

SONOMA HUMANE SOCIETY

Consolidated Financial Report
June 30, 2017 and 2016

VICTORIA MWANGI, CPA
dba VM ACCOUNTING SERVICES

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3-4
Consolidated Statement of Activities – For the Year Ended June 30, 2017	5
Consolidated Statement of Activities – For the Year Ended June 30, 2016	6
Consolidated Statement of Functional Expenses - For the Year Ended June 30, 2017	7
Consolidated Statements of Functional Expenses – For the Year Ended June 30, 2016	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-20

Victoria W. Mwangi, CPA
dba VM Accounting Services

INDEPENDENT AUDITOR'S REPORT

October 20, 2017

Board of Directors
Sonoma Humane Society
Santa Rosa, California

I have audited the accompanying consolidated statements of financial position, of **Sonoma Humane Society** (a California not-for-profit corporation) as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 statement, 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 circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

INDEPENDENT AUDITOR'S REPORT

October 20, 2017

Page Two

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Sonoma Humane Society** as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Victoria Mwangi, CPA
dba VM Accounting Services

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 273,245	\$ 82,575
Cash, debt/bond redemption, designated	-	31,791
Accounts & grants receivable	67,209	45,315
Prepaid expenses & deposits	62,816	38,936
Inventory	101,358	159,090
Total current assets	<u>504,628</u>	<u>357,707</u>
NON-CURRENT ASSETS		
Cash, designated	376,999	-
Deferred tax benefits	19,000	19,000
Loan fees, net	20,235	13,513
Investments	1,397,369	1,249,958
Property and equipment, pledged, net	7,762,036	8,061,070
	<u>9,575,639</u>	<u>9,343,541</u>
TOTAL ASSETS	<u>\$ 10,080,267</u>	<u>\$ 9,701,248</u>

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 80,380	\$ 216,995
Accrued expenses	157,223	204,158
Deferred income	73,047	86,701
Current portion, note payable	78,020	69,496
Current portion, capital lease obligation	-	2,308
Total current liabilities	<u>388,670</u>	<u>579,658</u>
NON-CURRENT, note payable less current portion	<u>2,656,181</u>	<u>2,497,171</u>
NET ASSETS		
Unrestricted assets		
Undesignated	5,032,205	5,273,947
Board designated	376,999	-
	<u>5,409,204</u>	<u>5,273,947</u>
Temporarily restricted	313,030	96,762
Permanently restricted	1,313,182	1,247,132
	<u>7,035,416</u>	<u>6,617,841</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,080,267</u>	<u>\$ 9,694,670</u>

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT, REVENUE, AND OTHER INCOME				
Contributions, legacies, & grants	\$ 2,702,496	\$ 370,696	\$ 25,000	\$ 3,098,192
Service revenues	1,938,965	-	-	1,938,965
Government grants & contracts	235,000	-	-	235,000
Special events	281,480	-	-	281,480
Retail sales	55,992	-	-	55,992
Rental income	18,550	-	-	18,550
Investment return	674	158,480	-	159,154
Net assets released from restriction	312,908	(312,908)	-	-
Total support, revenue, & other income	5,546,065	216,268	25,000	5,787,333
EXPENSES				
Cost of goods sold	353,248	-	-	353,248
Program expenses				
Sonoma Humane Society	3,843,378	-	-	3,843,378
Forget-Me-Not Farm	371,459	-	-	371,459
Supporting services				
Management and general	341,973	-	-	341,973
Development	459,701	-	-	459,701
Total Expenses	5,369,759	-	-	5,369,759
CHANGE IN NET ASSETS	176,306	216,268	25,000	417,574
NET ASSETS, beginning of year	5,232,898	96,762	1,288,182	6,617,842
NET ASSETS, end of year	\$ 5,409,204	\$ 313,030	\$ 1,313,182	\$ 7,035,416

