

*HUMANE SOCIETY OF
SONOMA COUNTY*

Consolidated Financial Report
June 30, 2019 and 2018

*VICTORIA MWANGI, CPA
dba VM ACCOUNTING
SERVICES*

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Victoria W. Mwangi, CPA
dba VM Accounting Services

INDEPENDENT AUDITOR'S REPORT

October 21, 2019

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, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses 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 21, 2019

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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, 2019 and 2018, 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, 2019 AND 2018**

	ASSETS	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 685,331	\$ 631,880
Accounts & contribution receivable	313,864	502,573
Prepaid expenses & deposits	51,451	50,926
Inventory	53,605	48,046
Total current assets	<u>1,104,251</u>	<u>1,233,425</u>
NON-CURRENT ASSETS		
Cash, designated	350,000	350,000
Deferred tax benefits	19,000	19,000
Loan fees, net	18,549	19,392
Investments	1,473,381	1,439,761
Property and equipment, pledged, net	<u>7,666,733</u>	<u>7,947,812</u>
	<u>9,527,663</u>	<u>9,775,965</u>
TOTAL ASSETS	<u>\$ 10,631,914</u>	<u>\$ 11,009,390</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 81,069	\$ 70,141
Current portion, notes payable	111,351	107,818
Accrued expenses	222,440	167,463
Deferred income	69,607	48,993
Total current liabilities	<u>484,467</u>	<u>394,415</u>
NON-CURRENT		
Notes payable less current portion	<u>2,586,296</u>	<u>2,698,182</u>
NET ASSETS		
Without donor restrictions	5,898,413	6,073,523
With donor restrictions	<u>1,662,738</u>	<u>1,843,270</u>
	<u>7,561,151</u>	<u>7,916,793</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,631,914</u>	<u>\$ 11,009,390</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT, REVENUE, AND OTHER INCOME			
Contributions, legacies, & grants	\$ 2,480,800	\$ 536,396	\$ 3,017,196
Service revenues	890,071	-	890,071
Contracts	235,000	-	235,000
Special events	385,159	-	385,159
Retail sales	22,326	-	22,326
Rental income	18,600	-	18,600
Investment return, net	774	65,882	66,656
Net assets released from restriction	795,138	(795,138)	-
Total support, revenue, & other income	<u>4,827,868</u>	<u>(192,860)</u>	<u>4,635,008</u>
EXPENSES			
Cost of goods sold	39,338	-	39,338
Program expenses			
Humane Society services	3,487,490	-	3,487,490
Forget-Me-Not Farm services	446,444	-	446,444
Supporting services			
Management and general	438,105	-	438,105
Development-Event expenses	59,043		59,043
Development-Other	520,230		520,230
Total Expenses	<u>4,990,650</u>	<u>-</u>	<u>4,990,650</u>
CHANGE IN NET ASSETS	(162,782)	(192,860)	(355,642)
NET ASSETS, beginning of year	<u>6,061,195</u>	<u>1,855,598</u>	<u>7,916,793</u>
NET ASSETS, end of year	<u>\$ 5,898,413</u>	<u>\$ 1,662,738</u>	<u>\$ 7,561,151</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
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, net	175	75,055	75,230
Net assets released from restriction	1,127,326	(1,127,326)	-
Total support, revenue, & other income	<u>5,983,595</u>	<u>217,058</u>	<u>6,200,653</u>
EXPENSES			
Cost of goods sold	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	387,096	-	387,096
Development-Event expenses	29,226	-	29,226
Development-Other	426,822	-	426,822
Total Expenses	<u>5,319,276</u>	<u>-</u>	<u>5,319,276</u>
CHANGE IN NET ASSETS	664,319	217,058	881,377
NET ASSETS, beginning of year	<u>5,409,204</u>	<u>1,626,212</u>	<u>7,035,416</u>
NET ASSETS, end of year	<u>\$ 6,073,523</u>	<u>\$ 1,843,270</u>	<u>\$ 7,916,793</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (355,642)	\$ 881,377
Adjustments to reconcile change in net assets to cash flows provided by operating activities,		
Depreciation	360,088	326,158
Non cash contributions	(15,561)	(454,500)
Non-cash interest expense	7,534	(8,153)
Unrealized & realized loss/(gain)	(32,347)	(61,772)
Decreases/(Increases) in assets		
Accounts receivable	188,709	19,136
Prepaid expenses and deposits	(525)	11,890
Inventory	(5,559)	53,312
Increases/(Decreases) in liabilities		
Accounts payable	10,928	(10,239)
Accrued expenses	54,977	10,240
Deferred income	20,614	(24,054)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>233,216</u>	<u>743,395</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(324,764)	(27,742)
Proceeds from sale of investments	339,052	47,122
Acquisition of property and equipment	(79,009)	(343,556)
Change in designated cash	-	26,999
NET CASH USED BY INVESTING ACTIVITIES	<u>(64,721)</u>	<u>(297,177)</u>
CASH FLOWS FROM FINANCING ACTIVITIES, payment of notes payable and debt issuance costs	<u>(115,044)</u>	<u>(87,583)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	53,451	358,635
CASH AND CASH EQUIVALENTS, beginning of the year	<u>631,880</u>	<u>273,245</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 685,331</u>	<u>\$ 631,880</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Humane Society Services	Forget-Me- Not Farm Services	Total Program Services	Management & General	Development	2019 Total
Payroll expenses	\$ 2,075,412	\$ 284,830	\$ 2,360,242	\$ 413,798	\$ 260,633	\$ 3,034,673
Program expenses	431,666	44,869	476,535	-	-	476,535
Printing & postage	27,155	897	28,052	2,359	145,655	176,066
Office expense	12,130	2,516	14,646	19,029	990	34,665
Maintenance & repair	39,590	405	39,995	94,552	-	134,547
Miscellaneous	4,747	-	4,747	-	258	5,005
Advertising & promotion	52,714	-	52,714	-	3,178	55,892
Insurance	-	6,549	6,549	54,052	-	60,601
Travel & training	53,785	1,645	55,430	3,339	263	59,032
Bank & Credit card charges	4,344	1,680	6,024	6,901	18,319	31,244
Events	831	-	831	-	112,204	113,035
Dues & subscriptions	4,688	311	4,999	868	3,437	9,304
Professional fees	-	20,154	20,154	44,087	-	64,241
Interest expense	79,896	-	79,896	15,597	1,348	96,841
Taxes & licenses	5,495	385	5,880	6,242	-	12,122
Telephone & internet	2,751	634	3,385	13,795	99	17,279
Computer expense	-	-	-	13,987	17,233	31,220
Vehicle expense	2,002	1,003	3,005	4,075	-	7,080
Utilities	20,329	4,051	24,380	118,648	-	143,028
Outside services	20,181	2,598	22,779	6,035	-	28,814
Depreciation	346,846	3,157	350,003	2,901	7,184	360,088
Shared costs	302,928	70,760	373,688	(382,160)	8,472	-
	<u>\$ 3,487,490</u>	<u>\$ 446,444</u>	<u>\$ 3,933,934</u>	<u>\$ 438,105</u>	<u>\$ 579,273</u>	<u>\$ 4,951,312</u>

