



Report of Independent Auditors and
Financial Statements for

**San Diego Humane Society
and SPCA**

June 30, 2015 and 2014

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, 2015 and 2014, 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.

MOSS ADAMS_{LLP}

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, 2015 and 2014, and the changes in 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 11, 2015

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	June 30,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 594,486	\$ 1,469,481
Investments	33,686,052	35,015,849
Receivables, net	9,259,789	9,762,437
Prepaid expenses and other assets	657,649	473,572
Property and equipment, net	14,701,859	11,748,269
Beneficial interest in trust	889,056	841,810
	<u>\$ 59,788,891</u>	<u>\$ 59,311,418</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,836,772	\$ 1,713,305
Deferred revenue	508,279	381,270
Total liabilities	<u>2,345,051</u>	<u>2,094,575</u>
Commitments and Contingencies (Note 8)		
Net Assets		
Unrestricted	50,805,175	50,455,408
Temporarily restricted	4,725,552	4,895,568
Permanently restricted	1,913,113	1,865,867
Total net assets	<u>57,443,840</u>	<u>57,216,843</u>
Total liabilities and net assets	<u>\$ 59,788,891</u>	<u>\$ 59,311,418</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 6,074,106	\$ -	\$ -	\$ 6,074,106
Contributions	5,246,255	962,094	-	6,208,349
Special events	1,702,728	-	-	1,702,728
Special events expense	(760,243)	-	-	(760,243)
Change in value of split-interest agreements	-	83,259	-	83,259
Net assets released from restrictions	1,511,539	(1,511,539)	-	-
Net support	<u>13,774,385</u>	<u>(466,186)</u>	<u>-</u>	<u>13,308,199</u>
Revenue				
Investment income	564,764	18,772	47,246	630,782
Field services and licensing	3,666,862	-	-	3,666,862
Adoptions and animal care	942,283	-	-	942,283
Veterinary health services	365,411	-	-	365,411
Educational program fees	258,278	-	-	258,278
Retail sales	568,325	-	-	568,325
Retail sales expense	(314,569)	-	-	(314,569)
Other	55,172	-	-	55,172
Net revenue	<u>6,106,526</u>	<u>18,772</u>	<u>47,246</u>	<u>6,172,544</u>
Total support and revenue	<u>19,880,911</u>	<u>(447,414)</u>	<u>47,246</u>	<u>19,480,743</u>
EXPENSES				
Program Services				
Adoptions and animal care	16,866,755	-	-	16,866,755
Investigations and field services	1,999,248	-	-	1,999,248
Community outreach	1,779,155	-	-	1,779,155
	<u>20,645,158</u>	<u>-</u>	<u>-</u>	<u>20,645,158</u>
Supporting Services				
Management and general	1,720,482	-	-	1,720,482
