Animal Legal Defense Fund

Financial Statements

For the years ended
December 31, 2015 and 2014

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

ANIMAL LEGAL DEFENSE FUND, INC.

(A California Not-For-Profit Corporation)
December 31, 2015

For more than three decades, the Animal Legal Defense Fund (www.aldf.org) has been fighting to protect the lives and advance the interests of animals through the legal system. Founded in 1979 by attorneys active in shaping the emerging field of animal law, ALDF has blazed the trail for stronger enforcement of anti-cruelty laws and more humane treatment of animals in every corner of American life. Today, ALDF's groundbreaking efforts to push the U.S. legal system to end the suffering of abused animals are supported by thousands of dedicated attorneys and more than 100,000 members and supporters.

Every day, ALDF works to protect animals by:

- Filing groundbreaking lawsuits to stop animal abuse and expand the boundaries of animal law.
- Providing free legal assistance to prosecutors handling cruelty cases.
- Working to strengthen state anti-cruelty statutes.
- Encouraging the federal government to enforce existing animal protection laws.
- Nurturing the future of animal law through Student Animal Legal Defense Fund chapters and our Animal Law Program.
- Providing public education through seminars, workshops and other outreach efforts.

ALDF is breaking ground with landmark lawsuits that helped free Ben the Bear from a roadside zoo in North Carolina and shut down the abuse of turtles at "Snapperfest" in Indiana. We tackle cruelty on factory farms like A & L Poultry - in the largest farmed animal rescue in California history. We also help secure sentences in criminal cases, and work with lawmakers to develop animal abuser registries and to support the principles of ALDF's Animal Bill of Rights. Finally, we are winning our case to free Tony the Tiger, held captive for more than 12 years at a Louisiana truck stop.

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(A California Not-For-Profit Corporation)
December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Animal Legal Defense Fund

We have audited the accompanying financial statements of Animal Legal Defense Fund (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Legal Defense Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regalia & Associates

Danville, California
September 15, 2016

Statements of Financial Position
December 31, 2015 and 2014

ASSETS

	2015	2014
Current assets:		
Cash and cash equivalents	$ 5,291,367	$ 7,773,429
Investments	4,606,841	3,810,123
Accounts, grants and pledges receivable, net	250,599	362,250
Inventory, prepaid expenses and other current assets	47,766	13,140
Total current assets	10,196,573	11,958,942
Noncurrent assets:		
Property and equipment, net	1,923,673	1,615,822
Total noncurrent assets	1,923,673	1,615,822
	$ 12,120,246	$ 13,574,764

LIABILITIES AND NET ASSETS

	2015	2014
Current liabilities:		
Accounts payable and accrued liabilities	$ 397,053	$ 359,767
Accrued payroll liabilities	336,815	215,154
Mortgage loans - current portion	-	585,889
Total current liabilities	733,868	1,160,810
Long term liabilities:		
Mortgage loans - noncurrent portion	-	431,675
Total liabilities	733,868	1,592,485
Net assets:		
Unrestricted	11,377,350	11,676,953
Temporarily restricted	9,028	305,326
Total net assets	11,386,378	11,982,279
	$ 12,120,246	$ 13,574,764

