



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

**SAN DIEGO HUMANE SOCIETY AND SPCA**

June 30, 2020 and 2019



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## **Report of Independent Auditors**

To the Board of Trustees  
San Diego Humane Society and SPCA

### **Report on Financial Statements**

We have audited the accompanying financial statements of San Diego Humane Society and SPCA, which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 San Diego Humane Society and SPCA as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

San Diego, California  
November 18, 2020

**San Diego Humane Society and SPCA**  
**Statements of Financial Position**

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**ASSETS**

	June 30,	
	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,865,615	\$ 3,573,931
Investments	33,468,875	31,474,850
Receivables, net	13,133,250	10,768,842
Prepaid expenses and other assets	411,334	569,510
Property and equipment, net	20,636,244	21,537,532
Beneficial interest in trust	1,100,299	1,087,035
	\$ 70,615,617	\$ 69,011,700

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 4,055,370	\$ 4,752,676
Deferred revenue	1,579,309	950,804
	5,634,679	5,703,480

COMMITMENTS AND CONTINGENCIES (Note 8)

<b>NET ASSETS</b>		
Without donor restrictions	52,922,526	53,618,356
With donor restrictions	12,058,412	9,689,864
	64,980,938	63,308,220
Total net assets		
	\$ 70,615,617	\$ 69,011,700
Total liabilities and net assets		

# San Diego Humane Society and SPCA

## Statement of Activities

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Support			
Contributions	\$ 12,163,963	\$ 1,777,884	\$ 13,941,847
Bequests	8,120,293	-	8,120,293
Special events	2,095,241	-	2,095,241
Special events expense	(539,692)	-	(539,692)
Net assets released from restrictions	396,278	(396,278)	-
Net support	<u>22,236,083</u>	<u>1,381,606</u>	<u>23,617,689</u>
Revenue			
Field services and licensing	19,157,054	-	19,157,054
Investment income, net	1,593,259	216,661	1,809,920
Adoptions and animal care	1,044,821	-	1,044,821
Veterinary health services	342,055	-	342,055
Educational program fees	269,187	-	269,187
Retail sales	95,406	-	95,406
Retail sales expense	(42,141)	-	(42,141)
Other	113,249	-	113,249
Net revenue	<u>22,572,890</u>	<u>216,661</u>	<u>22,789,551</u>
Total support and revenue	<u>44,808,973</u>	<u>1,598,267</u>	<u>46,407,240</u>
<b>EXPENSES</b>			
Program services			
Adoptions and animal care	30,697,978	-	30,697,978
Investigations and field services	4,473,819	-	4,473,819
Community outreach	2,889,634	-	2,889,634
	<u>38,061,431</u>	<u>-</u>	<u>38,061,431</u>
Supporting services			
Management and general	2,915,365	-	2,915,365
Donor development and fundraising	3,334,286	-	3,334,286
Marketing and public relations	1,200,929	-	1,200,929
	<u>7,450,580</u>	<u>-</u>	<u>7,450,580</u>
Total expenses	<u>45,512,011</u>	<u>-</u>	<u>45,512,011</u>
CHANGE IN NET ASSETS BEFORE			
OTHER REVENUE/GAINS	(703,038)	1,598,267	895,229
Change in value of split-interest agreements	-	770,281	770,281
Gain on the sales of properties	7,208	-	7,208
CHANGE IN NET ASSETS	<u>(695,830)</u>	<u>2,368,548</u>	<u>1,672,718</u>
NET ASSETS			
Beginning of year	53,618,356	9,689,864	63,308,220
End of year	<u>\$ 52,922,526</u>	<u>\$ 12,058,412</u>	<u>\$ 64,980,938</u>

## San Diego Humane Society and SPCA Statement of Activities

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Support			
Contributions	\$ 11,403,759	\$ 231,056	\$ 11,634,815
Bequests	6,259,715	-	6,259,715
Special events	2,005,666	-	2,005,666
Special events expense	(558,032)	-	(558,032)
Net assets released from restrictions	1,363,124	(1,363,124)	-
Net support	<u>20,474,232</u>	<u>(1,132,068)</u>	<u>19,342,164</u>
Revenue			
Field services and licensing	19,219,396	-	19,219,396
Investment income, net	1,380,241	278,926	1,659,167
Adoptions and animal care	1,128,026	-	1,128,026
Veterinary health services	460,126	-	460,126
Educational program fees	287,532	-	287,532
Retail sales	218,865	-	218,865
Retail sales expense	(100,949)	-	(100,949)
Other	170,781	-	170,781
Net revenue	<u>22,764,018</u>	<u>278,926</u>	<u>23,042,944</u>
Total support and revenue	<u>43,238,250</u>	<u>(853,142)</u>	<u>42,385,108</u>
<b>EXPENSES</b>			
Program services			
Adoptions and animal care	29,117,154	-	29,117,154
Investigations and field services	5,627,975	-	5,627,975
Community outreach	3,006,968	-	3,006,968
	<u>37,752,097</u>	<u>-</u>	<u>37,752,097</u>
Supporting services			
Management and general	3,327,498	-	3,327,498
Donor development and fundraising	3,575,334	-	3,575,334
Marketing and public relations	1,231,958	-	1,231,958
	<u>8,134,790</u>	<u>-</u>	<u>8,134,790</u>
Total expenses	<u>45,886,887</u>	<u>-</u>	<u>45,886,887</u>
<b>CHANGE IN NET ASSETS BEFORE</b>			
OTHER REVENUE/GAINS	(2,648,637)	(853,142)	(3,501,779)
Gain on the sales of properties	6,518,048	-	6,518,048
Change in value of split-interest agreements	-	450,177	450,177
Contributions – capital projects	554,684	20,000	574,684
Net assets released from restrictions – capital projects	3,135,536	(3,135,536)	-
CHANGE IN NET ASSETS	<u>7,559,631</u>	<u>(3,518,501)</u>	<u>4,041,130</u>
<b>NET ASSETS</b>			
Beginning of year	<u>46,058,725</u>	<u>13,208,365</u>	<u>59,267,090</u>
End of year	<u>\$ 53,618,356</u>	<u>\$ 9,689,864</u>	<u>\$ 63,308,220</u>

See accompanying notes.