Donor development and fundraising	2,479,820	-	-	2,479,820
Marketing and public relations	1,132,172	-	-	1,132,172
	<u>5,332,474</u>	<u>-</u>	<u>-</u>	<u>5,332,474</u>
Total expenses	<u>25,977,632</u>	<u>-</u>	<u>-</u>	<u>25,977,632</u>
CHANGE IN NET ASSETS BEFORE INHERENT CONTRIBUTION				
	(6,096,721)	(447,414)	47,246	(6,496,889)
INHERENT CONTRIBUTION				
	<u>6,446,488</u>	<u>277,398</u>	<u>-</u>	<u>6,723,886</u>
CHANGE IN NET ASSETS				
	349,767	(170,016)	47,246	226,997
NET ASSETS				
Beginning of year	<u>50,455,408</u>	<u>4,895,568</u>	<u>1,865,867</u>	<u>57,216,843</u>
End of year	<u>\$ 50,805,175</u>	<u>\$ 4,725,552</u>	<u>\$ 1,913,113</u>	<u>\$ 57,443,840</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Support				
Bequests	\$ 9,521,877	\$ 543,154	\$ -	\$ 10,065,031
Contributions	3,644,521	1,349,211	-	4,993,732
Special events	1,493,822	-	-	1,493,822
Special events expense	(675,257)	-	-	(675,257)
Change in value of split-interest agreements	-	768,201	-	768,201
Net assets released from restrictions	2,842,554	(2,842,554)	-	-
	<u>16,827,517</u>	<u>(181,988)</u>	<u>-</u>	<u>16,645,529</u>
Revenue				
Net realized and unrealized investment gain	3,634,019	143,092	124,244	3,901,355
Interest and dividends, net of expenses	590,662	30,545	18,921	640,128
Field services and licensing	1,757,889	-	-	1,757,889
Adoptions and animal care	675,662	-	-	675,662
Veterinary health services	405,238	-	-	405,238
Educational program fees	195,217	-	-	195,217
Retail sales	533,721	-	-	533,721
Retail sales expense	(298,385)	-	-	(298,385)
Other	42,523	-	-	42,523
Net revenue	<u>7,536,546</u>	<u>173,637</u>	<u>143,165</u>	<u>7,853,348</u>
Total support and revenue	<u>24,364,063</u>	<u>(8,351)</u>	<u>143,165</u>	<u>24,498,877</u>
EXPENSES				
Program Services				
Adoptions and animal care	13,019,575	-	-	13,019,575
Investigations and field services	1,339,574	-	-	1,339,574
Community outreach	1,173,858	-	-	1,173,858
	<u>15,533,007</u>	<u>-</u>	<u>-</u>	<u>15,533,007</u>
Supporting Services				
Management and general	1,315,880	-	-	1,315,880
Donor development and fundraising	2,235,883	-	-	2,235,883
Marketing and public relations	613,800	-	-	613,800
	<u>4,165,563</u>	<u>-</u>	<u>-</u>	<u>4,165,563</u>
Total expenses	<u>19,698,570</u>	<u>-</u>	<u>-</u>	<u>19,698,570</u>
CHANGE IN NET ASSETS	4,665,493	(8,351)	143,165	4,800,307
NET ASSETS				
Beginning of year	<u>45,789,915</u>	<u>4,903,919</u>	<u>1,722,702</u>	<u>52,416,536</u>
End of year	<u>\$ 50,455,408</u>	<u>\$ 4,895,568</u>	<u>\$ 1,865,867</u>	<u>\$ 57,216,843</u>

