



*REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS*

FOR

**SAN DIEGO HUMANE SOCIETY
AND SPCA**

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 13, 2017

San Diego Humane Society and SPCA
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,797,548	\$ 903,835
Investments	33,277,765	33,461,439
Receivables, net	8,841,601	11,541,726
Prepaid expenses and other assets	372,754	499,262
Property and equipment, net	14,118,908	13,942,501
Beneficial interest in trust	962,853	875,575
Total assets	\$ 61,371,429	\$ 61,224,338
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 2,508,292	\$ 2,030,086
Deferred revenue	801,960	661,283
Total liabilities	3,310,252	2,691,369
Commitments and contingencies (Note 8)		
Net Assets		
Unrestricted	46,204,223	49,218,063
Temporarily restricted	7,870,044	7,415,274
Permanently restricted	3,986,910	1,899,632
Total net assets	58,061,177	58,532,969
Total liabilities and net assets	\$ 61,371,429	\$ 61,224,338

San Diego Humane Society and SPCA
Statement of Activities
Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 3,944,849	\$ -	\$ -	\$ 3,944,849
Contributions	7,695,981	574,784	2,000,000	10,270,765
Special events	1,615,143	-	-	1,615,143
Special events expense	(475,584)	-	-	(475,584)
Change in value of split-interest agreements	-	(263,859)	-	(263,859)
Net assets released from restrictions	972,286	(972,286)	-	-
Net support	<u>13,752,675</u>	<u>(661,361)</u>	<u>2,000,000</u>	<u>15,091,314</u>
Revenue				
Investment income	2,949,158	110,155	87,278	3,146,591
Field services and licensing	3,626,126	-	-	3,626,126
Adoptions and animal care	705,143	-	-	705,143
Veterinary health services	757,548	-	-	757,548
Educational program fees	292,643	-	-	292,643
Retail sales	318,292	-	-	318,292
Retail sales expense	(177,882)	-	-	(177,882)
Other	138,908	-	-	138,908
Net revenue	<u>8,609,936</u>	<u>110,155</u>	<u>87,278</u>	<u>8,807,369</u>
Total support and revenue	<u>22,362,611</u>	<u>(551,206)</u>	<u>2,087,278</u>	<u>23,898,683</u>
EXPENSES				
Program Services				
Adoptions and animal care	15,368,090	-	-	15,368,090
Investigations and field services	2,058,281	-	-	2,058,281
Community outreach	2,571,926	-	-	2,571,926
	<u>19,998,297</u>	<u>-</u>	<u>-</u>	<u>19,998,297</u>
Supporting Services				
Management and general	1,708,133	-	-	1,708,133
Donor development and fundraising	2,818,606	-	-	2,818,606
Marketing and public relations	851,415	-	-	851,415
	<u>5,378,154</u>	<u>-</u>	<u>-</u>	<u>5,378,154</u>
Total expenses	<u>25,376,451</u>	<u>-</u>	<u>-</u>	<u>25,376,451</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE/GAINS				
	(3,013,840)	(551,206)	2,087,278	(1,477,768)
Contributions - Capital Projects	<u>-</u>	<u>1,005,976</u>	<u>-</u>	<u>1,005,976</u>
CHANGE IN NET ASSETS	(3,013,840)	454,770	2,087,278	(471,792)
NET ASSETS				
Beginning of year	<u>49,218,063</u>	<u>7,415,274</u>	<u>1,899,632</u>	<u>58,532,969</u>
End of year	<u>\$ 46,204,223</u>	<u>\$ 7,870,044</u>	<u>\$ 3,986,910</u>	<u>\$ 58,061,177</u>

