

HUMANE SOCIETY OF SAN ANTONIO
dba
SAN ANTONIO HUMANE SOCIETY

Audited Financial Statements

December 31, 2013

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

SAN ANTONIO HUMANE SOCIETY
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Humane Society of San Antonio, dba San Antonio Humane Society, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U. S. generally accepted accounting principles; 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 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Antonio Humane Society as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U. S. generally accepted accounting principles.

Akin, Doherty, Klein & Feuge PC

Akin, Doherty, Klein & Feuge, P.C.

San Antonio, Texas

April 20, 2014

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 244,187	\$ 177,839
Pledges receivable, net	103,439	95,191
Other receivables	37,679	65,149
Inventory	4,340	6,622
Prepaid expenses and other assets	9,607	24,832
Investments	6,371,505	6,283,645
Assets held in charitable gift annuities	76,182	79,799
Total current assets	<u>6,846,939</u>	<u>6,733,077</u>
Other Assets:		
Endowment investments	975,626	916,610
Beneficial interest in trusts	1,109,355	1,150,159
Pledges receivable, long-term	303,924	280,288
Property and equipment, net	4,359,973	4,510,304
Land held for sale	10,250	10,251
Total other assets	<u>6,759,128</u>	<u>6,867,612</u>
Total Assets	<u><u>\$ 13,606,067</u></u>	<u><u>\$ 13,600,689</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 106,827	\$ 112,827
Deferred revenue	-	4,150
Liabilities under charitable gift annuities	<u>59,883</u>	<u>63,824</u>
Total current liabilities	166,710	180,801
Net Assets:		
Unrestricted	10,867,480	10,936,602
Temporarily restricted	<u>2,571,877</u>	<u>2,483,286</u>
Total net assets	<u>13,439,357</u>	<u>13,419,888</u>
Total Liabilities and Net Assets	<u><u>\$ 13,606,067</u></u>	<u><u>\$ 13,600,689</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Activities
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Support and Revenues			
Program fees	\$ 798,850	\$ -	\$ 798,850
Bequests/special donations	66,782	-	66,782
Memberships/pledges/contributions	1,945,819	209,947	2,155,766
Other income	6,886	-	6,886
Special events, net of expenses of \$8,728	17,309	-	17,309
Total support and revenues	<u>2,835,646</u>	<u>209,947</u>	<u>3,045,593</u>
Expenses			
Program services:			
Salaries and benefits	1,587,563	-	1,587,563
Occupancy and maintenance expense	203,524	-	203,524
Depreciation	198,649	-	198,649
Animal care	318,157	-	318,157
Program awareness	560,000	-	560,000
Education	7,138	-	7,138
Other program expense	194,839	-	194,839
Total program services	<u>3,069,870</u>	<u>-</u>	<u>3,069,870</u>
Fundraising expenses	392,807	-	392,807
Administrative:			
Salaries and benefits	278,796	-	278,796
Occupancy and maintenance expense	15	-	15
Administrative	12,778	-	12,778
Professional	23,250	-	23,250
Travel, meetings, and other	3,988	-	3,988
Bad debt	36,963	-	36,963
Total administrative	<u>355,790</u>	<u>-</u>	<u>355,790</u>
Total expenses	3,818,467	-	3,818,467
Investment Income			
Interest and dividends, net of fees	133,974	-	133,974
Realized and unrealized gains on investment securities	629,417	71,064	700,481
Changes in value of split interest agreements	-	(1,309)	(1,309)
Changes in value of beneficial interests in trusts	-	(40,803)	(40,803)
Total investment income	<u>763,391</u>	<u>28,952</u>	<u>792,343</u>
Change in Net Assets	(219,430)	238,899	19,469
Net assets released from restrictions	150,308	(150,308)	-
Net assets at beginning of year	<u>10,936,602</u>	<u>2,483,286</u>	<u>13,419,888</u>
Net Assets at End of Year	<u>\$ 10,867,480</u>	<u>\$ 2,571,877</u>	<u>\$ 13,439,357</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Activities
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Support and Revenues			
Program fees	\$ 745,019	\$ -	\$ 745,019
Bequests/special donations	334,984	-	334,984
Memberships/pledges/contributions	2,278,952	133,582	2,412,534
Beneficial interests in trusts	-	1,150,159	1,150,159
Other income	6,700	-	6,700
Special events, net of expenses of \$11,629	53,341	-	53,341
Total support and revenues	<u>3,418,996</u>	<u>1,283,741</u>	<u>4,702,737</u>
Expenses			
Program services:			
Salaries and benefits	1,429,356	-	1,429,356
Occupancy and maintenance expense	248,848	-	248,848
Depreciation	186,623	-	186,623
Animal care	362,637	-	362,637
Program awareness	840,000	-	840,000
Education	6,834	-	6,834
Other program expense	159,353	-	159,353
Interest expense	-	-	-
Total program services	<u>3,233,651</u>	<u>-</u>	<u>3,233,651</u>
Fundraising expenses	473,682	-	473,682
Administrative:			
Salaries and benefits	275,450	-	275,450
Occupancy and maintenance expense	275	-	275
Administrative	18,818	-	18,818
Professional	20,573	-	20,573
Travel, meetings, and other	5,599	-	5,599
Bad debt	41,154	-	41,154
Total administrative	<u>361,869</u>	<u>-</u>	<u>361,869</u>
Total expenses	4,069,202	-	4,069,202
Investment Income			
Interest and dividends, net of fees	121,391	22,526	143,917
Realized and unrealized gains on investment securities	450,137	84,696	534,833
Changes in value of split interest agreements	-	47,035	47,035
Total investment income	<u>571,528</u>	<u>154,257</u>	<u>725,785</u>
Change in Net Assets	(78,678)	1,437,998	1,359,320
Net assets released from restrictions	335,670	(335,670)	-
Net assets at beginning of year	<u>10,679,610</u>	<u>1,380,958</u>	<u>12,060,568</u>
Net Assets at End of Year	<u>\$ 10,936,602</u>	<u>\$ 2,483,286</u>	<u>\$ 13,419,888</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Change in net assets	\$ 19,469	\$ 1,359,320
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Realized and unrealized (gains) losses on investment securities	(700,481)	(534,833)
Depreciation	198,649	203,021
Contributions of assets held in beneficial interest trusts	-	(1,150,159)
Change in operating assets and liabilities:		
Pledges receivable	(31,883)	(17,921)
Other receivables	27,470	(32,221)
Inventory	2,282	(3,888)
Prepaid expenses	15,225	5,372
Accounts payable and accrued expenses	(5,999)	4,243
Deferred revenue	(4,150)	2,030
Net cash provided (used) by operating activities	<u>(479,418)</u>	<u>(165,036)</u>
Investing Activities		
Net sales of investments	557,221	194,041
Purchases of property and equipment	(48,318)	(67,890)
Net cash provided by investing activities	<u>508,903</u>	<u>126,151</u>
Financing Activities		
Change in charitable gift annuities	(3,941)	(70,535)
Change in beneficial interests in trusts	40,804	-
Net cash provided (used) by financing activities	<u>36,863</u>	<u>(70,535)</u>
Net change in cash and cash equivalents	66,348	(109,420)
Cash and cash equivalents at beginning of year	<u>177,839</u>	<u>287,259</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 244,187</u></u>	<u><u>\$ 177,839</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	-	-