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015 (WITH COMPARITIVE INFORMATION FOR YEAR ENDED JUNE 30, 2014)

	Program Services				Supporting Services				2015 Total Expenses	2014 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	\$ 9,041,041	\$ 1,173,645	\$ 1,016,100	\$ 11,230,786	\$ 1,097,615	\$ 1,183,995	\$ 480,106	\$ 2,761,716	\$ 13,992,502	\$ 10,641,978
Employee health and benefits	894,187	104,213	76,007	1,074,407	70,398	80,165	28,254	178,817	1,253,224	904,828
Payroll taxes	798,586	100,370	87,103	986,059	83,477	93,868	38,533	215,878	1,201,937	890,848
Retirement	208,082	26,976	32,969	268,027	41,244	37,327	11,963	90,534	358,561	317,883
Total salaries and related expenses	10,941,896	1,405,204	1,212,179	13,559,279	1,292,734	1,395,355	558,856	3,246,945	16,806,224	12,755,537
Occupancy and utilities	1,232,709	67,938	131,691	1,432,338	54,023	52,489	15,073	121,585	1,553,923	1,222,301
Veterinary medicine and care	1,243,425	7,682	13,448	1,264,555	-	-	-	-	1,264,555	973,144
Animal feed, supplies, equipment, and habitat	1,219,140	31,195	1,090	1,251,425	-	-	-	-	1,251,425	983,097
Insurance	556,071	92,203	58,202	706,476	67,855	20,525	6,547	94,927	801,403	396,384
Other professional fees	32,044	5,407	27,501	64,952	117,437	98,341	232,846	448,624	513,576	332,027
Printing and publications	121,534	6,462	21,176	149,172	8,753	105,600	193,457	307,810	456,982	192,827
Direct mailing	-	-	-	-	-	438,146	-	438,146	438,146	297,062
Advertising	240,088	1,093	23,196	264,377	309	44,061	62,035	106,405	370,782	130,076
Program supplies and uniforms	60,583	116,677	95,095	272,355	15,531	25,423	22,872	63,826	336,181	174,081
Computer maintenance	149,019	15,705	27,744	192,468	15,468	38,696	13,200	67,364	259,832	176,996
Professional development/travel	100,587	30,123	17,773	148,483	58,697	21,646	13,066	93,409	241,892	199,413
Miscellaneous	90,508	4,659	4,427	99,594	4,616	87,926	574	93,116	192,710	159,058
Automotive	46,161	104,109	26,669	176,939	-	-	-	-	176,939	122,152
Employee/volunteer/donor relations	24,479	2,560	19,701	46,740	25,161	78,282	779	104,222	150,962	137,778
Office supplies	41,546	5,960	6,935	54,441	7,144	8,796	3,666	19,606	74,047	55,625
Postage	27,017	4,090	1,437	32,544	8,532	26,649	180	35,361	67,905	41,473
Security	43,594	7,477	5,422	56,493	2,114	2,703	688	5,505	61,998	62,940
Legal fees	-	13,196	-	13,196	18,928	7,543	-	26,471	39,667	46,541
Bad debts	-	-	-	-	-	-	-	-	-	500,000
Total expenses before depreciation	16,170,401	1,921,740	1,693,686	19,785,827	1,697,302	2,452,181	1,123,839	5,273,322	25,059,149	18,958,512
Depreciation	696,354	77,508	85,469	859,331	23,180	27,639	8,333	59,152	918,483	740,058
Total expenses	<u>\$ 16,866,755</u>	<u>\$ 1,999,248</u>	<u>\$ 1,779,155</u>	<u>\$ 20,645,158</u>	<u>\$ 1,720,482</u>	<u>\$ 2,479,820</u>	<u>\$ 1,132,172</u>	<u>\$ 5,332,474</u>	<u>\$ 25,977,632</u>	<u>\$ 19,698,570</u>
June 30, 2014	<u>\$ 13,019,575</u>	<u>\$ 1,339,574</u>	<u>\$ 1,173,858</u>	<u>\$ 15,533,007</u>	<u>\$ 1,315,880</u>	<u>\$ 2,235,883</u>	<u>\$ 613,800</u>	<u>\$ 4,165,563</u>	<u>\$ 19,698,570</u>	

