



**Report of Independent Auditors
and Financial Statements for
San Diego Humane Society
and SPCA
June 30, 2013 and 2012**

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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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, 2013 and 2012, 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
December 3, 2013

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 606,383	\$ 37,797
Investments	32,083,212	32,697,321
Receivables, net	7,969,318	9,145,290
Prepaid expenses and other assets	381,664	276,809
Property and equipment, net	12,353,532	12,935,011
Beneficial interest in trust	698,645	590,568
	<u>\$ 54,092,754</u>	<u>\$ 55,682,796</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,326,140	\$ 1,158,691
Deferred revenue	350,078	203,307
Total liabilities	<u>1,676,218</u>	<u>1,361,998</u>
Commitments and Contingencies (Note 7)		
Net Assets		
Unrestricted	45,789,915	47,907,818
Temporarily restricted	4,903,919	4,798,355
Permanently restricted	1,722,702	1,614,625
Total net assets	<u>52,416,536</u>	<u>54,320,798</u>
	<u>\$ 54,092,754</u>	<u>\$ 55,682,796</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 5,465,058	\$ 46,428	\$ -	\$ 5,511,486
Contributions	3,614,059	1,043,922	-	4,657,981
Special events	1,331,542	-	-	1,331,542
Special events expense	(699,539)	-	-	(699,539)
Change in value of split-interest agreements	-	(271,698)	-	(271,698)
Net assets released from restrictions	836,467	(836,467)	-	-
	<u>10,547,587</u>	<u>(17,815)</u>	<u>-</u>	<u>10,529,772</u>
Revenue				
Net realized and unrealized investment gain	2,815,851	89,716	90,428	2,995,995
Interest and dividends, net of expenses	588,974	33,663	17,649	640,286
Field services and licensing	1,659,995	-	-	1,659,995
Adoptions and animal care	519,336	-	-	519,336
Veterinary health services	368,725	-	-	368,725
Educational program fees	187,906	-	-	187,906
Retail sales	567,659	-	-	567,659
Retail sales expense	(320,609)	-	-	(320,609)
Other	49,132	-	-	49,132
Net revenue	<u>6,436,969</u>	<u>123,379</u>	<u>108,077</u>	<u>6,668,425</u>
Total support and revenue	<u>16,984,556</u>	<u>105,564</u>	<u>108,077</u>	<u>17,198,197</u>
EXPENSES				
Program Services				
Adoptions and animal care	12,858,830	-	-	12,858,830
Investigations and field services	1,475,921	-	-	1,475,921
Community outreach	1,117,641	-	-	1,117,641
	<u>15,452,392</u>	<u>-</u>	<u>-</u>	<u>15,452,392</u>
Supporting Services				
Management and general	1,575,583	-	-	1,575,583
Donor development and fundraising	1,622,077	-	-	1,622,077
Marketing and public relations	452,407	-	-	452,407
	<u>3,650,067</u>	<u>-</u>	<u>-</u>	<u>3,650,067</u>
Total expenses	<u>19,102,459</u>	<u>-</u>	<u>-</u>	<u>19,102,459</u>
CHANGE IN NET ASSETS	(2,117,903)	105,564	108,077	(1,904,262)
NET ASSETS				
Beginning of year	<u>47,907,818</u>	<u>4,798,355</u>	<u>1,614,625</u>	<u>54,320,798</u>
End of year	<u>\$ 45,789,915</u>	<u>\$ 4,903,919</u>	<u>\$ 1,722,702</u>	<u>\$ 52,416,536</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 7,832,672	\$ -	\$ -	\$ 7,832,672
Contributions	3,444,371	1,865,616	-	5,309,987
Special events	1,175,660	-	-	1,175,660
Special events expense	(621,584)	-	-	(621,584)
Change in value of split-interest agreements	-	135,981	-	135,981
Net assets released from restrictions	941,408	(941,408)	-	-
	<u>12,772,527</u>	<u>1,060,189</u>	<u>-</u>	<u>13,832,716</u>
Revenue				
Net realized and unrealized investment loss	(1,225,315)	(22,954)	(4,869)	(1,253,138)
Interest and dividends, net of expenses	547,735	17,784	16,314	581,833
Field services and licensing	1,633,219	-	-	1,633,219