San Diego Humane Society and SPCA
Statement of Activities
Year Ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 8,246,591	\$ -	\$ -	\$ 8,246,591
Contributions	6,669,244	2,147,745	-	8,816,989
Special events	1,848,487	-	-	1,848,487
Special events expense	(826,498)	-	-	(826,498)
Change in value of split-interest agreements	-	564,889	-	564,889
Net assets released from restrictions	1,138,446	(1,138,446)	-	-
Net support	<u>17,076,270</u>	<u>1,574,188</u>	<u>-</u>	<u>18,650,458</u>
Revenue				
Investment income (loss)	210,187	10,957	(13,481)	207,663
Field services and licensing	3,604,163	-	-	3,604,163
Adoptions and animal care	749,697	-	-	749,697
Veterinary health services	735,669	-	-	735,669
Educational program fees	273,479	-	-	273,479
Retail sales	497,075	-	-	497,075
Retail sales expense	(266,179)	-	-	(266,179)
Other	53,850	-	-	53,850
Net revenue	<u>5,857,941</u>	<u>10,957</u>	<u>(13,481)</u>	<u>5,855,417</u>
Total support and revenue	<u>22,934,211</u>	<u>1,585,145</u>	<u>(13,481)</u>	<u>24,505,875</u>
EXPENSES				
Program Services				
Adoptions and animal care	15,206,831	-	-	15,206,831
Investigations and field services	1,758,342	-	-	1,758,342
Community outreach	2,280,046	-	-	2,280,046
	<u>19,245,219</u>	<u>-</u>	<u>-</u>	<u>19,245,219</u>
Supporting Services				
Management and general	1,809,528	-	-	1,809,528
Donor development and fundraising	2,581,345	-	-	2,581,345
Marketing and public relations	885,231	-	-	885,231
	<u>5,276,104</u>	<u>-</u>	<u>-</u>	<u>5,276,104</u>
Total expenses	<u>24,521,323</u>	<u>-</u>	<u>-</u>	<u>24,521,323</u>
CHANGE IN NET ASSETS BEFORE				
OTHER REVENUE/GAINS	(1,587,112)	1,585,145	(13,481)	(15,448)
Contributions - Capital Projects	-	1,104,577	-	1,104,577
CHANGE IN NET ASSETS	(1,587,112)	2,689,722	(13,481)	1,089,129
NET ASSETS				
Beginning of year	<u>50,805,175</u>	<u>4,725,552</u>	<u>1,913,113</u>	<u>57,443,840</u>
End of year	<u>\$ 49,218,063</u>	<u>\$ 7,415,274</u>	<u>\$ 1,899,632</u>	<u>\$ 58,532,969</u>

See accompanying notes.

San Diego Humane Society and SPCA
Statement of Functional Expenses
Year Ended June 30, 2017 (With Comparative Information for Year Ended June 30, 2016)

	Program Services				Supporting Services				2017 Total Expenses	2016 Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Donor			Total		
					Management and General	Development and Fundraising	Marketing and Public Relations			
Salaries	\$ 8,200,451	\$ 1,230,571	\$ 1,291,936	\$ 10,722,958	\$ 1,050,427	\$ 1,167,509	\$ 440,154	\$ 2,658,090	\$ 13,381,048	\$ 12,819,725
Payroll taxes	703,626	99,351	105,659	908,636	80,348	89,966	34,459	204,773	1,113,409	1,141,004
Employee health and benefits	744,973	102,474	102,398	949,845	64,310	62,623	28,208	155,141	1,104,986	1,038,583
Retirement	179,081	26,139	38,220	243,440	32,130	34,479	15,434	82,043	325,483	380,161
Total salaries and related expenses	9,828,131	1,458,535	1,538,213	12,824,879	1,227,215	1,354,577	518,255	3,100,047	15,924,926	15,379,473
Occupancy, utilities, and security	1,455,342	82,827	172,159	1,710,328	61,966	58,706	24,709	145,381	1,855,709	1,678,390
Animal feed, supplies, equipment, and habitat	864,461	-	457,678	1,322,139	-	-	-	-	1,322,139	1,840,206
Veterinary medicine and care	991,201	754	-	991,955	-	-	-	-	991,955	924,920
Insurance	667,395	80,562	56,215	804,172	64,678	20,171	8,631	93,480	897,652	854,256
Legal and other professional fees	229,175	59,574	35,173	323,922	224,664	85,350	22,050	332,064	655,986	327,199
Direct mailing	-	-	-	-	-	545,219	-	545,219	545,219	497,851
Advertising	6,682	790	1,724	9,196	380	254,061	148,672	403,113	412,309	404,844
Printing and publications	133,156	8,631	31,109	172,896	5,412	122,423	70,128	197,963	370,859	385,866
Information technology	138,666	14,607	33,640	186,913	44,193	83,279	20,753	148,225	335,138	317,237
Program supplies and uniforms	36,362	157,174	93,056	286,592	348	302	55	705	287,297	222,836
Miscellaneous	61,435	8,718	50,604	120,757	4,953	135,647	400	141,000	261,757	165,855
Professional development/travel	63,417	24,433	21,402	109,252	28,923	25,944	25,143	80,010	189,262	219,091
Automotive	43,677	86,307	26,073	156,057	1,420	601	-	2,021	158,078	138,556
Employee/volunteer/donor relations	41,841	4,620	16,283	62,744	3,300	82,765	1,320	87,385	150,129	148,902
Office supplies and postage	55,190	7,488	7,398	70,076	18,920	22,207	3,412	44,539	114,615	101,463
Total expenses before depreciation	14,616,131	1,995,020	2,540,727	19,151,878	1,686,372	2,791,252	843,528	5,321,152	24,473,030	23,606,945
Depreciation	751,959	63,261	31,199	846,419	21,761	27,354	7,887	57,002	903,421	914,378
Total expenses	\$ 15,368,090	\$ 2,058,281	\$ 2,571,926	\$ 19,998,297	\$ 1,708,133	\$ 2,818,606	\$ 851,415	\$ 5,378,154	\$ 25,376,451	\$ 24,521,323