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services				Supporting Services				2014 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	\$ 7,096,130	\$ 789,661	\$ 712,477	\$ 8,598,268	\$ 827,650	\$ 888,295	\$ 327,765	\$ 2,043,710	\$ 10,641,978
Payroll taxes	609,323	64,099	59,222	732,644	58,348	72,304	27,552	158,204	890,848
Employee health and benefits	655,124	64,841	55,637	775,602	51,640	58,309	19,277	129,226	904,828
Retirement	187,713	24,240	26,709	238,662	36,851	33,526	8,844	79,221	317,883
Total salaries and related expenses	8,548,290	942,841	854,045	10,345,176	974,489	1,052,434	383,438	2,410,361	12,755,537
Occupancy and utilities	1,026,575	43,882	66,794	1,137,251	30,780	36,959	17,311	85,050	1,222,301
Animal feed, supplies, equipment, and habitat	932,906	50,191	-	983,097	-	-	-	-	983,097
Veterinary medicine and care	967,121	6,023	-	973,144	-	-	-	-	973,144
Bad debts	-	-	-	-	-	500,000	-	500,000	500,000
Insurance	263,601	45,926	26,035	335,562	49,753	9,248	1,821	60,822	396,384
Other professional fees	81,863	5,406	98	87,367	111,878	27,420	105,362	244,660	332,027
Direct mailing	-	-	-	-	-	297,062	-	297,062	297,062
Professional development/travel	100,130	12,722	10,646	123,498	43,267	12,002	20,646	75,915	199,413
Printing and publications	73,171	7,474	25,899	106,544	10,714	50,572	24,997	86,283	192,827
Computer maintenance	102,599	10,731	7,384	120,714	13,649	22,964	19,669	56,282	176,996
Program supplies and uniforms	31,922	70,538	48,768	151,228	5,295	10,058	7,500	22,853	174,081
Miscellaneous	67,184	2,649	3,140	72,973	11,289	74,325	471	86,085	159,058
Employee/volunteer/donor relations	26,277	2,330	19,517	48,124	6,954	81,794	906	89,654	137,778
Advertising	97,632	231	9,208	107,071	55	3,873	19,077	23,005	130,076
Automotive	39,594	66,141	16,417	122,152	-	-	-	-	122,152
Security	44,622	7,360	6,020	58,002	1,726	2,494	718	4,938	62,940
Office supplies	33,057	2,882	2,429	38,368	8,344	7,527	1,386	17,257	55,625
Legal fees	-	18,465	-	18,465	22,889	5,187	-	28,076	46,541
Postage	20,042	553	627	21,222	3,623	16,292	336	20,251	41,473
Total expenses before depreciation	12,456,586	1,296,345	1,097,027	14,849,958	1,294,705	2,210,211	603,638	4,108,554	18,958,512
Depreciation	562,989	43,229	76,831	683,049	21,175	25,672	10,162	57,009	740,058
Total expenses	<u>\$ 13,019,575</u>	<u>\$ 1,339,574</u>	<u>\$ 1,173,858</u>	<u>\$ 15,533,007</u>	<u>\$ 1,315,880</u>	<u>\$ 2,235,883</u>	<u>\$ 613,800</u>	<u>\$ 4,165,563</u>	<u>\$ 19,698,570</u>

See accompanying notes.

SAN DIEGO HUMANE SOCIETY AND SPCA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	Years Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Change in net assets	\$ 226,997	\$ 4,800,307
Reconciliation to net cash provided by operating activities:		
Inherent contribution	(6,723,886)	-
Depreciation	918,483	740,058
Change in allowance for uncollectable receivables	-	500,000
Contribution of charitable remainder trust	-	(543,154)
Net realized and unrealized loss (gain) on investments	63,453	(3,901,355)
Change in value of split-interest gifts	83,259	890,430
(Increase) decrease in operating assets:		
Receivables	1,775,130	(2,640,395)
Prepaid expenses and other assets	(91,018)	(91,908)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(12,933)	387,165
Deferred revenue	127,009	31,192
Net cash (used in) provided by operating activities	<u>(3,633,506)</u>	<u>172,340</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	28,131,051	24,982,438
Purchases of investments	(26,911,953)	(24,156,885)
Purchases of property and equipment	(599,226)	(134,795)
Cash acquired with mergers	2,138,639	-
Net cash provided by investing activities	<u>2,758,511</u>	<u>690,758</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(874,995)	863,098
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,469,481</u>	<u>606,383</u>
End of year	<u>\$ 594,486</u>	<u>\$ 1,469,481</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid, net of refunds	<u>\$ 9,378</u>	<u>\$ 6,225</u>
Assets and liabilities acquired in mergers		
Cash	\$ 2,138,639	\$ -
Receivables	1,355,741	-
Prepaid and other assets	93,059	-
Fixed assets	3,272,847	-
Less accounts payable and accrued liabilities	<u>(136,400)</u>	<u>-</u>
Net assets acquired	6,723,886	-
Consideration paid	<u>-</u>	<u>-</u>
Contribution inherent in merger	<u>\$ 6,723,886</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 central San Diego, Escondido, 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, Escondido, San Marcos, Poway and Vista, California; rescue, care and rehabilitation of local wildlife; provide pet food, supplies and veterinary service vouchers to low-income elderly, chronically ill, and disabled individuals for the care of their companion animals; 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, a needs-based spay/neuter service for the public, and an adoption center inside a Petco in El Cajon, California.

