



# ANIMAL LEGAL DEFENSE FUND

## **Financial Statements**

*For the years ended*  
December 31, 2016 and 2015

# ANIMAL LEGAL DEFENSE FUND, INC.

(A California Not-For-Profit Corporation)

December 31, 2016

For more than three decades, the Animal Legal Defense Fund ([www.aldf.org](http://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 250,000 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.

Recent legal battles include: winning a case declaring the Idaho Ag-Gag law unconstitutional; strengthening laws governing the treatment of puppy mill dogs; winning freedom for animals held in abysmal conditions at roadside zoos; and demanding additional protections for orcas, like Lolita, forced to perform in aquariums.

In addition to our national headquarters in the San Francisco Bay Area, the Animal Legal Defense Fund maintains offices in Los Angeles and Portland, Oregon.

## Board of Directors and Staff

Name	Office
Sarah H. Luick	Chair
Wendy Morgan	Vice Chair
Lisa Brewer	Secretary
James M. Rockenbach	Treasurer
Andrea Arden	Director
David Cassuto	Director
Stacey Evans	Director
Bea Nemlaha	Director
Morgan Mulford	Director
Victoria Stack	Director
Stephanie Walter	Director
Stephen Wells	Chief Executive Officer
Joyce Tischler	Founder, General Counsel

### ANIMAL LEGAL DEFENSE FUND, INC.

525 East Cotati Avenue  
Cotati, California 94931  
(707) 795-2533

General Inquiries: [info@aldf.org](mailto:info@aldf.org)  
Web Site Address: [www.aldf.org](http://www.aldf.org)

**REGALIA & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

**ANIMAL LEGAL DEFENSE FUND, INC.**

(A California Not-For-Profit Corporation)

December 31, 2016 and 2015

**CONTENTS**

Page

**Independent Auditors' Report**

**Financial Statements:**

Statements of Financial Position	1
Statements of Activities and Changes in Net Assets	2
Statements of Cash Flows	3
Statements of Functional Expenses	4 - 5
Notes to Financial Statements	6 - 15

**Index**



Regalia &  
Associates

C E R T I F I E D P U B L I C A C C O U N T A N T S  
1 0 3 T O W N & C O U N T R Y D R I V E , S U I T E K , D A N V I L L E , C A L I F O R N I A 9 4 5 2 6  
D O U G L A S R E G A L I A , C P A  
M A R I A N N E R Y A N  
J A N I C E T A Y L O R , C P A  
L I S A C L O V E N , C P A  
J E N N Y S O , C P A  
J E N N I F E R J E N S E N  
D A N A C H A V A R R I A , C P A  
T R I C I A W I L S O N  
W E N D Y T H O M A S , C P A  
L I S A P A R K E R , C P A [ i n a c t i v e ]  
J E A N N I N E R E G A L I A , C P A  
W W W . M R C P A . C O M O F F I C E : 9 2 5 . 3 1 4 . 0 3 9 0 F A X : 9 2 5 . 3 1 4 . 0 4 6 9

## 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, 2016 and 2015 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, 2016 and 2015, 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.

Danville, California  
April 17, 2016

**ANIMAL LEGAL DEFENSE FUND, INC.**

**Statements of Financial Position  
December 31, 2016 and 2015**

**ASSETS**

	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 3,241,828	\$ 5,291,367
Investments	5,112,235	4,606,841
Accounts, grants and pledges receivable, net	1,482,940	250,599
Inventory, prepaid expenses and other current assets	86,017	47,766
	<hr/>	<hr/>
Total current assets	9,923,020	10,196,573
	<hr/>	<hr/>
Noncurrent assets:		
Property and equipment, net	2,592,309	1,923,673
Investments	549,574	-
Grants and pledges receivable, long-term portion (net)	4,039,910	-
	<hr/>	<hr/>
Total noncurrent assets	7,181,793	1,923,673
	<hr/>	<hr/>
	<b>\$ 17,104,813</b>	<b>\$ 12,120,246</b>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable and accrued liabilities	\$ 469,778	\$ 397,053
Accrued payroll liabilities	283,524	336,815
Total liabilities	<hr/>	<hr/>
	753,302	733,868
	<hr/>	<hr/>
Net assets:		
Unrestricted	10,842,001	11,377,350
Temporarily restricted	5,509,510	9,028
Total net assets	<hr/>	<hr/>
	16,351,511	11,386,378
	<hr/>	<hr/>
	<b>\$ 17,104,813</b>	<b>\$ 12,120,246</b>

