



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

SAN DIEGO HUMANE SOCIETY AND SPCA

June 30, 2019 and 2018



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## **Report of Independent Auditors**

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, 2019 and 2018, 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, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, San Diego Humane Society and SPCA adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

*Moss Adams LLP*

San Diego, California  
November 22, 2019

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

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**ASSETS**

	June 30,	
	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,573,931	\$ 1,383,802
Investments	31,474,850	38,680,764
Receivables, net	10,768,842	12,528,771
Prepaid expenses and other assets	569,510	711,306
Property and equipment, net	21,537,532	15,779,016
Beneficial interest in trust	1,087,035	1,018,291
Total assets	\$ 69,011,700	\$ 70,101,950

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 4,752,676	\$ 3,960,560
Deferred gain on the sale of property	-	6,250,283
Deferred revenue	950,804	624,017
Total liabilities	5,703,480	10,834,860
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>NET ASSETS</b>		
Without donor restrictions	53,618,356	46,058,725
With donor restrictions	9,689,864	13,208,365
Total net assets	63,308,220	59,267,090
Total liabilities and net assets	\$ 69,011,700	\$ 70,101,950

# San Diego Humane Society and SPCA

## Statement of Activities

	Year Ended June 30, 2019		
	Without Donor	With Donor	Total
	Restrictions	Restrictions	
<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	20,474,232	(1,132,068)	19,342,164
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	22,764,018	278,926	23,042,944
Total support and revenue	43,238,250	(853,142)	42,385,108
<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
	37,752,097	-	37,752,097
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
	8,134,790	-	8,134,790
Total expenses	45,886,887	-	45,886,887
<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	7,559,631	(3,518,501)	4,041,130
<b>NET ASSETS</b>			
Beginning of year	46,058,725	13,208,365	59,267,090
End of year	\$ 53,618,356	\$ 9,689,864	\$ 63,308,220

## San Diego Humane Society and SPCA Statement of Activities

	Year Ended June 30, 2018		
	Without Donor	With Donor	Total
	Restrictions	Restrictions	
<b>SUPPORT AND REVENUE</b>			
Support			
Contributions	\$ 9,454,349	\$ 1,225,359	\$ 10,679,708
Bequests	5,243,432	-	5,243,432
Special events	2,005,337	-	2,005,337
Special events expense	(508,351)	-	(508,351)
Net assets released from restrictions	1,246,097	(1,246,097)	-
Net support	<u>17,440,864</u>	<u>(20,738)</u>	<u>17,420,126</u>
Revenue			
Field services and licensing	6,610,955	-	6,610,955
Investment income, net	2,294,887	159,457	2,454,344
Adoptions and animal care	787,589	-	787,589
Veterinary health services	732,498	-	732,498
Educational program fees	324,373	-	324,373
Retail sales	182,689	-	182,689
Retail sales expense	(90,000)	-	(90,000)
Other	154,814	-	154,814
Net revenue	<u>10,997,805</u>	<u>159,457</u>	<u>11,157,262</u>
Total support and revenue	<u>28,438,669</u>	<u>138,719</u>	<u>28,577,388</u>
<b>EXPENSES</b>			
Program services			
Adoptions and animal care	16,632,475	-	16,632,475
Investigations and field services	4,889,193	-	4,889,193
Community outreach	2,028,715	-	2,028,715
	<u>23,550,383</u>	<u>-</u>	<u>23,550,383</u>
Supporting services			
Management and general	2,069,261	-	2,069,261
Donor development and fundraising	3,041,319	-	3,041,319
Marketing and public relations	767,220	-	767,220
	<u>5,877,800</u>	<u>-</u>	<u>5,877,800</u>
Total expenses	<u>29,428,183</u>	<u>-</u>	<u>29,428,183</u>
<b>CHANGE IN NET ASSETS BEFORE</b>			
OTHER REVENUE/GAINS	(989,514)	138,719	(850,795)
Gain on the sale of property	844,016	-	844,016
Change in value of split-interest agreements	-	305,703	305,703
Contributions – capital projects	-	906,989	906,989
CHANGE IN NET ASSETS	<u>(145,498)</u>	<u>1,351,411</u>	<u>1,205,913</u>
<b>NET ASSETS</b>			
Beginning of year	<u>46,204,223</u>	<u>11,856,954</u>	<u>58,061,177</u>
End of year	<u>\$ 46,058,725</u>	<u>\$ 13,208,365</u>	<u>\$ 59,267,090</u>

See accompanying notes.

