 are summarized as follows:

| <u>Year</u><br><u>Established</u> | <u>Gift</u><br><u>Amount</u> | <u>Quarterly</u><br><u>Payment</u><br><u>to Donor</u> | <u>Date of 1st</u><br><u>Quarterly</u><br><u>Payment</u> |
|-----------------------------------|------------------------------|---|--|
| 2008                              | \$ 10,000                    | \$ 208  | June 2008  |
| 2007                              | 50,000                       | 1,413   | March 2007   |
| 2006                              | 50,000                       | 1,375   | September 2006   |
| 2005                              | 10,000                       | 198   | June 2009  |
| 2004                              | 50,000                       | 950   | June 2004  |
| 2004                              | 50,000                       | 975   | December 2004  |
| 2003                              | 100,000                      | 2,475   | March 2004   |

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

NOTE G – TEMPORARILY RESTRICTED NET ASSETS - continued

*Net Assets Released From Restrictions:* A reconciliation of temporary restricted net assets released from restriction is as follows for the years ended December 31:

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Released from the Mike Curb Fund for building | <u>\$ 300,000</u> | <u>\$ 150,000</u> |

NOTE H – LONG-TERM DEBT

Long-term debt consists of the following at December 31:

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Note payable to Frost Bank with a fixed interest rate of 7.30%.<br>Note is due in monthly principal and interest payments of \$13,191,<br>secured by real estate. The note matures in November 2019.  | \$ 1,797,759        | \$ -                |
| Note payable to JPMorgan Chase Bank (Chase) with interest<br>at One Month LIBOR plus .95% (2.15% at December 31, 2008).<br>Note is due in monthly installments of \$14,770 plus interest,<br>secured by investments. The note was paid in full in 2009. | <u>-</u>            | <u>2,684,063</u>    |
| Total long-term debt  | <u>\$ 1,797,759</u> | <u>\$ 2,684,063</u> |

Repayments of long-term debt will require the following annual amounts:

| <u>Year Ended December 31,</u> | <u>Amount</u>       |
|--------------------------------|---------------------|
| 2010                           | \$ 27,975           |
| 2011                           | 30,086              |
| 2012                           | 32,358              |
| 2013                           | 34,801              |
| 2014                           | 37,428              |
| Thereafter                     | <u>1,635,111</u>    |
|                                | <u>\$ 1,797,759</u> |

The Society had previously entered into an interest rate swap agreement that effectively converted its Chase Bank debt from a variable into a fixed-rate obligation. Upon refinancing the note obligation, the Society terminated the swap agreement for a fee of \$307,000. Prior to termination, the effective fixed rate was 7.35% at December 31, 2008. The swap agreement matched the terms of the Chase Bank debt with respect to timing and amortized balance through maturity in 2011. This swap was designated as a completely effective cash flow hedge, as defined by Professional Standards related to "Derivatives and Hedging." Changes in the fair value were recorded as changes in value of interest rate swaps in the statements of activities. The Society's interest rate swap activity generated a net liability of \$(388,808) as of December 31, 2008.

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

**NOTE I – CONTRIBUTED SERVICES**

The Society receives a substantial amount of contributed services from volunteers. Though an integral part of the Society's manpower, the value of the services are not included as contributed revenue or expense in the Statement of Activities because they are not provided by professionals, which is a requirement for recognition under U.S. generally accepted accounting principles. Based on a value of \$7.75 per hour for 2009 and 2008, which approximates the cost of individuals employed by the Society to perform similar services, the Society receives the following economic value:

| <u>Year</u> | <u>Hours</u> | <u>Amount</u> |
|-------------|--------------|---------------|
| 2009        | 27,698       | \$ 214,660    |
| 2008        | 23,947       | 185,589       |

**NOTE J – CONTINGENCY**

The Society is involved in various claims from time to time. Management does not expect any such matters in which it is currently involved to result in significant loss.

**NOTE K – FAIR VALUE MEASUREMENTS**

The Society follows the Professional Standards related to "Fair Value Measurements," which defines fair value, established a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The Standards established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

Unobservable inputs are inputs that reflect what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

HUMANE SOCIETY OF SAN ANTONIO  
Notes to Audited Financial Statements  
December 31, 2009 and 2008

NOTE K – FAIR VALUE MEASUREMENTS - continued

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The following table presents the financial assets and liabilities that were accounted for at fair value on a recurring basis within the fair value hierarchy:

| December 31, 2009       | Fair Value Measurements Using |                |                |
|-------------------------|-------------------------------|----------------|----------------|
|                         | <u>Level 1</u>                | <u>Level 2</u> | <u>Level 3</u> |
| Assets – Investments    | \$ 7,367,378                  | \$ -           | \$ -           |
| Assets – Gift annuities | 197,676                       | -              | -              |

  

| December 31, 2008                | Fair Value Measurements Using |                |                |
|----------------------------------|-------------------------------|----------------|----------------|
|                                  | <u>Level 1</u>                | <u>Level 2</u> | <u>Level 3</u> |
| Assets – Investments             | \$ 6,900,487                  | \$ -           | \$ -           |
| Assets – Gift annuities          | 180,449                       | -              | -              |
| Liabilities – Interest rate swap | -                             | -              | 388,808        |

The following table sets forth a reconciliation of changes in the fair value of financial liabilities classified as level 3 in the fair value hierarchy:

|   | <u>Interest Rate Swaps</u> |
|---|----------------------------|
| Balance as of January 1, 2008                             | \$ (260,531)               |
| Total losses (realized/unrealized) included in net assets | (128,277)                  |
| Purchases, issuances, and settlements                     | -                          |
| Transfers in and out of level 3                           | -                          |
| Balance as of December 31, 2008                           | (388,808)                  |
| Total gains (realized/unrealized) included in net assets  | 81,808                     |
| Purchases, issuances, and settlements                     | 307,000                    |
| Transfers in and out of level 3                           | -                          |
| Balance as of December 31, 2009                           | <u>\$ -</u>                |

On the statement of activities, realized gains or losses from interest rate swaps are included in interest expense.