

HUMANE SOCIETY OF SAN ANTONIO

Audited Financial Statements

December 31, 2010

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

HUMANE SOCIETY OF SAN ANTONIO
Table of Contents
December 31, 2010

	<u>Page</u>
Audited Financial Statements	
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



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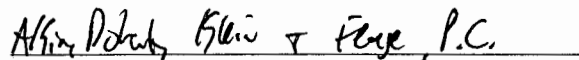
REPORT OF INDEPENDENT AUDITORS

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, 2010 and 2009, 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, 2010 and 2009, 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.
San Antonio, Texas
March 11, 2011

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HUMANE SOCIETY OF SAN ANTONIO
Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 397,314	\$ 287,709
Contributions receivable	74,159	204,559
Other receivables	9,758	4,813
Inventory	1,572	2,168
Prepaid expenses and other assets	34,869	33,894
Investments	<u>6,983,777</u>	<u>6,596,274</u>
Total current assets	7,501,449	7,129,417
Other Assets:		
Endowment investments	919,729	771,104
Assets held in charitable gift annuities	193,271	197,676
Contributions receivable, long-term	309,316	50,000
Property and equipment, net	4,795,298	4,991,390
Land held for sale	<u>10,251</u>	<u>10,251</u>
Total other assets	<u>6,227,865</u>	<u>6,020,421</u>
 Total Assets	 <u><u>\$ 13,729,314</u></u>	 <u><u>\$ 13,149,838</u></u>

See notes to audited financial statements.

HUMANE SOCIETY OF SAN ANTONIO
Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 68,480	\$ 99,381
Long-term debt, current portion	28,108	27,975
Liabilities under charitable gift annuities	<u>132,063</u>	<u>142,298</u>
Total current liabilities	228,651	269,654
Long-term Debt, net of current portion	<u>1,743,542</u>	<u>1,769,784</u>
Net Assets:		
Unrestricted	10,326,310	10,021,240
Temporarily restricted	<u>1,430,811</u>	<u>1,089,160</u>
Total net assets	<u>11,757,121</u>	<u>11,110,400</u>
 Total Liabilities and Net Assets	 <u><u>\$ 13,729,314</u></u>	 <u><u>\$ 13,149,838</u></u>

See notes to audited financial statements.

HUMANE SOCIETY OF SAN ANTONIO
Statement of Activities
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Totals
Support and Revenues			
Program fees	\$ 758,691	\$ -	\$ 758,691
Bequests/special donations	146,538	-	146,538
Memberships/contributions	1,485,525	442,196	1,927,721
Gain on sale of assets	2,000	-	2,000
Other income	5,945	-	5,945
Special events, net of expenses of \$14,642	20,261	-	20,261
Total support and revenues	2,418,960	442,196	2,861,156
Expenses			
Program services:			
Salaries and benefits	1,358,417	-	1,358,417
Occupancy and maintenance expense	243,553	-	243,553
Depreciation	210,842	-	210,842
Animal care	307,839	-	307,839
Program awareness	235,543	-	235,543
Education	3,583	-	3,583
Other program expense	90,913	-	90,913
Interest expense	133,093	-	133,093
Total program services	2,583,783	-	2,583,783
Fundraising expenses	406,750	-	406,750
Administrative:			
Salaries and benefits	167,727	-	167,727
Administrative	21,362	-	21,362
Professional	27,350	-	27,350
Travel, meetings, and other	7,534	-	7,534
Bad debt	51,642	-	51,642
Total administrative	275,615	-	275,615
Total expenses	3,266,148	-	3,266,148
Investment Income (Expense)			
Interest and dividends, net of fees	188,351	40,832	229,183
Realized and unrealized gains (losses) on investment securities	778,907	54,187	833,094
Changes in value of split interest agreements	-	(10,564)	(10,564)
Total investment income	967,258	84,455	1,051,713
Change in Net Assets	120,070	526,651	646,721
Net assets released from restrictions	185,000	(185,000)	-
Net assets at beginning of year	10,021,240	1,089,160	11,110,400
Net Assets at End of Year	<u>\$ 10,326,310</u>	<u>\$ 1,430,811</u>	<u>\$ 11,757,121</u>

See notes to audited financial statements.