San Diego Humane Society and SPCA
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services				Supporting Services				2016 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	\$ 8,073,176	\$ 1,003,338	\$ 969,668	\$ 10,046,182	\$ 1,170,643	\$ 1,073,137	\$ 529,763	\$ 2,773,543	\$ 12,819,725
Payroll taxes	795,166	85,681	74,571	955,418	76,846	77,786	30,954	185,586	1,141,004
Employee health and benefits	667,701	80,791	77,879	826,371	88,077	85,882	38,253	212,212	1,038,583
Retirement	211,987	32,471	34,851	279,309	43,782	37,361	19,709	100,852	380,161
Total salaries and related expenses	9,748,030	1,202,281	1,156,969	12,107,280	1,379,348	1,274,166	618,679	3,272,193	15,379,473
Animal feed, supplies, equipment, and habitat	1,246,639	-	593,567	1,840,206	-	-	-	-	1,840,206
Occupancy, utilities, and security	1,318,816	83,676	133,476	1,535,968	67,523	57,305	17,594	142,422	1,678,390
Veterinary medicine and care	908,900	-	16,020	924,920	-	-	-	-	924,920
Insurance	591,827	96,028	72,838	760,693	68,526	18,116	6,921	93,563	854,256
Direct mailing	-	-	-	-	-	497,851	-	497,851	497,851
Advertising	122,766	606	29,510	152,882	1,361	238,374	12,227	251,962	404,844
Printing and publications	156,247	9,936	31,147	197,330	-	34,496	154,040	188,536	385,866
Legal and other professional fees	8,198	30,692	12,824	51,714	170,881	95,329	9,275	275,485	327,199
Information technology	120,959	12,240	26,022	159,221	31,848	92,841	33,327	158,016	317,237
Program supplies and uniforms	31,014	122,554	58,345	211,913	693	317	9,913	10,923	222,836
Professional development/travel	60,142	25,173	6,816	92,131	45,945	67,359	13,656	126,960	219,091
Miscellaneous	75,972	4,037	3,124	83,133	6,669	75,281	772	82,722	165,855
Employee/volunteer/donor relations	39,567	4,370	20,388	64,325	3,121	81,256	200	84,577	148,902
Automotive	37,916	77,244	23,306	138,466	90	-	-	90	138,556
Office supplies and postage	53,021	7,468	5,342	65,831	10,795	22,884	1,953	35,632	101,463
Total expenses before depreciation	14,520,014	1,676,305	2,189,694	18,386,013	1,786,800	2,555,575	878,557	5,220,932	23,606,945
Depreciation	686,817	82,037	90,352	859,206	22,728	25,770	6,674	55,172	914,378
Total expenses	<u>\$ 15,206,831</u>	<u>\$ 1,758,342</u>	<u>\$ 2,280,046</u>	<u>\$ 19,245,219</u>	<u>\$ 1,809,528</u>	<u>\$ 2,581,345</u>	<u>\$ 885,231</u>	<u>\$ 5,276,104</u>	<u>\$ 24,521,323</u>