During the fiscal year ended June 30, 2015, the Society completed transactions with the Escondido Humane Society and the Center for Humane Education Inc., Project Wildlife, and PAWS San Diego, Inc. The Society and the governing bodies of each entity have determined that these transactions will best serve the people and animals in the San Diego region. See Note 14 – *Mergers*, for further discussion.

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. The Society is no longer subject to income tax examinations by taxing authorities for years before 2012 for its federal filings and for years before 2011 for its state filings.

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 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, 2015 and 2014, the discount was \$72,513 and \$77,574, 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, 2015 and 2014.

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. 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 or independent appraisal.

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, Vista, Escondido, San Marcos, and Poway to provide animal services to the communities. The contract with Oceanside is in effect until June 30, 2016; the contracts with Vista, Escondido, San Marcos, and Poway are in effect until June 30, 2016 and are 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, 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.

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. Volunteers provided approximately 397,000 and 179,000 hours of service to the Society during the years ended June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, management estimates the value of these services to approximate \$10,673,000 and \$4,714,000, 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.

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.

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.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 2 – Concentration of Risk (continued)

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.

Note 3 – Investments

Investments consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 945,981	\$ 1,552,211
Common stock	8,488,331	13,729,670
Mutual funds	13,280,751	8,577,137
Fixed income	<u>10,970,989</u>	<u>11,156,831</u>
Total investments	<u>\$ 33,686,052</u>	<u>\$ 35,015,849</u>

Investment income consists of the following for the years ended June 30, 2015 and 2014:

Interest and dividends	\$ 868,617	\$ 799,163
Investment expenses	<u>(174,382)</u>	<u>(159,035)</u>
Interest and dividends, net of expenses	694,235	640,128
Net realized and unrealized (losses) gains	<u>(63,453)</u>	<u>3,901,355</u>
Investment income	<u>\$ 630,782</u>	<u>\$ 4,541,483</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.

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

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.

In Note 1, and below, the valuation methodologies used for investments 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, 2015 and 2014, 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, 2015:

	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, 2015
Cash and cash equivalents	\$ 945,981	\$ -	\$ -	\$ 945,981
Fixed-income securities:				
U.S. government bonds	2,945,058	-	-	2,945,058
U.S. government asset-backed	1,536,510	413,101	-	1,949,611
Corporate bonds	5,325,331	-	-	5,325,331
Corporate asset backed	130,669	10,625	-	141,294
Foreign bonds	609,695	-	-	609,695
Total fixed-income securities	<u>10,547,263</u>	<u>423,726</u>	<u>-</u>	<u>10,970,989</u>
Common stock:				
Large cap equities	8,488,331	-	-	8,488,331
Mutual funds:				
Bond funds	636,181	-	-	636,181
Equity funds	12,380,533	-	-	12,380,533
Pooled income funds	-	264,037	-	264,037
Total mutual funds	<u>13,016,714</u>	<u>264,037</u>	<u>-</u>	<u>13,280,751</u>
Charitable remainder trusts	-	-	2,684,893	2,684,893
Beneficial interest in trust	-	889,056	-	889,056
Total	<u>\$ 32,998,289</u>	<u>\$ 1,576,819</u>	<u>\$ 2,684,893</u>	<u>\$ 37,260,001</u>

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about the Society’s financial assets measured at fair value on a recurring basis as of June 30, 2014:

	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, 2014
Cash and cash equivalents	\$ 1,552,211	\$ -	\$ -	\$ 1,552,211
Fixed-income securities:				
U.S. government bonds	4,066,690	283,988	-	4,350,678
U.S. government asset-backed	882,672	413,252	-	1,295,924
Corporate bonds	5,048,239	-	-	5,048,239
Corporate asset backed	55,305	65,620	-	120,925
Foreign bonds	341,065	-	-	341,065
Total fixed-income securities	<u>10,393,971</u>	<u>762,860</u>	<u>-</u>	<u>11,156,831</u>
Common stock:				
Large cap equities	<u>13,729,670</u>	<u>-</u>	<u>-</u>	<u>13,729,670</u>
Mutual funds:				
Bond funds	629,875	-	-	629,875
Equity funds	7,672,347	-	-	7,672,347
Pooled income funds	<u>-</u>	<u>274,915</u>	<u>-</u>	<u>274,915</u>
Total mutual funds	<u>8,302,222</u>	<u>274,915</u>	<u>-</u>	<u>8,577,137</u>
Charitable remainder trusts	-	-	2,944,178	2,944,178
Beneficial interest in trust	<u>-</u>	<u>841,810</u>	<u>-</u>	<u>841,810</u>
Total	<u>\$ 33,978,074</u>	<u>\$ 1,879,585</u>	<u>\$ 2,944,178</u>	<u>\$ 38,801,837</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, 2015 and 2014, 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, 2015 and 2014:

Balance, July 1, 2013	\$	3,501,478
Unrealized loss		(247,234)
Contributions		543,154
Maturities		(1,616,822)
Unrealized gain		<u>763,602</u>
Balance, June 30, 2014		2,944,178
Contributions		-
Maturities		(341,282)
Unrealized gain		<u>81,997</u>
Balance, June 30, 2015	\$	<u>2,684,893</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, 2015:

Asset Description	Fair Value	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	\$ 2,684,893	Discounted cash flow	Discount Rates	2.83% to 3.11%
			Life Expectancy	17 to 29.4 years

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 5 - Receivables

Receivables are due as follows as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Less than one year:		
Pledges and bequests	\$ 5,768,305	\$ 6,458,471
In-kind lease receivable	30,000	-
Charitable remainder trusts	-	491,282
Other	294,467	40,423
One to five years:		
Pledges and bequests	1,700,337	1,821,680
In-kind lease receivable	120,000	-
More than five years:		
Charitable remainder trusts	5,021,500	5,273,896
In-kind lease receivable	420,000	-
	<u>13,354,609</u>	<u>14,085,752</u>
Less provision for uncollectible accounts:		
Pledges and bequests	1,500,000	1,500,000
Less discount to net present value:		
From 1 to 7.5 percent	<u>2,594,820</u>	<u>2,823,315</u>
	<u>\$ 9,259,789</u>	<u>\$ 9,762,437</u>

Note 6 - Charitable Gift Annuity

The Society has entered into three 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 gift annuity related assets over gift annuity obligations (net assets) is temporarily restricted. Gift annuity obligations 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 \$46,760 at June 30, 2015. No payments were made during the fiscal year. The recorded values at June 30, 2015 are as follows:

Asset Value - Cash	\$100,000
Annuity Payment Liability	\$45,680

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 4,042,217	\$ 4,042,217
Buildings and improvements	14,260,380	11,081,089
Leasehold improvements	866,062	584,620
Furniture and fixtures	3,316,556	3,126,029
Trucks and automobiles	1,396,375	1,216,077
Computer hardware and software	1,458,903	1,418,388
Machinery and equipment	225,145	225,145
	<u>25,565,638</u>	<u>21,693,565</u>
Less: accumulated depreciation	<u>(10,863,779)</u>	<u>(9,945,296)</u>
	<u>\$ 14,701,859</u>	<u>\$ 11,748,269</u>

Note 8 – 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 \$223,638. The lease payments for the years ended June 30, 2015 and 2014 were approximately \$404,400 and \$341,200, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2015:

Years ending June 30,	
2016	\$ 383,928
2017	352,478
2018	355,948
2019	360,631
2020	362,533
Thereafter	<u>1,745,973</u>
	<u>\$ 3,561,491</u>

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 5 years and a second option to extend an additional 5 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 have been 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.

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.

Benefit plan – The Society has a 403(b) tax-deferred annuity plan (the “Plan”) which covers its employees. The Society contributed 6 percent of qualified employees’ salaries to the Plan through June 30, 2013, switching to a contribution of 2 percent of qualified salaries and matching up to an additional 3 percent effective July 1, 2013. 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, 2015 and 2014 were approximately \$358,500 and \$317,900, respectively.