**ANIMAL LEGAL DEFENSE FUND, INC.**

**Statements of Activities and Changes in Net Assets  
Years Ended December 31, 2016 and 2015**

Changes in unrestricted net assets:	<b>2016</b>	<b>2015</b>
Revenue and support:		
Donations (individuals/foundations/corporations)	\$ 4,660,679	\$ 4,589,647
Donations from estates	1,840,893	2,171,087
In-kind contributions	4,073,467	3,529,566
Conferences	89,527	32,965
Interest and dividends	100,149	77,324
Net assets released from restrictions	1,304,028	941,548
Other	130,981	152,166
Total revenue and support	<b>12,199,724</b>	<b>11,494,303</b>
Expenses:		
Program services		
Legal programs	7,725,674	6,995,431
Public education	2,185,242	1,749,599
Supporting services		
Administration	1,801,755	1,908,311
Direct mail fund raising	445,362	523,675
Other fund raising	689,717	522,813
Total expenses	<b>12,847,750</b>	<b>11,699,829</b>
Decrease in net assets from operating activities	<b>(648,026)</b>	<b>(205,526)</b>
Changes in temporarily restricted net assets:		
Grants and contributions	6,887,800	645,250
Change in present value of long-term pledges	(83,290)	-
Net assets released from restrictions	(1,304,028)	(941,548)
Increase (decrease) in temporarily restricted net assets	<b>5,500,482</b>	<b>(296,298)</b>
Subtotal	<b>4,852,456</b>	<b>(501,824)</b>
Unrealized gains (losses) on investments, net	<b>112,677</b>	<b>(94,077)</b>
Increase (decrease) in net assets	<b>4,965,133</b>	<b>(595,901)</b>
Net assets at beginning of year	<b>11,386,378</b>	<b>11,982,279</b>
Net assets at end of year	<b>\$ 16,351,511</b>	<b>\$ 11,386,378</b>

**See accompanying auditors' report and notes to financial statements.**

**Page 2**

**ANIMAL LEGAL DEFENSE FUND, INC.**

**Statements of Cash Flows  
Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ 4,965,133	\$ (595,901)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation	101,490	57,717
Unrealized (gains) losses on investments	(112,677)	94,077
Change in present value of long-term pledges	83,290	-
Changes in:		
Accounts, grants and pledges receivable	(1,315,631)	111,651
Inventory, prepaid expenses and other current assets	(38,251)	(34,626)
Accounts payable and accrued liabilities	72,725	37,286
Accrued payroll liabilities	(53,291)	121,661
Cash provided by (used for) operating activities	3,702,788	(208,135)
<i>Investing activities:</i>		
Net acquisitions of investments	(942,291)	(890,795)
Net acquisitions of property and equipment	(770,126)	(365,568)
Change related to long-term grants and receivables	(4,039,910)	-
Cash used for investing activities	(5,752,327)	(1,256,363)
<i>Financing activities:</i>		
Principal repayments on mortgage loans	-	(1,017,564)
Cash used for financing activities	-	(1,017,564)
Net decrease in cash and cash equivalents	(2,049,539)	(2,482,062)
Cash and cash equivalents at beginning of year	5,291,367	7,773,429
Cash and cash equivalents at end of year	\$ 3,241,828	\$ 5,291,367
<i>Additional cash flow information:</i>		
Interest paid	\$ -	\$ 23,081
State registration taxes paid	\$ 11,553	\$ 10,991

