

**HUMANE SOCIETY OF SAN ANTONIO
dba
SAN ANTONIO HUMANE SOCIETY**

Audited Financial Statements

December 31, 2019

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

SAN ANTONIO HUMANE SOCIETY
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December 31, 2019

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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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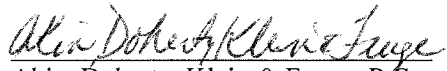
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Opinion

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, 2019 and 2018, and the results of its operations, functional expenses, and cash flows for the years then ended in accordance with U. S. generally accepted accounting principles.



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

San Antonio, Texas

April 17, 2020

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Operating Assets:		
Cash and cash equivalents		
Available for operations, unrestricted	\$ 318,169	\$ 795,248
Restricted for expansion	<u>2,812,363</u>	<u>-</u>
Total cash and cash equivalents	3,130,532	795,248
Pledges receivable, net	2,471,376	1,916,496
Other receivables	135,130	101,169
Inventory	76,769	115,778
Prepaid expenses and other current assets	48,235	21,455
Property and equipment, net	4,277,127	3,694,169
Land held for sale	<u>10,250</u>	<u>10,250</u>
Total operating assets	10,149,419	6,654,565
Investments, Trusts and Charitable Gifts:		
Investments, unrestricted	5,447,054	6,706,162
Investments, expansion	5,676,026	2,146,585
Investments, endowment	1,012,471	886,529
Beneficial interests in trusts	997,024	933,993
Assets held in charitable gift annuities	<u>31,392</u>	<u>31,886</u>
Total investments, trusts and charitable gifts	<u>13,163,967</u>	<u>10,705,155</u>
Total Assets	<u><u>\$ 23,313,386</u></u>	<u><u>\$ 17,359,720</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 276,235	\$ 247,071
Deferred revenue	81,000	23,500
Liabilities under charitable gift annuities	40,434	41,429
Total current liabilities	<u>397,669</u>	<u>312,000</u>
Net Assets:		
Without donor restrictions	14,865,569	13,296,345
With donor restrictions	8,050,148	3,751,375
Total net assets	<u>22,915,717</u>	<u>17,047,720</u>
Total Liabilities and Net Assets	<u><u>\$ 23,313,386</u></u>	<u><u>\$ 17,359,720</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues			
Program fees	\$ 1,521,595	\$ -	\$ 1,521,595
Bequests/special donations	445,043	-	445,043
Contributions and pledges	2,572,510	4,227,897	6,800,407
Other income	2,434	-	2,434
Special events, net of expenses of \$42,907	226,161	-	226,161
Total support and revenues	<u>4,767,743</u>	<u>4,227,897</u>	<u>8,995,640</u>
Expenses			
Program	3,542,952	-	3,542,952
General and administrative	519,775	-	519,775
Fundraising	537,114	-	537,114
Total expenses	<u>4,599,841</u>	<u>-</u>	<u>4,599,841</u>
Operating Income	167,902	4,227,897	4,395,799
Investment Earnings			
Investment earnings, net of fees	1,266,344	152,328	1,418,672
Changes in value of beneficial interests in trusts	-	63,031	63,031
Changes in value of charitable gift annuities	-	(9,505)	(9,505)
Investment earnings, net	<u>1,266,344</u>	<u>205,854</u>	<u>1,472,198</u>
Change in Net Assets	1,434,246	4,433,751	5,867,997
Net assets released from restrictions	134,978	(134,978)	-
Net assets at beginning of year	<u>13,296,345</u>	<u>3,751,375</u>	<u>17,047,720</u>
Net Assets at End of Year	<u>\$ 14,865,569</u>	<u>\$ 8,050,148</u>	<u>\$ 22,915,717</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues			
Program fees	\$ 1,515,103	\$ -	\$ 1,515,103
Bequests/special donations	499,848	-	499,848
Contributions and pledges	2,183,943	2,670,600	4,854,543
Other income (loss)	(4,043)	-	(4,043)
Special events, net of expenses of \$49,219	134,911	-	134,911
Total support and revenues	<u>4,329,762</u>	<u>2,670,600</u>	<u>7,000,362</u>
Expenses			
Program	3,814,164	-	3,814,164
General and administrative	512,304	-	512,304
Fundraising	512,038	-	512,038
Total expenses	<u>4,838,506</u>	<u>-</u>	<u>4,838,506</u>
Operating Income (Loss)	(508,744)	2,670,600	2,161,856
Investment Earnings			
Investment loss, net of fees	(587,992)	(70,977)	(658,969)
Changes in value of beneficial interests in trusts	-	(173,649)	(173,649)
Changes in value of charitable gift annuities	-	(6,400)	(6,400)
Investment earnings (loss), net	<u>(587,992)</u>	<u>(251,026)</u>	<u>(839,018)</u>
Change in Net Assets	(1,096,736)	2,419,574	1,322,838
Net assets released from restrictions	872,521	(872,521)	-
Net assets at beginning of year	<u>13,520,560</u>	<u>2,204,322</u>	<u>15,724,882</u>
Net Assets at End of Year	<u>\$ 13,296,345</u>	<u>\$ 3,751,375</u>	<u>\$ 17,047,720</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Animal care	\$ 409,949	\$ -	\$ -	\$ 409,949
Bad debts	-	-	6,312	6,312
Education	10,017	-	-	10,017
Printing, postage and newsletter	25,920	-	297,411	323,331
Occupancy and maintenance	297,644	6,049	231	303,924
Other expenses	256,998	65,611	70,108	392,717
Professional	437	22,156	27	22,620
Salaries, wages and benefits	2,306,265	425,787	162,792	2,894,844
Travel, meetings, and other	9,541	172	233	9,946
Depreciation	226,181	-	-	226,181
	<u>\$ 3,542,952</u>	<u>\$ 519,775</u>	<u>\$ 537,114</u>	<u>\$ 4,599,841</u>