**San Diego Humane Society and SPCA**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019 (With Comparative Information for Year Ended June 30, 2018)**

	Program Services				Supporting Services				2019 Total Expenses	2018 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	\$ 15,054,984
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	1,838,089
Payroll taxes	1,408,559	236,885	124,489	1,769,933	156,583	110,797	59,136	326,516	2,096,449	1,241,792
Retirement	215,556	32,593	46,851	295,000	45,500	69,397	25,118	140,015	435,015	321,575
<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>	<b>18,456,440</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	2,222,040
Animal feed, supplies, equipment, and habitat	1,979,693	23,479	561,502	2,564,674	-	-	-	-	2,564,674	1,350,490
Veterinary medicine and care	1,764,043	7,845	-	1,771,888	-	-	-	-	1,771,888	993,904
Information technology	574,190	117,511	65,832	757,533	110,978	113,581	42,430	266,989	1,024,522	1,118,024
Legal and other professional fees	74,121	64,013	41,525	179,659	416,489	112,042	98,888	627,419	807,078	733,520
Direct mailing	-	-	-	-	-	604,531	-	604,531	604,531	522,310
Employee/volunteer/donor relations	108,359	23,844	32,888	165,091	45,021	326,662	3,021	374,704	539,795	368,202
Program supplies and uniforms	114,303	291,099	110,358	515,760	630	529	313	1,472	517,232	775,802
Printing and publications	164,667	25,714	41,830	232,211	26,017	77,409	93,105	196,531	428,742	328,920
Automotive	91,350	230,276	68,341	389,967	6,020	704	2,018	8,742	398,709	490,117
Professional development/travel	135,699	99,551	15,668	250,918	54,275	40,326	26,672	121,273	372,191	207,141
Miscellaneous	122,521	12,891	12,404	147,816	1,432	174,507	1,337	177,276	325,092	291,232
Insurance	221,933	19,086	7,865	248,884	52,292	6,503	1,400	60,195	309,079	246,360
Advertising	1,871	100	15	1,986	-	216,641	45,769	262,410	264,396	296,164
Office supplies and postage	136,461	36,049	9,728	182,238	30,802	37,446	4,201	72,449	254,687	138,857
<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>	<b>28,539,523</b>
Depreciation	913,782	76,682	30,555	1,021,019	111,845	40,549	6,714	159,108	1,180,127	888,660
<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>	<b>\$ 29,428,183</b>



