

***HUMANE SOCIETY OF
SONOMA COUNTY***

Consolidated Financial Report
June 30, 2018 and 2017

***VICTORIA MWANGI, CPA
dba VM ACCOUNTING SERVICES***

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Victoria W. Mwangi, CPA
dba VM Accounting Services

INDEPENDENT AUDITOR'S REPORT

October 2, 2018

Board of Directors
Humane Society of Sonoma County
Santa Rosa, California

I have audited the accompanying consolidated statements of financial position, of **Humane Society of Sonoma County** (a California not-for-profit corporation) as of June 30, 2018 and 2017, 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 2, 2018

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Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Humane Society of Sonoma County** as of June 30, 2018 and 2017, 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

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	ASSETS	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 631,880	\$ 273,245
Accounts & contribution receivable	502,573	67,209
Prepaid expenses & deposits	50,926	62,816
Inventory	48,046	101,358
Total current assets	<u>1,233,425</u>	<u>504,628</u>
NON-CURRENT ASSETS		
Cash, designated	350,000	376,999
Deferred tax benefits	19,000	19,000
Loan fees, net	19,392	20,235
Investments	1,439,761	1,397,369
Property and equipment, pledged, net	7,947,812	7,762,036
	<u>9,775,965</u>	<u>9,575,639</u>
TOTAL ASSETS	<u>\$ 11,009,390</u>	<u>\$ 10,080,267</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 70,141	\$ 80,380
Accrued expenses	167,463	157,223
Deferred income	48,993	73,047
Current portion, notes payable	107,818	78,020
Total current liabilities	394,415	388,670
NON-CURRENT, notes payable less current portion	2,698,182	2,656,181
NET ASSETS		
Unrestricted assets		
Undesignated	5,711,195	5,032,205
Board designated	350,000	376,999
	6,061,195	5,409,204
Temporarily restricted	542,416	313,030
Permanently restricted	1,313,182	1,313,182
	7,916,793	7,035,416
TOTAL LIABILITIES AND NET ASSETS	\$ 11,009,390	\$ 10,080,267

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT, REVENUE, AND OTHER INCOME				
Contributions, legacies, & grants	\$ 2,650,551	\$ 1,269,329	\$ -	\$ 3,919,880
Service revenues	1,564,228	-	-	1,564,228
Government grants & contracts	235,000	-	-	235,000
Special events	364,382	-	-	364,382
Retail sales	23,333	-	-	23,333
Rental income	18,600	-	-	18,600
Investment return	175	87,383	-	87,558
Net assets released from restriction	1,127,326	(1,127,326)	-	-
Total support, revenue, & other income	5,983,595	229,386	-	6,212,981
EXPENSES				
Cost of goods sold/used	143,357	-	-	143,357
Program expenses				
Humane Society services	3,933,047	-	-	3,933,047
Forget-Me-Not Farm services	399,728	-	-	399,728
Supporting services				
Management and general	399,424	-	-	399,424
Development	456,048	-	-	456,048
Total Expenses	5,331,604	-	-	5,331,604
CHANGE IN NET ASSETS	651,991	229,386	-	881,377
NET ASSETS, beginning of year	5,409,204	313,030	1,313,182	7,035,416
NET ASSETS, end of year	\$ 6,061,195	\$ 542,416	\$ 1,313,182	\$ 7,916,793

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

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/used	353,248	-	-	353,248
Program expenses				
Humane Society services	3,843,378	-	-	3,843,378
Forget-Me-Not Farm services	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.