Special Events, direct costs not included above:

Value of goods received by guest	\$ 10,670
Facilities rental	3,888
Production costs	14,493
Other direct costs	<u>13,856</u>
	<u>\$ 42,907</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Animal care	\$ 473,906	\$ -	\$ -	\$ 473,906
Bad debts	898	-	7,537	8,435
Education	4,409	-	-	4,409
Printing, postage and newsletter	373,062	-	320,373	693,435
Occupancy and maintenance	334,344	3,916	506	338,766
Other expenses	205,046	20,521	56,825	282,392
Professional	978	22,943	-	23,921
Salaries, wages and benefits	2,183,458	462,617	125,052	2,771,127
Travel, meetings, and other	7,389	2,307	1,745	11,441
Depreciation	230,674	-	-	230,674
	<u>\$ 3,814,164</u>	<u>\$ 512,304</u>	<u>\$ 512,038</u>	<u>\$ 4,838,506</u>

Special Events, direct costs not included above:

Value of goods received by guest	\$ 9,797
Facilities rental	819
Production costs	27,693
Other direct costs	<u>10,910</u>
	<u>\$ 49,219</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 5,867,997	\$ 1,322,838
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investment securities	(1,227,276)	854,243
Depreciation	226,181	230,674
Loss on sale of assets	-	7,810
Change in operating assets and liabilities:		
Pledges receivable	(554,880)	(1,857,494)
Other receivables	(33,961)	(49,214)
Inventory	39,009	100,002
Prepaid expenses and other current assets	(26,780)	209
Accounts payable and accrued expenses	29,164	12,614
Deferred revenue	57,500	(19,500)
Net cash provided by operating activities	<u>4,376,954</u>	<u>602,182</u>
Investing Activities		
Purchases of property and equipment	(809,139)	(17,350)
Purchase of investments, net	(1,168,011)	(420,896)
Change in charitable gift annuities, net of payments	(1,489)	(4,100)
Change in beneficial interests in trusts	(63,031)	173,648
Net cash (used) by investing activities	<u>(2,041,670)</u>	<u>(268,698)</u>
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	2,335,284	333,484
Cash, cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<u>795,248</u>	<u>461,764</u>
Cash, cash equivalents and restricted cash and restricted cash equivalents at end of year	<u><u>\$ 3,130,532</u></u>	<u><u>\$ 795,248</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	-	-

See notes to audited financial statements.