See accompanying notes.

San Diego Humane Society and SPCA
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ (471,792)	\$ 1,089,129
Reconciliation to net cash provided by operating activities:		
Permanently restricted contribution	(2,000,000)	-
Depreciation	903,421	914,378
Net realized and unrealized (gain) loss on investments	(2,340,946)	574,265
Change in value of split-interest gifts	263,859	(564,889)
Decrease (increase) in operating assets:		
Receivables	(172,895)	(173,505)
Pledges	1,523,912	(1,762,357)
Bequests	2,585,249	218,814
Prepaid expenses and other assets	126,508	158,387
Increase in operating liabilities:		
Accounts payable and accrued expenses	478,206	193,314
Deferred revenue	140,677	153,004
Net cash provided by operating activities	<u>1,036,199</u>	<u>800,540</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	34,350,240	29,499,595
Purchases of investments	(31,912,898)	(29,835,766)
Purchases of property and equipment	(1,079,828)	(155,020)
Net cash provided by (used in) investing activities	<u>1,357,514</u>	<u>(491,191)</u>
FINANCING ACTIVITIES		
Permanently restricted contribution	500,000	-
Net cash provided by financing activities	<u>500,000</u>	<u>-</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,893,713	309,349
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>903,835</u>	<u>594,486</u>
End of year	<u>\$ 3,797,548</u>	<u>\$ 903,835</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid, net of refunds	<u>\$ 267</u>	<u>\$ 35,000</u>
Interest paid	<u>\$ 4,215</u>	<u>\$ -</u>

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Organization and Activities

The San Diego Humane Society and SPCA (the “Society”), founded in 1880, is a private, nonprofit corporation that is not affiliated with any other humane society or SPCA. The Society’s mission is to promote the humane treatment of animals, prevent cruelty to animals, and provide education to enhance the human-animal bond.

The Society’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 local 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 and Vista, California;
- Rescuing animals in emergency and hoarding situations;
- Sharing animals through pet-assisted therapy;
- Administering needs-based spay/neuter services for the public;
- Partnering with rescue groups and other shelters to insure every healthy and treatable animal in San Diego County receives the care it needs.

Significant Accounting Policies

Income taxes – The Society 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. The Society does not have any uncertain income tax positions. The Society 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.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Financial statement presentation – The Society follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, for the presentation of its financial statements, which requires that net assets and revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted net assets represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions which are contingent upon specific performance of a future event or a specific passage of time before the Society may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations.

Cash equivalents – The Society 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, 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 certificate 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 unrestricted net assets, 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 the Society. 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 the Society. A discount to net present value is recorded as deferred revenue, and the net amount is included in temporarily restricted net assets. At June 30, 2017 and 2016, the discount was \$69,213 and \$48,099, respectively.

Receivables – Pledges receivable consist of 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. Other receivables represent amounts due to the Society for services rendered prior to June 30. The Society does not obtain collateral. An allowance for uncollectible amounts totaled \$1,500,000 at June 30, 2017 and 2016. The allowance relates to one bequest whose collectability is uncertain. The allowance is 100% of the accrued amount of this bequest.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Charitable remainder trusts – The Society 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 the Society. The assets held in the trusts are managed by donor-designated trustees and are not accessible to the Society 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, are included in temporarily restricted net assets. The beneficial interests in charitable remainder trusts are included in receivables.

Property and equipment – Property and equipment are stated at cost. Donated assets are recorded at fair value 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

The Society capitalizes property and equipment with costs of \$5,000 or greater.