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUE, AND OTHER INCOME				
Contributions, legacies, & grants	\$ 1,297,027	\$ 418,478	\$ 41,050	\$ 1,756,555
Service revenues	2,022,616	-	-	2,022,616
Government grants & contracts	242,770	-	-	242,770
Special events	282,079	-	-	282,079
Store sales	88,011	-	-	88,011
Rental income	18,600	-	-	18,600
Investment return	(12,659)	(3,701)	-	(16,360)
Net assets released from restriction	356,413	(356,413)	-	-
Total support, revenue, & other income	<u>4,294,857</u>	<u>58,364</u>	<u>41,050</u>	<u>4,394,271</u>
EXPENSES				
Cost of goods sold	379,917	-	-	379,917
Program expenses				
Sonoma Humane Society	3,897,813	-	-	3,897,813
Forget-Me-Not Farm	364,308	-	-	364,308
Supporting services				
Management and general	448,976	-	-	448,976
Development	370,854	-	-	370,854
Total Expenses	<u>5,461,868</u>	<u>-</u>	<u>-</u>	<u>5,461,868</u>
CHANGE IN NET ASSETS	(1,167,011)	58,364	41,050	(1,067,597)
NET ASSETS, beginning of year	<u>6,399,909</u>	<u>38,398</u>	<u>1,247,132</u>	<u>7,685,439</u>
NET ASSETS, end of year	<u>\$ 5,232,898</u>	<u>\$ 96,762</u>	<u>\$ 1,288,182</u>	<u>\$ 6,617,842</u>

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 417,574	\$ (1,067,597)
Adjustments to reconcile change in net assets to cash flows provided by operating activities,		
Depreciation and amortization	321,679	403,132
Non-cash interest, debt issuance costs	2,262	-
Net investment (gains)/loss on investments	(19,598)	17,345
Unrealized loss/(gain)	(89,463)	60,497
Change in current assets and liabilities		
Accounts receivable	(21,894)	22,875
Prepaid expenses and deposits	(23,880)	(2,430)
Inventory	57,732	(42,695)
Accounts payable	(136,615)	112,666
Accrued expenses	(46,935)	(50,676)
Deferred income	(13,654)	10,596
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	447,208	(536,287)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(122,555)	(200,519)
Proceeds from sale of investments	84,205	182,358
Acquisition of property and equipment	(24,866)	(584,314)
Change in designated cash	(26,999)	-
NET CASH USED BY INVESTING ACTIVITIES	(90,215)	(602,475)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	2,900,000	40,000
Payment of note payable and debt issuance costs	(2,734,728)	(33,333)
Payment of loan fees	(11,078)	(20,257)
Change in designated cash	(318,209)	363,641
Capital lease payments	(2,308)	(3,808)
NET CASH PROVIDED/USED BY INVESTING ACTIVITIES	(166,323)	346,243
CHANGE IN CASH AND CASH EQUIVALENTS	190,670	(792,519)
CASH AND CASH EQUIVALENTS, beginning of the year	82,575	875,094
CASH AND CASH EQUIVALENTS, end of the year	\$ 273,245	\$ 82,575

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2017

	Sonoma Humane Society	Forget-Me-Not Farm	Total Program Services	Management & General	Development	2017 Total
Payroll expenses	\$ 2,178,037	\$ 242,878	\$ 2,420,915	\$ 508,128	\$ 219,271	\$ 3,148,314
Program expenses	501,656	26,289	527,945	13,797	-	541,742
Printing & postage	28,469	669	29,138	3,168	121,411	153,717
Office supplies	6,772	1,131	7,903	22,374	308	30,585
Maintenance & repair	34,709	349	35,058	78,035	2,803	115,896
Miscellaneous	13,940	1,779	15,719	1,332	462	17,513
Advertising & promotion	67,320	-	67,320	-	150	67,470
Insurance	-	1,877	1,877	45,871	-	47,748
Travel & training	3,063	1,543	4,606	1,643	169	6,418
Bank & Credit Card charges	12,269	1,615	13,884	24,045	14,469	52,398
Special event expense	-	-	-	-	65,849	65,849
Dues & subscriptions	7,654	440	8,094	567	3,555	12,216
Professional fees	-	19,186	19,186	52,987	-	72,173
Interest expense	90,654	-	90,654	18,687	2,547	111,888
Taxes & licenses	4,880	555	5,435	6,877	-	12,312
Telephone & internet	11,874	2,034	13,908	23,757	-	37,665
Computer expense	-	-	-	13,104	-	13,104
Vehicle expense	2,337	3,693	6,030	3,511	-	9,541
Utilities	20,790	3,482	24,272	121,505	-	145,777
Investment fees	-	-	-	10,245	-	10,245
Outside services	11,752	-	11,752	10,509	-	22,261
Depreciation & Amortization	291,814	1,984	293,798	21,627	6,254	321,679
Shared costs	555,388	61,955	617,343	(639,796)	22,453	-
	<u>\$ 3,843,378</u>	<u>\$ 371,459</u>	<u>\$ 4,214,837</u>	<u>\$ 341,973</u>	<u>\$ 459,701</u>	<u>\$ 5,016,511</u>