# San Diego Humane Society and SPCA

## Statement of Functional Expenses

Year Ended June 30, 2020 (With Comparative Information for Year Ended June 30, 2019)

	Program Services				Supporting Services				2020 Total Expenses	2019 Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Total		
Salaries	\$ 17,565,661	\$ 2,886,697	\$ 1,612,304	\$ 22,064,662	\$ 1,909,125	\$ 1,527,472	\$ 867,257	\$ 4,303,854	\$ 26,368,516	\$ 24,681,013
Employee health and benefits	2,118,295	326,140	182,138	2,626,573	143,414	104,501	65,298	313,213	2,939,786	2,610,251
Payroll taxes	1,454,384	230,490	124,920	1,809,794	138,458	115,135	64,150	317,743	2,127,537	2,096,449
Retirement	313,053	57,287	54,102	424,442	76,373	53,768	32,997	163,138	587,580	435,015
<b>Total salaries and related expenses</b>	<b>21,451,393</b>	<b>3,500,614</b>	<b>1,973,464</b>	<b>26,925,471</b>	<b>2,267,370</b>	<b>1,800,876</b>	<b>1,029,702</b>	<b>5,097,948</b>	<b>32,023,419</b>	<b>29,822,728</b>
Occupancy, utilities, and security	3,214,839	272,424	151,132	3,638,395	113,068	70,514	30,471	214,053	3,852,448	4,701,416
Animal feed, supplies, equipment, and habitat	1,640,516	-	442,446	2,082,962	-	-	-	-	2,082,962	2,564,674
Veterinary medicine and care	1,437,228	-	-	1,437,228	-	-	-	-	1,437,228	1,771,888
Information technology	548,957	115,478	49,565	714,000	107,263	87,485	29,668	224,416	938,416	1,024,522
Direct mailing	-	-	-	-	-	470,117	-	470,117	470,117	604,531
Employee/volunteer/donor relations	114,580	16,433	34,467	165,480	37,347	175,905	2,675	215,927	381,407	539,795
Advertising	4,124	-	-	4,124	-	350,289	20,486	370,775	374,899	264,396
Legal and other professional fees	71,696	23,650	7,670	103,016	166,332	93,755	10,674	270,761	373,777	807,078
Miscellaneous	160,899	14,608	11,862	187,369	5,663	168,665	1,844	176,172	363,541	325,092
Printing and publications	207,463	45,718	13,240	266,421	27,604	18,242	48,278	94,124	360,545	428,742
Program supplies and uniforms	92,267	177,507	88,548	358,322	45	74	45	164	358,486	517,232
Insurance	273,291	9,508	7,463	290,262	49,590	6,979	2,551	59,120	349,382	309,079
Automotive	92,817	175,735	63,759	332,311	4,997	677	2,395	8,069	340,380	398,709
Office supplies and postage	119,816	11,898	5,858	137,572	12,496	30,355	3,528	46,379	183,951	254,687
Professional development/travel	77,496	28,310	10,746	116,552	13,494	23,950	12,456	49,900	166,452	372,191
<b>Total expenses before depreciation</b>	<b>29,507,382</b>	<b>4,391,883</b>	<b>2,860,220</b>	<b>36,759,485</b>	<b>2,805,269</b>	<b>3,297,883</b>	<b>1,194,773</b>	<b>7,297,925</b>	<b>44,057,410</b>	<b>44,706,760</b>
Depreciation	1,190,596	81,936	29,414	1,301,946	110,096	36,403	6,156	152,655	1,454,601	1,180,127
<b>Total expenses</b>	<b>\$ 30,697,978</b>	<b>\$ 4,473,819</b>	<b>\$ 2,889,634</b>	<b>\$ 38,061,431</b>	<b>\$ 2,915,365</b>	<b>\$ 3,334,286</b>	<b>\$ 1,200,929</b>	<b>\$ 7,450,580</b>	<b>\$ 45,512,011</b>	<b>\$ 45,886,887</b>