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Changes in unrestricted net assets:		
Revenue and support:		
Donations (individuals/foundations/corporations)	**$ 4,589,647**	$ 4,595,228
Donations from estates	**2,171,087**	6,441,764
In-kind contributions	**3,529,566**	2,035,454
Conferences	**32,965**	650
Interest and dividends	**77,324**	119,772
Loss on sale of property	**-**	(68,695)
Net assets released from restrictions	**941,548**	662,342
Other	**152,166**	173,067
Total revenue and support	**11,494,303**	13,959,582
Expenses:		
Program services		
Legal programs	**6,995,431**	4,808,554
Public education	**1,749,599**	1,665,781
Supporting services		
Administration	**1,908,311**	1,373,106
Direct mail fund raising	**523,675**	566,603
Other fund raising	**522,813**	445,621
Total expenses	**11,699,829**	8,859,665
(Decrease) increase in net assets from operating activities	**(205,526)**	5,099,917
Changes in temporarily restricted net assets:		
Grants and contributions	**645,250**	123,000
Change in present value of long-term pledges	**-**	11,994
Net assets released from restrictions	**(941,548)**	(662,342)
Decrease in temporarily restricted net assets	**(296,298)**	(527,348)
Subtotal	**(501,824)**	4,572,569
Unrealized (losses) gains on investments, net	**(94,077)**	175,232
(Decrease) increase in net assets	**(595,901)**	4,747,801
Net assets at beginning of year	**11,982,279**	7,234,478
Net assets at end of year	**$ 11,386,378**	$ 11,982,279

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating activities:		
(Decrease) increase in net assets	$ (595,901)	$ 4,747,801
Adjustments to reconcile to cash provided by operating activities:		
Depreciation	57,717	69,226
Unrealized losses (gains) on investments	94,077	(175,232)
Change in present value of long-term pledges	-	(11,994)
Changes in:		
Accounts, grants and pledges receivable	111,651	(17,406)
Inventory, prepaid expenses and other current assets	(34,626)	(2,817)
Accounts payable and accrued liabilities	37,286	24,770
Accrued payroll liabilities	121,661	52,582
Cash (used for) provided by operating activities	(208,135)	4,686,930
Investing activities:		
Net acquisitions of investments	(890,795)	(254,443)
Net (acquisitions) dispositions of property and equipment	(365,568)	423,297
Funding from long-term grants and receivables	-	399,806
Cash (used for) provided by investing activities	(1,256,363)	568,660
Financing activities:		
Principal repayments on mortgage loans	(1,017,564)	(21,418)
Cash used for financing activities	(1,017,564)	(21,418)
Net (decrease) increase in cash and cash equivalents	(2,482,062)	5,234,172
Cash and cash equivalents at beginning of year	7,773,429	2,539,257
Cash and cash equivalents at end of year	$ 5,291,367	$ 7,773,429
Additional cash flow information:		
Interest paid	$ 23,081	$ 57,644
State registration taxes paid	$ 10,991	$ 9,623

Statement of Functional Expenses
Year ended December 31, 2015
(with Summarized Financial Information for the Year ended December 31, 2014)