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2016

	Sonoma Humane Society	Forget-Me-Not Farm	Total Program Services	Management & General	Development	2016 Total
Payroll expenses	\$ 2,265,155	\$ 240,453	\$ 2,505,608	\$ 522,497	\$ 169,486	\$ 3,197,591
Program expenses	491,525	27,107	518,632	50,065	-	568,697
Printing & postage	25,938	742	26,680	3,074	111,569	141,323
Office supplies	14,168	704	14,872	15,502	717	31,091
Maintenance & repair	33,920	996	34,916	89,906	-	124,822
Miscellaneous	6,231	146	6,377	5,105	474	11,956
Advertising & promotion	49,604	769	50,373	-	3,321	53,694
Insurance	-	1,877	1,877	42,169	-	44,046
Travel & training	5,876	1,558	7,434	1,933	-	9,367
Bank & Credit Card charges	8,535	1,581	10,116	24,225	-	34,341
Special event expense	705	304	1,009	-	55,146	56,155
Dues & subscriptions	4,451	220	4,671	668	1,950	7,289
Professional fees	-	16,546	16,546	31,076	-	47,622
Interest expense	-	-	-	1,517	-	1,517
Taxes & licenses	9,118	385	9,503	3,170	99	12,772
Telephone & internet	3,561	2,159	5,720	30,939	-	36,659
Computer expense	-	-	-	937	-	937
Vehicle expense	2,379	1,682	4,061	9,378	-	13,439
Utilities	18,536	3,349	21,885	134,856	-	156,741
Investment fees	-	-	-	10,413	-	10,413
Bond/loan interest & fees	39,567	-	39,567	3,651	1,112	44,330
Letter of credit fees	22,583	-	22,583	2,917	634	26,134
Outside services	40,971	-	40,971	6,912	-	47,883
Depreciation & Amortization	374,600	3,991	378,591	15,459	9,082	403,132
Shared costs	480,390	59,739	540,129	(557,393)	17,264	-
	<u>\$ 3,897,813</u>	<u>\$ 364,308</u>	<u>\$ 4,262,121</u>	<u>\$ 448,976</u>	<u>\$ 370,854</u>	<u>\$ 5,081,951</u>

See accompanying notes and independent auditor's report.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 1. Nature of business and significant accounting policies

- a. These financial statements present the consolidation of two separate nonprofit corporate entities: Sonoma Humane Society (SHS) and Forget-Me-Not Farm (FMNF) children's services, (collectively, the Society). The Society's mission is to prevent cruelty to animals, advance their welfare and protection, encourage the relationship between people and animals, and improve the quality of life for both. Forget-Me-Not Farm offers animal-assisted and horticultural therapeutic interventions to school aged children who are victims of abuse and neglect. The Society operates from two locations in Santa Rosa and Healdsburg in Sonoma County, California. The Society achieves its mission through its various programs which include:
- The Shelter – The Society's shelter provides a sanctuary for abandoned, injured, abused and rescued animals. Through its veterinary services and animal behavior counselors, these animals receive expert medical care and are trained and prepared for adoption. The goal is to have all animals find a loving and lifelong home.
 - Community services and education – The Society offers a wide range of services to the public aimed at enhancing the bond between people and animals, especially children and youth. These services include classroom instruction for school age children, education seminars, spay/neuter services, pet assisted therapy in hospitals and hospice situations, and summer camps for children in grades two to seven. At FMNF, hundreds of abused and at risk children and youth learn how to care for animals forming long lasting human-animal bonds, therefore, breaking the cycle of abuse.
 - The Retail store – The Society has a retail store run entirely by volunteers. The store offers animal food and a wide range of pet accessories. The Society closed the retail store effective July 1, 2017.
 - Other services – The Society provides a variety of other services for a fee. These services include training, cremation and veterinary care for privately owned animals.
- b. The consolidated financial statements of the Society have been prepared on the accrual method of accounting and accordingly reflect all significant receivables, payables, and other liabilities. All significant inter-company accounts and transactions have been eliminated.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 1. Nature of business and significant accounting policies
(Cont).