## San Diego Humane Society and SPCA Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				Supporting Services				2019 Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Total	
Salaries	\$ 15,985,457	\$ 2,950,301	\$ 1,545,133	\$ 20,480,891	\$ 2,009,978	\$ 1,451,565	\$ 738,579	\$ 4,200,122	\$ 24,681,013
Employee health and benefits	1,846,717	318,083	166,809	2,331,609	141,779	93,239	43,624	278,642	2,610,251
Payroll taxes	1,408,559	236,885	124,489	1,769,933	156,583	110,797	59,136	326,516	2,096,449
Retirement	215,556	32,593	46,851	295,000	45,500	69,397	25,118	140,015	435,015
<b>Total salaries and related expenses</b>	<b>19,456,289</b>	<b>3,537,862</b>	<b>1,883,282</b>	<b>24,877,433</b>	<b>2,353,840</b>	<b>1,724,998</b>	<b>866,457</b>	<b>4,945,295</b>	<b>29,822,728</b>
Occupancy, utilities, and security	3,257,872	1,061,973	125,175	4,445,020	117,857	98,906	39,633	256,396	4,701,416
Animal feed, supplies, equipment, and habitat	1,979,693	23,479	561,502	2,564,674	-	-	-	-	2,564,674
Veterinary medicine and care	1,764,043	7,845	-	1,771,888	-	-	-	-	1,771,888
Information technology	574,190	117,511	65,832	757,533	110,978	113,581	42,430	266,989	1,024,522
Legal and other professional fees	74,121	64,013	41,525	179,659	416,489	112,042	98,888	627,419	807,078
Direct mailing	-	-	-	-	-	604,531	-	604,531	604,531
Employee/volunteer/donor relations	108,359	23,844	32,888	165,091	45,021	326,662	3,021	374,704	539,795
Program supplies and uniforms	114,303	291,099	110,358	515,760	630	529	313	1,472	517,232
Printing and publications	164,667	25,714	41,830	232,211	26,017	77,409	93,105	196,531	428,742
Automotive	91,350	230,276	68,341	389,967	6,020	704	2,018	8,742	398,709
Professional development/travel	135,699	99,551	15,668	250,918	54,275	40,326	26,672	121,273	372,191
Miscellaneous	122,521	12,891	12,404	147,816	1,432	174,507	1,337	177,276	325,092
Insurance	221,933	19,086	7,865	248,884	52,292	6,503	1,400	60,195	309,079
Advertising	1,871	100	15	1,986	-	216,641	45,769	262,410	264,396
Office supplies and postage	136,461	36,049	9,728	182,238	30,802	37,446	4,201	72,449	254,687
<b>Total expenses before depreciation</b>	<b>28,203,372</b>	<b>5,551,293</b>	<b>2,976,413</b>	<b>36,731,078</b>	<b>3,215,653</b>	<b>3,534,785</b>	<b>1,225,244</b>	<b>7,975,682</b>	<b>44,706,760</b>
Depreciation	913,782	76,682	30,555	1,021,019	111,845	40,549	6,714	159,108	1,180,127
<b>Total expenses</b>	<b>\$ 29,117,154</b>	<b>\$ 5,627,975</b>	<b>\$ 3,006,968</b>	<b>\$ 37,752,097</b>	<b>\$ 3,327,498</b>	<b>\$ 3,575,334</b>	<b>\$ 1,231,958</b>	<b>\$ 8,134,790</b>	<b>\$ 45,886,887</b>

See accompanying notes.



## San Diego Humane Society and SPCA

### Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,672,718	\$ 4,041,130
Reconciliation to net cash (used in) provided by operating activities		
Depreciation	1,454,601	1,180,127
Net realized and unrealized gain on investments and beneficial interest in trust	(1,146,445)	(922,248)
Gain on sale of property and equipment	(7,208)	(6,518,048)
Change in value of split-interest gifts	(770,281)	(450,177)
Decrease (increase) in operating assets		
Receivables	118,581	580,722
Pledges	(732,227)	569,376
Bequests	(1,380,709)	663,308
Prepaid expenses and other assets	158,176	141,796
(Decrease) increase in operating liabilities		
Accounts payable and accrued expenses	(697,306)	792,116
Deferred revenue	628,505	326,787
Net cash (used in) provided by operating activities	<u>(701,595)</u>	<u>404,889</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	9,546,256	13,727,595
Purchases of investments	(10,381,872)	(5,646,477)
Proceeds from sale of property and equipment	7,208	577,073
Purchases of property and equipment	(553,313)	(7,247,951)
Net cash (used in) provided by investing activities	<u>(1,381,721)</u>	<u>1,410,240</u>
<b>FINANCING ACTIVITIES</b>		
Payment received on pledge held in perpetuity	<u>375,000</u>	<u>375,000</u>
Net cash provided by financing activities	<u>375,000</u>	<u>375,000</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,708,316)	2,190,129
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>3,573,931</u>	<u>1,383,802</u>
End of year	<u>\$ 1,865,615</u>	<u>\$ 3,573,931</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 6,969</u>	<u>\$ 5,303</u>
Taxes paid, net of refunds	<u>\$ 235</u>	<u>\$ -</u>

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies

#### Organization and Activities

The San Diego Humane Society and SPCA (“SDHS”), founded in 1880, is a private, nonprofit corporation that is not affiliated with any other humane society or SPCA. The mission of SDHS is to create a more humane world by inspiring compassion, providing hope, and advancing the welfare of animals and people. SDHS has helped San Diego become the largest city in the U.S. to keep healthy and treatable animals from being euthanized.

SDHS’s programs and services include:

- Sheltering and adopting of companion animals at campuses in San Diego, Escondido, and Oceanside, California. On October 4, 2020, SDHS began operating out of an animal shelter in El Cajon, California;
- Investigating animal cruelty and neglect;
- Supplying pet food, supplies, and veterinary service vouchers to low-income elderly, chronically ill, and disabled individuals for the care of their companion animals;
- Rescuing, caring for, and rehabilitating wildlife;
- Providing positive reinforcement behavior modification training for shelter animals and the public;
- Teaching adult and youth education programs;
- Providing municipal field service, sheltering, and stray pet services to the residents of Oceanside, Escondido, San Marcos, Poway, Imperial Beach, Vista, Carlsbad, Del Mar, Encinitas, San Diego, Santee, and Solana Beach, California. On October 4, 2020, SDHS began providing these services to the residents of El Cajon, California;
- Rescuing animals in emergency and hoarding situations;
- Sharing animals through pet-assisted therapy;
- Administering need-based spay/neuter services for the public; and
- Partnering with rescue groups and other shelters to ensure every healthy and treatable animal in San Diego County receives the care it needs.

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

#### Significant Accounting Policies

**Income taxes** – SDHS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code, except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. SDHS does not have any uncertain income tax positions. SDHS files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California.

**Method of accounting** – The accompanying financial statements have been prepared on the accrual basis of accounting.

**Financial statement presentation** – SDHS's resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- Net assets without donor restrictions represent expendable funds available for operations that are not otherwise limited by donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.
- Net assets with donor restrictions consist of contributed funds subject to donor-imposed restrictions that are contingent upon specific performance of a future event or a specific passage of time before SDHS may spend the funds. Some net assets with donor restrictions are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income, net of investment expenses to fund current operations.

**Cash equivalents** – SDHS considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount approximates the fair value due to the short maturity.

**Investments** – Investments are stated at fair value. The fair values of all debt and equity securities and mutual funds with a readily determinable fair value are based on quotations obtained from national securities exchanges. Net realized and unrealized gains and losses are reflected as increases or decreases in net assets without donor restrictions, unless their use is restricted by the donor.