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 supplies	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
Events	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
Outside services	6,480	-	6,480	3,212	-	9,692
Depreciation & amortization	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>\$ 387,096</u>	<u>\$ 456,048</u>	<u>\$ 5,175,919</u>

See accompanying notes and independent auditor's report.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

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.
 - Community Veterinary Clinic – During the year, the Society opened the Community Vet Clinic to provide compassionate veterinary care to low-income pet owners.
 - 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. On April 30, 2018 the Society decided to wind down these services and close the public hospital.
- 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, 2019 AND 2018

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

- c. 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 could be taxable.
- d. The Society reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the purpose or time of use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions”.
- e. 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.
- f. Cash and cash equivalents are those highly liquid investments with original maturities of ninety days or less.
- g. 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

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

- h. 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.
- i. 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.
- 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. The cost of providing programs and supporting activities has been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited. The expenses that are allocated include payroll and payroll related expenses, employee benefits, occupancy costs, office supplies and expenses. The allocation is based upon detailed estimates and assumptions made by management which consider employee time spent on various functions, and square footage of occupied space.
- l. New Accounting Pronouncements – In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Society adopted the provisions of this new standard during the year ended June 30, 2019. Consequently, the three category classification of nets assets (i.e. unrestricted, temporarily, and permanently restricted) have been replaced with two categories: “net assets without donor restrictions” and “net assets with donor restrictions”. In addition, the new standard requires disclosures regarding liquidity and availability of resources, presentation of expenses by natural and functional basis, and expansion of the information on the functional allocation of expenses.