**San Diego Humane Society and SPCA**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	Program Services				Supporting Services				2018 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	\$ 8,830,029	\$ 2,404,533	\$ 1,027,357	\$ 12,261,919	\$ 1,148,045	\$ 1,207,568	\$ 437,452	\$ 2,793,065	\$ 15,054,984
Employee health and benefits	1,303,707	222,369	132,167	1,658,243	76,902	76,588	26,356	179,846	1,838,089
Payroll taxes	749,474	201,787	81,398	1,032,659	83,005	92,437	33,691	209,133	1,241,792
Retirement	171,899	26,781	35,058	233,738	32,065	39,421	16,351	87,837	321,575
<b>Total salaries and related expenses</b>	<b>11,055,109</b>	<b>2,855,470</b>	<b>1,275,980</b>	<b>15,186,559</b>	<b>1,340,017</b>	<b>1,416,014</b>	<b>513,850</b>	<b>3,269,881</b>	<b>18,456,440</b>
Occupancy, utilities, and security	1,692,075	201,840	125,661	2,019,576	114,603	68,773	19,088	202,464	2,222,040
Animal feed, supplies, equipment, and habitat	1,036,255	32,822	281,413	1,350,490	-	-	-	-	1,350,490
Information technology	430,127	339,776	62,177	832,080	116,387	127,146	42,411	285,944	1,118,024
Veterinary medicine and care	971,531	22,373	-	993,904	-	-	-	-	993,904
Program supplies and uniforms	37,235	642,217	90,349	769,801	394	235	5,372	6,001	775,802
Legal and other professional fees	92,996	193,370	35,624	321,990	301,793	97,516	12,221	411,530	733,520
Direct mailing	-	-	-	-	-	522,310	-	522,310	522,310
Automotive	46,103	388,950	52,310	487,363	1,352	1,071	331	2,754	490,117
Employee/volunteer/donor relations	49,318	34,678	28,257	112,253	4,747	249,940	1,262	255,949	368,202
Printing and publications	140,013	16,779	24,468	181,260	7,614	78,358	61,688	147,660	328,920
Advertising	6,603	3,254	700	10,557	493	205,655	79,459	285,607	296,164
Miscellaneous	83,940	10,284	4,444	98,668	16,684	174,820	1,060	192,564	291,232
Insurance	164,649	16,126	6,006	186,781	49,770	8,268	1,541	59,579	246,360
Professional development/travel	52,296	64,400	4,997	121,693	40,837	25,307	19,304	85,448	207,141
Office supplies and postage	68,339	8,954	5,087	82,380	16,513	37,690	2,274	56,477	138,857
<b>Total expenses before depreciation</b>	<b>15,926,589</b>	<b>4,831,293</b>	<b>1,997,473</b>	<b>22,755,355</b>	<b>2,011,204</b>	<b>3,013,103</b>	<b>759,861</b>	<b>5,784,168</b>	<b>28,539,523</b>
Depreciation	705,886	57,900	31,242	795,028	58,057	28,216	7,359	93,632	888,660
<b>Total expenses</b>	<b>\$ 16,632,475</b>	<b>\$ 4,889,193</b>	<b>\$ 2,028,715</b>	<b>\$ 23,550,383</b>	<b>\$ 2,069,261</b>	<b>\$ 3,041,319</b>	<b>\$ 767,220</b>	<b>\$ 5,877,800</b>	<b>\$ 29,428,183</b>

See accompanying notes.

# San Diego Humane Society and SPCA

## Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,041,130	\$ 1,205,913
Reconciliation to net cash provided by operating activities:		
Depreciation	1,180,127	888,660
Net realized and unrealized (gain) on investments and beneficial interest in trust	(922,248)	(1,793,916)
(Gain) on sale of property and equipment	(6,518,048)	(844,016)
Change in value of split-interest gifts	(450,177)	(305,703)
Decrease (increase) in operating assets:		
Receivables	580,722	(2,182,786)
Pledges	569,376	(92,642)
Bequests	663,308	(1,481,039)
Prepaid expenses and other assets	141,796	(338,552)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	792,116	1,452,268
Deferred revenue	326,787	(177,943)
Net cash provided by (used in) operating activities	<u>404,889</u>	<u>(3,669,756)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	13,727,595	2,011,822
Purchases of investments	(5,646,477)	(5,676,343)
Proceeds from sale of property and equipment	577,073	7,822,246
Purchases of property and equipment	(7,247,951)	(3,276,715)
Net cash provided by investing activities	<u>1,410,240</u>	<u>881,010</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>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,190,129	(2,413,746)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,383,802</u>	<u>3,797,548</u>
End of year	<u>\$ 3,573,931</u>	<u>\$ 1,383,802</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 5,303</u>	<u>\$ 23,269</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;
- 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, and Vista, California. On July 1, 2018, SDHS began providing these services to the residents of Carlsbad, Del Mar, Encinitas, San Diego, Santee, and Solana Beach, 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.

#### 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.

# 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)

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

**Financial statement presentation** – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires SDHS to reclassify its net assets from three categories into two categories and recognize underwater endowment funds as a reduction of net assets with donor restrictions. It also requires donor-imposed restrictions on capital assets to be released when the asset is placed in service, and requires enhanced disclosures for Board designations, composition of net assets with donor restrictions, liquidity, and expenses by both natural and functional classification. SDHS has adopted the standard as of the beginning of its current fiscal year and applied it retrospectively to all periods presented with certain transition provisions.

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.