**Animal Legal Defense Fund, Inc.**

**Statement of Functional Expenses  
Year ended December 31, 2016**

*(with Summarized Financial Information for the Year ended December 31, 2015)*

		Year Ended December 31, 2016							
		Program Services		Supporting Services			2016 Total	2015 Total	
		Legal Programs	Public Education	Admin- istration	Fund Raising				
							Direct Mail	Other	
Accounting		\$ -	\$ -	\$ 34,274	\$ -	\$ -	\$ 34,274	\$ 44,877	
Advertising and marketing	39,510	7,270	32,240	2,038	-	29,178	70,726	108,452	
Awards	3,109	2,789	320	-	-	-	3,109	-	
Bank charges/merchant fees	0	-	-	71,690	-	-	71,690	66,787	
Books	7,419	7,385	34	941	-	77	8,437	6,569	
Consultants	367,001	165,781	201,220	96,991	82,500	10,388	556,880	418,482	
Depreciation	0	-	-	101,489	-	-	101,489	57,717	
Dues and subscriptions	51,906	36,083	15,823	21,083	-	28,546	101,535	49,559	
Equipment/Maintenance/R	9,768	7,823	1,945	37,359	-	31,630	78,757	102,116	
File maintenance	0	-	-	-	67,613	-	67,613	65,313	
Insurance	13,987	13,987	-	5,869	-	-	19,856	35,501	
Interest	0	-	-	-	-	-	-	23,081	
Legal fees - pro bono	4,073,467	4,073,467	-	-	-	-	4,073,467	3,529,566	
Legal fees and grants	1,280,850	1,280,850	-	-	-	-	1,280,850	1,378,392	
Mailing cost	211,916	-	211,916	-	11,226	-	223,142	87,775	
Mailing list	151,984	-	151,984	-	8,051	-	160,035	195,139	
Miscellaneous	0	-	-	-	-	-	-	325	
Moving and relocation	5,636	1,924	3,712	8,659	-	-	14,295	20,287	
Outside services and contrac	0	-	-	-	200,530	-	200,530	239,164	
Postage and delivery	604,898	547	604,351	-	32,014	-	636,912	444,561	
Printing and production	602,818	1,082	601,736	-	31,875	-	634,693	638,129	
Publications and research	5,731	5,731	-	-	-	-	5,731	14,613	
Rent	38,028	38,028	-	48,703	-	-	86,731	83,230	
Repairs and maintenance	0	-	-	25,135	-	-	25,135	41,953	
Salaries, payroll taxes and be	2,125,053	1,813,562	311,491	1,139,768	-	472,232	3,737,053	3,501,088	
State charities registration	0	-	-	-	11,553	-	11,553	10,991	
Supplies	3,807	3,366	441	27,117	-	3,825	34,749	21,034	
Taxes and licenses	0	-	-	18,691	-	-	18,691	24,111	
Telephone and internet	3,778	1,015	2,763	45,030	-	22	48,830	54,698	
Training and conferences	20,284	12,951	7,333	5,123	-	8,560	33,967	39,864	
Travel, hotels, meals, board r	267,025	252,033	14,992	103,677	-	105,228	475,930	380,546	
Utilities	0	-	-	8,118	-	-	8,118	12,820	
Videos	0	-	-	-	-	31	31	460	
Website and e-mail	22,941	-	22,941	-	-	-	22,941	2,629	
		\$ 7,725,674	\$ 2,185,242	\$ 1,801,755	\$ 445,362	\$ 689,717	\$ 12,847,750	\$ 11,699,829	

See accompanying auditors' report and notes to financial statements.

Page 4



**Animal Legal Defense Fund, Inc.**

**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						2015 Total	2014 Total
	Program Services		Supporting Services					
	Legal Programs	Public Education	Admin- istration	Fund Raising				
Direct Mail				Other				
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	-	
	<b>\$ 6,995,431</b>	<b>\$ 1,749,599</b>	<b>\$ 1,908,311</b>	<b>\$ 523,675</b>	<b>\$ 522,813</b>	<b>\$ 11,699,829</b>	<b>\$ 8,859,665</b>	

See accompanying auditors' report and notes to financial statements.

Page 5

Notes to Financial Statements  
December 31, 2016 and 2015

**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)

Notes to Financial Statements

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, 2016. 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.

Notes to Financial Statements

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 2015 have been reclassified to conform to the 2016 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, 2016, 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, 2016, from which the summarized information was derived.