**Pooled income funds** – Included in investments are two pooled income funds, which are held and managed by SDHS. During the life of the donors, income from the pooled funds is distributed to the donors based on the number of units each holds. Upon each donor's death, the principal is to be distributed to SDHS. A discount to net present value is recorded as deferred revenue, and the net amount is included in net assets with donor restrictions. At June 30, 2020 and 2019, the discount was approximately \$12,800 and \$38,000, respectively.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### **Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Receivables** – Receivables represent amounts due to SDHS for services rendered prior to June 30 (Note 5). SDHS does not obtain collateral. There were no receivables considered uncollectible as of June 30, 2020 and 2019.

**Unconditional promises to give** – Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value based on a discounted cash flow model. In future years, the discounts to present value are computed using discount rates established in the years in which the promise was received. Amortization of the discount is included in contributions. There were no unconditional promises to give considered uncollectible as of June 30, 2020 and 2019. Unconditional promises to give are included in receivables in the statements of financial position.

**Charitable remainder trusts** – SDHS is the beneficiary of a number of charitable remainder trusts which generally provide for the payment of distributions to designated beneficiaries over the term of the trusts (usually the designated beneficiary's lifetime). At the end of the trusts' terms, all or a portion of the remaining assets are to be distributed to SDHS. The assets held in the trusts are managed by donor-designated trustees and are not accessible to SDHS until the end of the trusts' terms. The contributions, which are recorded at their fair values, are calculated using discount rates and applicable mortality tables, and are included in net assets with donor restrictions. The beneficial interests in charitable remainder trusts are included in receivables (unconditional promises to give).

**Property and equipment** – Property and equipment are stated at cost. Donated assets are recorded at fair value at the time of the donation as determined by management or independent appraisal. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings, building improvements, and land improvements	7 to 39 years
Furniture, fixtures, machinery, and equipment	5 to 10 years
Computer hardware	5 years
Trucks and automobiles	3 to 5 years
Computer software	3 years
Leasehold improvements	6 to 25 years

SDHS capitalizes property and equipment with costs of \$20,000 or greater.

**Impairment of long-lived assets** – SDHS evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**Beneficial interest in trust** – SDHS is the beneficiary of investments held in an irrevocable trust. The principal and all earnings held in trust are to be paid to SDHS at a later date.

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

#### Revenue and Revenue Recognition

*Field services and licensing* – SDHS is the animal services provider to numerous cities in San Diego County. These services include field services and licensing. Field services, which include patrolling, enforcing applicable laws, picking up and holding stray and injured animals, and responding to calls, are based on fixed fee contracts which entitle SDHS to payment for its performance to date even if the contracts are cancelled for any reason other than SDHS’s nonperformance. Field services provided to the public are considered the performance obligation. As a result, field services revenue is recognized over time as services are rendered over the term of the agreement. The fixed fee contracts stipulate monthly invoicing to the cities for services rendered during that month, up to the date of the invoice. The invoice amount represents the right to payment to SDHS that corresponds directly with the value provided to the city being invoiced. Based on this, Management has adopted the “right-to-invoice” practical expedient to recognize revenue. Licensing revenue is paid by pet owners to SDHS. Issuance of the license is considered the performance obligation. SDHS records licensing revenue at the point in time when the license is issued to the pet owner as SDHS’s obligations subsequent to issuance are minimal. License fees are not refundable and not transferable. Also included in licensing revenue are citation, reclaim, and quarantine fees. These revenues are recognized at the time of occurrence, as they are nonrefundable and future obligations by SDHS are minimal. The following table shows the breakdown between Field services and licensing:

	<u>2020</u>	<u>2019</u>
Field services	\$ 17,307,219	\$ 17,393,502
Licensing	<u>1,849,835</u>	<u>1,825,894</u>
Total	<u>\$ 19,157,054</u>	<u>\$ 19,219,396</u>

*Adoptions, animal care and veterinary health services* – SDHS recognizes revenue from adoptions, animal care, and veterinary health services at a point in time when the services have been provided. The service itself is considered the performance obligation. These fees are either nonrefundable or the amount of refunds is minimal.

*Education program fees* – SDHS’s education program revenues include summer camps, humane law academies, animal training, and school programs. The performance obligation of delivering educational services is simultaneously received and consumed by the recipients; therefore, the revenue is recognized ratably over the period in which the program occurs. In most cases, payments are required before the programs start. If the timing difference between receipt of payment and providing of service is significant, revenue is deferred to the applicable period.

*Retail sales* – Revenues derived from retail sales are recognized at the point in time the goods are delivered to the buyer. Returns are minimal and recognized at the time of the refund.

There are no contract assets or liabilities as of June 30, 2020 or 2019.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### **Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Contributions and bequests** – Contributions are recognized as support when received or unconditionally pledged or conditions are met, if a conditional contribution. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions. Bequests are recorded as contributions when SDHS is informed of unconditional rights to the proceeds of the bequest.

Restrictions on gifts of property and equipment or contributions restricted for the purchase of property and equipment expire when the asset is placed in service.

**Special events** – SDHS holds fundraising events throughout the year. Income from sponsorships, the sale of event tickets, and contributions received at the events are recognized when the event occurs.

**Donated services and goods** – SDHS receives donated services from a variety of unpaid volunteers. The volunteers perform a variety of tasks that assist SDHS in the areas of animal care, animal rescue, behavior training, community programs, mobile adoptions, pet-assisted therapy, and events. Volunteers provided approximately 469,000 and 513,000 hours of service to SDHS during the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, management estimates the value of these services to approximate \$14,767,000 and \$15,376,000, respectively. The value of volunteer time is based on the estimated hourly value of volunteer time in California as determined by Independent Sector ([independentsector.org](http://independentsector.org)). Independent Sector estimates this hourly average based on average annual wages of non-management, non-agricultural workers, as provided by the Bureau of Labor Statistics, increased by 15.7 percent for estimated fringe benefits. No amounts have been recognized in the accompanying statements of activities in accordance with Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities: Revenue Recognition*.

