

Humane Society of Sonoma County

(a California Not-for-Profit Corporation)

Financial Statements

For the Years Ended June 30, 2021 and 2020

Together with Independent Auditors' Report

Humane Society of Sonoma County

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10

Independent Auditors' Report

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

Opinion

We have audited the financial statements of Humane Society of Sonoma County, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Humane Society of Sonoma County as of June 30, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humane Society of Sonoma County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Humane Society of Sonoma County's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Humane Society of Sonoma County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Humane Society of Sonoma County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Dillwood Burkell & Millar, LLP

Santa Rosa, California
October 21, 2021

Humane Society of Sonoma County

Statements of Financial Position

As of June 30, 2021 and 2020

	2021			2020		
	Operations	Endowment	Total	Operations	Endowment	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 1,100,370	\$ -	\$ 1,100,370	\$ 1,265,730	\$ -	\$ 1,265,730
Accounts receivable	60,073	-	60,073	51,800	-	51,800
Short-term investments	1,001,825	-	1,001,825	-	-	-
Pledge and grant receivables	-	-	-	292,500	-	292,500
Prepaid expenses and other current assets	64,278	-	64,278	54,388	-	54,388
Total current assets	2,226,546	-	2,226,546	1,664,418	-	1,664,418
Restricted cash and cash equivalents	863,623	468,648	1,332,271	614,164	207,646	821,810
Investments	-	1,505,736	1,505,736	-	1,292,323	1,292,323
Leasehold interest	998,935	-	998,935	1,021,601	-	1,021,601
Deferred tax benefit	6,000	-	6,000	8,000	-	8,000
Property and improvements, net	6,090,575	-	6,090,575	6,221,133	-	6,221,133
Total assets	<u>\$ 10,185,679</u>	<u>\$ 1,974,384</u>	<u>\$ 12,160,063</u>	<u>\$ 9,529,316</u>	<u>\$ 1,499,969</u>	<u>\$ 11,029,285</u>

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Humane Society of Sonoma County

Statements of Financial Position

As of June 30, 2021 and 2020

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	2021			2020		
	Operations	Endowment	Total	Operations	Endowment	Total
Liabilities						
Current liabilities						
Accounts payable	\$ 72,945	\$ -	\$ 72,945	\$ 103,564	\$ -	\$ 103,564
Accrued expenses	270,555	-	270,555	201,101	-	201,101
Deferred revenue	82,363	-	82,363	100,306	-	100,306
Notes payable, current portion, net	118,193	-	118,193	107,785	-	107,785
Total current liabilities	544,056	-	544,056	512,756	-	512,756
Notes payable, non-current portion, net	2,336,201	-	2,336,201	2,460,513	-	2,460,513
Total liabilities	2,880,257	-	2,880,257	2,973,269	-	2,973,269
Net assets						
Net assets without donor restrictions						
Undesignated	5,442,864	-	5,442,864	4,920,283	-	4,920,283
Board designated	402,742	-	402,742	402,742	-	402,742
Total net assets without donor restrictions	5,845,606	-	5,845,606	5,323,025	-	5,323,025
Net assets with donor restrictions	1,459,816	1,974,384	3,434,200	1,233,022	1,499,969	2,732,991
Total net assets	7,305,422	1,974,384	9,279,806	6,556,047	1,499,969	8,056,016
Liabilities and net assets	<u>\$ 10,185,679</u>	<u>\$ 1,974,384</u>	<u>\$ 12,160,063</u>	<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, 2021