- c. Fair value measurement – Generally accepted accounting principles established a fair value measurement hierarchy that prioritizes the inputs to valuation techniques. This hierarchy consists of three broad levels: (i) Level 1 inputs consist of quoted prices in active markets for identical assets and have the highest priority, (ii) Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and (iii) Level 3 inputs consist of unobservable inputs and have the lowest priority.
- d. Accounting principles generally accepted in the United States of America requires that the Society report information regarding its financial position and activities according to three classes of net assets:

Unrestricted – Those net assets and activities which represent the portion of expendable funds available to support the Society’s operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted - Those net assets and activities which are donor restricted for support of specific operating activities, or use in a specified future period.

Permanently restricted - Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that the assets be used for a specified purpose, be preserved and not be sold, or (b) assets with donor stipulations that they be invested to provide a permanent source of income.

- e. Cash and cash equivalents are those highly liquid investments with original maturities of ninety days or less.
- f. The Society’s investments which consist of cash, money market funds, equity, and mutual funds, are carried at fair value. Unrealized gains and losses are included in the consolidated statements of activities. Investment earnings restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the earnings are recognized.
- g. Inventory consists of merchandise available for resale in the hospital and shelter. The hospital and shelter carry inventory which consist of medical supplies, medicines and animal food. Inventory is valued at the lower of cost or market determined by the first-in, first-out method. A physical inventory count is conducted at the end of the year.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 1. Nature of business and significant accounting policies
(Cont).

- h. Property, improvements, equipment, and furniture are stated at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. The Society capitalizes fixed assets with a cost of over \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from five to forty years.
- i. The Society recognizes all contributions in the year of receipt. Contributions without donor restrictions are reported as unrestricted support. Contributions with donor restrictions that limit the purpose or time of use of the donated assets are reported as restricted support. When donor restrictions expire, that is, when stipulated time restriction end or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.
- j. Revenue relating to veterinary, animal training, camp fees or other services is recorded as revenue in the period in which the services are performed. Deferred revenue represents amounts received for future services.
- k. Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment, and (c) additions to the permanent endowment in accordance with donor directions. The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 1. Nature of business and significant accounting policies
(Cont).

Spending policy – In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Society and the endowment funds
3. General economic condition
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. The investment policies of the Society

The Board of Directors designates a portion of the Society's cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirement are used to support current operations.

Investment policy – The endowment funds are invested according to the Society's investment policy, which is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets.

- l. The cost of providing the Society's programs and activities has been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services based upon detailed estimates and assumptions made by management which consider employee time spent on various functions, square footage, and other viable methods applicable to the various programs and support services.
- m. The Society receives a substantial amount of services donated by the public for its program services, retail store, support and fundraising services. No amounts have been reflected in the consolidated financial statements for these donated services since they do not meet the criteria for recognition.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 1. Nature of business and significant accounting policies
(Cont).

- n. Sonoma Humane Society and Forget-Me-Not Farm, are both not-for-profit corporations exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California R&TC section 23701d. Continuance of such exempt status is subject to compliance with laws and regulations of the taxing authorities. Certain activities considered unrelated to the tax exempt purpose of the Society generate income that is taxable.
- o. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Accounts and grants receivable

Accounts receivable arise from hospital and shelter operations. Management considers accounts receivable at June 30, 2017 to be fully collectible. Unrestricted grant receivable at June 30, 2017 totaled \$23,000. Amounts are receivable within one year.

Note 3. Designated cash

At June 30, 2017 designated cash included \$350,000 set aside to meet note payable requirements (See Note 9), and \$26,999 designated for capital expenditure.