Net assets have been reclassified due to the adoption of ASU 2016-14 as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets at June 30, 2018, as previously presented:			
Unrestricted	\$ 46,058,725	\$ -	\$ 46,058,725
Temporarily restricted	-	9,166,017	9,166,017
Permanently restricted	-	4,042,348	4,042,348
	<u>\$ 46,058,725</u>	<u>\$ 13,208,365</u>	<u>\$ 59,267,090</u>

**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.

# 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)

**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. The fair value of the certificates of deposit is determined by discounting the related cash flows based on the current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. 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, 2019 and 2018, the discount was approximately \$38,000 and \$53,000, respectively.

**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, 2019 and 2018.

**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, 2019 and 2018. 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 and leasehold improvements	7 to 39 years
Furniture and equipment	5 to 10 years
Computer hardware	5 to 7 years
Trucks and automobiles	3 to 5 years
Computer software	3 years

# 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)

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.

**Revenue recognition** – Revenue from adoptions and animal care, veterinary health services, educational program fees, and retail sales are recognized when services are rendered or when items are sold. Revenue from shelter operations and field services are recognized when services are rendered. SDHS has contracts with the cities of Carlsbad, Del Mar, Encinitas, Escondido, Imperial Beach, Oceanside, Poway, San Diego, San Marcos, Santee, Solana Beach, and Vista, California to provide animal services to those communities. The contracts have terms ending between December 31, 2019 and June 30, 2024. Revenue is recognized ratably over the term of the contracts. Revenue from the contracts is presented as field services revenue in the statements of activities. SDHS also issues dog licenses on behalf of the contract cities. Licensing revenue is recognized at the time the license is issued.

**Contributions and bequests** – Contributions are recognized as support when received or unconditionally pledged. 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 primarily recognized when the event occurs.

## 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)**

**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 513,000 and 417,000 hours of service to SDHS during the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, management estimates the value of these services to approximate \$15,376,000 and \$12,132,000, 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 12 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 statement of activities. During the years ended June 30, 2019 and 2018, respectively, donors contributed approximately \$1,665,000 and \$911,000 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.

**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.

**Reclassifications** – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. There was no effect on net assets.

#### **Note 2 – Concentration of Risk**

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

# San Diego Humane Society and SPCA

## Notes to Financial Statements

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### Note 2 – Concentration of Risk (continued)

**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 62 percent and zero percent were related to a contract with the City of San Diego for the years ended June 30, 2019 and 2018, respectively.

### Note 3 – Investments

Investments consist of the following at June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 104,906	\$ 1,198,463
Certificate(s) of deposit	-	702,689
Common stock	843	50,905
Pooled income funds	231,694	225,131
Mutual funds	30,085,573	35,960,946
U.S. government bonds	1,051,834	542,630
	<u>                    </u>	<u>                    </u>
Total investments	<u>\$ 31,474,850</u>	<u>\$ 38,680,764</u>

Investment income, net of investment expenses, consists of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends, net	\$ 823,634	\$ 755,720
Net realized and unrealized gains	835,533	1,698,624
	<u>                    </u>	<u>                    </u>
Investment income, net	<u>\$ 1,659,167</u>	<u>\$ 2,454,344</u>



## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### **Note 3 – Investments (continued)**

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

**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, 2019 and 2018, 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, 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	<u>\$ 31,243,156</u>	<u>\$ 1,318,729</u>	<u>\$ 3,716,800</u>	<u>\$ 36,278,685</u>

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

### 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, 2018:

	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, 2018
Cash and cash equivalents	\$ 1,198,463	\$ -	\$ -	\$ 1,198,463
U.S. government bonds	542,630	-	-	542,630
Common stock	50,905	-	-	50,905
Mutual funds:				
Bond funds	14,889,867	-	-	14,889,867
International funds	3,254,033	-	-	3,254,033
Extended market funds	3,330,351	-	-	3,330,351
Total stock funds	14,486,695	-	-	14,486,695
Total mutual funds	35,960,946	-	-	35,960,946
Pooled income funds	-	225,131	-	225,131
Certificate of deposit	-	702,689	-	702,689
Charitable remainder trusts	-	-	3,288,323	3,288,323
Beneficial interest in trust	-	1,018,291	-	1,018,291
Total	<u>\$ 37,752,944</u>	<u>\$ 1,946,111</u>	<u>\$ 3,288,323</u>	<u>\$ 42,987,378</u>