Line of credit – The Society has a line of credit agreement with First Republic Bank that expires June 22, 2016. 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 3.25 percent. The prime interest rate was 3.25 percent as of June 30, 2015. No amounts are due at June 30, 2015 or 2014.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Time restrictions:		
Charitable remainder trusts	\$ 2,684,893	\$ 2,944,178
Pooled income funds	191,524	197,341
Future operations	112,670	112,670
Total	<u>2,989,087</u>	<u>3,254,189</u>
Restricted purpose or program:		
In-kind Escondido lease	313,500	-
Veterinarian compensation	300,000	598,687
Spay/neuter program	250,000	100,000
Volunteer program	225,000	450,000
Animal Adventure Camp (unappropriated earnings)	234,404	281,496
Behavior assistance program	100,000	100,000
Veterinary hospital renovation	100,000	-
Development training	62,255	-
Other purposes (under \$20,000 each)	60,965	26,196
Escondido building & construction	47,103	-
Escondido kitten nursery	20,000	-
Project Wildlife specialized vet care & medical supplies	20,000	-
Senior level staff training	3,238	60,000
Education program	-	25,000
Total	<u>1,736,465</u>	<u>1,641,379</u>
 Total temporarily restricted net assets	 <u>\$ 4,725,552</u>	 <u>\$ 4,895,568</u>

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Maturities of split-interest agreements	\$ 348,361	\$ 1,658,631
Veterinarian and hospital manager	300,000	300,000
Volunteer program	225,000	234,237
Project Wildlife	213,800	-
Behavior assistance program	100,000	129,276
Spay/neuter program	100,000	264,888
Animal Adventure Camp	65,864	50,137
Senior level staff training	56,762	-
Escondido Humane Society	31,208	-
PAWS San Diego	30,020	-
Education program	25,000	25,839
Other purposes (under \$20,000 each)	15,524	13,068
Companion animal transport program	-	76,450
Large animal care	-	46,428
Marketing and advertising package	-	43,600
	<hr/>	<hr/>
Total net assets released from restriction	<u>\$ 1,511,539</u>	<u>\$ 2,842,554</u>

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)

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, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 2,528,938	\$ 157,380	\$ 1,000,000	\$ 3,686,318
Investment return:				
Interest and dividends, net of expenses	-	30,545	-	30,545
Net realized and unrealized gain	347,620	143,092	-	490,712
Net investment returns	347,620	173,637	-	521,257
Expenditures	-	(49,521)	-	(49,521)
Change in endowment assets	347,620	124,116	-	471,736
Endowment net assets, June 30, 2014	2,876,558	281,496	1,000,000	4,158,054
Investment return:				
Interest and dividends, net of expenses	-	31,263	-	31,263
Net realized and unrealized gain (loss)	46,431	(12,491)	-	33,940
Net investment returns	46,431	18,772	-	65,203
Expenditures	-	(65,864)	-	(65,864)
Change in endowment assets	46,431	(47,092)	-	(661)
Endowment net assets, June 30, 2015	\$ 2,922,989	\$ 234,404	\$ 1,000,000	\$ 4,157,393

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 ending in 2021 of \$112,670 at June 30, 2015 and 2014. 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, 2015 and 2014.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

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. 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, 2015 and 2014, the trust held investment assets valued at \$889,056 and \$841,807, respectively. The change in value during the years ended June 30, 2015 and 2014 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 \$24,057 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 newsletter mailings which include requests for contributions. The costs of conducting the mailings included \$240,840 and \$72,468, respectively, for the years ended June 30, 2015 and 2014 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fundraising	\$ 11,954	\$ 21,039
Adoptions and animal care	29,662	9,351
Community outreach	8,854	15,195
Marketing and public relations	190,370	19,286
Investigations	-	4,091
Management and general	-	3,506
	<u>\$ 240,840</u>	<u>\$ 72,468</u>