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Operations</u>	<u>Endowment</u>	<u>Operations</u>	<u>Endowment</u>	
Support and revenue					
Contributions and foundation grants	\$ 2,744,525	\$ -	\$ 739,256	\$ -	\$ 3,483,781
Program revenue, net	1,093,081	-	-	-	1,093,081
Government grants	634,274	-	-	-	634,274
Investment income					
Interest and dividends, net of fees	1,777	-	-	11,402	13,179
Net realized and unrealized gains	613	-	-	503,013	503,626
Special events	157,074	-	-	-	157,074
Rental income	41,024	-	-	-	41,024
Other revenue	13,591	-	-	-	13,591
Net assets released from restrictions	512,462	-	(512,462)	-	-
Endowment draw utilized for operations	40,000	-	-	(40,000)	-
	<u>5,238,421</u>	<u>-</u>	<u>226,794</u>	<u>474,415</u>	<u>5,939,630</u>
Total support and other revenue					
	5,238,421	-	226,794	474,415	5,939,630
Expenses					
Program services	3,611,753	-	-	-	3,611,753
General and administrative	416,045	-	-	-	416,045
Development and fundraising	688,042	-	-	-	688,042
	<u>4,715,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,715,840</u>
Total expenses					
	4,715,840	-	-	-	4,715,840
Changes in net assets	522,581	-	226,794	474,415	1,223,790
Net assets at beginning of year	<u>5,323,025</u>	<u>-</u>	<u>1,233,022</u>	<u>1,499,969</u>	<u>8,056,016</u>
Net assets at end of year	<u>\$ 5,845,606</u>	<u>\$ -</u>	<u>\$ 1,459,816</u>	<u>\$ 1,974,384</u>	<u>\$ 9,279,806</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

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Operations</u>	<u>Endowment</u>	<u>Operations</u>	<u>Endowment</u>	
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)	-
	<u>5,230,887</u>	<u>-</u>	<u>58,325</u>	<u>30,511</u>	<u>5,319,723</u>
Total support and other revenue					
Expenses					
Program services	3,510,283	-	-	-	3,510,283
General and administrative	411,752	-	-	-	411,752
Development and fundraising	707,912	-	-	-	707,912
	<u>4,629,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,629,947</u>
Total expenses					
Changes in net assets	600,940	-	58,325	30,511	689,776
Net assets at beginning of year	<u>4,722,085</u>	<u>-</u>	<u>1,174,697</u>	<u>1,469,458</u>	<u>7,366,240</u>
Net assets at end of year	<u>\$ 5,323,025</u>	<u>\$ -</u>	<u>\$ 1,233,022</u>	<u>\$ 1,499,969</u>	<u>\$ 8,056,016</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Services				Support Services		
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	Total
Personnel expenses	\$ 1,094,906	\$ 1,088,322	\$ 173,613	\$ 2,356,841	\$ 271,733	\$ 419,739	\$ 3,048,313
Program expenses	244,401	194,865	3,190	442,456	-	-	442,456
Utilities	49,727	82,352	3,431	135,510	19,811	4,256	159,577
Printing and postage	3,292	4,904	330	8,526	669	103,924	113,119
Interest expense	24,874	43,277	2,445	70,596	14,214	7,638	92,448
Professional fees	-	-	-	-	65,279	24,600	89,879
Maintenance and repair	19,013	39,309	8,842	67,164	6,421	14,357	87,942
Insurance	11,369	17,486	9,253	38,108	17,373	2,505	57,986
Events	-	-	-	-	-	44,158	44,158
Bank and credit card charges	10,373	1,001	1,473	12,847	126	17,631	30,604
Outside services	6,266	10,499	7,180	23,945	3,021	644	27,610
Office supplies	2,756	4,278	718	7,752	1,604	15,038	24,394
Telephone and internet	3,467	12,303	1,962	17,732	3,537	2,146	23,415
Amortization	-	22,666	-	22,666	-	-	22,666
Equipment rental	7,794	9,328	958	18,080	3,041	1,248	22,369
Advertising and promotion	7,352	391	1,836	9,579	-	11,748	21,327
Dues and subscriptions	9,551	712	149	10,412	472	4,853	15,737
Taxes and licenses	4,894	4,493	3,400	12,787	1,591	734	15,112
Computer expenses	2,236	3,282	185	5,703	1,078	230	7,011
Other expenses	1,018	1,110	824	2,952	2,465	552	5,969
Vehicle expense	-	165	4,190	4,355	307	204	4,866
Travel and training	384	2,833	323	3,540	502	204	4,246
	<u>1,503,673</u>	<u>1,543,576</u>	<u>224,302</u>	<u>3,271,551</u>	<u>413,244</u>	<u>676,409</u>	<u>4,361,204</u>
Depreciation	<u>143,802</u>	<u>190,949</u>	<u>5,451</u>	<u>340,202</u>	<u>2,801</u>	<u>11,633</u>	<u>354,636</u>
Total expenses	<u><u>\$ 1,647,475</u></u>	<u><u>\$ 1,734,525</u></u>	<u><u>\$ 229,753</u></u>	<u><u>\$ 3,611,753</u></u>	<u><u>\$ 416,045</u></u>	<u><u>\$ 688,042</u></u>	<u><u>\$ 4,715,840</u></u>

