

Humane Society of Sonoma County
(a California Not-for-Profit Corporation)

Financial Statements
For the Year Ended June 30, 2020

Together with Independent Auditors' Report

Humane Society of Sonoma County

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Humane Society of Sonoma County, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society of Sonoma County as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
October 21, 2020

Humane Society of Sonoma County

Statement of Financial Position

As of June 30, 2020

	<u>Operating</u>	<u>Endowment</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 1,318,472	\$ -	\$ 1,318,472
Accounts receivable	51,800	-	51,800
Pledge and grant receivables	292,500	-	292,500
Prepaid expenses and other current assets	54,388	-	54,388
Total current assets	1,717,160	-	1,717,160
Restricted cash and cash equivalents	561,422	207,646	769,068
Investments	-	1,292,323	1,292,323
Leasehold interest	1,021,601	-	1,021,601
Deferred tax benefit	8,000	-	8,000
Property and improvements, net	6,221,133	-	6,221,133
Total assets	<u>\$ 9,529,316</u>	<u>\$ 1,499,969</u>	<u>\$ 11,029,285</u>
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 103,564	\$ -	\$ 103,564
Accrued expenses	201,101	-	201,101
Deferred revenue	100,306	-	100,306
Notes payable, current portion, net	107,785	-	107,785
Total current liabilities	512,756	-	512,756
Notes payable, non-current portion, net	2,460,513	-	2,460,513
Total liabilities	2,973,269	-	2,973,269
Net assets			
Net assets without donor restrictions			
Undesignated	4,920,283	-	4,920,283
Board-designated	402,742	-	402,742
Total net assets without donor restrictions	5,323,025	-	5,323,025
Net assets with donor restrictions	1,233,022	1,499,969	2,732,991
Total net assets	<u>6,556,047</u>	<u>1,499,969</u>	<u>8,056,016</u>
Total liabilities and net assets	<u>\$ 9,529,316</u>	<u>\$ 1,499,969</u>	<u>\$ 11,029,285</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2020

	Net Assets Without Donor Restrictions		Net Assets With Donor Restrictions		Total
	Operations	Endowment	Operations	Endowment	
Support and revenue					
Contributions and foundation grants	\$ 2,805,418	\$ -	\$ 589,253	\$ -	\$ 3,394,671
Program revenue, net	1,052,575	-	-	-	1,052,575
Government grants	540,008	-	-	-	540,008
Special events	211,065	-	-	-	211,065
Investment income					
Interest and dividends, net of fees	16	-	-	30,797	30,813
Net realized and unrealized gains	6,250	-	-	18,714	24,964
Rental income	43,941	-	-	-	43,941
Other revenue	21,686	-	-	-	21,686
Net assets released from restrictions	530,928	-	(530,928)	-	-
Endowment draw utilized for operations	19,000	-	-	(19,000)	-
Total support and revenue	5,230,887	-	58,325	30,511	5,319,723
Expenses					
Program services	3,510,283	-	-	-	3,510,283
General and administrative	411,752	-	-	-	411,752
Development and fundraising	707,912	-	-	-	707,912
Total expenses	4,629,947	-	-	-	4,629,947
Changes in net assets	600,940	-	58,325	30,511	689,776
Net assets, beginning of year	4,722,085	-	1,174,697	1,469,458	7,366,240
Net assets, end of year	\$ 5,323,025	\$ -	\$ 1,233,022	\$ 1,499,969	\$ 8,056,016