**Notes to Financial Statements**

**3. Cash and Cash Equivalents and Concentration Risk**

Cash and cash equivalents of \$3,241,828 and \$5,291,367 at December 31, 2016 and 2015, 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, 2016 and 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Checking accounts (noninterest-bearing)	\$ 2,486,048	\$ 3,790,684
Certificates of deposit (interest-bearing)	755,193	1,500,000
Cash on hand	587	683
Total cash and cash equivalents	<u>\$ 3,241,828</u>	<u>\$ 5,291,367</u>

Funds in certificate of deposit accounts accrue interest ranging from 0.05% to 0.09% per annum at December 31, 2016.

**4. Accounts, Grants and Pledges Receivable**

Grants and pledges receivable at December 31, 2016 are expected to be collected as follows:

Year ending December 31, 2017	\$ 1,482,940
Year ending December 31, 2018	1,325,200
Year ending December 31, 2019	1,345,200
Year ending December 31, 2020	1,355,300
Year ending December 31, 2021	97,500
Total grants and pledges receivable	<u>5,606,140</u>
Less: grants and pledges receivable due in current year	(1,482,940)
Less: discount applied to multi-year receivables	<u>(83,290)</u>
Total grants and pledges receivable - noncurrent	<u>\$ 4,039,910</u>

Grants and pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.0% per annum. The discount related to the present value calculation is being accreted back into income over the estimated collection period of the grants and pledges receivable. The change in discount for multi-year receivables amounted to \$83,290 for the year ended December 31, 2016. The Agency uses direct write-off method with regards to receivables deemed uncollectible. During the years ended December 31, 2016 and 2015, the Agency recognized no bad debts. Management has evaluated the receivables as of December 31, 2016 and determined that such amounts are fully collectible based on the financial strength of the donors involved. Accounts, grants and pledges receivable are level 2 assets.

**Notes to Financial Statements**

**5. Investments**

Investments consist principally of deposits, securities, corporate stocks, mutual funds, and corporate bonds. As of December 31, 2016, investment of \$5,112,235 were classified as short-term and \$549,574 were classified as long-term. Cost basis and fair value of investments are summarized as follows at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Money market deposits	\$ 1,084,884	\$ 1,084,884	\$ 884,338	\$ 884,338
Certificate of deposit	1,511,838	1,511,838	750,000	750,000
Securities and corporate stocks	1,237,375	1,681,970	1,031,459	1,426,966
Corporate bonds	686,531	694,376	908,833	916,072
Mutual funds/Bonds/ETFs/Other	571,979	597,564	571,979	590,322
Real Estate Investment Trust	59,152	41,603	60,975	39,143
Alternative Investments	49,574	49,574	-	-
<b>Total Funds</b>	<b>\$ 5,201,333</b>	<b>\$ 5,661,809</b>	<b>\$ 4,207,584</b>	<b>\$ 4,606,841</b>

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 \$100,149 and \$77,324 for the years ended December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, unrealized gains (losses) from investments amounted to \$112,677 and (\$94,077), respectively. Composition of investments utilizing fair value measurements at December 31, 2016 is as follows:

	Total	Level 1	Level 2	Level 3
Money market deposits	\$ 1,084,884	\$ 1,084,884	\$ -	\$ -
Certificate of deposit	1,511,838	-	1,511,838	-
Securities and corporate stocks	1,681,970	1,681,970	-	-
Corporate Bonds	694,376	694,376	-	-
Mutual funds/Bonds/ETFs/Other	597,564	597,564	-	-
Real Estate Investment Trust	41,603	-	-	41,603
Alternative Investments	49,574	-	-	49,574
Accounts, grants and pledges receivable	5,522,850	-	-	5,522,850
<b>Totals</b>	<b>\$ 11,184,659</b>	<b>\$ 4,058,794</b>	<b>\$ 1,511,838</b>	<b>\$ 5,614,027</b>

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.