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, 2019 and 2018, 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, 2019 and 2018:

BALANCE, July 1, 2017	\$ 2,982,620
Unrealized gain	<u>305,703</u>
BALANCE, June 30, 2018	3,288,323
Unrealized gain	<u>428,477</u>
BALANCE, June 30, 2019	<u><u>\$ 3,716,800</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, 2019:

<u>Asset Description</u>	<u>Value</u>	<u>Technique</u>	<u>Inputs</u>	<u>Range</u>
Charitable remainder trusts	<u>\$ 3,716,800</u>	Discounted cash flow	Discount rates Life expectancy	2.00% to 2.52% 14.1 to 25.7 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Less than one year:		
Pledges and bequests	\$ 3,438,711	\$ 4,656,447
In-kind lease receivable	30,000	30,000
Receivable from city contracts	2,140,319	2,731,489
Other	102,613	92,164
One to five years:		
Pledges and bequests	1,001,913	1,463,523
In-kind lease receivable	120,000	120,000
More than five years:		
Pledges and bequests	190,118	275,094
Charitable remainder trusts	5,644,472	5,606,237
In-kind lease receivable	<u>300,000</u>	<u>330,000</u>
	12,968,146	15,304,954
Less discount to net present value:		
From 1.24 to 2.84 percent	<u>(2,199,304)</u>	<u>(2,776,183)</u>
 Total	 <u>\$ 10,768,842</u>	 <u>\$ 12,528,771</u>

**Note 6 – Charitable Gift Annuity**

SDHS has entered into 25 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 \$748,000 and \$427,000 at June 30, 2019 and 2018, respectively. No payments were made during the years ending June 30, 2019 and 2018. The recorded values at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Asset value – cash and fixed income securities	\$ 1,153,710	\$ 764,138
Annuity payment liability	\$ 748,094	\$ 453,300

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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#### Note 7 – Property and Equipment

Property and equipment consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 3,115,438	\$ 3,425,439
Buildings and improvements	15,941,067	14,121,462
Leasehold improvements	8,262,983	968,842
Furniture and fixtures	3,657,642	3,179,465
Trucks and automobiles	1,534,687	1,531,107
Computer hardware and software	683,372	683,372
Machinery and equipment	376,215	376,215
Construction in progress	<u>-</u>	<u>2,851,254</u>
	33,571,404	27,137,156
Less: accumulated depreciation	<u>(12,033,872)</u>	<u>(11,358,140)</u>
Total	<u>\$ 21,537,532</u>	<u>\$ 15,779,016</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.

#### Note 8 – Commitments and Contingencies

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

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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

Lease payments for the years ended June 30, 2019 and 2018, were approximately \$683,000 and \$555,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2019:

Years Ending June 30,	
2020	\$ 758,553
2021	745,092
2022	627,822
2023	603,486
2024	619,212
Thereafter	<u>1,385,961</u>
Total	<u>\$ 4,740,126</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, 2019 and 2018.

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 Internal Revenue Code. Total expenses for the years ended June 30, 2019 and 2018, were approximately \$435,000 and \$322,000, respectively.

**Line of credit** – SDHS has a line of credit agreement with First Republic Bank that expires November 22, 2019. 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 5 percent. The prime interest rate was 5.50 percent as of June 30, 2019. No amounts are due at June 30, 2019 or 2018.