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program Services				Support Services		Total
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	
Personnel expenses	\$ 975,715	\$ 1,030,431	\$ 221,944	\$ 2,228,090	\$ 283,129	\$ 372,501	\$ 2,883,720
Program expenses	295,099	175,110	7,146	477,355	-	-	477,355
Utilities	49,609	81,739	3,280	134,628	18,874	4,069	157,571
Printing and postage	1,294	2,618	188	4,100	433	126,792	131,325
Interest expense	26,228	45,799	2,887	74,914	15,598	8,255	98,767
Events	-	-	-	-	-	93,401	93,401
Maintenance and repair	21,566	28,335	6,694	56,595	6,945	15,087	78,627
Professional fees	-	-	-	-	43,084	30,427	73,511
Insurance	10,597	16,319	9,264	36,180	17,020	2,428	55,628
Outside services	5,307	9,363	8,906	23,576	6,059	546	30,181
Bank and credit card charges	4,428	2,819	4,311	11,558	1,284	16,850	29,692
Advertising and promotion	11,847	1,016	2,908	15,771	-	10,745	26,516
Telephone and internet	3,206	15,384	1,733	20,323	2,814	1,907	25,044
Equipment rental	7,250	10,417	1,019	18,686	2,999	1,298	22,983
Amortization	-	22,666	-	22,666	-	-	22,666
Taxes and licenses	3,967	4,210	3,516	11,693	5,550	736	17,979
Office supplies	3,160	3,537	331	7,028	876	3,740	11,644
Dues and subscriptions	3,983	586	171	4,740	355	3,917	9,012
Other expenses	1,259	3,058	441	4,758	1,527	2,045	8,330
Vehicle expense	-	217	5,594	5,811	652	435	6,898
Computer expenses	2,052	3,012	170	5,234	989	211	6,434
Travel and training	546	2,948	202	3,696	594	738	5,028
	<u>1,427,113</u>	<u>1,459,584</u>	<u>280,705</u>	<u>3,167,402</u>	<u>408,782</u>	<u>696,128</u>	<u>4,272,312</u>
Depreciation	<u>143,973</u>	<u>193,398</u>	<u>5,510</u>	<u>342,881</u>	<u>2,970</u>	<u>11,784</u>	<u>357,635</u>
Total expenses	<u>\$ 1,571,086</u>	<u>\$ 1,652,982</u>	<u>\$ 286,215</u>	<u>\$ 3,510,283</u>	<u>\$ 411,752</u>	<u>\$ 707,912</u>	<u>\$ 4,629,947</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Statement of Cash Flows

For the Year Ended June 30, 2020

	<i>Increase (decrease) in cash and cash equivalents</i>
Cash flows from operating activities	
Change in net assets	\$ 689,776
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	357,635
Amortization	26,493
Unrealized gain on investments	(61,831)
Realized loss on investments	36,867
Changes in assets and liabilities affecting operating activities	
Decrease (increase) in assets:	
Accounts receivable	(4,139)
Pledge and grant receivables	(26,298)
Inventory	53,603
Prepaid expense and other current assets	(7,797)
Deferred tax assets	4,000
Increase in liabilities	
Accounts payable	20,448
Accrued expenses	7,124
Deferred revenue	63,218
Net cash provided by operating activities	<u>1,159,099</u>
Cash flows from investing activities	
Acquisition of investments	(388,349)
Proceeds from sale of investments	590,448
Acquisition of property and improvements	(46,274)
Net cash provided by investing activities	<u>155,825</u>
Cash flows from financing activities	
Payments of principal	(114,624)
Net cash used in financing activities	<u>(114,624)</u>
Net change in cash and cash equivalents	1,200,300
Balance at beginning of year	<u>887,240</u>
Balance at end of year	<u><u>\$ 2,087,540</u></u>
Unrestricted cash and cash equivalents	\$ 1,318,472
Restricted cash and cash equivalents	<u>769,068</u>
Total cash and cash equivalents	<u><u>\$ 2,087,540</u></u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 1. Nature of Activities

The Humane Society of Sonoma County (the "Society") is a California not-for-profit corporation that has been serving the community since 1931. The Society is a donor-supported safe haven for animals that is dedicated to bringing people and companion animals together for a lifetime of love. 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. The Society operates a no-kill shelter with two locations in Sonoma County; the primary Center for Animals is located in Santa Rosa, California with a secondary location in Healdsburg, 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 through seven.

Community Veterinary Clinic – In 2019, the Society opened the Community Veterinary Clinic (the "CVC") to provide compassionate veterinary care to low-income pet owners.