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities: The Humane Society of San Antonio, dba San Antonio Humane Society, (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 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, 2013 and 2012.

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 program awareness expenses in the Statement of Activities and totaled approximately \$600,000 in 2013 and \$900,000 in 2012. The Society also receives substantial assistance from volunteers who contribute their personal time to assist in a number of areas. See Note H.

Expense Allocations: The Society's expenses are allocated to program services, fundraising 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 \$39,000 in 2013 and \$57,000 in 2012.

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.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Pledges 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 in mutual funds are reported at fair market value determined by quoted market price. Beneficial interests in trusts are also reported at fair market value, based on the Society's proportionate share of each trust. Investment interest and dividends are reported net of fees of approximately \$36,000 in 2013 and \$38,000 in 2012.

Endowment Investments: Endowments are donor restricted and are reported as 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, 2013 and 2012.

Assets Held in Charitable Gift Annuities: The Society has established nine charitable gift annuities at December 31, 2013 and 2012. Under the terms of these agreements, the Society makes distributions to the donors throughout the donor's life. 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. Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for the last four years remain subject to examination.

Employee Benefit Plan: In 2011, the Society adopted a Simple IRA plan. The Plan covers substantially all employees. Employees may contribute a percentage of their annual compensation as allowed by the federal tax code. The Society matches up to 3% of employees' contributions. The Society matched approximately \$14,000 in 2013 and \$13,000 in 2012 to the Plan.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Concentrations of Credit Risk: Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, investments, and pledges receivable. 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. The Society also has concentrations of credit risk with respect to pledges receivable due to it soliciting primarily in the South Texas area.

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 independent auditor's report. 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 amounts for 2012 have been reclassified for comparative purposes to 2013.