HUMANE SOCIETY OF SONOMA COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 881,377	\$ 417,574
Adjustments to reconcile change in net assets to cash flows provided by operating activities,		
Depreciation	326,158	321,679
Non cash contributions	(454,500)	-
Non-cash interest expense	(8,153)	2,262
Net investment (gains)/loss	(14,996)	(19,598)
Unrealized loss/(gain)	(46,776)	(89,463)
Change in current assets and liabilities		
Accounts receivable	19,136	(21,894)
Prepaid expenses and deposits	11,890	(23,880)
Inventory	53,312	57,732
Accounts payable	(10,239)	(136,615)
Accrued expenses	10,240	(46,935)
Deferred income	(24,054)	(13,654)
NET CASH PROVIDED BY OPERATING ACTIVITIES	743,395	447,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(27,742)	(122,555)
Proceeds from sale of investments	47,122	84,205
Acquisition of property and equipment	(343,556)	(24,866)
Change in designated cash	26,999	(26,999)
NET CASH USED BY INVESTING ACTIVITIES	(297,177)	(90,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	2,900,000
Payment of notes payable and debt issuance costs	(87,583)	(2,734,728)
Payment of loan fees	-	(11,078)
Change in designated cash	-	(318,209)
Capital lease payments	-	(2,308)
NET CASH USED BY FINANCING ACTIVITIES	(87,583)	(166,323)
CHANGE IN CASH AND CASH EQUIVALENTS	358,635	190,670
CASH AND CASH EQUIVALENTS, beginning of the year	273,245	82,575
CASH AND CASH EQUIVALENTS, end of the year	\$ 631,880	\$ 273,245

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	Humane Society Services	Forget-Me-Not Farm Services	Total Program Services	Management & General	Development	2018 Total
Payroll expenses	\$ 2,317,543	\$ 276,215	\$ 2,593,758	\$ 356,088	\$ 208,817	\$ 3,158,663
Program expenses	678,915	19,480	698,395	-	-	698,395
Printing & postage	26,308	1,240	27,548	2,537	135,892	165,977
Office expense	16,262	1,799	18,061	19,967	755	38,783
Maintenance & repair	38,285	519	38,804	95,431	-	134,235
Miscellaneous	12,787	-	12,787	-	247	13,034
Advertising & promotion	67,274	-	67,274	-	100	67,374
Insurance	-	1,877	1,877	49,108	-	50,985
Travel & training	7,996	1,383	9,379	5,428	748	15,555
Bank & Credit card charges	9,684	1,282	10,966	16,315	24,115	51,396
Special event expense	251	1,016	1,267	-	53,897	55,164
Dues & subscriptions	7,233	395	7,628	597	2,782	11,007
Professional fees	-	15,770	15,770	32,557	2,800	51,127
Interest expense	75,046	-	75,046	11,428	2,231	88,705
Taxes & licenses	4,900	825	5,725	8,639	-	14,364
Telephone & internet	1,539	521	2,060	19,364	-	21,424
Computer expense	-	-	-	17,226	3,218	20,444
Vehicle expense	2,178	1,836	4,014	3,244	-	7,258
Utilities	24,743	3,207	27,950	148,230	-	176,180
Investment fees	-	-	-	12,328	-	12,328
Outside services	6,480	-	6,480	3,212	-	9,692
Depreciation	299,865	1,884	301,749	17,894	6,514	326,157
Shared costs	335,758	70,479	406,237	(420,169)	13,932	-
	<u>\$ 3,933,047</u>	<u>\$ 399,728</u>	<u>\$ 4,332,775</u>	<u>\$ 399,424</u>	<u>\$ 456,048</u>	<u>\$ 5,188,247</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2017

	Humane Society Services	Forget-Me-Not Farm Services	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	0
	<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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 1. Nature of business and significant accounting policies

- a. These financial statements present the consolidation of two separate nonprofit corporate entities: Humane Society of Sonoma County 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: 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 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.
 - Other services – The Society provides a variety of other services for a fee. These services include training and cremation.
 - The Society provided veterinary services through its public hospital to privately owned animals. During the year the Society decided to wind down these services and close the public hospital effect April 30, 2018.
- 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

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, mutual funds, and alternative investments are carried at fair value. Donated investments are valued at estimated fair value at the date of donation. 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 or internal use in the shelter. Inventory which consist of medical supplies, medicines and animal food 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

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 services, 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

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.

1. 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

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

- m. The Society receives a substantial amount of services donated by the public for its program services, 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.
- n. Humane Society of Sonoma County 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 contribution receivable

Accounts receivable arise from the public hospital (which was closed during the year) and shelter operations. Contribution receivable includes \$454,500, which is the estimated amount receivable from a donor's estate. All amounts are receivable within one year. The Society believes all accounts and contribution receivable at June 30, 2018 will be fully collected. Accordingly, no allowance for doubtful accounts is required. Unrestricted grant receivable at June 30, 2017 totaled \$23,000.