Additionally, the Society provides a variety of services for a fee including training and cremation.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Grants are recognized as support when earned in accordance with the terms of each grant or agreement. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are without donor restrictions include revenues generated from all activities other than grants and contributions which are purpose or time restricted. Net assets without donor restrictions are available for all operations conducted by the Society, for future use in operations in accordance with a board approved plan of action, and investment in property and equipment.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Basis of Presentation, *continued*

Net assets with donor restrictions - Net assets with restrictions include unconditional contributions and grant revenues with purpose or time restrictions with regards to how the funds can be used. Such restrictions can be temporary or permanent. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Statement of Changes in Net Assets as net assets released from restrictions.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Society, the accompanying financial statements are presented in separate funds for operations and endowment. The restrictions on such funds are consistent with the classification described above.

Cash and Cash Equivalents

The Society considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except for those short-term investments managed by the Society's investment managers as part of their long-term investment strategies or when a restriction is imposed which limits the investment's use to long-term, in which case they would be included in investments in the Statement of Financial Position.

As of June 30, 2020, the Society held cash and cash equivalents due to donor restrictions placed on the assets. Such restricted cash and cash equivalents are reported as non-current assets on the Statement of Financial Position.

Cash is held in demand accounts at banks, and cash balances may exceed the federally insured amounts during the year. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts due from customers relating to veterinary and aftercare services provided by the Society as well as contracts with local agencies. The obligations are uncollateralized and are stated at the amount billed. The Society's management reviews the collectability of the accounts receivable on an ongoing basis. No reserve for doubtful accounts receivable was recorded as of June 30, 2020.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Contributions Receivable

Verifiable pledges for unconditional contributions are recorded as contributions receivable and are recognized as support in the year such pledges are made by the donor. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are made. Amortization of the discount is included in contribution revenue in the Statement of Activities and Changes in Net Assets. The Society uses the allowance method to reserve for uncollectible accounts. Management periodically evaluates the allowance. As of June 30, 2020, Management expects all contributions receivable to be collected.

Investments

The Society carries investments, which include certificate of deposit, equity stocks, and mutual funds, at their fair values, in the Statement of Financial Position. Donated investments are recorded at their fair value at the date of donation. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets. Investment earnings restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the earnings are recognized.

Fair Value Measurements

The Society's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by accounting standards for fair value measurements. Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1:* Valuation based on quoted market prices in active markets for identical assets or liabilities that the Society has the ability to access.
- Level 2:* Valuation based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.
- Level 3:* Valuation derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Society's perceived risk of that investment.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Fair Value of Financial Instruments

The carrying value of cash, cash equivalents, accounts receivable and accounts payable approximate fair value due to the short maturity of those instruments.

Leasehold Interest

The Society receives discounted use of facilities from the City of Healdsburg. The fair value of the lease is amortized annually over the life of the lease. Net assets with donor restriction related to the promised use of facilities are released to net assets without donor restriction over the period of use.

Property and Equipment

Property and equipment are stated at cost. It is the Society's policy to capitalize all expenditures for property and equipment costing \$1,000 or more in the Statement of Financial Position. Depreciation is computed using the straight line method over the lesser of the estimated useful lives of the assets or the capital lease period. The lives usually range from 5 to 40 years. Ongoing repair and maintenance expenses are recognized as current period expenses on the Statement of Activities and Changes in Net Assets.

Donated property and equipment are recorded at fair value at the date of donation. In the absence of donor stipulations, all contributions of property and equipment are recorded as unrestricted support and depreciated over the assets' estimated useful lives. Contributions of personal property are recorded at fair value which is both measurable and objective. Long-lived assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless otherwise stated by the donor, the Society releases restrictions when the donated or acquired assets are placed in service.

Revenue Recognition

Revenues and expenses from the Society's veterinary services, animal training, camp fees and other services are recognized as they are earned or incurred. Deferred revenue consists of fees for services that have been received but not yet earned.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Society reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restriction.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Revenue Recognition, *continued*

Contributions of donated services are recognized at fair value in the year received if they meet all three of the following criteria: 1) services create or enhance non-financial assets or that require specialized skills, 2) services are provided by individuals possessing those skills, and 3) services would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed to the Society's program services and fundraising campaigns during the year; however, these donated services are not reflected in the financial statements since they do not require specialized services.