Adoptions and animal care	403,393	-	-	403,393
Veterinary health services	345,074	-	-	345,074
Educational program fees	233,920	-	-	233,920
Retail sales	572,248	-	-	572,248
Retail sales expense	(333,206)	-	-	(333,206)
Other	20,965	-	-	20,965
Net revenue	<u>2,198,033</u>	<u>(5,170)</u>	<u>11,445</u>	<u>2,204,308</u>
Total support and revenue	<u>14,970,560</u>	<u>1,055,019</u>	<u>11,445</u>	<u>16,037,024</u>
EXPENSES				
Program Services				
Adoptions and animal care	13,286,397	-	-	13,286,397
Investigations and field services	1,391,163	-	-	1,391,163
Community outreach	991,872	-	-	991,872
	<u>15,669,432</u>	<u>-</u>	<u>-</u>	<u>15,669,432</u>
Supporting Services				
Management and general	1,412,628	-	-	1,412,628
Donor development and fundraising	1,743,379	-	-	1,743,379
Marketing and public relations	472,029	-	-	472,029
	<u>3,628,036</u>	<u>-</u>	<u>-</u>	<u>3,628,036</u>
Total expenses	<u>19,297,468</u>	<u>-</u>	<u>-</u>	<u>19,297,468</u>
CHANGE IN NET ASSETS	(4,326,908)	1,055,019	11,445	(3,260,444)
NET ASSETS				
Beginning of year	<u>52,234,726</u>	<u>3,743,336</u>	<u>1,603,180</u>	<u>57,581,242</u>
End of year	<u>\$ 47,907,818</u>	<u>\$ 4,798,355</u>	<u>\$ 1,614,625</u>	<u>\$ 54,320,798</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	Program Services				Supporting Services					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	\$ 7,102,291	\$ 902,506	\$ 623,425	\$ 8,628,222	\$ 794,586	\$ 846,947	\$ 274,533	\$ 1,916,066	\$ 10,544,288	
Payroll taxes	598,627	72,189	52,471	723,287	59,809	67,509	22,350	149,668	872,955	
Employee health and benefits	680,203	76,934	52,597	809,734	51,488	59,357	23,332	134,177	943,911	
Retirement	362,252	50,904	34,820	447,976	35,353	45,685	15,587	96,625	544,601	
Total salaries and related expenses	8,743,373	1,102,533	763,313	10,609,219	941,236	1,019,498	335,802	2,296,536	12,905,755	
Occupancy and utilities	1,074,213	48,074	68,032	1,190,319	26,444	34,421	10,021	70,886	1,261,205	
Other professional fees	55,737	3,587	364	59,688	81,155	25,543	15,461	122,159	181,847	
Veterinary medicine and care	891,156	-	-	891,156	-	-	-	-	891,156	
Animal feed, supplies, equipment, and habitat	841,836	49,944	83	891,863	-	-	-	-	891,863	
Insurance	241,091	45,934	18,900	305,925	38,127	8,329	3,614	50,070	355,995	
Printing and publications	71,012	13,503	40,580	125,095	11,523	66,331	28,748	106,602	231,697	
Direct mailing	-	-	-	-	-	263,372	-	263,372	263,372	
Professional development/travel	57,616	6,722	8,646	72,984	38,126	12,965	2,515	53,606	126,590	
Computer maintenance	92,633	12,829	5,780	111,242	12,683	21,009	2,537	36,229	147,471	
Program supplies and uniforms	39,237	39,792	50,921	129,950	-	-	718	718	130,668	
Legal fees	-	-	-	-	262,967	7,802	-	270,769	270,769	
Miscellaneous	7,617	6,820	-	14,437	113,649	36,137	-	149,786	164,223	
Automotive	41,104	74,794	13,641	129,539	-	-	-	-	129,539	
Employee/volunteer/donor relations	-	-	43,815	43,815	15,572	63,900	-	79,472	123,287	
Security	63,358	7,498	15,537	86,393	1,828	2,582	532	4,942	91,335	
Office supplies	35,479	2,920	3,028	41,427	9,055	13,341	1,699	24,095	65,522	
Postage	2,708	15,531	1,275	19,514	3,242	18,973	363	22,578	42,092	
Advertising	11,972	257	5,923	18,152	-	2,244	40,258	42,502	60,654	
Total expenses before depreciation	12,270,142	1,430,738	1,039,838	14,740,718	1,555,607	1,596,447	442,268	3,594,322	18,335,040	
Depreciation	588,688	45,183	77,803	711,674	19,976	25,630	10,139	55,745	767,419	
Total expenses	<u>\$ 12,858,830</u>	<u>\$ 1,475,921</u>	<u>\$ 1,117,641</u>	<u>\$ 15,452,392</u>	<u>\$ 1,575,583</u>	<u>\$ 1,622,077</u>	<u>\$ 452,407</u>	<u>\$ 3,650,067</u>	<u>\$ 19,102,459</u>	