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:

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. **Grants and contributions gifted for recurring programs of the Society generally are not considered "restricted" under GAAP**, though for internal reporting the Society tracks such grants and contributions to verify the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restriction, board designated.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that are more restrictive than the Society's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time (such as pledges) or other events specified by the donor. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition: The organization recognizes contributions and grants when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest when received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Contributions are reported as without or with donor restriction, depending on the existence and/or nature of any restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restriction. Non-cash contributions are recorded at their fair market value at the date of contribution.

Program fees for various services such as adoptions, veterinary services, microchipping, camps and merchandise sales are recognized as revenue at the time the service is performed, or merchandise is delivered net of related cost of sales of \$275,868 in 2019 and \$194,824 in 2018. Such fees are due at the time of service.

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

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. Restricted cash was received from donors for the expansion project.

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.

Other Receivables: Other receivables arise primarily from animal care and grants. Such receivables are recorded at gross less an allowance for doubtful accounts. The allowance is generally based on an account-by-account review and historical trends and is included in the allowance for pledges receivable. Accounts are charged off when collection efforts have failed, and the account is deemed uncollectible. The Organization generally does not charge interest on other receivable.

Inventory: Inventory consist of pet supplies and is valued at net realizable value determined on a specific identification basis.

Investments (unrestricted, expansion, endowment): Investments, which consist primarily of money markets; common stock; mutual and exchange trade funds; corporate and government bonds; and U.S. Government securities. They are reported at fair market value determined by quoted market price. Investment earnings are reported net of fees of approximately \$57,000 in 2019 and \$48,000 in 2018. Gains and losses (realized and unrealized) are included in investment earnings on the statement of activities. Endowment investments are donor restricted and are reported at fair value determined by quoted market price.

Beneficial Interest in Trusts: The Society holds a beneficial interest in certain trusts and records its estimated fair market value of the trusts based on its proportionate share of each trust.

Assets Held in Charitable Gift Annuities: The Society has established certain charitable gift annuities. 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 quoted market prices of the underlying investments. A liability is recorded based on the estimated discounted value of the amounts due the annuitant 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 fifteen to thirty years for buildings and improvements).

Functional Allocation of Expenses: The costs of providing the services and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a basis of time and effort (such as for salaries and benefits) as well as on a square footage or other reasonable basis (such as for depreciation, office and occupancy).

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 \$22,000 in 2019 and \$38,000 in 2018.

Joint Costs: The cost of the Society's newsletter and related mailings are allocated between program and fundraising costs as reflected in the statement of functional expenses.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Employee Benefit Plan: The Society has a Simple IRA plan which 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 \$28,000 in 2019 and \$23,000 in 2018 to the Plan.

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.

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 various investment vehicles allowing for diversification which limits the amount of credit exposure although, it may from time to time, have cash and investments in excess of that insured by the FDIC and SIPC. The Society periodically assesses the financial condition of the institutions holding the cash and 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 events, if any, are disclosed in a separate footnote to these financial statements.

New Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2020. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

Recently Adopted Accounting Pronouncement: The Society has adopted Accounting Standards Update (ASU) 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* which clarified how the new revenue recognition standard applied to not-for-profit organization, and is effective for periods beginning after December 15, 2018. The Society adopted this new pronouncement effective January 1, 2019 using the modified retrospective method. While adoption of this standard required additional disclosures, adoption did not have a significant impact on the financial statements and no adjustments were made to prior periods.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between reporting periods presented.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE B – PLEDGES RECEIVABLE

Pledges receivable are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 1,219,298	\$ 1,042,690
Receivable in one to five years	1,252,078	873,806
Receivable in greater than five years	<u>-</u>	<u>-</u>
Total pledges receivable	<u>\$ 2,471,376</u>	<u>\$ 1,916,496</u>

Pledges are reported net of an allowance for doubtful accounts of \$10,149 at December 31, 2019 and \$10,382 at December 2018, respectively. Discounting multi-year pledges to present value is not significant for recognition.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land, Fredericksburg Road	\$ 1,260,964	\$ 1,260,964
Office furniture and equipment	313,194	268,375
Shelter equipment	403,608	403,608
Vehicles	110,142	110,142
Facility and equipment	4,684,028	4,684,028
Construction in process	<u>764,320</u>	<u>-</u>
Total property and equipment	7,536,256	6,727,117
Less accumulated depreciation	<u>(3,259,129)</u>	<u>(3,032,948)</u>
Net property and equipment	<u>\$ 4,277,127</u>	<u>\$ 3,694,169</u>