The Society's retail revenue is recognized upon the sale of donated inventory. Special event revenue and expenses are recognized in the year that the event occurs. Rental income is recognized in the period earned per the lease agreement.

Functional Expense Allocation

Expenses that are specifically identifiable are charged directly to the appropriate functional category. All other expenses are charged based on a reasonable allocation based upon detailed estimates and assumptions made by management which consider employee time spent on various functions, and square footage of occupied space. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Society.

Advertising

Advertising costs are expensed as incurred. Advertising expenses totaled \$26,516 for the year ended June 30, 2020.

Income Taxes

The Society is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(6) and California Franchise Tax Board Code Section 23701(d); however, income from certain activities not directly related to the Society's tax-exempt purpose could be subject to taxation as unrelated business income. The Internal Revenue Service has determined the Society qualifies for the charitable contribution deduction under Section 170(b) (1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Income Taxes, *continued*

As of June 30, 2020, the Society has a deferred tax asset resulting from a prior year tax loss. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will fail to be fully realized. As of June 30, 2020, management has determined no such valuation allowance is necessary.

The Society determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2020, the Society has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Society's exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for state.

Use of Estimates

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 based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relates to the collectability of accounts receivable, contributions receivable, valuation of deferred tax assets, and depreciable lives of property and improvements. Actual results could differ from those estimates.

Measure of Operations

The Society includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities. The measure of operations does not include capital campaign or endowment contributions, net assets released from restriction for capital campaign, proceeds from charitable trusts, and investment income.

Endowment Funds

The Society is subject to the State of California's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("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 net assets with permanent restrictions (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment, and (c) additions to the endowment in accordance with donor directions. The remaining portion of donor-restricted endowment funds are also classified and reported as net assets with donor restrictions 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 Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Endowment Funds, *continued*

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 conditions;
- 4) The possible effects of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments; and
- 6) The investment policies of the Society.

The Society's board allocates a portion of the 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. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds book value.

Accounting Pronouncements Adopted

In December 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2016-10, Revenue from Contracts with Customers (Topic 606): *Identifying Performance Obligations and Licensing*, which provide guidance for recognizing revenue from contracts with customers. The core principle of Topic 606 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. The ASU was adopted as of July 1, 2019. There was no material impact on the Society's previously reported changes in net assets or net assets balances upon adoption of the new standard.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 2. Summary of Significant Accounting Policies, *continued*

Accounting Pronouncements Adopted, *continued*

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or a reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the Society follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU was adopted as of July 1, 2019. There was no material impact on the Society's previously reported changes in net assets or net assets balances upon adoption of the new standard.

Pronouncements Effective in the Future

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The Society is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Society's financial assets as of June 30, 2020, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the Statement of Financial Position date.

Cash and cash equivalents	\$	2,087,540
Account receivables		51,800
Pledge and grant receivables		292,500
Investments		<u>1,292,323</u>
Total financial assets, at year end		3,724,163
Less those unavailable for general expenditures within one year, due to:		
Cash from donor restricted gifts		(211,422)
Board designated funds		(402,742)
Donor restricted endowments		<u>(1,499,969)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,610,030</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 3. Liquidity and Availability of Financial Assets, *continued*

As part of the Society's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Society operates with a balanced budget and anticipates covering its general expenditures by maintaining and expanding relationships with the community it serves.

Note 4. Cash Concentration

At various times during the year ended June 30, 2020, the Society had deposit amounts with a financial institution in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2020, the Society had approximately \$1,542,000 in excess of the FDIC insured amount.

Note 5. Fair Value Measurements

The following provides information about the Society's fair value measurements as of June 30, 2020:

	Level 1	Level 2	Total
Investments:			
Certificate of deposit	\$ -	\$ 26,208	\$ 26,208
Mutual funds	634,732	-	634,732
Equity stocks	631,383	-	631,382
	<u>\$ 1,266,115</u>	<u>\$ 26,208</u>	<u>\$ 1,292,323</u>

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 Statement of Financial Position.