SDHS records the fair value of donated supplies, assets, and other goods when those gifts are received under contributions on the statements of activities. During the years ended June 30, 2020 and 2019, respectively, donors contributed approximately \$1,411,000 and \$1,665,000 in supplies, assets, and other goods.

**Advertising costs** – Advertising costs are expensed as incurred.

**Functional allocation of expenses** – Costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The nature of costs that were allocated include occupancy, utility, security, automotive, information technology, insurance, and employee support expenses. Allocations are based on cost drivers, which include employees per department, square footage, and vehicle usage.

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

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

**Recently adopted accounting standards** – For the year ended June 30, 2020, SDHS adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). These standards replaced existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. SDHS adopted ASU 2014-09 using the modified retrospective method applied to all contracts with no impact on revenue recognition.

### Note 2 – Concentration of Risk

Financial instruments that potentially subject SDHS to risk consist primarily of cash and cash equivalents, investments, and receivables, including charitable remainder trusts.

**Cash and cash equivalents** – SDHS maintains its cash in bank deposit accounts. Amounts placed with Federal Deposit Insurance Corporation-insured institutions are federally insured up to: (a) \$250,000 for interest-bearing accounts and (b) unlimited for non-interest-bearing accounts (subject to certain restrictions). SDHS has cash and cash equivalents accounts which, at times, exceed the insured amounts. SDHS has not experienced any losses in such accounts.

**Investments** – Investments are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the financial statements. SDHS maintains a diversified portfolio to manage risk.

**Receivables** – Receivables include charitable remainder trusts which are exposed to various risks such as interest rate risks and donor life expectancies. Changes in the near term are not expected to materially affect the amounts reported in the financial statements.

**Revenue** – Of the regular and recurring field service and licensing revenue, approximately 66 percent and 62 percent were related to a contract with the city of San Diego for the years ended June 30, 2020 and 2019, respectively.

Of the total contributions, approximately 22 percent and 9 percent were related to grants from one foundation for the years ended June 30, 2020 and 2019, respectively.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 3 – Investments

Investments consist of the following at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 2,434,448	\$ 104,906
Common stock	-	843
Pooled income funds	231,720	231,694
Mutual funds	28,586,443	30,085,573
U.S. government bonds	2,216,264	1,051,834
Total investments	\$ 33,468,875	\$ 31,474,850

Investment income, net of investment expenses, consists of the following for the years ended June 30, 2020 and 2019:

	2020	2019
Interest and dividends, net	\$ 654,446	\$ 823,634
Net realized and unrealized gains	1,155,474	835,533
Investment income, net	\$ 1,809,920	\$ 1,659,167

Investing decisions are subject to the guidelines set forth in SDHS's Investment Policy Statement, which is approved by SDHS's Board. The Finance Committee of the Board approves the selection of investment advisors and/or investments and investment allocations and monitors overall portfolio composition to ensure conformity with the Investment Policy Statement.

#### Note 4 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities;

**Level 2** – Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and



## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 4 – Fair Value Measurements (continued)

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In Note 1, and below, the valuation methodologies used for financial assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position are described.

When an investment is transferred between levels, the transfer is recognized at the end of the reporting period. During the years ended June 30, 2020 and 2019, there were no transfers between levels.

The Chief Financial Officer (CFO) and Controller, under the supervision of SDHS's Finance Committee of the Board, determine the fair value measurement policies and procedures. These policies and procedures are reassessed at least annually, or as new assets are acquired or pledged, to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

In determining the reasonableness of the methodology, the CFO, in consultation with SDHS's Finance Committee, evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms (for example: duration or payout data), while others are substantiated utilizing available market data (discount rates and mortality tables).

**San Diego Humane Society and SPCA**  
**Notes to Financial Statements**

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**Note 4 – Fair Value Measurements (continued)**

The following fair value hierarchy table presents information about SDHS's financial assets measured at fair value on a recurring basis as of June 30, 2020:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2020
Cash and cash equivalents	\$ 2,434,448	\$ -	\$ -	\$ 2,434,448
U.S. government bonds	2,216,264	-	-	2,216,264
Mutual funds				
Bond funds	8,709,092	-	-	8,709,092
International funds	3,644,525	-	-	3,644,525
Extended market funds	4,136,302	-	-	4,136,302
Total stock funds	12,096,524	-	-	12,096,524
Total mutual funds	28,586,443	-	-	28,586,443
Pooled income funds		231,720	-	231,720
Charitable remainder trusts		-	4,461,853	4,461,853
Beneficial interest in trust		1,100,299	-	1,100,299
Total	<u>\$ 33,237,155</u>	<u>\$ 1,332,019</u>	<u>\$ 4,461,853</u>	<u>\$ 39,031,027</u>

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 4 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about SDHS's financial assets measured at fair value on a recurring basis as of June 30, 2019:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2019
Cash and cash equivalents	\$ 104,906	\$ -	\$ -	\$ 104,906
U.S. government bonds	1,051,834	-	-	1,051,834
Common stock	843	-	-	843
Mutual funds				
Bond funds	11,431,761	-	-	11,431,761
International funds	4,317,315	-	-	4,317,315
Extended market funds	3,614,457	-	-	3,614,457
Total stock funds	10,722,040	-	-	10,722,040
Total mutual funds	30,085,573	-	-	30,085,573
Pooled income funds	-	231,694	-	231,694
Charitable remainder trusts	-	-	3,716,800	3,716,800
Beneficial interest in trust	-	1,087,035	-	1,087,035
Total	\$ 31,243,156	\$ 1,318,729	\$ 3,716,800	\$ 36,278,685

The pooled income funds are reported at fair value based on net asset value estimates provided by the custodian.

The beneficial interest in trust is reported at fair value based on the value of the underlying assets (marketable securities), which approximates the future anticipated cash flow.