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

	Unrestricted	Temporarily Restricted	Totals
Support and Revenues			
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 \$38,012	66,370	-	66,370
Total support and revenues	<u>2,277,978</u>	<u>5,270</u>	<u>2,283,248</u>
Expenses			
Program services:			
Salaries and benefits	1,151,907	-	1,151,907
Occupancy and maintenance expense	179,492	-	179,492
Depreciation	213,904	-	213,904
Animal care	365,753	-	365,753
Program awareness	30,218	-	30,218
Education	1,886	-	1,886
Other program expense	58,429	-	58,429
Interest expense	179,316	-	179,316
Total program services	<u>2,180,905</u>	<u>-</u>	<u>2,180,905</u>
Fundraising expenses	287,551	-	287,551
Administrative:			
Salaries and benefits	158,808	-	158,808
Administrative	40,405	-	40,405
Professional	51,915	-	51,915
Travel, meetings, and other	6,666	-	6,666
Total administrative	<u>257,794</u>	<u>-</u>	<u>257,794</u>
Total expenses	<u>2,726,250</u>	<u>-</u>	<u>2,726,250</u>
Investment Income (Expense)			
Interest and dividends, net of fees	200,394	22,560	222,954
Realized and unrealized gains (losses) on investment securities	970,493	90,823	1,061,316
Changes in value of split interest agreements	-	(35,967)	(35,967)
Total investment income	<u>1,170,887</u>	<u>77,416</u>	<u>1,248,303</u>
Changes in Value of Interest Rate Swaps	81,808	-	81,808
Change in Net Assets	<u>804,423</u>	<u>82,686</u>	<u>887,109</u>
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>
Net Assets at End of Year	<u><u>\$ 10,021,240</u></u>	<u><u>\$ 1,089,160</u></u>	<u><u>\$ 11,110,400</u></u>

See notes to audited financial statements.

HUMANE SOCIETY OF SAN ANTONIO
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 646,721	\$ 887,109
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Realized and unrealized (gain) loss on investment securities	(833,094)	(1,061,316)
(Gain) on change in value of interest rate swaps	-	(81,808)
(Gain) loss on sale of assets	(2,000)	9,428
Depreciation	210,842	213,904
Change in operating assets and liabilities:		
Contributions receivable	(128,916)	853,444
Other receivables	(4,945)	(1,087)
Inventory	596	432
Prepaid expenses	(975)	(6,513)
Accounts payable and accrued expenses	(30,901)	(53,657)
Net cash provided (used) by operating activities	<u>(142,672)</u>	<u>759,936</u>
Investing Activities		
Net sales of investments	296,966	594,425
Purchases of property and equipment	(14,750)	(99,094)
Proceeds from sale of assets	2,000	11,166
Net cash provided by investing activities	<u>284,216</u>	<u>506,497</u>
Financing Activities		
Payments on long-term debt	(26,109)	(886,304)
Payment for termination of interest rate swaps	-	(307,000)
Change in charitable gift annuities	(5,830)	(6,314)
Net cash (used) by financing activities	<u>(31,939)</u>	<u>(1,199,618)</u>
Net change in cash and cash equivalents	109,605	66,815
Cash and cash equivalents at beginning of year	<u>287,709</u>	<u>220,894</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 397,314</u></u>	<u><u>\$ 287,709</u></u>

Supplemental Disclosures

Interest paid in cash	\$ 133,093	\$ 194,963
Income taxes paid in cash	-	-

See notes to audited financial statements.

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

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, 2010 and 2009.

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 \$323,000 in 2010 and \$81,000 in 2009.