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		
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	Total
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><u>\$ 1,571,086</u></u>	<u><u>\$ 1,652,982</u></u>	<u><u>\$ 286,215</u></u>	<u><u>\$ 3,510,283</u></u>	<u><u>\$ 411,752</u></u>	<u><u>\$ 707,912</u></u>	<u><u>\$ 4,629,947</u></u>

See accompanying Notes to Financial Statements.

Humane Society of Sonoma County

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
Cash flows from operating activities		
Change in net assets	\$ 1,223,790	\$ 689,776
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	354,636	357,635
Amortization	22,666	22,666
Amortization of debt issuance costs	3,518	3,827
Loss on disposal of assets	(1,422)	-
Unrealized gain on investments	(321,277)	(61,831)
Realized loss on investments	(182,349)	36,867
Contributed stocks	(49,420)	-
Interest income reinvested	(1,825)	-
Changes in assets and liabilities affecting operating activities		
Decrease (increase) in assets:		
Accounts receivable	(8,273)	(4,139)
Pledge and grant receivables	292,500	(26,298)
Prepaid expense and other current assets	(9,890)	(7,797)
Deferred tax assets	2,000	4,000
Inventory	-	53,603
Increase (decrease) in liabilities:		
Accounts payable	(30,619)	20,448
Accrued expenses	69,454	7,124
Deferred revenue	(17,943)	63,218
Net cash provided by operating activities	<u>1,345,546</u>	<u>1,159,099</u>
Cash flows from investing activities		
Acquisition of investments	(212,265)	(388,349)
Acquisition of short-term investments	(1,000,000)	-
Proceeds from sale of investments	551,898	590,448
Acquisition of property and improvements	(222,656)	(46,274)
Net cash provided by (used in) investing activities	<u>(883,023)</u>	<u>155,825</u>
Cash flows from financing activities		
Payments of principal	(117,422)	(114,624)
Net cash used in financing activities	<u>(117,422)</u>	<u>(114,624)</u>
Net increase in cash and cash equivalents	345,101	1,200,300
Balance at beginning of year	<u>2,087,540</u>	<u>887,240</u>
Balance at end of year	<u>\$ 2,432,641</u>	<u>\$ 2,087,540</u>
Unrestricted cash and cash equivalents	\$ 1,100,370	\$ 1,265,730
Restricted cash and cash equivalents	<u>1,332,271</u>	<u>821,810</u>
Total cash and cash equivalents	<u>\$ 2,432,641</u>	<u>\$ 2,087,540</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 – The Community Veterinary Clinic (the "CVC") provides 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 Years Ended June 30, 2021 and 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 Statements 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 Statements of Financial Position.

As of June 30, 2021 and 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 Statements 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, 2021 and 2020.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 Statements 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, 2021 and 2020, Management expects all contributions receivable to be collected.

Investments

The Society carries investments, which include certificate of deposit, equity stocks, and mutual funds, and alternative investments, at their fair values, in the Statements 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 Statements 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 Years Ended June 30, 2021 and 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 Statements 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 Statements 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 Statements of Activities and Changes in Net Assets as net assets released from restriction.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 \$21,327 and \$26,516, for the years ended June 30, 2021 and 2020, respectively.

Income Taxes

The Society is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) 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 Years Ended June 30, 2021 and 2020

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

Income Taxes, *continued*

As of June 30, 2021, 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, 2021, 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, 2021, 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.

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 Years Ended June 30, 2021 and 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.