	Year Ended December 31, 2015						
	Program Services		Supporting Services				
				Fund Raising			
	Legal Programs	Public Education	Admin-istration	Direct Mail	Other	2015 Total	2014 Total
Accounting	$ -	$ -	$ 44,877	$ -	$ -	**$ 44,877**	$ 42,915
Advertising and marketing	19,130	80,380	2,151	-	6,791	**108,452**	66,524
Bank charges/merchant fees	-	15	66,772	-	-	**66,787**	54,194
Books	4,823	254	1,492	-	-	**6,569**	4,902
Consultants	85,945	138,877	58,146	134,926	588	**418,482**	312,630
Depreciation	-	-	57,717	-	-	**57,717**	69,226
Dues and subscriptions	15,650	3,545	27,391	-	2,973	**49,559**	-
Equipment/Maintenance/Rental	7,590	1,498	93,028	-	-	**102,116**	35,227
File maintenance	-	-	-	65,313	-	**65,313**	69,651
Insurance	19,032	-	16,469	-	-	**35,501**	36,252
Interest	-	-	23,081	-	-	**23,081**	57,644
Legal fees - pro bono	3,529,566	-	-	-	-	**3,529,566**	2,035,454
Legal fees and grants	1,321,781	970	55,632	-	9	**1,378,392**	1,070,071
Mailing cost	-	81,830	-	5,945	-	**87,775**	227,720
Mailing list	-	181,923	-	13,216	-	**195,139**	134,520
Miscellaneous	-	25	300	-	-	**325**	30,550
Moving and relocation	-	-	20,287	-	-	**20,287**	3,180
Outside services and contract labor	-	17,056	-	222,108	-	**239,164**	320,515
Postage and delivery	-	391,270	24,866	28,425	-	**444,561**	572,042
Printing and production	9	588,475	5,694	42,751	1,200	**638,129**	429,691
Publications and research	14,613	-	-	-	-	**14,613**	12,360
Rent	19,970	410	61,295	-	1,555	**83,230**	74,110
Repairs and maintenance	-	-	41,953	-	-	**41,953**	38,354
Salaries, payroll taxes and benefits	1,710,707	254,027	1,075,482	-	460,872	**3,501,088**	2,743,934
State charities registration	-	-	-	10,991	-	**10,991**	9,623
Supplies	-	-	21,034	-	-	**21,034**	15,675
Taxes and licenses	-	-	24,111	-	-	**24,111**	9,968
Telephone and internet	1,492	-	53,206	-	-	**54,698**	34,099
Training and conferences	17,075	2,743	7,920	-	12,126	**39,864**	75,126
Travel, hotels, meals, board meetings	228,048	3,212	112,587	-	36,699	**380,546**	265,882
Utilities	-	-	12,820	-	-	**12,820**	7,626
Videos	-	460	-	-	-	**460**	-
Website and e-mail	-	2,629	-	-	-	**2,629**	-
	$ 6,995,431	**$ 1,749,599**	**$ 1,908,311**	**$ 523,675**	**$ 522,813**	**$ 11,699,829**	$ 8,859,665

Statement of Functional Expenses
Year ended December 31, 2014
(with Summarized Financial Information for the Year ended December 31, 2013)

	Year Ended December 31, 2014						
	Program Services		Supporting Services				
				Fund Raising			
	Legal Programs	Public Education	Admin-istration	Direct Mail	Other	2014 Total	2013 Total
Accounting	$ -	$ -	$ 42,915	$ -	$ -	**$ 42,915**	$ 21,370
Advertising and marketing	10,178	49,351	975	-	6,020	**66,524**	71,660
Bank charges/merchant fees	90	-	54,104	-	-	**54,194**	48,072
Books	4,306	-	596	-	-	**4,902**	946
Consultants	82,540	10,388	103,505	88,000	28,197	**312,630**	334,785
Depreciation	30,916	-	38,310	-	-	**69,226**	41,916
Equipment/Maintenance/Rental	8,968	515	25,736	-	8	**35,227**	22,227
File maintenance	-	-	-	69,651	-	**69,651**	61,660
Insurance	20,710	-	15,542	-	-	**36,252**	26,869
Interest	-	-	57,644	-	-	**57,644**	43,151
Legal fees - pro bono	2,035,454	-	-	-	-	**2,035,454**	1,711,247
Legal fees and grants	1,063,820	6,060	-	-	191	**1,070,071**	809,933
Mailing cost	-	212,601	-	15,119	-	**227,720**	176,173
Mailing list	-	125,589	-	8,931	-	**134,520**	143,858
Miscellaneous	-	-	30,550	-	-	**30,550**	44,674
Moving and relocation	-	-	-	-	3,180	**3,180**	-
Outside services and contract labor	935	13,625	-	305,955	-	**320,515**	482,083
Postage and delivery	-	534,061	-	37,981	-	**572,042**	511,930
Printing and production	-	401,162	-	28,529	-	**429,691**	427,921
Publications and research	12,360	-	-	-	-	**12,360**	10,365
Rent	8,420	1,363	61,263	2,814	250	**74,110**	63,919
Repairs and maintenance	-	-	38,354	-	-	**38,354**	16,511
Salaries, payroll taxes and benefits	1,371,600	292,558	735,604	-	344,172	**2,743,934**	2,196,040
State charities registration	-	-	-	9,623	-	**9,623**	13,682
Supplies	973	-	14,430	-	272	**15,675**	18,634
Taxes and licenses	-	180	9,788	-	-	**9,968**	7,700
Telephone/internet/web	612	39	33,448	-	-	**34,099**	42,268
Training and conferences	30,279	10,099	19,741	-	15,007	**75,126**	38,978
Travel, hotels, meals, board meetings	126,393	8,190	82,975	-	48,324	**265,882**	159,094
Utilities	-	-	7,626	-	-	**7,626**	7,953
	$ 4,808,554	**$ 1,665,781**	**$ 1,373,106**	**$ 566,603**	**$ 445,621**	**$ 8,859,665**	$ 7,555,619