The June 30, 2018 financial statements have been adjusted to conform to the June 30, 2019 presentation and disclosure requirements

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

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

- m. 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 assets with donor restrictions (a) the original value of gifts donated to the endowment fund; (b) the original value of subsequent gifts to the endowment fund, and (c) additions to the endowment fund in accordance with donor's directions. The remaining portion of donor-restricted endowment funds are also classified and reported as assets with donor restrictions pending the expiration of time restrictions or accomplishment of the purpose restrictions. At June 30, 2019 and 2018, the Society had two endowment funds, for which earnings from the funds are available for Spay/Neuter services.

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 allocates a portion of the Society's cumulative investment return for support of current spay/neuter 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.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

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

- n. 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.
- 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 shelter operations while contributions are mainly from donor estates. Contributions amounting to \$266,202 and \$454,500 were receivable at June 30, 2019 and 2018, respectively. All amounts are receivable within one year. The Society believes all accounts and contribution receivable at June 30, 2019 will be fully collected. Accordingly, no allowance for doubtful accounts is required.

Note 3. 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, 2019:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash & money market	\$ 59,981	\$ 59,981	\$ -	\$ -
Certificate of deposit	25,139	-	25,139	-
Mutual funds	852,232	852,232	-	-
Equity stocks	440,885	440,885	-	-
Alternative investments	95,144	-	-	95,144
	<u>\$ 1,473,381</u>	<u>\$ 1,353,098</u>	<u>\$ 25,139</u>	<u>\$ 95,144</u>

HUMANE SOCIETY OF SONOMA COUNTY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

Note 3. Investments
(Cont).

The table below sets forth, by level within the fair value hierarchy, 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	933,994	933,994	-	-
Equity stocks	292,381	292,381	-	-
Alternative investments	121,050	-	-	121,050
	\$ 1,439,761	\$ 1,294,486	\$ 24,225	\$ 121,050

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.

Activity within the Alternative investments was as follows:

	2019	2018
Beginning balances	\$ 121,050	\$ 128,550
Sales	(25,139)	-
Unrealized losses	(767)	(7,500)
	\$ 95,144	\$ 121,050

Unrealized losses are included in investment returns in the Consolidated Statements of Activities, under net assets with donor restrictions.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 3. 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>2019</u>	<u>2018</u>
Dividends and interest	\$ 46,079	\$ 25,786
Realized and unrealized gain	32,347	61,772
Less investment fees	<u>(11,770)</u>	<u>(12,328)</u>
	<u>\$ 66,656</u>	<u>\$ 75,230</u>

Note 4. Property and equipment

	<u>2019</u>	<u>2018</u>
Buildings, pledged	\$ 9,393,139	\$ 9,393,139
Improvements	880,033	811,072
Equipment & machinery	612,647	559,046
Vehicles, pledged	<u>203,850</u>	<u>234,208</u>
	11,089,668	10,997,465
Accumulated depreciation	<u>(4,191,334)</u>	<u>(3,845,049)</u>
	6,898,334	7,152,416
Land, pledged	765,637	765,637
Construction in progress	<u>2,761</u>	<u>29,759</u>
	<u>\$ 7,666,733</u>	<u>\$ 7,947,812</u>

Property and equipment is pledged as collateral for notes payable. (See Note 8).
Depreciation expense for the years ended June 30, 2019 and 2018 was \$360,088 and \$326,157, respectively.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 5. 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, 2019 and 2018, respectively. Accumulated amortization is \$2,529 and \$1,686 at June 30, 2019 and 2018, respectively.

Note 6. Accrued payroll expenses

Unpaid employee vacation benefits are recognized as liabilities of the Society. The value of accrued vacation at June 30, 2019 and 2018 is \$99,097 and \$96,523, respectively. This is included in accrued expenses in the Consolidated Statements of Financial Position.