Impairment of long-lived assets – The Society 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.

Revenue recognition – Revenue from adoptions and animal care, veterinary health services, educational program fees, needs-based spay/neuter services, and retail sales are recognized when services are rendered or when items are sold. Rental income is recognized on a straight-line basis over the lease period. Revenue from shelter operations, field services, and licensing are recognized when services are rendered. The Society has contracts with the cities of Oceanside, Vista, Escondido, San Marcos, and Poway to provide animal services to those communities. All contracts have been extended until June 30, 2018. 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. The Society also issues dog licenses on behalf of the cities of Oceanside, Vista, Escondido, San Marcos, and Poway. Licensing revenue is recognized at the time the license is issued.

San Diego Humane Society and SPCA

Notes to Financial Statements

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. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted contributions. Bequests are recorded as contributions when the Society 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.

Donated services and goods – The Society receives donated services from a variety of unpaid volunteers. The volunteers perform a variety of tasks that assist the Society in the areas of animal care, animal rescue, behavior training, community programs, mobile adoptions, pet-assisted therapy, and events. Volunteers provided approximately 453,000 and 433,000 hours of service to the Society during the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, management estimates the value of these services to approximate \$12,882,000 and \$11,936,000, 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). 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 ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*.

The Society 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, 2017 and 2016, respectively, donors contributed approximately \$884,000 and \$1,384,000 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.

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 to the presentation in the current-year financial statements. There was no impact on net assets.

San Diego Humane Society and SPCA Notes to Financial Statements

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

Recently adopted accounting standard - The Society adopted FASB ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern* during the year ended June 30, 2017. ASU 2014-15 defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The adoption of this ASU did not have a material impact on the accompanying financial statements.

Note 2 – Concentration of Risk

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

Cash and cash equivalents – The Society 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). The Society has cash and cash equivalents accounts which, at times, exceed the insured amounts. The Society 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. The Society 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.

Note 3 – Investments

Investments consist of the following at June 30, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 182,292	\$ 1,373,881
Certificate of deposit	250,000	-
Common stock	-	7,901,223
Mutual funds	32,551,440	13,258,424
Fixed income	294,033	10,927,911
Total investments	\$ 33,277,765	\$ 33,461,439

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 3 – Investments (continued)

Investment income consists of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 920,442	\$ 923,291
Investment expenses	(114,797)	(141,363)
Interest and dividends, net of expenses	805,645	781,928
Net realized and unrealized gains (losses)	2,340,946	(574,265)
Investment income	<u>\$ 3,146,591</u>	<u>\$ 207,663</u>

Investing decisions are subject to the guidelines set forth in the Society's Investment Policy Statement which is approved by the Society's Board of Trustees (the "Board"). The Finance Committee of the Board approves the selection of investment advisors and/or investments, 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, 2017 and 2016, there were no transfers between levels.

San Diego Humane Society and SPCA Notes to Financial Statements

Note 4 – Fair Value Measurements (continued)

The Chief Financial Officer (“CFO”) and Controller, under the supervision of the Society’s Finance Committee of the Board, determine the fair value measurement policies and procedures in consultation with the Society’s investment managers. 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 the Society’s investment advisor, 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).

The following fair value hierarchy table presents information about the Society’s financial assets measured at fair value on a recurring basis as of June 30, 2017:

	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, 2017
Cash and cash equivalents	\$ 182,292	\$ -	\$ -	\$ 182,292
Fixed-income securities:				
U.S. government bonds	294,033	-	-	294,033
Total fixed-income securities	294,033	-	-	294,033
Mutual funds:				
Bond funds	12,936,042	-	-	12,936,042
International funds	3,213,383	-	-	3,213,383
Extended market funds	3,242,595	-	-	3,242,595
Total stock funds	12,895,380	-	-	12,895,380
Pooled income funds	-	264,040	-	264,040
Total mutual funds	32,287,400	264,040	-	32,551,440
Certificate of deposit	-	250,000	-	250,000
Charitable remainder trusts	-	-	2,982,620	2,982,620
Beneficial interest in trust	-	962,853	-	962,853
Total	\$ 32,763,725	\$ 1,476,893	\$ 2,982,620	\$ 37,223,238