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization

Animal Legal Defense Fund, Inc. (the Agency) was established in 1981 as a nonprofit association. The Agency was later incorporated in May of 1984 as a California tax-exempt, non-profit public benefit corporation. The Agency is a national organization dedicated to the protection of animals and the establishment of their legal rights through the use of litigation, public education, research, publications and legal counsel.

2. Summary of Significant Accounting Policies

Basis of Accounting
The financial statements of the Agency have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Agency has also adopted the provisions of ASC 958.320-45 regarding net asset classification of funds for organizations subject to UPMIFA (Uniform Prudent Management of Institutional Funds Act).

Support and Revenue Recognition
The Agency records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions, donations and grants restricted by the donor for particular purposes are deemed to be earned and are reported as revenue and support when the Agency has incurred expenditures in compliance with the specific restrictions. Such amounts received or receivable but not yet earned are included as temporarily restricted net assets on the statements of financial position.

Cash and Cash Equivalents
The Agency considers all highly liquid investments with a maturity commitment of 90 days or less when acquired to be cash equivalents. The Agency maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. The Agency has not experienced any losses in such accounts.

Grants and Pledges Receivable
Grants and pledges receivable are recognized as unrestricted or temporarily restricted contributed revenue when the contractual obligation is received. All receivables are reflected at their estimated net realizable value.

(continued)

2. Summary of Significant Accounting Policies (*continued*)

Investments and Endowment

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statements of activities and changes in net assets. The Agency follows the provisions of ASC 958, *Fair Value Measurements and Disclosures* and has estimated the fair value of its investments using available market information and other valuation methodologies.

Accordingly, the estimates presented are not necessarily indicative of the amounts that the Agency could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of December 31, 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

The Agency's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by ASC 958.320-45, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Agency has interpreted the State 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. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA.

Property and Equipment

Property and equipment purchased by the Agency is stated at cost. Property and equipment donated to the Agency is recorded at estimated fair value as of the date of the gift. Maintenance and repairs are charged to expense as incurred. Building is depreciated using the straight-line method over 30 years. Furnishings, equipment and vehicles are depreciated using the straight-line method over the estimated useful lives of the assets of three to five years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (*continued*)

Functional Allocation of Expenses

The costs of providing the Agency's various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain amounts in 2014 have been reclassified to conform to the 2015 financial statement presentation.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, the Agency is required to report information regarding its exposure to various tax positions taken by the Agency and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that it has adequately evaluated its current tax positions and has concluded that as of December 31, 2015, the Agency does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

The Agency has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the Agency continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

The Agency may periodically receive unrelated business income (such as sublease rental income) requiring the Agency to file separate tax returns under federal and state statutes. Under such conditions, the Agency calculates, accrues and remits the applicable taxes.