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 \$39,000 in 2010 and \$31,000 in 2009.

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, 2010 and 2009

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 \$47,000 in 2010 and \$56,000 in 2009.

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, 2010 and 2009.

Assets Held in Charitable Gift Annuities: The Society has established eight 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. 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: 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 \$10,500 in 2010 and \$11,000 in 2009.

Derivatives and Hedging Activities: The Society had previously entered into an interest rate swap agreement that effectively converted its bank debt from a variable into a fixed-rate obligation. Upon refinancing the note obligation in 2009, the Society terminated the swap agreement for a fee of \$307,000. Changes in the fair value were recorded as changes in value of interest rate swaps in the statements of activities.

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

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 its 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 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.

NOTE B – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at December 31:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 74,159	\$ 204,559
Receivable in one to five years	<u>309,316</u>	<u>50,000</u>
Total contributions receivable	<u>\$ 383,475</u>	<u>\$ 254,559</u>

Pledges are reported net of an allowance for doubtful accounts of approximately \$41,500 at December 31, 2010 and \$0 at December 31, 2009.

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE C – INVESTMENTS

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

	Market Value		
	<u>Unrestricted</u>	<u>Endowment</u>	<u>Total</u>
<i>December 31, 2010</i>			
Cash and equivalents	\$ 133,164	\$ 124,413	\$ 257,577
Equities and mutual funds	5,972,880	795,316	6,768,196
Bonds	<u>877,733</u>	<u>-</u>	<u>877,733</u>
	<u>\$ 6,983,777</u>	<u>\$ 919,729</u>	<u>\$ 7,903,506</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>

NOTE D – ENDOWMENT

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

	Board- Designated Unrestricted	Donor Restricted		Total
		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment at December 31, 2008	\$ -	\$ -	\$ -	\$ -
Interest and dividends	-	20,210	-	20,210
Net realized and unrealized gains (losses)	-	50,894	-	50,894
Contributions	<u>-</u>	<u>700,000</u>	<u>-</u>	<u>700,000</u>
Endowment at December 31, 2009	-	771,104	-	771,104
Interest and dividends	-	40,310	-	40,310
Net realized and unrealized gains (losses)	-	38,315	-	38,315
Contributions	-	105,000	-	105,000
Appropriations	<u>-</u>	<u>(35,000)</u>	<u>-</u>	<u>(35,000)</u>
Endowment at December 31, 2010	<u>\$ -</u>	<u>\$ 919,729</u>	<u>\$ -</u>	<u>\$ 919,729</u>

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE D –ENDOWMENT - continued

Represented as:

	Board- Designated Unrestricted	Donor Restricted		Total
		Temporarily Restricted	Permanently Restricted	
Endowment at December 31, 2009				
Donor-restricted endowment	\$ -	\$ 771,104	\$ -	\$ 771,104
Board-designated endowment	-	-	-	-
Total endowment	<u>\$ -</u>	<u>\$ 771,104</u>	<u>\$ -</u>	<u>\$ 771,104</u>
Endowment funds at December 31, 2010				
Donor-restricted endowment	\$ -	\$ 919,729	\$ -	\$ 919,729
Board-designated endowment	-	-	-	-
Total endowment	<u>\$ -</u>	<u>\$ 919,729</u>	<u>\$ -</u>	<u>\$ 919,729</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, 2010 and 2009

NOTE D – ENDOWMENT - 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 eight 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 (based on life expectancy tables) in:	<u>2010</u>	<u>2009</u>
Less than one year	\$ -	\$ -
One to five years	-	-
Over five years	<u>61,208</u>	<u>55,378</u>
Total	<u>\$ 61,208</u>	<u>\$ 55,378</u>

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

	<u>2010</u>	<u>2009</u>
Charitable gift annuities assets at beginning of year	\$ 197,676	\$ 180,449
Contributions	10,000	-
Annuity payments	(30,799)	(30,370)
Change in value	<u>16,394</u>	<u>47,597</u>
Charitable gift annuities assets at end of year	<u>\$ 193,271</u>	<u>\$ 197,676</u>