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 the Society's financial assets measured at fair value on a recurring basis as of June 30, 2016:

	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, 2016
Cash and cash equivalents	\$ 1,373,881	\$ -	\$ -	\$ 1,373,881
Fixed-income securities:				
U.S. government bonds	4,072,956	-	-	4,072,956
U.S. government asset-backed	576,313	2,118,552	-	2,694,865
Corporate bonds	3,578,690	-	-	3,578,690
Corporate asset-backed	361,284	10,217	-	371,501
Foreign bonds	190,053	-	-	190,053
Municipal bonds	19,846	-	-	19,846
Total fixed-income securities	<u>8,799,142</u>	<u>2,128,769</u>	<u>-</u>	<u>10,927,911</u>
Common stock:				
Large cap equities	<u>7,901,223</u>	<u>-</u>	<u>-</u>	<u>7,901,223</u>
Mutual funds:				
Bond funds	599,059	-	-	599,059
Equity funds	12,395,325	-	-	12,395,325
Pooled income funds	-	264,040	-	264,040
Total mutual funds	<u>12,994,384</u>	<u>264,040</u>	<u>-</u>	<u>13,258,424</u>
Charitable remainder trusts	-	-	3,225,366	3,225,366
Beneficial interest in trust	-	875,575	-	875,575
Total	<u>\$ 31,068,630</u>	<u>\$ 3,268,384</u>	<u>\$ 3,225,366</u>	<u>\$ 37,562,380</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 the Society is a beneficiary. The trusts hold assets, including marketable investments and real estate. The fair value of the trusts, and therefore the Society'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, 2017 and 2016, 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

Note 4 – Fair Value Measurements (continued)

The table below includes a rollforward of the charitable remainder trusts for the years ended June 30, 2017 and 2016:

Balance, July 1, 2015	\$	2,684,893
Unrealized gain		540,473
Balance, June 30, 2016		3,225,366
Unrealized loss		(242,746)
Balance, June 30, 2017	\$	2,982,620

The unrealized gain (loss) 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 for the year ended June 30, 2017:

Asset Description	Fair Value	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	\$ 2,982,620	Discounted cash flow	Discount Rates Life Expectancy	2.61% to 2.84% 15.5 to 27.6 years

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 5 – Receivables

Receivables are due as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Less than one year:		
Pledges and bequests	\$ 2,761,396	\$ 6,004,578
In-kind lease receivable	30,000	30,000
Other	640,866	467,973
One to five years:		
Pledges and bequests	3,514,095	2,595,376
In-kind lease receivable	120,000	120,000
More than five years:		
Pledges and bequests	324,162	636,087
Charitable remainder trusts	5,095,355	4,894,134
In-kind lease receivable	360,000	390,000
	<u>12,845,874</u>	<u>15,138,148</u>
Less provision for uncollectible accounts:		
Pledges and bequests	(1,500,000)	(1,500,000)
Less discount to net present value:		
From 1.24 to 2.84 percent	<u>(2,504,273)</u>	<u>(2,096,422)</u>
Total	<u><u>\$ 8,841,601</u></u>	<u><u>\$ 11,541,726</u></u>

Note 6 – Charitable Gift Annuity

The Society has entered into eleven charitable gift annuity agreements whereby the donor contributes assets in exchange for the Society'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 temporarily restricted. Gift annuity obligations, recorded as deferred revenue on the statement of financial position, are actuarially determined and represents 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 \$222,167 and \$130,678 at June 30, 2017 and 2016, respectively. No payments were made during the years ending June 30, 2017 and 2016. The recorded values at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Asset value - cash and fixed income securities	\$ 435,649	\$ 270,000
Annuity payment liability	222,167	130,678

San Diego Humane Society and SPCA Notes to Financial Statements

Note 7 – Property and Equipment

Property and equipment consists of the following at June 30, 2017 and 2016:

	2017	2016
Land and improvements	\$ 4,042,217	\$ 4,042,217
Buildings and improvements	14,290,483	14,290,483
Leasehold improvements	854,510	877,542
Furniture and fixtures	3,005,261	3,353,049
Trucks and automobiles	1,509,415	1,416,028
Computer hardware and software	496,108	1,474,887
Machinery and equipment	376,215	225,145
Construction in progress	678,022	41,306
	25,252,231	25,720,657
Less: accumulated depreciation	(11,133,323)	(11,778,156)
Total	\$ 14,118,908	\$ 13,942,501

Note 8 – Commitments and Contingencies

Leases – The Society leases office equipment and certain space with lease terms that expire through December 2025. The Society leased eight thousand square feet which will become its Behavior Center. The lease term is from April 1, 2017 through March 31, 2027 with an option to extend for an additional five years.

Lease payments for the years ended June 30, 2017 and 2016 were approximately \$465,000 and \$405,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2017:

Years ending June 30,	
2018	\$ 555,111
2019	574,023
2020	576,393
2021	563,028
2022	441,408
Thereafter	1,657,797
Total	\$ 4,367,760

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 8 – Commitments and Contingencies (continued)

Escondido land lease – The Society 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 statements of activities. 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 \$13,500 was recorded against the present value discount for the years ended June 30, 2017 and 2016.

The Society has entered into an option agreement with the City of Escondido which grants the Society 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.

Capital Commitment – The Society has entered into a construction contract of approximately \$960,000 to build Phase 1 of The Pilar and Chuck Bahde Wildlife Rehabilitation Center for Project Wildlife. As of June 30, 2017 \$427,000 of such contract had not yet been incurred.

Benefit plan – The Society has a 403(b) tax-deferred annuity plan (the “Plan”) which covers its employees. The Society contributed 2 percent of qualified employees’ salaries and matching up to an additional 3 percent to the Plan through December 31, 2015. As of January 1, 2016, the Society 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, 2017 and 2016 were approximately \$325,500 and \$380,200, respectively.

Line of credit – The Society has a line of credit agreement with First Republic Bank that expires June 22, 2018. 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 3.50 percent. The prime interest rate was 4.25 percent as of June 30, 2017. No amounts are due at June 30, 2017 or 2016.

Litigation – The Society 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 the Society’s financial position or change in net assets.

San Diego Humane Society and SPCA Notes to Financial Statements

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows at June 30, 2017 and 2016:

	2017	2016
Time restrictions:		
Charitable remainder trusts	\$ 2,982,620	\$ 3,225,366
Bequest	427,723	589,500
Pooled income funds	194,827	215,940
Future operations	112,670	112,670
Total	3,717,840	4,143,476
Restricted purpose or program:		
Veterinary hospital renovation	1,292,690	1,167,571
Project Wildlife relocation & expansion	935,856	55,000
Volunteer program	400,000	800,000
Veterinary interns	300,000	-
In-kind Escondido lease	280,500	297,000
Project Wildlife	251,718	150,000
Veterinarian compensation	250,000	519,055
Animal Adventure Camp (unappropriated earnings)	229,494	185,311
PAWS staffing	70,000	-
Outside veterinary medicine	38,863	-
Other purposes (under \$20,000 each)	31,740	36,594
Spay/neuter program	30,000	-
Veterinary medicine - surgical tables	21,343	-
Veterinary medicine - CARE program	20,000	-
Escondido building & construction	-	34,079
Escondido campus safety lighting	-	23,950
Senior level staff training	-	3,238
Total	4,152,204	3,271,798
Total temporarily restricted net assets	\$ 7,870,044	\$ 7,415,274

San Diego Humane Society and SPCA

Notes to Financial Statements

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, 2017 and 2016:

	2017	2016
Volunteer program	\$ 400,000	\$ 225,000
Veterinarian and hospital manager	250,000	300,000
Project Wildlife staffing	150,000	-
Animal Adventure Camp	65,972	60,050
Other purposes (under \$20,000 each)	48,285	56,990
Escondido building & construction	34,079	-
Escondido campus safety lighting	23,950	-
Spay/neuter program	-	250,000
Behavior assistance program	-	100,000
Philanthropy training	-	63,000
Veterinary hospital expansion	-	36,986
Project Wildlife	-	26,420
Escondido kitten nursery	-	20,000
	\$ 972,286	\$ 1,138,446
Total net assets released from restriction		

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.