The charitable remainder trusts classified as Level 3 financial instruments are irrevocable charitable remainder trusts, of which SDHS is a beneficiary. The trusts hold assets, including marketable investments and real estate. The fair value of the trusts, and therefore SDHS's interest in the trusts, is estimated annually using actuarial tables, discount rates, and the fair value of the underlying assets. Changes in the fair value of the beneficial interest in charitable remainder trusts for the years ended June 30, 2020 and 2019, as shown in the following table, are the results of changes in these measurement factors.

## San Diego Humane Society and SPCA Notes to Financial Statements

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### Note 4 – Fair Value Measurements (continued)

The table below includes a roll forward of the charitable remainder trusts for the years ended June 30, 2020 and 2019:

BALANCE, July 1, 2018	\$ 3,288,323
Unrealized gain	<u>428,477</u>
BALANCE, June 30, 2019	3,716,800
Unrealized gain	<u>745,053</u>
BALANCE, June 30, 2020	<u><u>\$ 4,461,853</u></u>

The unrealized gain is reflected in the statements of activities as change in value of split-interest agreements.

The table below includes quantitative inputs for charitable remainder trusts as of June 30, 2020:

Asset Description	Fair Value	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	<u><u>\$ 4,461,853</u></u>	Discounted cash flow	Discount rates Life expectancy	.66% to 1.18% 13.4 to 24.8 years

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 5 – Receivables

Receivables are due as follows as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Less than one year		
Pledges and bequests	\$ 5,876,047	\$ 3,438,711
In-kind lease receivable	30,000	30,000
Receivable from city contracts	1,704,777	2,140,319
Other	188,573	102,613
One to five years		
Pledges and bequests	522,914	1,001,913
In-kind lease receivable	120,000	120,000
More than five years		
Pledges and bequests	210,154	190,118
Charitable remainder trusts	5,411,601	5,644,472
In-kind lease receivable	<u>270,000</u>	<u>300,000</u>
	14,334,066	12,968,146
Less discount to net present value		
From .66 to 1.18 percent	<u>(1,200,816)</u>	<u>(2,199,304)</u>
 Total	 <u><u>\$ 13,133,250</u></u>	 <u><u>\$ 10,768,842</u></u>

#### Note 6 – Charitable Gift Annuity

SDHS has entered into 31 charitable gift annuity agreements whereby the donor contributes assets in exchange for SDHS's promise to pay a fixed amount to the donor for the life of the donor. Assets received from donors to establish gift annuities are managed in a pooled account and accounted for individually. The excess of the value of the gift annuity related assets over gift annuity obligations (net assets) is included in net assets with donor restrictions. Gift annuity obligations, recorded as deferred revenue on the statements of financial position, are actuarially determined and represent the present value of future payments to beneficiaries. Gift annuities are managed in compliance with applicable state statutes. The state of California required reserve fund was approximately \$1,473,000 and \$748,000 at June 30, 2020 and 2019, respectively. No payments were made during the years ending June 30, 2020 and 2019. The recorded values at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Asset value – cash and fixed income securities	\$ 2,449,448	\$ 1,153,710
Annuity payment liability	\$ 1,472,581	\$ 748,094

**San Diego Humane Society and SPCA**  
**Notes to Financial Statements**

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**Note 7 – Property and Equipment**

Property and equipment consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 3,115,438	\$ 3,115,438
Buildings and improvements	15,941,067	15,941,067
Leasehold improvements	8,262,983	8,262,983
Furniture and fixtures	3,730,864	3,657,642
Trucks and automobiles	1,487,742	1,534,687
Computer hardware and software	683,372	683,372
Machinery and equipment	376,215	376,215
Construction in progress	<u>480,091</u>	<u>-</u>
	34,077,772	33,571,404
Less: accumulated depreciation	<u>(13,441,528)</u>	<u>(12,033,872)</u>
Total	<u>\$ 20,636,244</u>	<u>\$ 21,537,532</u>

SDHS sold land, buildings, and improvements located on Sherman Street in San Diego, California, on May 24, 2018, for a total purchase price of approximately \$7,800,000 in cash to a third party. The agreement included a separate leaseback agreement with the third party in order to allow SDHS to fully occupy the property until March 31, 2019. The property was sold at a gain of approximately \$7,094,000, with approximately \$6,250,000 deferred and recognized during the year ending June 30, 2019.

SDHS sold the land, building, and improvements located on Banks Street in San Diego, California, on March 27, 2019, for a total purchase price of approximately \$572,000 in cash to a third party. The property was sold at a gain of approximately \$262,000.

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 8 – Commitments and Contingencies

**Leases** – SDHS leases office equipment and certain space with lease terms that expire through March 2027.

Lease payments for the years ended June 30, 2020 and 2019, were approximately \$717,000 and \$683,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2020:

Years Ending June 30,	
2021	\$ 744,133
2022	627,822
2023	603,486
2024	619,212
2025	636,603
Thereafter	<u>749,358</u>
Total	<u>\$ 3,980,614</u>

**Escondido land lease** – SDHS leases certain public property located in Escondido from the city of Escondido. The lease term is 20 years commencing July 7, 2014, with an option to renew for an additional five years and a second option to extend another additional five years. Consideration for the lease is \$1 per year until the second option to extend, at which time the annual rent payable during the extension term shall be the market rate. The value of the annual rent payments totaling \$330,000 was recorded as a gift in kind in the 2015 financial statements. The remaining value of the future payments has been included in receivables, net of a present value discount (Note 5). Gift in kind income of approximately \$14,000 was recorded against the present value discount for the years ended June 30, 2020 and 2019.

SDHS has entered into an option agreement with the city of Escondido that grants SDHS the right and option to purchase the property. The term of the option commences July 7, 2014, and remains in effect for as long as the lease remains in effect, including any renewal term and any extension term. The purchase price shall be the fair value of the property on the date the option is exercised.