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	Program Services				Supporting Services					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	\$ 7,116,402	\$ 833,212	\$ 547,528	\$ 8,497,142	\$ 691,276	\$ 824,569	\$ 293,454	\$ 1,809,299	\$ 10,306,441	
Payroll taxes	620,625	69,237	49,527	739,389	56,216	67,243	25,171	148,630	888,019	
Employee health and benefits	721,018	73,621	41,493	836,132	46,749	68,338	20,820	135,907	972,039	
Retirement	295,972	33,057	27,294	356,323	35,811	36,160	12,644	84,615	440,938	
Total salaries and related expenses	8,754,017	1,009,127	665,842	10,428,986	830,052	996,310	352,089	2,178,451	12,607,437	
Occupancy and utilities	1,067,014	60,028	42,602	1,169,644	29,583	30,515	10,003	70,101	1,239,745	
Other professional fees	222,651	24,059	38,637	285,347	199,734	22,395	17,104	239,233	524,580	
Veterinary medicine and care	943,260	1,285	-	944,545	-	-	-	-	944,545	
Animal feed, supplies, equipment, and habitat	609,124	13,615	1,276	624,015	-	-	-	-	624,015	
Insurance	235,629	52,233	16,484	304,346	30,339	8,169	2,296	40,804	345,150	
Printing and publications	91,667	18,673	30,767	141,107	12,728	77,199	29,060	118,987	260,094	
Direct mailing	-	-	-	-	-	345,866	-	345,866	345,866	
Professional development	122,533	12,447	11,761	146,741	24,028	12,503	6,676	43,207	189,948	
Computer maintenance	116,397	10,053	4,283	130,733	14,478	23,274	4,409	42,161	172,894	
Program supplies and uniforms	242,768	53,264	41,819	337,851	6,115	8,614	5,964	20,693	358,544	
Legal fees	19,611	-	-	19,611	133,300	58,763	-	192,063	211,674	
Miscellaneous	18,364	4,823	-	23,187	82,990	34,260	-	117,250	140,437	
Automotive	49,376	76,919	10,889	137,184	268	-	-	268	137,452	
Employee/volunteer/donor relations	11,973	1,077	36,927	49,977	13,082	57,849	340	71,271	121,248	
Security	92,651	8,749	2,300	103,700	2,896	3,135	455	6,486	110,186	
Office supplies	44,967	4,813	3,492	53,272	6,699	7,987	4,220	18,906	72,178	
Postage	16,548	1,175	1,267	18,990	4,675	28,721	1,124	34,520	53,510	
Advertising	14,857	208	4,823	19,888	102	187	28,943	29,232	49,120	
Total expenses before depreciation	12,673,407	1,352,548	913,169	14,939,124	1,391,069	1,715,747	462,683	3,569,499	18,508,623	
Depreciation	612,990	38,615	78,703	730,308	21,559	27,632	9,346	58,537	788,845	
Total expenses	<u>\$ 13,286,397</u>	<u>\$ 1,391,163</u>	<u>\$ 991,872</u>	<u>\$ 15,669,432</u>	<u>\$ 1,412,628</u>	<u>\$ 1,743,379</u>	<u>\$ 472,029</u>	<u>\$ 3,628,036</u>	<u>\$ 19,297,468</u>	

See accompanying notes.