Pronouncements Effective in the Future

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("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.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities* (Topic 958), *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to increase transparency and comparability among organizations by requiring contributed nonfinancial assets to be presented as a separate line item in the statement of activities, and additional disclosures. The adoption of ASU 2020-07 is effective for the Society beginning July 1, 2021. The Society is currently evaluating the impact of the provisions of ASU 2020-07 on the financial statements.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

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

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. The reclassifications had no effect on previously reported changes in net assets or total net asset balances.

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Society's financial assets as of June 30, 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.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,432,641	\$ 2,087,540
Account receivables	60,073	51,800
Pledge and grant receivables	-	292,500
Investments	<u>2,507,561</u>	<u>1,292,323</u>
Total financial assets, at year end	5,000,275	3,724,163
Less those unavailable for general expenditures within one year, due to:		
Cash from donor restricted gifts	(460,881)	(211,422)
Board designated funds	(402,742)	(402,742)
Donor restricted endowments	<u>(1,974,384)</u>	<u>(1,499,969)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,162,268</u>	<u>\$ 1,610,030</u>

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. Concentration Risk

Cash and Cash Equivalents

At various times during the year, the Society had deposit amounts with a financial institution in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Society had approximately \$1,709,000 and \$1,542,000 in excess of the FDIC insured amount as of June 30, 2021 and 2020, respectively.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 4. Concentration Risk, *continued*

Significant Revenue Sources

A significant portion of the Society's total support during the year ended June 30, 2021 was from a single source. Approximate 11% of the Society's total revenue was represented by the government note forgiveness as discussed in Note 11. There were no significant revenue sources during the year ended June 30, 2020.

Note 5. Fair Value Measurements

The following provides information about the Society's fair value measurements as of June 30, 2021:

	Level 1	Level 2	Total
Investments:			
Certificates of deposit	\$ 1,027,764	\$ -	\$ 1,027,764
Mutual funds	644,249	75,252	719,501
Equity stocks	760,296	-	760,296

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

	Level 1	Level 2	Total
Investments			
Certificates of deposit	\$ 26,208	\$ -	\$ 26,208
Mutual funds	634,732	-	634,732
Equity stocks	631,383	-	631,383

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 Statements of Financial Position.

Note 6. Investments

Investments stated at fair value as of June 30 include:

	2021		2020	
	Cost	Fair Market Value	Cost	Fair Market Value
Certificates of deposit	\$ 1,025,000	\$ 1,027,764	\$ 25,000	\$ 26,208
Mutual funds	711,055	719,501	570,782	634,732
Equity stocks	377,238	760,296	564,500	631,383
	<u>\$ 2,113,293</u>	<u>\$ 2,507,561</u>	<u>\$ 1,160,282</u>	<u>\$ 1,292,323</u>

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 consisted of the following:

	2021	2020
Interest and dividend income	\$ 25,335	\$ 43,792
Net realized gain (loss)	182,349	(36,867)
Net unrealized gain	321,277	61,831
Management fees	(12,156)	(12,979)
	<u>\$ 516,805</u>	<u>\$ 55,777</u>

Investment income includes \$1,895 and \$162 as of June 30, 2021 and 2020, respectively, of interest income earned from operating checking accounts and a certificate of deposit held in operations.

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 each year ended June 30, 2021 and 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 June 30:

	2021	2020
Land and buildings, pledged	\$ 9,042,973	\$ 9,042,973
Improvements	1,052,465	918,360
Equipment and machinery	503,960	493,185
Vehicles, pledged	203,849	203,849
	10,803,247	10,658,367
Accumulated depreciation	<u>(4,793,292)</u>	<u>(4,438,656)</u>
Net depreciable assets	6,009,955	6,219,711
Construction in progress	80,620	1,422
	<u>\$ 6,090,575</u>	<u>\$ 6,221,133</u>

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 8. Property and Improvements, *continued*

Property and vehicles are pledged as collateral for notes payable (see Note 10). Depreciation expense was \$354,636 and \$357,635 for years ended June 30, 2021 and 2020, respectively.