NOTE B – PLEDGES RECEIVABLE

Pledges receivable are as follows at December 31:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 103,439	\$ 95,191
Receivable in one to five years	268,532	280,288
Receivable in greater than five years	<u>35,392</u>	<u>-</u>
Total pledges receivable	<u>\$ 407,363</u>	<u>\$ 375,479</u>

Pledges are reported net of an allowance for doubtful accounts of approximately \$41,500 at December 31, 2013 and 2012.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE C – ENDOWMENT INVESTMENTS

A roll forward of earnings and losses for endowment investments is as follows:

	Board- Designated Unrestricted	Donor Restricted		
		Temporarily Restricted	Permanently Restricted	Total
Endowment at December 31, 2011	\$ -	\$ 866,947	\$ -	\$ 866,947
Interest and dividends	-	18,471	-	18,471
Net realized and unrealized gains	-	68,995	-	68,995
Contributions	-	-	-	-
Appropriations	-	(37,803)	-	(37,803)
Endowment at December 31, 2012	-	916,610	-	916,610
Interest and dividends	-	18,684	-	18,684
Net realized and unrealized gains	-	40,332	-	40,332
Contributions	-	-	-	-
Appropriations	-	-	-	-
Endowment at December 31, 2013	<u>\$ -</u>	<u>\$ 975,626</u>	<u>\$ -</u>	<u>\$ 975,626</u>

Represented as:

	Board- Designated Unrestricted	Donor Restricted		
		Temporarily Restricted	Permanently Restricted	Total
Endowment at December 31, 2012				
Donor-restricted endowment	\$ -	\$ 916,610	\$ -	\$ 916,610
Board-designated endowment	-	-	-	-
Total endowment	<u>-</u>	<u>916,610</u>	<u>-</u>	<u>916,610</u>
Endowment at December 31, 2013				
Donor-restricted endowment	\$ -	\$ 975,626	\$ -	\$ 975,626
Board-designated endowment	-	-	-	-
Total endowment	<u>\$ -</u>	<u>\$ 975,626</u>	<u>\$ -</u>	<u>\$ 975,626</u>

NOTE C – ENDOWMENT INVESTMENTS – continued

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.

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 endowment's 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.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE D – ASSETS HELD IN CHARITABLE GIFT ANNUITIES

The Society is the residual beneficiary of six charitable gift (split-interest) annuities at December 31, 2013 and 2012. The gift annuities are all held at Bank of America at December 31, 2013. 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 (based on life expectancy tables) in:	<u>2013</u>	<u>2012</u>
Less than one year	\$ -	\$ -
One to five years	-	-
Over five years	<u>16,299</u>	<u>15,975</u>
Charitable gift annuities, net of liabilities	<u>\$ 16,299</u>	<u>\$ 15,975</u>

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

	<u>2013</u>	<u>2012</u>
Charitable gift annuities assets at beginning of year	\$ 79,799	\$ 165,165
Contributions	-	-
Annuity payments	(10,500)	(23,500)
Termination of split-interest agreements	-	(81,907)
Change in value	<u>6,883</u>	<u>20,041</u>
Charitable gift annuities assets at end of year	<u>\$ 76,182</u>	<u>\$ 79,799</u>

Gifts received through December 31, 2013 are summarized as follows:

<u>Year Established</u>	<u>Total Gift Amount</u>	<u>Quarterly Payment to Donor</u>	<u>Date of 1st Quarterly Payment</u>
2011	\$ 5,000	\$ 103	September 2011
2010	10,000	193	September 2010
2008	10,000	208	June 2008
2005	10,000	198	June 2009
2004	50,000	950	June 2004
2004	50,000	975	December 2004

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2013 and 2012

NOTE E – BENEFICIAL INTEREST IN TRUSTS

At December 31, 2013, the Society is the beneficiary of four trusts:

- Naomi Evers 1988 Trust
- John Ender Charitable Remainder Trust
- Delgado/Masoro/Humane Society Charitable Remainder Trust
- Masoro Charitable Remainder Unitrust

Upon the death of the current beneficiaries of each trust, the Society is entitled to a distribution of its proportionate share of the principal. The assets of the trusts consist primarily of government securities, bond funds, equity and debt securities, and real estate interests.

A summary of the trusts is as follows at December 31, 2013:

	<u>Beneficiary</u> <u>%</u>	<u>Net Asset</u> <u>Value *</u>
Naomi Evers 1988 Trust	25%	\$ 277,804
John Ender Charitable Remainder Trust	50%	92,778
Delgado/Masoro/Humane Society Charitable Remainder Trust	100%	65,816
Masoro Charitable Remainder Unitrust	100%	<u>672,957</u>
		<u>\$ 1,109,355</u>