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	Years Ended June 30,	
	2013	2012
OPERATING ACTIVITIES		
Change in net assets	\$ (1,904,262)	\$ (3,260,444)
Reconciliation to net cash provided by operating activities:		
Depreciation	767,419	788,845
Contribution of charitable remainder trust	-	(1,059,812)
Net realized and unrealized loss (gain) on investments	(2,995,995)	1,253,138
Change in value of split-interest gifts	271,698	(135,981)
(Increase) decrease in operating assets:		
Receivables	904,274	(1,613,836)
Prepaid expenses and other assets	(104,855)	13,728
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	167,449	(547,965)
Due to City of San Diego	-	(584,518)
Deferred revenue and advances	146,771	(16,312)
Net cash (used in) operating activities	<u>(2,747,501)</u>	<u>(5,163,157)</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	49,387,783	64,884,753
Purchases of investments	(45,885,757)	(60,823,118)
Purchases of property and equipment	(185,939)	(678,223)
Net cash provided by investing activities	<u>3,316,087</u>	<u>3,383,412</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	568,586	(1,779,745)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>37,797</u>	<u>1,817,542</u>
End of year	<u>\$ 606,383</u>	<u>\$ 37,797</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid, net of refunds	<u>\$ 2,265</u>	<u>\$ -</u>
Interest paid	<u>\$ 20,139</u>	<u>\$ -</u>

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

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

Nature of organization - The mission of the San Diego Humane Society and SPCA (the “Society”) is to promote the humane treatment of animals, prevent cruelty to animals, and provide education to enhance the human-animal bond. Serving San Diego County since 1880, the Society provides vital services to animals and people alike.

With campuses in both central San Diego and Oceanside, California, the Society’s programs and services include admissions services for owner-relinquished pets; sheltering and adopting of companion animals; investigating animal cruelty and neglect; rescuing animals in emergency situations; providing positive reinforcement behavior modification training for shelter animals and the public; providing adult and youth education programs; sharing animals through pet-assisted therapy; providing municipal field service, sheltering, and stray pet services to the residents of Oceanside and Vista, California; and extending compassion through owner-requested euthanasia and aftercare for terminally ill or suffering pets. The Society also owns and operates an off-leash dog park in Oceanside. New programs implemented during the year ending June 30, 2013 were needs-based spay/neuter services for the public and a new adoption center inside a Petco in El Cajon, California.

Income taxes - The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701(d) 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 follows the provisions of ASC 740-10, *Income Taxes*, related to accounting for uncertain tax positions. 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. The Society is no longer subject to income tax examinations by taxing authorities for years before 2009 for its federal filings and for years before 2008 for its state filings.

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

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. At June 30, 2013 and 2012, the Society has \$1,722,702 and \$1,614,625, respectively, of permanently restricted net assets.

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

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

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 and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. Net realized and unrealized gains and losses are reflected as increases or decreases in 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, 2013 and 2012, the discount was \$71,557 and \$45,830, 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 \$1,000,000 at June 30, 2013 and 2012.

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. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Trucks and automobiles	3 to 5 years
Furniture and equipment	5 to 10 years
Buildings, land, and leasehold improvements	7 to 39 years
Computer hardware	5 to 7 years
Computer software	3 years

The Society capitalizes property and equipment with costs of \$5,000 or greater. Donated assets are recorded at fair value as determined by management, the donor, or independent appraisal.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

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

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 services, educational 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 and Vista to provide animal services to the communities. The contract with Oceanside is in effect until June 30, 2016; the contract with Vista is in effect until June 30, 2016 and is renewable for two one-year terms thereafter. 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 and Vista. 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 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 statement 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.

Donated services - 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. During the years ended June 30, 2013 and 2012, volunteers provided approximately 134,400 and 119,000 hours of service to the Society, respectively. For the years ended June 30, 2013 and 2012, management estimates the value of these services to approximate \$3,326,000 and \$2,884,000, respectively. No amounts have been recognized in the accompanying statements of activities in accordance with ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*.

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.