Note 7. Long-term debt

	<u>2019</u>	<u>2018</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.	\$ 2,665,977	\$ 2,747,132
Note payable, PG&E, equipment pledged as collateral, \$1,851 per month at zero interest rate, final maturity October 2022	74,060	96,283
Note payable, Ford vehicle pledged as collateral, \$483 per month at zero interest rate, final maturity January 2024.	25,740	31,530
Note payable, Ford vehicle pledged as collateral, \$490 per month at zero interest rate, final maturity January 2024.	<u>25,635</u>	<u>31,510.00</u>
	2,791,412	2,906,455
Less unamortized discount and debt issuance costs	<u>(93,765)</u>	<u>(100,455)</u>
	2,697,647	2,806,000
Less current portion of debt	<u>(111,351)</u>	<u>(107,818)</u>
	<u>\$ 2,586,296</u>	<u>\$ 2,698,182</u>

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 7. 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. The Society was out of compliance with one of the covenants. The bank agreed to waive the violation for the year ended June 30, 2019. 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 \$6,690 and \$3,581 for the years ended June 30, 2019 and 2018, 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>2019</u> Unamortized discount and debt issuance costs
Note payable, financial institution	\$ 2,665,977	\$ 86,540
Note payable, PG&E	74,060	3,667
Note payable, Ford vehicle	25,740	1,798
Note Payable, Ford vehicle	25,635	1,760
	<u>\$ 2,791,412</u>	<u>\$ 93,765</u>

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 7. Long-term debt
(Cont.)

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

Year ending June 30,	2020	\$	111,351
	2021		114,999
	2022		118,768
	2023		107,711
	2024		96,659
	Thereafter		<u>2,148,159</u>
		\$	<u>2,697,647</u>

Cash paid for interest expense during the years ended June 30, 2019 and 2018 was \$89,309 and \$91,934, respectively.

Note 8. 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, 2019 due to net operating losses from prior years. Deferred tax benefits from these losses are shown below:

	<u>2019</u>		<u>2018</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, 2019 AND 2018**

Note 9. Endowment funds

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
	Assets with Donor Restrictions	Assets with Donor Restrictions
Endowment assets, beginning of the year	\$ 1,432,296	\$ 1,390,326
Investment income:		
Interest and dividends	45,305	25,995
Realized/Unrealized gains	32,347	61,388
	1,509,948	1,477,709
Amounts appropriated for expenditure	(40,490)	(45,413)
Endowment assets, end of year	\$ 1,469,458	\$ 1,432,296

The Board approves the appropriation of current investment income earned on these assets for purposes specified by the donor – spay/neuter services. The amounts paid out are determined annually as part of the budgeting process and total investment income earned.

Note 10. Net assets with donor restrictions

Net Assets with donor restrictions represent assets that will be used in the future as program expenses are incurred or held in perpetuity per donor restrictions.

	2019	2018
Humane Society services	\$ 1,588,875	\$ 1,725,586
Forget-Me-Not Farm services	73,863	117,684
	\$ 1,662,738	\$ 1,843,270

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 11. Designated net assets

At June 30, 2019, included in net assets without donor restrictions is \$402,742. Of this amount \$52,742 is designated for services provided to low-income pet owners at the Society's Community Veterinary Clinic, and \$350,000 is designated to meet long-term debt requirements.

Note 12. Liquidity and availability of resources

The following reflects the Society's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year. Financial assets are considered unavailable due to donor-imposed restrictions or the governing board has set aside funds for internal designations. Amounts available include donor-restricted funds that will meet purpose or time restrictions within the next twelve months from the statement of position. The Society operates with a balanced budget and anticipates covering its general expenditures by maintaining and expanding relationships with the community it serves.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 685,331	\$ 631,880
Receivables, due in one year	313,864	502,573
Investments	<u>1,473,381</u>	<u>1,439,761</u>
	2,472,576	2,574,214
Less assets unavailable for general use within one year		
Investments - Endowment Assets	<u>(1,313,182)</u>	<u>(1,313,182)</u>
Assets available for general use within one year	<u>\$ 1,159,394</u>	<u>\$ 1,261,032</u>

Note 13. Non cash transactions

During the year ended June 30, 2018, the Society purchased two vehicles and equipment by incurring debt totaling \$168,378, (See Note 8). These were recorded as non-cash transactions in the Consolidated Statements of Cash Flows.

HUMANE SOCIETY OF SONOMA COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

Note 14. 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 15. 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, 2019 cash in one of the institutions exceeded the insured limits by \$759,258. 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 16. 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 17. Subsequent events

Effective July 1, 2019, Forget-Me-Not Farm ceased to be an entity controlled by Humane Society of Sonoma County.

Subsequent events have been evaluated by management through October 21, 2019, which is the date the consolidated financial statements were available to be issued.