** Represents approximate net asset value to the Society based on its beneficiary percentage ownership.*

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land, Fredericksburg Road	\$ 1,260,964	\$ 1,260,964
Office furniture and equipment	186,670	156,409
Shelter equipment	362,068	344,012
Vehicles	94,584	98,764
Facility and equipment	<u>4,621,978</u>	<u>4,621,978</u>
Total property and equipment	6,526,264	6,482,127
Less accumulated depreciation	<u>(2,166,291)</u>	<u>(1,971,823)</u>
Net property and equipment	<u>\$ 4,359,973</u>	<u>\$ 4,510,304</u>

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NOTE G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Charitable gift annuities	\$ 16,299	\$ 15,975
Beneficial interest in trusts	1,109,356	1,150,159
Pledges receivable (future operations)	407,363	375,479
Endowment investments (veterinarian)	975,626	916,610
Cruelty Hotline Fund	16,538	12,063
Medical equipment	10,000	10,000
PetSmart sponsored campaigns	28,500	-
Brackenridge feral cats	3,000	3,000
Other restricted donations	<u>5,195</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 2,571,877</u>	<u>\$ 2,483,286</u>

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>2013</u>	<u>2012</u>
Veterinarian endowment	\$ -	\$ 37,803
Contributions receivable	123,838	112,871
Charitable gift annuities, net of liabilities	11,577	81,622
Education specialist	-	29,188
Medical equipment	-	9,995
Education	-	10,000
Sterilization of pit bull/terriers	-	49,591
Sterilization of female cats	-	4,600
Other restricted donations	<u>14,893</u>	<u>-</u>
Total net assets released from restrictions	<u>\$ 150,308</u>	<u>\$ 335,670</u>

NOTE H – 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 \$10.00 per hour for 2013 and \$9.75 per hour for 2012, 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>
2013	18,319	\$183,190
2012	15,771	153,767

NOTE I – FAIR VALUE MEASUREMENTS

U. S. generally accepted accounting principles (GAAP) has 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 based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions of what market participants would use in pricing the asset or liability 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.

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. The 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, 2013:

Common Stocks, Corporate Bonds and U.S. Government Securities: Valued at the closing prices reported on the active market which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held at year end.

Beneficial Interests in Trusts: Valued at the fair value of the underlying assets, which primarily consist of common stocks and mutual funds.

Charitable Gift Annuities: Valued at the fair value of the underlying assets.

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.

Assets measured at fair value include the following at December 31:

	<u>2013</u>	<u>2012</u>
Investments	\$ 6,371,505	\$ 6,283,645
Endowment investments	975,626	916,610
Beneficial interest in trusts	1,109,355	1,150,159
Assets held in charitable gift annuities	<u>76,182</u>	<u>79,799</u>
	<u>\$ 8,532,668</u>	<u>\$ 8,430,213</u>

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NOTE I – FAIR VALUE MEASUREMENTS – continued

The following table sets forth, by level within the fair value hierarchy, the Society's assets at fair value as follows:

<i>December 31, 2013:</i>	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Cash, Deposits, MMF's	\$ 424,698	\$ -	\$ -	\$ 424,698
Mutual Funds, Stocks, and Similar:				
Equities:				
US large cap	1,603,536	-	-	1,603,536
US mid cap	507,942	-	-	507,942
US small cap	469,423	-	-	469,423
Internationally developed	952,364	-	-	952,364
Emerging markets	473,020	-	-	473,020
Equity other	1,237	-	-	1,237
Fixed Income:				
Investment grade taxable	1,102,278	-	-	1,102,278
Global high yield taxable	289,842	-	-	289,842
Other	53,909	-	-	53,909
Hedge Funds	848,084	-	-	848,084
Real Estate	477,090	-	-	477,090
Tangible Assets	219,890	-	-	219,890
Beneficial Interests in Trusts	-	1,109,355	-	1,109,355
Total assets at fair value	\$ 7,423,313	\$ 1,109,355	\$ -	\$ 8,532,668
 <i>December 31, 2012:</i>				
Cash, Deposits, MMF's	\$ 568,325	\$ -	\$ -	\$ 568,325
Mutual Funds, Stocks, and Similar:				
Equities:				
US large cap	1,415,435	-	-	1,415,435
US mid cap	497,331	-	-	497,331
US small cap	469,502	-	-	469,502
Internationally developed	568,825	-	-	568,825
Emerging markets	601,896	-	-	601,896
Equity other	-	-	-	-
Fixed Income:				
Investment grade taxable	1,176,562	-	-	1,176,562
Global high yield taxable	218,042	-	-	218,042
Other	216,592	-	-	216,592
Hedge Funds	680,526	-	-	680,526
Real Estate	445,742	-	-	445,742
Tangible Assets	421,276	-	-	421,276
Beneficial Interests in Trusts	-	1,150,159	-	1,150,159
Total assets at fair value	\$ 7,280,054	\$ 1,150,159	\$ -	\$ 8,430,213