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

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

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

Recent accounting pronouncement - In May 2011, FASB issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to substantially converge the guidance in U.S. GAAP and IFRS on fair value measurements and disclosures. The amended guidance includes several new fair value disclosure requirements, including, among other things, information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of Level 3 measurements’ sensitivity to changes in unobservable inputs. The Society has adopted the ASU and the new required disclosures as of July 1, 2012.

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. Investments are managed by several managers to diversify risk and manage liquidity.

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.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 3 - Investments

Investments consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,636,096	\$ 2,798,818
Common stock	12,315,211	12,229,734
Mutual funds	7,578,253	7,307,397
Fixed income	<u>10,553,652</u>	<u>10,361,372</u>
 Total investments	 <u>\$ 32,083,212</u>	 <u>\$ 32,697,321</u>

Investment income consists of the following for the years ended June 30, 2013 and 2012:

Interest and dividends	\$ 825,242	\$ 748,768
Investment expenses	<u>(184,956)</u>	<u>(166,935)</u>
 Interest and dividends, net of expenses	 <u>\$ 640,286</u>	 <u>\$ 581,833</u>
 Net realized and unrealized gains (losses)	 <u>\$ 2,995,995</u>	 <u>\$ (1,253,138)</u>

Investing decisions are subject to the guidelines set forth in the Society's investment policy. The Finance Committee of the Board of Trustees of the Society approves the selection and performance of investment advisors, investment allocations, and overall portfolio composition to ensure conformity with policies.

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 820-10, *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.

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

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

When an instrument is transferred between levels, the transfer is recognized at the end of the reporting period. During the years ended June 30, 2013 and 2012, there were no transfers between levels.

The Chief Financial Officer (“CFO”) and Controller, under the supervision of the Society’s Finance Committee of the Board of Trustees, 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).

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, 2013 and 2012:

	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, 2013
Cash and cash equivalents	\$ 1,636,096	\$ -	\$ -	\$ 1,636,096
Fixed-income securities:				
U.S. government bonds	4,399,115	277,987	-	4,677,102
U.S. government asset-backed	590,321	971,745	-	1,562,066
Corporate bonds	3,921,088	-	-	3,921,088
Foreign bonds	393,396	-	-	393,396
Total fixed-income securities	<u>9,303,920</u>	<u>1,249,732</u>	<u>-</u>	<u>10,553,652</u>
Common stock:				
Large cap equities	<u>12,315,211</u>	<u>-</u>	<u>-</u>	<u>12,315,211</u>
Mutual funds:				
Bond funds	574,842	-	-	574,842
Equity funds	6,697,304	-	-	6,697,304
Pooled income funds	-	306,107	-	306,107
Total mutual funds	<u>7,272,146</u>	<u>306,107</u>	<u>-</u>	<u>7,578,253</u>
Charitable remainder trusts	-	-	3,254,244	3,254,244
Beneficial interest in trust	-	698,645	-	698,645
	<u>\$ 30,527,373</u>	<u>\$ 2,254,484</u>	<u>\$ 3,254,244</u>	<u>\$ 36,036,101</u>
	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, 2012
Cash and cash equivalents	\$ 2,798,818	\$ -	\$ -	\$ 2,798,818
Fixed-income securities:				
U.S. government bonds	3,891,966	-	-	3,891,966
U.S. government asset-backed	6,469,406	-	-	6,469,406
Total fixed-income securities	<u>10,361,372</u>	<u>-</u>	<u>-</u>	<u>10,361,372</u>
Common stock:				
Large cap equities	<u>12,229,734</u>	<u>-</u>	<u>-</u>	<u>12,229,734</u>
Mutual funds:				
Bond funds	544,411	-	-	544,411
Equity funds	6,458,140	-	-	6,458,140
Pooled income funds	-	304,846	-	304,846
Total mutual funds	<u>7,002,551</u>	<u>304,846</u>	<u>-</u>	<u>7,307,397</u>
Charitable remainder trusts	-	-	3,501,478	3,501,478
Beneficial interest in trust	-	590,568	-	590,568
	<u>\$ 32,392,475</u>	<u>\$ 895,414</u>	<u>\$ 3,501,478</u>	<u>\$ 36,789,367</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

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, 2013 and 2012, as shown in the following table, are the results of changes in these measurement factors.