The Society 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, the Society classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence.

San Diego Humane Society and SPCA Notes to Financial Statements

Note 11 – Endowment Funds (continued)

In December of 2016 the Society adopted an Endowment Policy which applies to all existing and new permanently restricted endowments from donors.

The Endowment Policy specifies that the Society'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;
- 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 the Society. 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"). The Society shall expend no more than the Payout each year. If less than the Payout is expended in any one year, the Society 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 Principal.
- Excess Payout may be added back to the Endowment's principal 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 the Society's fiscal year. Underwater is defined as occurring when the market value is less than the Principal.

Prior to enactment of the Endowment Policy in December of 2016 the Society had a policy of appropriating for distribution no more than four percent (4 percent) of the market values of the portfolio, determined at least quarterly and averaged over the last three calendar years preceding the appropriation for the expenditures. In establishing this policy, the Society considered the long-term expected return on its endowment.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 11 – Endowment Funds (continued)

Endowment net assets consist of the following at June 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ 2,922,989	\$ 234,404	\$ 1,000,000	\$ 4,157,393
Investment return, net of expenses	17,582	10,957	-	28,539
Expenditures	(20,760)	(60,050)	-	(80,810)
Change in endowment assets	(3,178)	(49,093)	-	(52,271)
Endowment net assets, June 30, 2016	2,919,811	185,311	1,000,000	4,105,122
Investment return, net of expenses	259,035	110,155	-	369,190
Contributions	-	-	2,000,000	2,000,000
Expenditures	(27,846)	(65,972)	-	(93,818)
Change in endowment assets	231,189	44,183	2,000,000	2,275,372
Endowment net assets, June 30, 2017	<u>\$ 3,151,000</u>	<u>\$ 229,494</u>	<u>\$ 3,000,000</u>	<u>\$ 6,380,494</u>

In September 2006, the Board voted to designate \$1,929,448 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 unrestricted endowment assets above.

The Society has one term endowment ending in 2021 of \$112,670 at June 30, 2017 and 2016. 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, 2017 and 2016.

Note 12 – Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds, which are investment assets held by a trustee for the benefit of the Society (Note 11). In addition to the endowment assets, permanently restricted net assets included amounts for a beneficial interest in a trust and land held in perpetuity.

At June 30, 2017 and 2016, the trust held investment assets valued at \$962,853 and \$875,575, respectively. The change in value during the years ended June 30, 2017 and 2016 is reported as permanently restricted investment income or loss. The trustee distributed \$21,000 to the Society in each of the years ended June 30, 2017 and 2016. The trustee has no variance power. The Society 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.

San Diego Humane Society and SPCA Notes to Financial Statements

Note 12 – Permanently Restricted Net Assets (continued)

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 \$24,057 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 the Society 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 the Society 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.

Note 13 – Joint Costs

The Society achieves some of its programmatic and fundraising activities in magazine mailings which include requests for contributions. The costs of conducting the mailings included \$240,024 and \$265,323, respectively, for the years ended June 30, 2017 and 2016 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Marketing and public relations	\$ 60,006	\$ 150,902
Adoptions and animal care	72,007	84,962
Community outreach	12,001	17,168
Fundraising	<u>96,010</u>	<u>12,291</u>
Total	<u>\$ 240,024</u>	<u>\$ 265,323</u>

San Diego Humane Society and SPCA

Notes to Financial Statements

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. The Society 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. The Society'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.

Effective July 1, 2017, the Society entered into a contract with the City of Imperial Beach for the Society to provide municipal animal services to Imperial Beach. The contract term extends to June 30, 2020.

The Society has evaluated subsequent events through November 13, 2017, which is the date the financial statements were available to be issued.