Note 9. Accrued Expenses

Accrued expenses consist of the following as of June 30:

	2021	2020
Accrued payroll	\$ 115,741	\$ 75,671
Accrued vacation	136,360	116,809
Other accrued expenses	18,454	8,621
	<u>\$ 270,555</u>	<u>\$ 201,101</u>

Note 10. Notes Payable

Notes payable consist of the following as of June 30:

	2021	2020
Note payable, First Republic Bank, first deed of trust to the facility pledged as collateral, monthly payments of \$14,205, maturity June 2041.	\$ 2,495,676	\$ 2,582,344
Note payable, PG&E, equipment pledged as collateral, \$1,851 per month at zero interest rate, final maturity October 2022.	28,175	48,292
Note payable, Ford vehicle pledged as collateral, \$483 per month at zero interest rate, final maturity January 2024.	14,219	19,498
Note payable, Ford vehicle pledged as collateral, \$490 per month at zero interest rate, final maturity January 2024.	14,299	19,657
	<u>2,552,369</u>	<u>2,669,791</u>
Less unamortized debt issuance costs	<u>(97,975)</u>	<u>(101,493)</u>
	2,454,394	2,568,298
Less current portion of debt	<u>(118,193)</u>	<u>(107,785)</u>
	<u>\$ 2,336,201</u>	<u>\$ 2,460,513</u>

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 10. Notes Payable, *continued*

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.

Amortization of debt issuance costs is included in interest expense on the Statements of Functional Expenses in the amount of \$3,518 and \$3,827 for the years ended June 30, 2021 and 2020, respectively.

Scheduled future maturities of notes payable as of June 30, 2021 are as follows:

	<u>Future Minimum Payments</u>	<u>Debt Issuance Costs</u>	<u>Net</u>
2022	\$ 121,935	\$ (3,742)	\$ 118,193
2023	110,971	(3,837)	107,134
2024	100,836	(3,936)	96,900
2025	98,601	(4,038)	94,563
2026	101,902	(4,144)	97,758
Thereafter	<u>2,018,124</u>	<u>(78,278)</u>	<u>1,939,846</u>
	<u>\$ 2,552,369</u>	<u>\$ (97,975)</u>	<u>\$ 2,454,394</u>

Note 11. Government Forgivable Loan and Grant Revenue

In April 2020, the Society applied for and received a Paycheck Protection Program (“PPP”) loan in the amount of \$571,200 through the Small Business Administration in relation to the coronavirus pandemic (See Note 17). The loan bears annual interest of 1% and matures 2 years from issuance with payments deferred for the first 10 months. The loan is a forgivable loan if certain criteria are met. Management had reasonable assurance the Society would meet the criteria for partial forgiveness of the loan and recognized \$540,008 as government grant revenue on the Statement of Activities and Changes in Net Assets as of June 30, 2020. In March 2021 the loan was forgiven in full. The Society reported the remaining \$31,192 as government grant revenue on the Statement of Activities and Changes in Net Assets for the year ended June 30, 2021.

In January 2021, the Society applied for and received a second PPP loan in the amount of \$603,082. Management had reasonable assurance the Society would meet the criteria for full forgiveness of the loan and recognized \$603,082 as government grant revenue on the Statement of Activities and Changes in Net Assets as of June 30, 2021.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 12. Net Assets

Net Assets without Donor Restrictions

All general operating revenues and expenses related to the program activities of the Society are included in the change in net assets without donor restrictions. From time to time donations received without donor restrictions are designated by the Society's board as board designated funds. The board-designated funds consist of funds with no donor or legal restrictions, but through board resolutions, have been set aside for specific purposes. As of June 30, 2021 and 2020, the Society's Board of Directors designated \$402,742 of net assets. This consists of funds to provide for operating reserves for the Community Vet Clinic in the amount of \$52,742, and \$350,000 for a loan covenant.

Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Operating funds	\$ 1,459,816	\$ 1,233,022
Endowment funds	<u>1,974,384</u>	<u>1,499,969</u>
Total net assets with donor restrictions	<u>\$ 3,434,200</u>	<u>\$ 2,732,991</u>

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

	<u>2021</u>	<u>2020</u>
Restricted cash	\$ 929,529	\$ 419,067
Investments	1,505,736	1,292,323
Leasehold interest	<u>998,935</u>	<u>1,021,601</u>
	<u>\$ 3,434,200</u>	<u>\$ 2,732,991</u>

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

	<u>2021</u>	<u>2020</u>
Program	\$ 489,796	\$ 508,262
Time	<u>22,666</u>	<u>22,666</u>
	<u>\$ 512,462</u>	<u>\$ 530,928</u>

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 \$1,974,384 and \$1,499,969 as of June 30, 2021 and 2020, respectively.

The activities of the Society's endowment funds as of June 30, 2021 and 2020 are presented as follows:

	With Temporary Restrictions	With Permanent Restrictions	Total Endowment Funds
Balance at July 01, 2019	\$ 228,229	\$ 1,241,229	\$ 1,469,458
Interest and dividends, net of fees	30,797	-	30,797
Net realized and unrealized gains	18,714	-	18,714
Transfer to operating funds	<u>(19,000)</u>	<u>-</u>	<u>(19,000)</u>
Balance at June 30, 2020	258,740	1,241,229	1,499,969
Interest and dividends, net of fees	11,402	-	11,402
Net realized and unrealized gains	503,013	-	503,013
Transfer to operating funds	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
Balance at June 30, 2021	<u>\$ 733,155</u>	<u>\$ 1,241,229</u>	<u>\$ 1,974,384</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 are presented as follows:

	2021	2020
Operating funds without donor restrictions, undesignated	\$ 5,442,864	\$ 4,920,283
Operating funds without donor restrictions, designated	402,742	402,742
Operating funds with temporary donor restrictions	<u>1,459,816</u>	<u>1,233,022</u>
	<u>\$ 7,305,422</u>	<u>\$ 6,556,047</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 14. Operating Funds, *continued*

The activities of the Society's operating funds as of June 30, 2021 and 2020 are presented as follows:

	Without Donor Restrictions	With Temporary Restrictions	Total Operating Funds
Balance at July 01, 2019	\$ 4,722,085	\$ 1,174,697	\$ 5,896,782
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>
Balance at June 30, 2020	5,323,025	1,233,022	6,556,047
Revenues, gains and other support	4,685,959	739,256	5,425,215
Net assets released from restrictions	512,462	(512,462)	-
Endowment fund draws	40,000	-	40,000
Expenses	<u>(4,715,840)</u>	<u>-</u>	<u>(4,715,840)</u>
Balance at June 30, 2021	<u>\$ 5,845,606</u>	<u>\$ 1,459,816</u>	<u>\$ 7,305,422</u>

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 years ended June 30, 2021 and 2020 amounted to \$18,600 and \$16,121, respectively.

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 \$22,424 and \$27,868 for the years ended June 30, 2021 and 2020, respectively. Future rents are expected for be \$34,284 for the year ended June 30, 2022.

Humane Society of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 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 years ended June 30 are summarized as the following:

	2021	2020
Rental income	\$ 18,600	\$ 16,121
Less:		
Occupancy costs	(2,860)	(2,863)
Net income	\$ 15,740	\$ 13,258

The Society applied their net operating loss (NOL) carryforward from prior years and, as such, no tax liability was recorded for the years ended June 30, 2021 and 2020. As of June 30, 2021 and 2020, the Society has deferred tax assets in the amount of \$6,000 and \$8,000, respectively, all generated from NOL carryforward from prior years.

At June 30, 2021 and 2020, the Society had NOL carryforwards of approximately \$19,000 and \$28,000, respectively, 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.

Although not directly impacted through June 30, 2021, operations and business results of the Society could be materially adversely affected in the future, including a reduction in grant and contribution revenues, or an impact to the timing of cash flows. Further, some significant estimates, such as the fair value of investments may be materially adversely impacted by national, state and local events necessary to contain the coronavirus. Throughout the pandemic, the Society has implemented safety measures to protect employees and will continue to review them as needed.

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.

Note 18. Subsequent Events

The Society evaluated subsequent events from July 1, 2021 through October 21, 2021 the date which the financial statements were available to be issued, and determined there are no material subsequent events that required recognition or additional disclosure in these financial statements.