The table below includes a rollforward of the charitable remainder trusts for the years ended June 30, 2013 and 2012:

Balance, July 1, 2011	\$ 2,353,823
Contributions	1,059,812
Maturities	(164,859)
Unrealized gain	<u>252,702</u>
Balance, June 30, 2012	<u>3,501,478</u>
Unrealized loss	<u>(247,234)</u>
Balance, June 30, 2013	<u><u>\$ 3,254,244</u></u>

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, 2013:

<u>June 30, 2013</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Charitable remainder trusts	<u>\$ 3,254,244</u>	Discounted cash flow	Discount Rates	0.66% to 3.22%
			Life Expectancy	1 to 23 years

In December 2012, the Society entered into an investment commitment of \$1,000,000 with a firm specializing in private equity/limited partnerships. As of June 30, 2013, the Society made one capital payment of \$20,000 for start-up costs, and no acquisitions had been consummated.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 5 – Receivables

Receivables are due as follows as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less than one year:		
Pledges and bequests	\$ 3,965,597	\$ 4,890,204
Charitable remainder trusts	346,667	-
Other	138,275	45,223
One to five years:		
Pledges and bequests	1,613,500	1,708,289
Charitable remainder trusts	1,651,594	2,055,280
More than five years:		
Charitable remainder trusts	2,524,085	2,466,731
	<u>10,239,718</u>	<u>11,165,727</u>
Less provision for uncollectible accounts:		
Pledges and bequests	1,000,000	1,000,000
Less discount to net present value:		
From 2 to 6 percent	1,270,400	1,020,437
	<u>1,270,400</u>	<u>1,020,437</u>
	<u>\$ 7,969,318</u>	<u>\$ 9,145,290</u>

Note 6 – Property and Equipment

Property and equipment consists of the following at June 30, 2013 and 2012:

Land	\$ 4,047,768	\$ 4,028,938
Buildings	10,993,534	10,960,268
Leasehold improvements	584,620	494,798
Furniture and fixtures	3,102,611	3,065,542
Trucks and automobiles	1,239,501	1,239,501
Computer hardware and software	1,401,209	1,394,256
Machinery and equipment	225,145	225,145
	<u>21,594,388</u>	<u>21,408,448</u>
Less: accumulated depreciation	<u>(9,240,856)</u>	<u>(8,473,437)</u>
	<u>\$ 12,353,532</u>	<u>\$ 12,935,011</u>

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

Note 7 – Commitments and Contingencies

Leases - The Society leases office equipment and certain space with lease terms that expire through December 2025. Annual lease payments range from approximately \$1 to \$216,072. The lease payments for the years ended June 30, 2013 and 2012 were approximately \$336,700 and \$342,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2013:

Years ending June 30,		
2014	\$	317,815
2015		256,152
2016		263,664
2017		247,618
2018		254,262
Thereafter		<u>2,159,118</u>
	\$	<u>3,498,629</u>

Benefit plan - The Society has a 403(b) tax-deferred annuity plan (the "Plan") which covers its employees. The Society contributes 6 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, 2013 and 2012 were approximately \$544,600 and \$441,000, respectively.

Line of credit - The Society has a line of credit agreement with Wells Fargo bank that expires February 1, 2014. The terms of the line of credit include a maximum borrowing limit of \$900,000, with a floating interest rate of the prime rate plus 1 percent, subject to a minimum interest rate of 4 percent. The floating interest rate was 4.25 percent as of June 30, 2013. No amounts are due at June 30, 2013 or 2012.