Contributed Services

Contributed services and costs are reflected at the fair value of the contribution received in accordance with ASC 958.605.30-11. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Comparative Financial Information

The statement of functional expenses includes certain prior-year summarized comparative information in total but not by net asset class. The statement of functional expenses is a recommended, but not required, component of financial statements presented in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Notes to Financial Statements

3. Cash and Cash Equivalents and Concentration Risk

Cash and cash equivalents of $5,291,367 and $7,773,429 at December 31, 2015 and 2014, respectively, include all funds in banks (checking, savings, money market, and certificates of deposit) with maturity dates of three months or less. At December 31, 2015, certain deposits exceeded the federally insured limit of $250,000. The Agency attempts to limit its credit risk associated with cash balances by utilizing financial institutions that are well capitalized and highly rated. The components of cash and cash equivalents are as follows at December 31, 2015 and 2014:

	2015	2014
Checking accounts (noninterest-bearing)	$ 3,790,684	$ 7,772,666
Certificates of deposit (interest-bearing)	1,500,000	-
Cash on hand	683	763
Total cash and cash equivalents	$ 5,291,367	$ 7,773,429

Funds in certificate of deposit accounts accrue interest ranging from .05% to .08% per annum at December 31, 2015.

4. Accounts, Grants and Pledges Receivable

Accounts, grants and pledges receivable of $250,599 and $362,250 at December 31, 2015 and 2014, respectively, represent amounts due principally from foundations and individuals and are due within the next fiscal year. The Agency uses direct write-off method with regards to receivables deemed uncollectible. During the years ended December 31, 2015 and 2014, the Agency recognized no bad debts. Management has evaluated the receivables as of December 31, 2015 and determined that such amounts are fully collectible based on the financial strength of the donors involved. The change in the value of the long-term receivables during the year ended December 31, 2014 amounted to $11,994 and is reflected as a component of income affecting the temporarily restricted net assets on the statements of activities and changes in net assets. Accounts, grants and pledges receivable are level 2 assets.

5. Investments

Investments consist principally of deposits, securities, corporate stocks, mutual funds, and corporate bonds. Cost basis and fair value of investments are summarized as follows at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Money market deposits	$ 884,338	$ 884,338	$ 1,040,929	$ 1,040,929
Certificate of deposit	750,000	750,000	-	-
Securities and corporate stocks	1,031,459	1,426,966	938,866	1,401,985
Corporate bonds	908,833	916,072	793,351	814,223
Mutual funds/Bonds/ETFs/Other	571,979	590,322	475,321	507,876
Real Estate Investment Trust	60,975	39,143	62,063	45,110
Total Funds	$ 4,207,584	$ 4,606,841	$ 3,310,530	$ 3,810,123

(continued)

5. Investments *(continued)*

Money market deposits include funds held in highly liquid investments with maturity dates of less than three months. Net investment income (interest and dividends) amounted to $77,324 and $119,772 for the years ended December 31, 2015 and 2014, respectively. During the years ended December 31, 2015 and 2014, there were net unrealized gains (losses) of ($94,077) and $175,232, respectively, related to the Agency's investments. Composition of investments utilizing fair value measurements at December 31, 2015 is as follows:

	Total	Level 1	Level 2	Level 3
Money market deposits	$ 884,338	$ 884,338	$ -	$ -
Certificate of deposit	750,000	-	750,000	-
Securities and corporate stocks	1,426,966	1,426,966	-	-
Corporate Bonds	916,072	916,072	-	-
Mutual funds/Bonds/ETFs/Other	590,322	590,322	-	-
Real Estate Investment Trust	39,143	-	-	39,143
Totals	$ 4,606,841	$ 3,817,698	$ 750,000	$ 39,143

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models.

Assets Classified as Level 3

This investment consists of a portfolio of mortgage-backed securities. The significant unobservable input used in the fair value measurement of the entity's real estate investment trust is based on the estimated value as determined by an outside investment firm.

The Agency has an Investment Committee which has the responsibility for establishing the Agency's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters (generally low risk securities, certificates of deposit and mutual funds). The committee routinely oversees investment performances and reviews cash flows necessary to sustain the Agency's operating activities.