Note 4. Investments

Investments are reflected at fair market value (Level I of fair value measurement) and consist of the following:

	2017		2016	
	Cost	Level 1 Fair Value	Cost	Level 1 Fair Value
Cash & money market funds	\$ 112,901	\$ 112,901	\$ 89,797	\$ 89,797
Certificate of deposit	25,121	25,121	-	-
Mutual funds	835,643	868,710	769,692	742,192
Equity funds	152,033	182,441	209,597	222,211
Alternative investments	250,000	208,196	250,000	195,758
	<u>\$ 1,375,698</u>	<u>\$ 1,397,369</u>	<u>\$ 1,319,086</u>	<u>\$ 1,249,958</u>

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 4. Investments
(Cont).

The following schedule summarizes the investment return on these investments. The income is expendable to support elderly vet care and spay/neuter programs.

Investment returns include the following:

	<u>2017</u>	<u>2016</u>
Dividends and Interest	\$ 49,974	\$ 61,482
Net realized & unrealized gains/(losses)	<u>108,600</u>	<u>(77,842)</u>
	<u>\$ 158,574</u>	<u>\$ (16,360)</u>

Investment advisory fees totaled \$10,245 and \$10,413 for the years ended June 30, 2017 and 2016, respectively.

Note 5. Property and equipment

	<u>2017</u>	<u>2016</u>
Buildings, pledged	\$ 9,393,139	\$ 9,424,750
Improvements	444,924	509,647
Equipment & machinery	562,056	706,285
Vehicles	<u>132,485</u>	<u>132,485</u>
	10,532,604	10,773,167
Accumulated depreciation	<u>(3,546,962)</u>	<u>(3,485,733)</u>
	6,985,642	7,287,434
Land, pledged	765,637	765,637
Construction in progress	<u>10,757</u>	<u>1,422</u>
	<u>\$ 7,762,036</u>	<u>\$ 8,054,493</u>

Property and equipment is pledged as collateral for note payable. (See Note 9). Depreciation expense for the years ended June 30, 2017 and 2016 was \$317,323 and \$299,127, respectively.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 6. Loan fees

The Society incurred costs totaling \$21,078 to secure funds to refinance its short term bridge note payable. (See Note 9). These costs are amortized over the life of the note payable which is twenty five years. At June 30, 2016, unamortized bond acquisition costs of \$97,261 were written off after repaying the revenue bonds. Amortization expense was \$4,356 and \$104,005 for the years ended June 30, 2017 and 2016, respectively. Accumulated amortization is \$843 and \$6,744 at June 30, 2017 and 2016, respectively.

Note 7. Accrued payroll expenses

Unpaid employee vacation benefits are recognized as liabilities of the Society. The value of accrued vacation at June 30, 2017 and 2016 is \$78,130 and \$86,165, respectively. This is included in accrued expenses in the Statement of Financial Position.

Personal leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated personal leave. Therefore no accrual of such benefits is included in the Consolidated Statement of Financial Position.

Note 8. Capital lease obligation

The Society acquired equipment for \$19,946 under a non-cancellable lease agreement which requires monthly payments through October 2016. The equipment was fully depreciated at June 30, 2017. The cost and accumulated depreciation of \$19,946 are included in property and equipment. At June 30, 2016 net present value of minimum lease payments amounted to \$2,308.

Note 9. Note payable

On February 10, 2016, the Society negotiated a short term bridge loan from Comerica Bank to refinance outstanding revenue bonds. The \$2,600,000 loan had a maturity date of July 12, 2016 and required principal payments of \$8,333 plus interest at a prime referenced rate plus the applicable margin rate of 1%. Interest rate was 3.5% at June 30, 2016. The short term loan was collateralized by a first deed of trust on the facility and substantially all other assets. The loan required the Society to maintain \$50,000 in an account at the bank. The bank waived this requirement for the period beginning June 15, 2016 through July 12, 2016. At June 30, 2016 the cash account balance was \$31,791.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 9. Note payable
(Cont.)

On July 12, 2016 the Society secured a loan for \$2,900,000 maturing July 1, 2041 with another financial institution. The proceeds were used to pay off the short term bridge loan from Comerica Bank. The loan agreement requires monthly installment payments of \$14,205 including interest at 3.25% per annum during the initial period which ends June 30, 2031. After June 30, 2031 the Society will negotiate a new interest rate with the financial institution applicable up to the notes maturity date of June 30, 2041. The loan is collateralized by a first deed of trust on the facility. This agreement contains various covenants pertaining to the maintenance of certain financial ratios and conditions. At June 30, 2017 the Society was in compliance with these covenants. The agreement also requires the Society to maintain its primary checking account including an account with liquid assets totaling \$350,000 with the financial institution.