SAN DIEGO HUMANE SOCIETY AND SPCA

NOTES TO FINANCIAL STATEMENTS

Note 14 - Mergers

Escondido Humane Society and Center for Humane Education, Inc. – On March 21, 2014, the Society entered into an agreement and plan of merger (the “Agreement”) with the Escondido Humane Society and Center for Humane Education Inc., a California nonprofit corporation (“EHS”), located in the city of Escondido, California wherein EHS would be merged into the Society. The Society and EHS’s governing bodies determined that such a combination will best serve the people and animals in the San Diego region. Upon satisfactory certification and completion of certain conditions, the Agreement was filed with the California Secretary of State on July 1, 2014, which is the effective date (“Effective Date”) of the merger. On that date, separate corporate existence was ceased.

The Society recorded the fair value of the identifiable assets acquired and liabilities assumed as of July 1, 2014. The Society engaged a third-party appraiser to determine the fair value of leasehold improvements acquired. The value was recorded on the statement of financial position as of the effective date. The excess of the identifiable assets acquired over liabilities assumed was recognized as an inherent contribution in the Society’s Statement of Activities. No consideration was paid.

To the extent that net assets were subject to donor restrictions, those restrictions carried over and will be honored by the Society.

Accounts receivable were recorded at fair value, which agrees to the contractual value. Management of EHS had determined no allowance for uncollectable amounts were necessary and all balances are current. As part of the transaction, management of the Society assessed the valuation of these receivables and recorded them at their fair value.

PAWS San Diego County, Inc. – On July 29, 2014, the Society entered into an acquisition agreement with PAWS San Diego County, Inc., a California nonprofit corporation (“PAWS”), located in the city of San Diego, California, wherein PAWS’s assets would be acquired by the Society. The Society and PAWS’s governing bodies determined that such a combination will best serve the people and animals in the San Diego region. PAWS provides pet services and support to low-income pet families who are seniors, chronically ill, and/or disabled, offering an in-home delivery program of pet food and supplies, a food and supply pantry, and a wellness program subsidizing veterinary care for their clients. Upon satisfactory certification and completion of certain conditions, the acquisition agreement was filed with the California Secretary of State on September 1, 2014, which is the effective date of the acquisition and on that date, separate corporate existence was ceased.

SAN DIEGO HUMANE SOCIETY AND SPCA
NOTES TO FINANCIAL STATEMENTS

Note 14 – Mergers (continued)

Project Wildlife – On October 2, 2014, the Society entered into an agreement and plan of merger with Project Wildlife, a California nonprofit corporation (“PW”), located in the city of San Diego, California, wherein PW would be merged into the Society. The Society and PW governing bodies have determined that such a merger will best serve the people and animals in the San Diego region. Upon satisfactory certification and completion of certain conditions, the agreement was filed with the California Secretary of State on November 1, 2014, which is the effective date of the merger.

As of November 1, 2014, PW was merged with and into the Society and the separate corporate existence was ceased.

Recognized amounts of identifiable assets acquired and liabilities assumed by the Society are as follows:

	Escondido Humane Society	PAWS San Diego County	Project Wildlife	Total
Assets acquired:				
Cash	\$ 1,689,774	\$ 131,537	\$ 317,328	\$ 2,138,639
Accounts receivable	1,355,741	-	-	1,355,741
Prepaid and other assets	30,664	54,327	8,068	93,059
Fixed assets	3,191,800	21,787	59,260	3,272,847
Liabilities assumed:				
Accounts payable and accrued liabilities	<u>(99,916)</u>	<u>-</u>	<u>(36,484)</u>	<u>(136,400)</u>
Net assets acquired	6,168,063	207,651	348,172	6,723,886
Consideration paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Inherent contribution	<u>\$ 6,168,063</u>	<u>\$ 207,651</u>	<u>\$ 348,172</u>	<u>\$ 6,723,886</u>

Note 15 – 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 November 11, 2015, which is the date the financial statements were available to be issued.