Net asset composition by type of fund is summarized as follows as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted investment funds	$ -	$ 9,028	$ -	**$ 9,028**
Board-designated investment funds	4,597,813	-	-	**4,597,813**
Total funds	$ 4,597,813	$ 9,028	$ -	**$ 4,606,841**

(continued)

5. Investments *(continued)*

Changes in net assets for the year ended December 31, 2015 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investments, beginning of year	$ 3,504,797	$ 305,326	$ -	**$ 3,810,123**
Investment return:				
Investment income	71,128	6,196	-	**77,324**
Unrealized gains on investments	(86,538)	(7,539)	-	**(94,077)**
Total investment return	(15,410)	(1,343)	-	**(16,753)**
Contributions	168,221	645,250	-	**813471**
Transfers and reclassifications	940,205	(940,205)	-	**-**
Investments, end of year	$ 4,597,813	$ 9,028	$ -	**$ 4,606,841**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Agency to retain as a fund of perpetual duration. In accordance with ASC 958.320-45, there were no deficiencies of this nature that must be reported in unrestricted net assets as of December 31, 2015 and 2014. However, future deficiencies could result from unfavorable market fluctuations that occurred after the investment of new restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The Agency's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of the Agency's management. Deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Agency 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 include those assets of donor-restricted funds that the Agency must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Investment Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the general market conditions (Dow Jones Industrial Average) while assuming a moderate level of investment risk. The Agency expects its endowment funds, over time, to provide an average rate of return of approximately 3% to 4% annually. 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 Agency 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 Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. When necessary, the Agency's investments are rebalanced to reflect a two-thirds allocation to fixed income and a one-third allocation to equities.

5. Investments *(continued)*

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Agency has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the previous 12 quarters (and through the calendar year-end preceding the fiscal year in which the distribution is planned). In establishing this policy, the Agency considered the long-term expected return on its endowment. Accordingly, over the long term, the Agency expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Agency's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

6. Property and Equipment

Property and equipment consist of the following at December 31, 2015 and 2014:

	2015	2014
Land, building and improvements	**$ 2,230,957**	$ 1,895,580
Furniture and equipment (including web site development)	**201,670**	171,479
Less: accumulated depreciation	**(508,954)**	(451,237)
	$ 1,923,673	$ 1,615,822

During 2014, the Agency disposed of partially depreciated property for a loss of $68,695. There were no disposals during the year ended December 31, 2015. Depreciation expense related to all property and equipment amounted to $57,717 and $69,226 for the years ended December 31, 2015 and 2014, respectively.

7. Temporarily Restricted Net Assets

The Agency recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at December 31, 2015 and 2014:

	2015	2014
Animal Law Institute	**$ 9,028**	$ 305,326
	$ 9,028	$ 305,326

During the years ended December 31, 2015 and 2014, contributions of temporarily restricted net assets amounted to $645,250 and $123,000, respectively. During the years ended December 31, 2015 and 2014, net assets released from restrictions amounted to $941,548 and $662,342, respectively. The change in the value of the long-term receivables during the year ended 2014 amounted to $11,994 and is reflected as a component of income affecting the temporarily restricted net assets on the statements of activities and changes in net assets (see Note 4).

8. Allocation of Joint Costs

The Agency follows the provisions of ASC 958.720-05 *Other Expenses of Not-for-Profits*. Under ASC 958.720-05, the Agency incurred allocable joint costs of $1,333,835 and $1,363,973 for the informational materials and activities that included fund-raising appeals during the years ended December 31, 2015 and 2014, respectively. Of those costs, $90,337 and $90,560 were allocated to fund-raising expense and $1,243,498 and $1,273,413 were allocated to public education during the years ended December 31, 2015 and 2014, respectively. These allocations were based on independent analyses of the costs pertaining to the underlying direct program and fundraising expenses which were associated with various mailings.