**Benefit plan** – SDHS has a 403(b) tax-deferred annuity plan (the “Plan”), which covers its employees. SDHS matches up to 5 percent of qualified employees’ salaries to the Plan. Employees may make contributions to the Plan up to the maximum amount allowed by the IRC. Total expenses for the years ended June 30, 2020 and 2019, were approximately \$588,000 and \$435,000, respectively.

**Line of credit** – SDHS has a line of credit agreement with First Republic Bank that expires November 22, 2020. The terms of the line of credit include a maximum borrowing limit of \$2,500,000, with a variable interest rate of the prime rate, subject to a minimum interest rate of 4.75 percent. The prime interest rate was 3.25 percent as of June 30, 2020. No amounts are due at June 30, 2020 or 2019.

## San Diego Humane Society and SPCA Notes to Financial Statements

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### **Note 8 – Commitments and Contingencies (continued)**

**Litigation** – SDHS may be involved in legal matters that arise from time to time in the ordinary course of business. Management and legal counsel do not believe that the resolution of any of these matters would have a material impact on SDHS's financial position or change in net assets.

**Risks and uncertainties** – On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the "COVID-19 outbreak"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant impact on the global economy. The value of SDHS's investments will fluctuate in response to changing market conditions, and the amount of losses that could be recognized in subsequent periods, if any, cannot be determined. Animal welfare was determined to be an essential service in the state of California during the COVID-19 outbreak. As such, SDHS continued to provide the core of its services throughout the COVID-19 outbreak while complying with health and safety directives from the various regulatory agencies. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.



## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Time restrictions		
Charitable remainder trusts	\$ 4,461,853	\$ 3,716,800
Bequest	399,810	331,619
Pooled income funds	218,952	193,725
Future operations	112,670	112,670
	<u>5,193,285</u>	<u>4,354,814</u>
Purpose or program restrictions		
Spay and neuter program	334,268	-
Animal Adventure Camp (unappropriated earnings)	328,793	283,930
Veterinary medicine & volunteer engagement staffing	300,000	-
Project Wildlife staffing	287,500	-
In-kind Escondido lease	231,000	247,500
Community cat initiative	220,383	-
Resource center	200,000	-
Project Wildlife (unappropriated earnings)	176,098	117,017
Nursery staffing	125,000	-
Veterinary interns	100,000	150,000
Animal care – cats	100,000	150,000
Behavior and training	97,250	163,000
Professional fees – leadership	50,000	-
Learning continuing education – veterinary staff	27,500	-
PAWS	26,117	-
Veterinary medicine	25,019	50,019
Other purposes (under \$20,000 each)	24,918	42,492
Escondido campus	-	20,000
	<u>2,653,846</u>	<u>1,223,958</u>
Total		
Restricted to be maintained in perpetuity		
Investments held in perpetuity	3,843,345	3,368,156
Unconditional promises to give	367,936	742,936
	<u>4,211,281</u>	<u>4,111,092</u>
Total		
Total net assets with donor restrictions	<u>\$ 12,058,412</u>	<u>\$ 9,689,864</u>

Net assets with donor restrictions requiring that the assets be maintained in perpetuity consist of endowment funds, which are investment assets held by a trustee for the benefit of SDHS (Note 11). In addition to the endowment assets, net assets to be maintained in perpetuity included amounts for a beneficial interest in a trust and land held in perpetuity.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 9 – Net Assets with Donor Restrictions (continued)

At June 30, 2020 and 2019, the beneficial interest in trust held investment assets valued at approximately \$1,100,000 and \$1,087,000, respectively. The change in value during the years ended June 30, 2020 and 2019, is reported as with donor restrictions investment income, net of investment expenses or loss. The trustee distributed \$30,500 and \$12,000 to SDHS in the years ended June 30, 2020 and 2019, respectively. The trustee has no variance power. SDHS does not consider the trust to be an endowment subject to ASC 958-205, as there is an absence of intention to preserve the corpus.

The North Campus on San Luis Rey Road and Jones Road in Oceanside is located on two parcels of land donated in the late 1950s. The land was recorded at a fair value of approximately \$24,000 at the time of the contribution. A condition of the gift includes that the land conveyed shall be used solely for the site of an animal shelter and that SDHS shall forever use the land and the premises solely for the purpose of maintaining an animal shelter. In the event the property is not used solely and perpetually for animal shelter purposes, the land and premises shall revert to the grantor and its heirs, successors, or assigns, while the grantee, its heirs, successors, or assigns shall forfeit all rights thereto.

In 2005, the donor approved the parcel on Jones Road to be developed into a dog park. In addition, the donor and SDHS signed a Memorandum of Understanding on June 1, 2005, for the joint development of the dog park site. Donations related to this development were capitalized as land improvements. As of June 30, 2020 and 2019, this parcel is no longer available to the public as a dog park but is used exclusively by SDHS as part of the animal sheltering services provided on that site.

#### Note 10 – Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenditures that satisfied the following restricted purposes during the years ended June 30, 2020 and 2019:

	2020	2019
Veterinary interns	\$ 100,000	\$ 100,000
Behavior and training	65,750	-
Project Wildlife	52,926	1,010,212
Animal care – cats	50,000	50,000
Animal Adventure Camp	46,527	53,586
Other purposes (under \$20,000 each)	36,075	39,730
Veterinary medicine	25,000	-
Escondido campus	20,000	-
Project Wildlife rehabilitation hospital	-	1,678,416
Veterinary hospital renovation	-	1,292,731
Behavior Center construction	-	164,389
Veterinary medical equipment	-	54,546
PAWS staffing	-	35,000
Emergency/disaster relief	-	20,050
	\$ 396,278	\$ 4,498,660
Total net assets released from donor restrictions		

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 11 – Endowment Funds

ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, requires organizations holding donor-restricted endowments to implement policies and procedures to uphold a standard of prudence relative to accounting practices, investment management, and spending policies.