The Society incurred debt issuance costs of \$93,722. In accordance with Accounting Standards Update (ASU) 2015-03 these costs are reported as a direct deduction from the face amount of the related note. In addition the amortization of these costs is reported as interest expense in the Statement of Activities. Using an imputed interest rate of 3.25% amortization expense totaled \$2,262 for the year ending June 30, 2017. These debt issuance costs are reflected in the Statement of Financial Position as follows:

Note payable	\$	2,825,661
Less unamortized debt issuance costs		91,460
	\$	<u>2,734,201</u>

Maturities for the next five years and thereafter are as follows:

Year ending June 30, 2018		78,020
2019	\$	80,645
2020		83,357
2021		86,161
2022		89,059
Thereafter		<u>2,316,959</u>
		2,734,201
Less current portion		<u>78,020</u>
	\$	<u>2,656,181</u>

Cash paid for interest was \$97,397 and \$38,371 for the years ended December 31, 2017 and 2016, respectively.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 10. Uncertain tax positions and income tax

Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Society has analyzed tax positions taken for filing with the Internal Revenue Service and the State of California. The Society believes that income tax positions taken would be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial position, results of operations, or cash flows. Generally, tax returns remain open for federal examination for three years and four years for the State of California, from the date of filing.

The Society classifies income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

No current income tax expense is reported at June 30, 2017 due to net operating losses from prior years. Deferred tax benefits from these losses are shown below:

	<u>2017</u>	<u>2016</u>
Federal deferred tax benefits	\$ 13,200	\$ 13,200
State deferred tax benefits	<u>5,800</u>	<u>5,800</u>
	<u>\$ 19,000</u>	<u>\$ 19,000</u>

At June 30, 2017 the Society has net operating losses of approximately \$66,160 available to offset future taxable income through fiscal year ending June, 2025.

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 11. Permanently restricted and temporarily restricted net assets

Permanently restricted net assets consist of endowment funds. Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of the year	\$ -	\$ (35,681)	\$ 1,288,182	\$ 1,252,501
Contributions			25,000	25,000
Investment income:	-			
Interest and dividends	-	49,801	-	49,801
Realized/Unrealized gains	-	106,054	-	106,054
	-	120,174	1,313,182	1,433,356
Amounts appropriated for expenditure	-	(33,960)		(33,960)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 86,214</u>	<u>\$ 1,313,182</u>	<u>\$ 1,399,396</u>

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of the year	\$ -	\$ 37,043	\$ 1,247,132	\$ 1,284,175
Contributions			41,050	41,050
Investment income:	-			
Interest and dividends	-	59,914	-	59,914
Realized/Unrealized losses	-	(77,638)	-	(77,638)
	-	19,319	1,288,182	1,307,501
Amounts appropriated for expenditure	-	(55,000)		(55,000)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ (35,681)</u>	<u>\$ 1,288,182</u>	<u>\$ 1,252,501</u>

SONOMA HUMANE SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

Note 11. Permanently restricted and temporarily restricted net assets
(Cont.)

Temporarily restricted net assets represent use and time restricted donations that will be used in the future as program expenses are incurred. Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Sonoma Humane Services	\$ 288,674	\$ 59,225
Forget-Me-Not Farm	<u>24,357</u>	<u>37,537</u>
	<u>\$ 312,030</u>	<u>\$ 96,762</u>

Note 12. Concentration of credit risk

The Society maintains cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017 cash in one of the institutions exceeded the insured limits by \$407,363. Management considers the financial institution to be reputable and financially capable and believes it is not exposed to any significant credit risk on cash.

Note 13. Reclassifying of prior year amounts

Certain prior year amounts have been reclassified for consistency with the current year presentation. This reclassification had no effect on prior year net assets.

Note 14. Subsequent events

Subsequent events have been evaluated by management through October 20, 2017, which is the date the consolidated financial statements were available to be issued.