9. Retirement Plan

The Agency offers employees the opportunity for participation in a salary reduction retirement plan (with an Employer match of up to 5%) qualified under Internal Revenue Code Section 401(k). The Plan covers all employees of the Agency and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and, as such, has been amended periodically to comply with changes made to ERISA through 2015. Employees are 100% vested in their accounts. Employer contributions to the plan for employee retirement accounts amounted to $109,763 and $61,597 for the years ended December 31, 2015 and 2014, respectively. As a result of a pension plan audit during the year ended December 31, 2015, the Agency was required to remit $9,955 to employees to correct prior calculations.

10. Leases

The Agency maintains a corporate office in Cotati, California and satellite offices in Oregon and Los Angeles, California. The office in Cotati is owned by the Agency (see Notes 6 and 11). The office lease in Oregon expires December 31, 2018 and requires a monthly rental payment of $2,540 as of December 2015. Effective January 1, 2017, the monthly rent increases to $2,602 for the remainder of the lease term. The Agency is responsible for its share of common area maintenance expenses.

The office space in Los Angeles was occupied under a month-to-month lease during the year ended December 31, 2015. Effective January 25, 2016, the Agency entered into a new one year lease with a monthly payment of $1,852. The Agency also leases certain office equipment under separate rental contracts which require monthly rental payments totaling $1,025 per month through 2016.

Minimum annual payments on all operating leases extending beyond one year are as follows: $55,401 due in 2016; $34,216 due in 2017; and $31,227 due in 2018. Total rent expense for all office, storage, equipment leases, and other spaces amounted to $99,633 and $89,801 for the years ended December 31, 2015 and 2014, respectively.

Notes to Financial Statements

11. Mortgage Loans

Initial Office Building: In connection with the purchase of its corporate office facility in Cotati, California, the Agency secured long-term financing with Wells Fargo Bank. The mortgage loan balance of $603,240 at December 31, 2014 was being amortized over a 30 year period but due in full on June 15, 2015. The loan required the accrual of interest at the fixed rate of 6.650% per annum. This mortgage loan was paid off and retired in full during the year ended December 31, 2015.

Secondary Office Building: In connection with the purchase of an additional corporate office facility in Cotati, California, for $850,000 in October 2013, the Agency secured long-term financing with Redwood Credit Union. The mortgage loan balance of $439,667 at December 31, 2014 was being amortizing over a 30 year period with a final due date of November 1, 2023. The loan required the accrual of interest at a variable interest based on the weekly average U.S. Treasury Security rate adjusted to a constant maturity plus a margin of 2.50% per annum. This mortgage loan was paid off and retired in full during the year ended December 31, 2015.

Interest expense related to all borrowings amounted to $23,081 and $57,644 for the years ended December 31, 2015 and 2014, respectively.

12. Contributed Services

During the years ended December 31, 2015 and 2014, the Agency was the recipient of a substantial amount of in-kind contributions (primarily pro-bono legal services in connection with its animal rights advocacy programs and advertising). In accordance with ASC 958.605.30, the Agency has determined that the estimated value of the professional legal and advertising services amounted to $3,529,566 and $2,035,454 for the years ended December 31, 2015 and 2014, respectively, and these amounts have been reflected as in-kind contributions and offsetting pro bono legal and advertising fees on the statements of activities and changes in net assets.

13. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the Agency is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation and sick leave (both of which are combined as PTO – Personal Time Off) which is payable upon termination of the employee. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on hourly rates in effect at the end of the year. Total accrued payroll liabilities amounted to $336,815 and $215,154 as of December 31, 2015 and 2014, respectively.

14. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future funding agreements, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the Agency to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the Agency's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including executive officers of the organization, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting agencies. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

15. Related Party Transactions

For the years ended December 31, 2015 and 2014, board members received reimbursements for legal contract work, travel, and transportation in the amounts of $16,340 and $11,403, respectively.

A grant of $100,000 was made to a related organization during the year ended December 31, 2014. No grants were remitted to related organizations during the year ended December 31, 2015.

16. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the Agency has evaluated subsequent events through September 15, 2016, the date the financial statements were available to be issued. In the opinion of management, there are no subsequent events which need to be disclosed.