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 results of operations.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Time restrictions:		
Charitable remainder trusts	\$ 3,254,245	\$ 3,501,478
Pooled income funds	234,550	259,016
Future operations	112,670	112,670
	<u>3,601,465</u>	<u>3,873,164</u>
Restricted purpose or program:		
Veterinarian compensation	300,000	400,000
Spay/neuter program	264,888	-
Volunteer program	234,237	265,356
Animal Adventure Camp (unappropriated earnings)	157,380	76,829
Behavior assistance program	129,276	113,000
Companion animal transport program	76,450	-
Large animal care	46,428	-
Marketing & advertising package	43,600	-
Education program	25,839	42,000
Other purposes (under \$20,000 each)	24,356	28,006
	<u>1,302,454</u>	<u>925,191</u>
	<u>\$ 4,903,919</u>	<u>\$ 4,798,355</u>

Note 9 – 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, 2013 and 2012:

Veterinarian and hospital manager	\$ 400,000	\$ 562,825
Volunteer program	251,120	261,883
Behavior assistance program	83,724	109,200
Animal Adventure Camp	42,827	-
Education program	41,161	-
Disaster and fire assistance	16,830	-
Animal care and protection	-	7,500
Serenity room & Chad adoption	805	-
	<u>\$ 836,467</u>	<u>\$ 941,408</u>

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

Note 10 – 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 accordance with the trust agreement, the income from the trust investments, less the fees of administering the trust, is distributable to the Society. The trustee has no variance power. Investment assets of \$611,457 were contributed to the Society during the year ended June 30, 2007. During the year ended June 30, 2008, an additional \$5,180 was contributed to the trust. Distributions from the trust are recorded as investment income. At June 30, 2013 and 2012, the trust held investment assets valued at \$698,642 and \$590,565, respectively. The change in value during the years ended June 30, 2013 and 2012 is reported as permanently restricted investment gains. 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.

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 \$24,060 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 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.

Note 11 – Endowment Funds (continued)

The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Society and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Society
- g. The investment policies of the Society

The Society has an investment and spending policy for unrestricted assets and endowment assets which attempts to provide a predictable stream of funding to programs, as specified by a donor. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity. Under the Society's Investment Policy Statement, as approved by the Trustees, the endowment assets are invested in a manner in which the investments are competitive with indices/benchmarks for all permanently restricted endowment assets. To satisfy its long-term rate of return, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Society has 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, 2013 and 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 2,329,487	\$ 81,999	\$ 1,000,000	\$ 3,411,486
Investment return:				
Interest and dividends, net of expenses	-	17,784	-	17,784
Net realized and unrealized (loss)	(40,941)	(22,954)	-	(63,895)
Net investment returns	(40,941)	(5,170)	-	(46,111)
Expenditures	(8,241)	-	-	(8,241)
Change in endowment assets	(49,182)	(5,170)	-	(54,352)
Endowment net assets, June 30, 2012	<u>2,280,305</u>	<u>76,829</u>	<u>1,000,000</u>	<u>3,357,134</u>
Investment return:				
Interest and dividends, net of expenses	-	33,663	-	33,663
Net realized and unrealized gain	248,633	89,716	-	338,349
Net investment returns	248,633	123,379	-	372,012
Expenditures	-	(42,828)	-	(42,828)
Change in endowment assets	248,633	80,551	-	329,184
Endowment net assets, June 30, 2013	<u>\$ 2,528,938</u>	<u>\$ 157,380</u>	<u>\$ 1,000,000</u>	<u>\$ 3,686,318</u>

In September 2006, the Board of Trustees 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 of \$112,670 at June 30, 2013 and 2012. 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, 2013 and 2012.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 12 – Joint Costs

The Society achieves some of its programmatic and fundraising activities in newsletter mailings which include requests for contributions. The costs of conducting the mailings included \$119,099 and \$139,998, respectively, for the years ended June 30, 2013 and 2012 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Fundraising	\$ 39,961	\$ 45,937
Adoptions and animal care	17,238	29,409
Community outreach	32,125	25,156
Marketing and public relations	23,507	24,062
Investigations	3,134	12,639
Management and general	3,134	2,795
	<u>\$ 119,099</u>	<u>\$ 139,998</u>

Note 13 – Related-party Transactions

A Trustee is a Managing Director with an investment bank serving as the custodian of funds managed by a non-related investment manager. At June 30, 2013 and 2012, approximately \$11,899,440 and \$12,470,806, respectively, of investments was in the custody of the investment company. No fees were paid to the Trustee.

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. The Society has evaluated subsequent events through December 3, 2013, which is the date the financial statements were available to be issued.