Note 3. Designated cash

At June 30, 2018 designated cash included \$350,000 set aside to meet note payable requirements (See Note 8). At June 30, 2017, an additional \$26,999 was designated for capital expenditure that occurred during the year ended June 30, 2018.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 4. Investments

The table below sets forth, by level within the fair value hierarchy that is explained in Note 1 the Society's investments measured at fair value as of June 30, 2018:

	Fair Value	Level 1	Level 2	Level 3
Cash & money market	\$ 68,111	\$ 68,111	\$ -	\$ -
Certificate of deposit	24,225	24,225	-	-
Mutual funds	427,257	427,257	-	-
Common stocks	248,034	248,034	-	-
Fixed income	391,410	391,410	-	-
Alternative investments	280,724	52,874	106,800	121,050
	\$ 1,439,761	\$ 1,211,911	\$ 106,800	\$ 121,050

The table below sets forth, by level within the fair value hierarchy, the Society's investments measured at fair value as of June 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Cash & money market	\$ 112,901	\$ 112,901	\$ -	\$ -
Certificate of deposit	25,121	25,121	-	-
Mutual funds	382,590	382,590	-	-
Common stocks	182,450	182,450	-	-
Fixed income	381,780	381,780	-	-
Alternative investments	312,527	-	-	312,527
	\$ 1,397,369	\$ 1,084,842	\$ -	\$ 312,527

Alternative investments for which market quotes are not readily available are valued using financial and valuation information relating to each portfolio company obtained from independent third party valuation services, and comparing this information to other companies that might be traded in an active market.

All investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain marketable securities, and the level of uncertainty related to changes in the value of these investments including the alternative investments, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the Consolidated Statements of Financial Position and the Consolidated Statements of Activities.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

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.

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 25,786	\$ 49,974
Realized and unrealized gain	61,772	108,600
	<u>\$ 87,558</u>	<u>\$ 158,574</u>

Investment advisory fees totaled \$12,328 and \$10,245 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Property and equipment

	<u>2018</u>	<u>2017</u>
Buildings, pledged	\$ 9,393,139	\$ 9,393,139
Improvements	811,072	444,924
Equipment & machinery	559,046	562,056
Vehicles, pledged	234,208	132,485
	<u>10,997,465</u>	<u>10,532,604</u>
Accumulated depreciation	<u>(3,845,049)</u>	<u>(3,546,962)</u>
	7,152,415	6,985,642
Land, pledged	765,637	765,637
Construction in progress	29,759	10,757
	<u>\$ 7,947,812</u>	<u>\$ 7,762,036</u>

Property and equipment is pledged as collateral for notes payable. (See Note 8). Depreciation expense for the years ended June 30, 2018 and 2017 was \$326,158 and \$317,323, respectively.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 6. Loan fees

The Society incurred costs totaling \$21,078 to secure a note payable. (See Note 8). These costs are amortized over the life of the note payable which is twenty five years. Amortization expense was \$843 and \$843 for the years ended June 30, 2018 and 2017, respectively. Accumulated amortization is \$1,686 and \$843 at June 30, 2018 and 2017, 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, 2018 and 2017 is \$96,523 and \$78,130, respectively. This is included in accrued expenses in the Consolidated Statements of Financial Position.

Note 8. Long-term debt

	<u>2018</u>	<u>2017</u>
Note payable, First Republic Bank, collateralized by first deed of trust to the facility, monthly payments of \$14,205 including interest at 3.25% per annum, final maturity June 2041.	\$ 2,747,132	\$ 2,825,661
Note payable, PG&E, equipment pledged as collateral, \$1,851 per month at zero interest rate, final maturity October 2022	96,283	-
Note payable, Ford vehicle pledged as collateral, \$483 per month at zero interest rate, final maturity January 2024.	31,530	-
Note payable, Ford vehicle pledged as collateral, \$490 per month at zero interest rate, final maturity January 2024.	<u>31,510</u>	<u>-</u>
	2,906,455	2,825,661
Less unamortized discount and debt issuance costs	<u>(100,455)</u>	<u>(91,460)</u>
	2,806,000	2,734,201
Less current portion of debt	<u>(107,818)</u>	<u>(78,020)</u>
	<u>\$ 2,698,182</u>	<u>\$ 2,656,181</u>

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 8. Long-term debt
(Cont.)