Note 6. Investments

Investments stated at fair value as of June 30, 2020 include:

	Cost	Fair Market Value
Certificate of deposit	\$ 25,000	\$ 26,208
Mutual funds	570,782	634,732
Equity stocks	564,500	631,383
	<u>\$ 1,160,282</u>	<u>\$ 1,292,323</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 6. Investments, *continued*

Investment income is expendable to support elderly vet care and spay/neuter programs. Investment income, net, for the year ended June 30, 2020 consisted of the following:

Interest and dividend income	\$	43,792
Net realized loss		(36,867)
Net unrealized gain		61,831
Management fees		(12,979)
		<u>55,777</u>
	\$	<u>55,777</u>

Note 7. Leasehold Interest

The Society entered into a 50 year lease with the City of Healdsburg (the "City") in 2014 to use the Healdsburg Shelter facility. The lease called for a nominal \$1 per year lease payment. The value of the facility is amortized and recognized annually over the life of the lease. Annual amortization of the leasehold interest was \$22,666 for the year ended June 30, 2020. Future annual amortization is \$22,666 through the year ending June 30, 2064.

Note 8. Property and Improvements

Property and improvements consist of the following at December 31, 2019:

Land and buildings, pledged	\$	9,042,973
Improvements		918,360
Equipment and machinery		493,185
Vehicles, pledged		203,849
		<u>10,658,367</u>
Accumulated depreciation		(4,438,656)
		<u>6,219,711</u>
Construction in progress		1,422
	\$	<u>6,221,133</u>

Property and vehicles are pledged as collateral for notes payable (see Note 10). Depreciation expense for the year ended June 30, 2020 was \$357,635.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 9. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2020:

Accrued payroll	\$	75,671
Accrued vacation		116,809
Other accrued expenses		8,621
		<u>201,101</u>
	\$	<u>201,101</u>

Note 10. Notes Payable

Notes payable consist of the following as of June 30, 2020:

Note payable, First Republic Bank, first deed of trust to the facility pledged as collateral, monthly payments of \$14,205, maturity June 2041.	\$	2,582,344
Note payable, PG&E, equipment pledged as collateral, \$1,851 per month at zero interest rate, final maturity October 2022.		48,292
Note payable, Ford vehicle pledged as collateral, \$483 per month at zero interest rate, final maturity January 2024.		19,498
Note payable, Ford vehicle pledged as collateral, \$490 per month at zero interest rate, final maturity January 2024.		19,657
		<u>2,669,791</u>
Less unamortized debt issuance costs		<u>(101,493)</u>
		2,568,298
Less current portion of debt		<u>(107,785)</u>
	\$	<u>2,460,513</u>

The note payable to First Republic Bank has a fixed interest rate of 3.25% through June 30, 2031, at which point the Society has the ability to select between two different options for calculating the interest rate for the remaining term of the loan.

Scheduled future maturities of notes payable as of June 30, 2020 are as follows:

	<u>Principal</u>	<u>Debt Issuance Costs</u>	<u>Future Minimum Payments</u>
For the years ending June 30,			
2021	\$ 111,434	\$ (3,649)	\$ 107,785
2022	121,935	(3,742)	118,193
2023	109,245	(3,837)	105,408
2024	101,219	(3,936)	97,283
2025	98,601	(4,038)	94,563
Thereafter	<u>2,127,357</u>	<u>(82,291)</u>	<u>2,045,066</u>
	<u>\$ 2,669,791</u>	<u>\$ (101,493)</u>	<u>\$ 2,568,298</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 11. Paycheck Protection Program Loan

In April 2020, the Society applied for and received a Paycheck Protection Program ("PPP") loan through the Small Business Administration in relation to the coronavirus pandemic (See Note 17). The Society received \$571,200. If the Society meets certain criteria the loan may be fully forgiven. As of June 30, 2020 the Society had calculated the approved expenses required by the PPP loan for forgiveness, and are reasonably certain \$540,008 would be forgiven. As such, the Society has reported \$540,008 of the PPP loan as government grants on the Statement of Activities and Changes in Net Assets. Subsequent to year end, the Society determined they will meet the criteria to have the remaining \$31,192 balance of the loan forgiven and have reported that balance in deferred revenue on the Statement of Financial Position.