**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.

# 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, 2019 and 2018:

	2019	2018
Time restrictions:		
Charitable remainder trusts	\$ 3,716,800	\$ 3,288,323
Bequest	331,619	393,333
Pooled income funds	193,725	172,024
Future operations	112,670	112,670
	<hr/>	<hr/>
Total	4,354,814	3,966,350
	<hr/>	<hr/>
Purpose or program restrictions:		
Animal Adventure Camp (unappropriated earnings)	283,930	278,130
In-kind Escondido lease	247,500	264,000
Behavior and training	163,000	-
Veterinary interns	150,000	200,000
Animal care – cats	150,000	200,000
Project Wildlife (unappropriated earnings)	117,017	-
Veterinary medicine	50,019	-
Other purposes (under \$20,000 each)	42,492	16,017
Escondido campus	20,000	-
Project Wildlife relocation & expansion	-	1,678,416
Veterinary hospital renovation	-	1,292,731
Project Wildlife	-	981,388
Behavior Center construction	-	164,389
Veterinary medicine – surgical tables/medical equipment	-	54,546
PAWS staffing	-	35,000
Emergency/disaster relief	-	20,050
Spay and neuter program	-	15,000
	<hr/>	<hr/>
Total	1,223,958	5,199,667
	<hr/>	<hr/>
Restricted to be maintained in perpetuity		
Investments held in perpetuity	3,368,156	3,044,096
Unconditional promises to give	742,936	998,252
	<hr/>	<hr/>
Total	4,111,092	4,042,348
	<hr/>	<hr/>
Total net assets with donor restrictions	<u>\$ 9,689,864</u>	<u>\$ 13,208,365</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, 2019 and 2018, the trust held investment assets valued at approximately \$1,087,000 and \$1,018,000, respectively. The change in value during the years ended June 30, 2019 and 2018, is reported as with donor restrictions investment income, net of investment expenses or loss. The trustee distributed \$12,000 and \$21,000 to SDHS in the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018:

	2019	2018
Project Wildlife rehabilitation hospital	\$ 1,678,416	\$ -
Vetinary hospital renovation	1,292,731	-
Project Wildlife	1,010,212	251,718
Behavior Center construction	164,389	-
Veterinary interns	100,000	150,000
Veterinary medical equipment	54,546	-
Animal Adventure Camp	53,586	55,383
Animal care – cats	50,000	-
Other purposes (under \$20,000 each)	39,730	45,133
PAWS staffing	35,000	35,000
Emergency/disaster relief	20,050	-
Volunteer program	-	400,000
Veterinarian and hospital manager	-	250,000
Outside veterinary medicine	-	38,863
Veterinary medicine – CARE program	-	20,000
	\$ 4,498,660	\$ 1,246,097
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, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	\$ 3,151,000	\$ 3,229,494	\$ 6,380,494
Investment return, net	160,912	104,019	264,931
Expenditures	(606,064)	(55,383)	(661,447)
Change in endowment assets	(445,152)	48,636	(396,516)
Endowment net assets, June 30, 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	<u>\$ 2,729,585</u>	<u>\$ 3,400,947</u>	<u>\$ 6,130,532</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, 2019 and 2018. 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, 2019 and 2018. 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 \$202,000 and \$184,000, respectively, for the years ended June 30, 2019 and 2018, 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Adoptions and animal care	\$ 70,666	\$ 64,422
Marketing and public relations	60,570	55,218
Fundraising	40,381	55,219
Community outreach	20,190	9,203
Investigations/field services	<u>10,095</u>	<u>-</u>
Total	<u>\$ 201,902</u>	<u>\$ 184,062</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 and shows positive cash generated by operations for fiscal year ended June 30, 2019.

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.

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.

## San Diego Humane Society and SPCA

### Notes to Financial Statements

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

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

Financial assets at year end:	
Cash and cash equivalents	\$ 3,573,931
Investments	31,474,850
Receivables, net	10,768,842
Beneficial interest in trust	<u>1,087,035</u>
 Total financial assets	 <u>46,904,658</u>
 Less amounts not available to be used within one year:	
Investments held in custodial and non-custodial trusts	(1,087,035)
Investments held in Charitable Gift Annuities & Pooled Income Funds	(1,385,404)
Investments held for endowments	(6,130,532)
Contributions receivable – for restricted gifts, net	(405,000)
Contributions receivable – due after one year, net	<u>(5,057,199)</u>
 Financial assets not available to be used within one year	 <u>(14,065,170)</u>
 Financial assets available to meet general expenditures within one year	 <u><u>\$ 32,839,488</u></u>

#### 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 has evaluated subsequent events through November 22, 2019, which is the date the financial statements were available to be issued.