NOTE D – EXPANSION PROJECT

In 2019, the Society began construction on the Leeu Naylor Medical Building which will include surgical, orthopedic, and radiology suites, a rehabilitation room, and a medical clinic at its Fredericksburg Road location. The \$10,000,000 project will also include renovations to the current Education Building and Cat Pavilion. The construction is being funded through a capital campaign which has raised approximately \$7,200,000 in contributions and pledges of which approximately \$4,700,000 has been collected. A balance of approximately \$2,500,000 remains in pledges receivable which are expected to be collected through 2023. The Society's capital campaign is ongoing, and the board has earmarked approximately \$2,000,000 of their investments to pay the outstanding balance of this project, net of capital campaign contributions.

NOTE E – ENDOWMENT INVESTMENTS

A roll forward the endowment investments, all of which are donor restricted, are as follows:

	<u>2019</u>	<u>2018</u>
Endowment investments, beginning of year	\$ 886,529	\$ 992,272
Interest and dividends	24,733	22,641
Net realized and unrealized gains	149,449	(80,523)
Contributions	-	-
Fees and expenses	(4,895)	(4,582)
Appropriations	<u>(43,345)</u>	<u>(43,279)</u>
Endowment investments, end of year	<u>\$ 1,012,471</u>	<u>\$ 886,529</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 with donor restrictions: a) the original value of gifts, b) the original value of subsequent gifts, c) earnings on the gifts, and d) less appropriations. The funds will remain classified as with donor restrictions 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.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE E – ENDOWMENT INVESTMENTS - continued

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 average market value as of September 30 for the previous 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 F – ASSETS HELD IN CHARITABLE GIFT ANNUITIES

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

	<u>2019</u>	<u>2018</u>
Charitable gift, annuity value at beginning of year	\$ 31,886	\$ 45,788
Contributions	-	-
Annuity payments	(10,500)	(10,500)
Termination of split-interest agreements	-	-
Change in value	<u>10,006</u>	<u>(3,402)</u>
Charitable gift, annuity value at end of year	31,392	31,886
Less liabilities for expected payments	<u>(40,434)</u>	<u>(41,429)</u>
Net asset (liability)	<u>\$ (9,042)</u>	<u>\$ (9,543)</u>

Charitable gifts received by the Society are summarized as follows:

<u>Year</u> <u>Established</u>	<u>Original</u> <u>Gift</u> <u>Amount</u>	<u>Quarterly</u> <u>Payment to</u> <u>Donor</u>	<u>Date of 1st</u> <u>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
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NOTE G – BENEFICIAL INTEREST IN TRUSTS

The Society is named as beneficiary in six trusts:

- Naomi Evers 1988 Trust
- John Ender Charitable Remainder Trust
- Delgado/Masoro/Humane Society Charitable Remainder Trust
- Masoro Charitable Remainder Unitrust
- Bruce Meador Charitable Remainder Trust
- Magie Shackelford Charitable Trust

The Society is entitled to a distribution of its proportionate share of each trust upon the death of the grantor. The assets of each trust consist primarily of government securities, bond funds, equity and debt securities, and real estate interests, and the Society's net asset value is computed on its proportionate share of the fair value of the net trust assets. A summary of the trusts are as follows at December 31:

	<u>Beneficiary %</u>	<u>Net Asset Value</u>	
		<u>2019</u>	<u>2018</u>
Naomi Evers Trust	25%	131,183	\$ 168,633
John Ender Charitable Trust	50%	77,360	75,225
Delgado/Masoro Trust	100%	40,608	41,699
Masoro Trust	100%	747,873	648,436
Meador Trust	15%	- *	-
Shackelford Trust	15%	- *	-
		<u>\$ 997,024</u>	<u>\$ 933,993</u>

*Through 2014, the Society recorded its estimated interest in known trusts for which it is a named beneficiary. Effective in 2015, management determined it would no longer recognize its proportionate net asset value of the Trust until such time as the beneficiary designation could not be changed.