For the note payable to First Republic Bank, the Society will negotiate for a new interest rate after June 30, 2031. The new rate will be applicable up to the note maturity date of June 30, 2041. The note payable contains various covenants pertaining to the maintenance of certain financial ratios and conditions. At June 30, 2018 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. An imputed interest rate of 3.25% was used to amortize the debt issuance costs. For the notes payable with zero interest rate, the Society calculated the discount amount using an interest rate of 3%. Total discount received was \$12,576. In accordance with Accounting Standards Update (ASU) 2015-03 the debt issuance costs and loan discount amounts were reported as a direct deduction from the face amount of the related notes. In addition the amortization of these costs is reported as interest expense in the Consolidated Statements of Activities. Amortization expense was \$3,581 and \$2,262 for the years ended June 30, 2018 and 2017, respectively.

Long-term debt amounts less unamortized discount and debt issuance costs are reflected in the Consolidated Statement of Financial Position as follows:

	<u>Principal</u>	<u>2018</u> Unamortized discount and debt issuance costs
Note payable, financial institution	\$ 2,747,132	\$ 89,197
Note payable, PG&E	96,283	6,102
Note payable, Ford vehicle	31,530	2,597
Note Payable, Ford vehicle	31,510	2,559
	<u>\$ 2,906,455</u>	<u>\$ 100,455</u>

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 8. Long-term debt
(Cont.)

The Society's long-term debt principal payment requirements are as follows:

Year ending June 30,	2019	\$	107,818
	2020		111,350
	2021		114,999
	2022		118,767
	2023		107,711
	Thereafter		<u>2,245,355</u>
		\$	<u>2,806,000</u>

Cash paid for interest expense during the years ended June 30, 2018 and 2017 were \$91,934 and \$97,397, respectively.

Note 9. 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, 2018 due to net operating losses from prior years. Deferred tax benefits from these losses are shown below:

	<u>2018</u>	<u>2017</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, 2018 the Society had net operating losses of approximately \$66,160 available to offset future taxable income through fiscal year ending June, 2025.

HUMANE SOCIETY OF SONOMA COUNTY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

Note 10. 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, 2018 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of the year	\$ -	\$ 77,144	\$ 1,313,182	\$ 1,390,326
Contributions	-	-	-	-
Investment income:				
Interest and dividends	-	25,995	-	25,995
Realized/Unrealized gains	-	61,388	-	61,388
	-	164,527	1,313,182	1,477,709
Amounts appropriated for expenditure	-	(45,413)		(45,413)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 119,114</u>	<u>\$ 1,313,182</u>	<u>\$ 1,432,296</u>

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 losses	-	106,054	-	106,054
	-	120,174	1,313,182	1,433,356
Amounts appropriated for expenditure	-	(43,030)		(43,030)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 77,144</u>	<u>\$ 1,313,182</u>	<u>\$ 1,390,326</u>

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 AND 2017

Note 10. 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>2018</u>	<u>2017</u>
Humane Society services	\$ 424,732	\$ 288,673
Forget-Me-Not Farm services	<u>117,684</u>	<u>24,357</u>
	<u>\$ 542,416</u>	<u>\$ 313,030</u>

Note 11. Non cash transactions

The Society purchased two vehicles and equipment by incurring debt totaling \$168,378, (See Note 8). These are recorded as non-cash transactions in the Consolidated Statements of Cash Flows.

Note 12. Related party transactions

The Society receives contributions from Board members in the normal course of business. While important, the total amounts received during the year ended June 30, 2018, were not material to the financial statements taken as a whole.

Note 13. 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, 2018 cash in one of the institutions exceeded the insured limits by \$701,912. 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 14. 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 15. Subsequent events

Subsequent events have been evaluated by management through October 2, 2018, which is the date the consolidated financial statements were available to be issued.