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land, Fredericksburg Road	\$ 1,260,964	\$ 1,260,963
Office furniture and equipment	153,455	145,225
Shelter equipment	319,973	313,452
Vehicles	98,764	117,521
Facility and equipment	<u>4,614,878</u>	<u>4,614,878</u>
Total cost	6,448,034	6,452,039
Less accumulated depreciation	<u>(1,652,736)</u>	<u>(1,460,649)</u>
Net property and equipment	<u>\$ 4,795,298</u>	<u>\$ 4,991,390</u>

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Charitable Gift Annuities, net of liabilities – see below	\$ 61,208	\$ 55,378
Cruelty Hotline Fund	7,678	7,678
Contributions receivable (building fund)	-	150,000
Contributions receivable (veterinarian endowment fund)	-	100,000
Contributions receivable (future operations)	373,191	-
Veterinarian endowment	919,729	771,104
Veterinary equipment	-	5,000
Education specialist	<u>69,005</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 1,430,811</u>	<u>\$ 1,089,160</u>

Charitable Gift (Split Interest) Annuities: The Society established a charitable gift annuity program in 2003, and through 2010 has received eight gift annuities. All annuities are held at Comerica Bank & Trust, and payments to the donor cease upon death. Gifts received through December 31, 2010 are summarized as follows:

<u>Year</u> <u>Established</u>	<u>Gift</u> <u>Amount</u>	<u>Quarterly</u> <u>Payment</u> <u>to Donor</u>	<u>Date of 1st</u> <u>Quarterly</u> <u>Payment</u>
2010	\$ 10,000	\$ 193	September 2010
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, 2010 and 2009

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>2010</u>	<u>2009</u>
Released from the Mike Curb Fund for building	\$ 150,000	\$ 300,000
Appropriation of endowment	<u>35,000</u>	<u>-</u>
Total net assets released from restrictions	<u>\$ 185,000</u>	<u>\$ 300,000</u>

NOTE H – LONG-TERM DEBT

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

	<u>2010</u>	<u>2009</u>
Note payable to Frost Bank with a fixed interest rate of 7.30%. Note is due in monthly principal and interest payments of \$13,191, secured by real estate. The note matures in November 2019.	<u>\$ 1,771,650</u>	<u>\$ 1,797,759</u>

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

<u>Year Ended December 31,</u>	<u>Amount</u>
2011	\$ 28,108
2012	32,358
2013	34,801
2014	37,428
2015	40,253
Thereafter	<u>1,598,702</u>
	<u>\$ 1,771,650</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 \$7.75 per hour for 2010 and 2009, 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>
2010	27,496	\$ 213,094
2009	27,698	214,660

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

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

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, 2010 and 2009.

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 by the plan at year end.

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>2010</u>	<u>2009</u>
Investments	\$ 6,983,777	\$ 6,596,274
Endowment investments	919,729	771,104
Assets held in charitable gift annuities	<u>193,221</u>	<u>197,676</u>
	<u>\$ 8,096,727</u>	<u>\$ 7,565,054</u>

HUMANE SOCIETY OF SAN ANTONIO
Notes to Audited Financial Statements
December 31, 2010 and 2009

NOTE K – 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:

	Fair Value Measurements Using		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2010			
Cash, Deposits, MMFs	\$ 265,117	\$ -	\$ -
Equities/Mutual Funds	6,953,927	-	-
Bonds	<u>877,733</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 8,096,777</u>	<u>\$ -</u>	<u>\$ -</u>
	Fair Value Measurements Using		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2009			
Assets – Investments	\$ 7,367,378	\$ -	\$ -
Assets – Gift annuities	<u>197,676</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 7,565,054</u>	<u>\$ -</u>	<u>\$ -</u>