NOTE H - NET ASSETS

Net assets without donor restrictions include the following at December 31:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 12,937,568	\$ 11,366,944
Board-designated expansion project	<u>1,929,401</u>	<u>1,929,401</u>
Total net assets without restrictions	<u>\$ 14,866,969</u>	<u>\$ 13,296,345</u>

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NOTE H - NET ASSETS - continued

Net assets with donor restrictions consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Time restricted:		
Operations	\$ 47,573	\$ 60,168
Capital campaign cash, pledges and investments	6,002,125	1,880,228
Beneficial interest in trusts	997,021	933,993
Charitable gift annuities, net of related liabilities	<u>(9,042)</u>	<u>(9,543)</u>
Time restricted	7,037,677	2,864,846
Endowment investments (veterinarian)		
Investment held in perpetuity	800,000	800,000
Earnings available for appropriations	<u>212,471</u>	<u>86,529</u>
Total endowment	<u>1,012,471</u>	<u>886,529</u>
Total net assets with donor restrictions	<u>\$ 8,050,148</u>	<u>\$ 3,751,375</u>

Net assets released from restriction include the following:

	<u>2019</u>	<u>2018</u>
Operations	\$ 120,095	\$ 115,763
Charitable gift annuities	14,883	(5,114)
Capital campaign	<u>-</u>	<u>761,872</u>
	<u>\$ 134,978</u>	<u>\$ 872,521</u>

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 \$10.50 per hour in 2019 and 2018, which approximates the cost of individuals employed by the Society to perform similar services, the Society received the following economic value:

<u>Year</u>	<u>Hours</u>	<u>Value of Services</u>
2019	22,758	\$ 238,959
2018	29,248	307,104

NOTE J – 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 to compute fair value:

Money Market: Valued at cost plus accrued interest.

Equities (including common stock, mutual funds and exchange trade funds): Valued at the closing prices reported on the active market which the individual securities are traded.

Fixed income: Bond funds and U.S. Government Securities valued at closing prices reported on the active market which the individual securities are traded. Government and corporate bonds valued using pricing models maximizing the use of observable inputs for similar securities.

Mineral Interests: Valued at the nominal value of \$1 per interest.

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.

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NOTE J – FAIR VALUE MEASUREMENTS - continued

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

<u>December 31, 2019:</u>	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments and Endowed Investments:				
Money market	\$ 6,067,897	\$ -	\$ -	\$ 6,067,897
Equities	3,969,704	-	-	3,969,704
Fixed income	128,922	1,969,017	-	2,097,939
Mineral interests *	-	-	11	11
Beneficial interests in trusts	-	997,024	-	997,024
Charitable gift annuities	-	31,392	-	31,392
Assets measured at fair value	<u>\$ 10,166,523</u>	<u>\$ 2,997,433</u>	<u>\$ 11</u>	<u>\$ 13,163,967</u>
<u>December 31, 2018:</u>				
Investments and Endowed Investments:				
Money market	\$ 1,137,319	\$ -	\$ -	\$ 1,137,319
Equities	5,558,340	-	-	5,558,340
Fixed income	307,606	2,766,001	-	3,073,607
Mineral interests *	-	-	10	10
Beneficial interests in trusts	-	933,993	-	933,993
Charitable gift annuities	-	31,886	-	31,886
Assets measured at fair value	<u>\$ 7,003,265</u>	<u>\$ 3,731,880</u>	<u>\$ 10</u>	<u>\$ 10,735,155</u>

NOTE K – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Society has approximately \$5,900,000 in financial assets at yearend consisting of unrestricted cash, other receivables and unrestricted investments available to support operations. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditures. Management budgets a 4% annual withdrawal from unrestricted investment portfolio to supplement operating costs. Accordingly, the Society will continue to actively earn program fees as well as solicit memberships, pledges, contributions and bequests to fund current operations. The Society has a goal to maintain financial assets to meet at least 12 months of recurring operating expenses, which on average, total approximately \$400,000 per month given full programmatic operations.

The Society's expansion project is funded by capital campaign contributions and board restricted investments. (see Note D).

NOTE L – SUBSEQUENT EVENT

The COVID-19 outbreak in the United States, including Texas, has caused various business disruptions through mandated and voluntary closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of these closings. Any related financial impact and duration cannot be reasonably estimated at this time.