*(continued)*

**Notes to Financial Statements**

**5. Investments (continued)**

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, 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted investment funds	\$ -	\$ 5,509,510	\$ -	\$ 5,509,510
Board-designated investment funds	152,299	-	-	152,299
<b>Total funds</b>	<b>\$ 152,299</b>	<b>\$ 5,509,510</b>	<b>\$ -</b>	<b>\$ 5,661,809</b>

Changes in net assets for the year ended December 31, 2016 are summarized as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Investments, beginning of year	\$ 4,597,813	\$ 9,028	\$ -	\$ 4,606,841
Investment return:				
Investment income	100,149	-	-	100,149
Unrealized gains on investments	112,677	-	-	112,677
<b>Total investment return</b>	<b>212,826</b>	<b>-</b>	<b>-</b>	<b>212,826</b>
Contributions	-	6,887,800	-	6,887,800
Transfers and reclassifications	(4,658,340)	(1,304,028)	-	(5,962,368)
Discount on long-term grants/pledges	-	(83,290)	-	(83,290)
<b>Investments, end of year</b>	<b>\$ 152,299</b>	<b>\$ 5,509,510</b>	<b>\$ -</b>	<b>\$ 5,661,809</b>

*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, 2016 and 2015. 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. *(continued)*

**Notes to Financial Statements**

**5. Investments (continued)**

*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.

*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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land, building and improvements	\$ 2,886,372	\$ 2,230,957
Furniture and equipment (including web site development)	316,380	201,670
Less: accumulated depreciation	<u>(610,443)</u>	<u>(508,954)</u>
	<u>\$ 2,592,309</u>	<u>\$ 1,923,673</u>

Depreciation expense related to all property and equipment amounted to \$101,489 and \$57,717 for the years ended December 31, 2016 and 2015, respectively.



**Notes to Financial Statements**

**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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Animal Law Institute	\$ 2,847,800	\$ 9,028
Animal Law Programs	170,000	-
Center for Animal Law Studies	1,420,000	-
Student Animal Legal Defense Fund	1,000,000	-
Litigation programs	155,000	-
Change in discount on long-term pledges	(83,290)	-
	<u>\$ 5,509,510</u>	<u>\$ 9,028</u>

During the years ended December 31, 2016 and 2015, contributions of temporarily restricted net assets amounted to \$6,887,800 and \$645,250, respectively. During the years ended December 31, 2016 and 2015, net assets released from restrictions amounted to \$1,304,028 and \$941,548, respectively. The change in the value of the long-term receivables during the year ended 2016 amounted to \$83,290 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 \$1,653,152 and \$1,333,835 for the informational materials and activities that included fund-raising appeals during the years ended December 31, 2016 and 2015, respectively. Of those costs, \$83,165 and \$90,337 were allocated to fund-raising expense and \$1,569,987 and \$1,243,498 were allocated to public education during the years ended December 31, 2016 and 2015, 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 \$104,182 and \$109,763 for the years ended December 31, 2016 and 2015, 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.

Notes to Financial Statements

**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 2016. 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 one year lease agreement with an effective date of January 25, 2016. The Agency also leases certain office equipment under separate rental contracts which require monthly rental payments totaling \$1,852 per month through 2021.

Minimum annual payments on all operating leases extending beyond one year are as follows: \$43,997 due in 2017; \$38,982 due in 2018; \$4,917 due in 2019; \$4,917 due in 2020; and \$1,229 due in 2021. Total rent expense for all office, storage, equipment leases, and other spaces amounted to \$140,333 and \$99,633 for the years ended December 31, 2016 and 2015, respectively.

**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 required the accrual of interest at the fixed rate of 6.650% per annum and was 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 required the accrual of interest at a variable interest based on the weekly average U.S. Treasury Security rate and was retired in full during the year ended December 31, 2015.

Interest expense related to all borrowings amounted to \$23,081 for the year ended December 31, 2015. There was no interest expense for the year ended December 31, 2016.

**12. Contributed Services**

During the years ended December 31, 2016 and 2015, 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 \$4,073,467 and \$3,529,566 for the years ended December 31, 2016 and 2015, 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.

Notes to Financial Statements

**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 \$283,524 and \$336,815 as of December 31, 2016 and 2015, 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, 2016, board members received reimbursements for legal contract work, travel, and transportation in the amount of \$16,340. There were no board reimbursements for the year ended December 31, 2015.

**16. Subsequent Events**

In compliance with ASC 855, *Subsequent Events*, the Agency has evaluated subsequent events through April 17, 2017, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.