SDHS implemented a policy requiring the preservation of the fair value of the original gift or corpus as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, SDHS classifies as net assets with donor restrictions to be maintained in perpetuity the original value of the gifts donated to the perpetual 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 net assets with donor restrictions to be maintained in perpetuity is classified as net assets with donor restrictions with purpose or program restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence.

The Endowment Policy specifies that SDHS's Investment Management Policy with respect to such endowments seeks an appropriate balance among three goals:

- To provide current programs with a predictable and stable stream of income;
- To ensure that the real value (defined as purchasing power) of revenue streams does not decline over the long term; and
- To ensure that the real value of the endowment assets does not decline over the long term.

Distributions seek a proper balance between present and future needs of SDHS. The spending rate is determined as follows:

- Five percent of the total market value of the assets as determined by the average total market value on the last business day of each of the eight immediately preceding calendar quarters ("Payout"). SDHS shall expend no more than the Payout each year. If less than the Payout is expended in any one year, SDHS may expend more than the approved Payout in a subsequent year, as long as the expenditures do not exceed the approved spending rate on a cumulative basis.
- Income in excess of the spending rate will be reinvested, thereby increasing the endowment.
- Excess Payout may be added back to the Endowment's corpus if the actual expenditures in any given year are below the approved spending rate.
- Payout may be temporarily reduced or halted on funds that are more than five percent underwater at the end of SDHS's fiscal year. Underwater is defined as occurring when the market value is less than the corpus.

**San Diego Humane Society and SPCA**  
**Notes to Financial Statements**

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**Note 11 – Endowment Funds (continued)**

Endowment net assets consist of the following at June 30, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2018	\$ 2,705,848	\$ 3,278,130	\$ 5,983,978
Investment return, net	139,155	210,182	349,337
Expenditures	(115,418)	(87,365)	(202,783)
Change in endowment assets	23,737	122,817	146,554
Endowment net assets, June 30, 2019	2,729,585	3,400,947	6,130,532
Contributions	-	86,925	86,925
Investment return, net	156,178	203,397	359,575
Expenditures	(35,287)	(99,453)	(134,740)
Change in endowment assets	120,891	190,869	311,760
Endowment net assets, June 30, 2020	<u>\$ 2,850,476</u>	<u>\$ 3,591,816</u>	<u>\$ 6,442,292</u>

In September 2006, the Board voted to designate approximately \$1,929,000 in unrestricted investments to fund the capital maintenance of the Gaines Street facility for a period of 20 years. This amount is included in the net assets without donor restrictions above.

SDHS has one term endowment ending in 2021 of approximately \$113,000 at June 30, 2020 and 2019. The term endowment is managed in accordance with the donor's instructions with regard to management of the investments. There were no contributions or restriction releases during the years ended June 30, 2020 and 2019. Since the corpus is not to be held in perpetuity, the term endowment is not included in the table above.

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 12 – Joint Costs

SDHS achieves some of its programmatic and fundraising activities in magazine mailings which include requests for contributions. The costs of conducting the mailings included approximately \$190,000 and \$202,000, respectively, for the years ended June 30, 2020 and 2019, of joint costs that are not directly attributable to either the program or management and general components, or the fundraising components of the activities. Those joint costs were allocated as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Adoptions and animal care	\$ 108,059	\$ 70,666
Marketing and public relations	36,019	60,570
Investigations/field services	26,541	10,095
Fundraising and administration	18,958	40,381
Community outreach	-	20,190
	<u>          </u>	<u>          </u>
Total	<u>\$ 189,577</u>	<u>\$ 201,902</u>

### Note 13 – Liquidity and Availability

SDHS operates with a balanced budget and anticipates collecting sufficient cash from its revenue sources (including donor support, municipal animal services, and other operating activities) to cover general expenditures. General expenditures include Program Services and Supporting Services expected to be paid in the subsequent year. Annual operations are defined as activities occurring during SDHS's fiscal year. Refer to the statement of cash flows, which identifies the sources and uses of SDHS's cash for fiscal year ended June 30, 2020.

Donor support includes contributions and promises to give with donor restrictions to be used in accordance with the associated purpose restrictions. SDHS also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, SDHS receives support without donor restrictions.

SDHS considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 13 – Liquidity and Availability (continued)

SDHS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. SDHS has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See Note 8 for information about SDHS's line of credit. SDHS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The table below presents financial assets available for general expenditures within one year at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash and cash equivalents	\$ 1,865,615	\$ 3,573,931
Investments	33,468,875	31,474,850
Receivables, net	13,133,250	10,768,842
Beneficial interest in trust	<u>1,100,299</u>	<u>1,087,035</u>
Total financial assets	<u>49,568,039</u>	<u>46,904,658</u>
Less amounts not available to be used within one year		
Investments held in custodial and non-custodial trusts	(1,100,299)	(1,087,035)
Investments held in Charitable Gift Annuities & Pooled Income Funds	(2,681,168)	(1,385,404)
Investments held for endowments	(6,442,292)	(6,130,532)
Contributions receivable – for restricted gifts, net	(405,000)	(405,000)
Contributions receivable – due after one year, net	<u>(5,333,853)</u>	<u>(5,057,199)</u>
Financial assets not available to be used within one year	<u>(15,962,612)</u>	<u>(14,065,170)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 33,605,427</u>	<u>\$ 32,839,488</u>

## **San Diego Humane Society and SPCA**

### **Notes to Financial Statements**

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#### **Note 14 – Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. SDHS recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. SDHS's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

SDHS acquired Fund for Animals Wildlife Center in Ramona, California, from the Humane Society of the United States ("HSUS") effective Sept. 1, 2020. The gift from HSUS includes real property and future cash payments upon the meeting of certain conditions. This transaction occurred; however, the appraisal, which is necessary to determine the value of the assets received, has not yet been completed, and therefore final accounting has not been determined.

SDHS has evaluated subsequent events through November 18, 2020, which is the date the financial statements were available to be issued.