Note 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following as of June 30, 2020:

Operating funds	\$	1,233,022
Endowment funds		<u>1,499,969</u>
Total net assets with donor restrictions	\$	<u><u>2,732,991</u></u>

The above net assets with donor restrictions are comprised of the following assets as of June 30, 2020:

Restricted cash	\$	419,067
Investments		1,292,323
Leasehold interest		<u>1,021,601</u>
	\$	<u><u>2,732,991</u></u>

Net assets released from restriction for the year ended June 30, 2020 is as follows:

Program	\$	508,262
Time		<u>22,666</u>
	\$	<u><u>530,928</u></u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 13. Endowment Funds

The Society's endowment funds were established to improve the financial stability of the Organization. The endowment funds held by the Society hold donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor imposed restrictions. The Society's endowment funds totaled \$1,499,969 as of June 30, 2020.

The activities of the Society's endowment funds as of June 30, 2020 are presented as follows:

Beginning balance	\$	1,469,458
Interest and dividends, net of fees		30,797
Net realized and unrealized gains/losses		18,714
Transfer to operating funds		<u>(19,000)</u>
Ending balance	<u>\$</u>	<u>1,499,969</u>

Note 14. Operating Funds

The Society's operating funds are used to account for its general operations. The operating funds consist of funds without donor restrictions, board designated funds, and funds with temporary donor restrictions. The composition of the Society's operating funds as of June 30, 2020 are presented as follows:

Operating funds without donor restrictions, undesignated	\$	4,920,283
Operating funds without donor restrictions, designated		402,742
Operating funds with temporary donor restrictions		<u>1,233,022</u>
	<u>\$</u>	<u>6,556,047</u>

The activities of the Society's operating funds as of June 30, 2020 are presented as follows:

	Without Donor Restrictions	With Temporary Restrictions	Total Operating Funds
Revenues, gains and other support	\$ 4,680,959	\$ 589,253	\$ 5,270,212
Net assets released from restrictions	530,928	(530,928)	-
Endowment fund draws	19,000	-	19,000
Expenses	<u>(4,629,947)</u>	<u>-</u>	<u>(4,629,947)</u>
Changes in net assets	600,940	58,325	659,265
Beginning balance	<u>4,722,085</u>	<u>1,174,697</u>	<u>5,896,782</u>
Ending balance	<u>\$ 5,323,025</u>	<u>\$ 1,233,022</u>	<u>\$ 6,556,047</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 15. Rental Income

The Society rents a space in its facility in Santa Rosa to an unrelated third party, which is leased under a month-to-month lease. Rental income for the year ended June 30, 2020 amounted to \$16,121.

In July 2019, the Society entered into a lease to rent a separate part of its facility in Santa Rosa to a non-profit organization. The lease has a three year term with escalating payments. Rental income is recognized on a straight-line basis and amounted to \$27,868 for the year ended June 30, 2020.

Note 16. Unrelated Business Income

The Society generates unrelated business income from the leasing of its debt financed facility to a for-profit entity as discussed in Note 15. The unrelated business activities incurred during the year ended June 30, 2020 are summarized as the following:

Rental income	\$	16,121
Less:		
Occupancy costs		<u>(2,863)</u>
Net income	\$	<u>13,258</u>

The Society applied their net operating loss (NOL) carryforward from prior years and, as such, no tax liability was recorded for the year ended June 30, 2020. As of June 30, 2020, the Society has deferred tax assets in the amount of \$8,000, all generated from NOL carryforward from prior years.

At June 30, 2020, the Society has NOL carryforward approximately \$28,000 for federal and state purposes. If not utilized, the NOL carryforwards will begin to expire in 2037.

Note 17. Contingency

On March 11, 2020, The World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closing and shelter in place orders. It is at least reasonably possible that this matter will negatively impact the Society. However, the financial impact and duration cannot be reasonably estimated at this time.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2020

Note 18. Subsequent Events

The Society evaluated subsequent events from July 1, 2020 through October 21, 2020 the date which the financial statements were available to be issued, and determined that other than as noted in Note 11 there are no material subsequent events that required recognition or additional disclosure in these financial statements.