

**Humane Society of Sonoma County**

**(a California Not-for-Profit Corporation)**

**Financial Statements**

**For the Years Ended June 30, 2023 and 2022**

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 Rose, 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, 2023 and 2022, 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, 2023 and 2022, 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 Burkel + Millar, LLP*

Santa Rosa, California

October 20, 2023

# Humane Society of Sonoma County

## Statements of Financial Position

As of June 30, 2023 and 2022

	2023			2022		
	Operations	Endowment	Total	Operations	Endowment	Total
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 2,749,542	\$ -	\$ 2,749,542	\$ 1,516,725	\$ -	\$ 1,516,725
Accounts receivable	53,697	-	53,697	50,034	-	50,034
Short-term investments	-	-	-	750,000	-	750,000
Pledges and grants receivable	-	-	-	130,000	-	130,000
Prepaid expenses and other current assets	131,305	-	131,305	85,924	-	85,924
<b>Total current assets</b>	2,934,544	-	2,934,544	2,532,683	-	2,532,683
<b>Restricted cash and cash equivalents</b>	897,098	222,615	1,119,713	390,717	197,200	587,917
<b>Investments</b>	197,151	1,434,278	1,631,429	163,948	1,376,869	1,540,817
<b>Leasehold interest</b>	953,603	-	953,603	976,269	-	976,269
<b>Deferred tax benefit</b>	3,000	-	3,000	3,000	-	3,000
<b>Property and improvements, net</b>	5,632,014	-	5,632,014	5,919,010	-	5,919,010
<b>Total assets</b>	<u>\$10,617,410</u>	<u>\$ 1,656,893</u>	<u>\$12,274,303</u>	<u>\$ 9,985,627</u>	<u>\$ 1,574,069</u>	<u>\$11,559,696</u>

*continued on next page*

*See accompanying Notes to Financial Statements*

# Humane Society of Sonoma County

## Statements of Financial Position As of June 30, 2023 and 2022

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	2023			2022		
	Operations	Endowment	Total	Operations	Endowment	Total
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable	\$ 71,226	\$ -	\$ 71,226	\$ 85,072	\$ -	\$ 85,072
Accrued expenses	260,458	-	260,458	243,656	-	243,656
Deferred revenue	155,662	-	155,662	148,737	-	148,737
Notes payable, current portion, net	98,515	-	98,515	107,134	-	107,134
<b>Total current liabilities</b>	585,861	-	585,861	584,599	-	584,599
<b>Notes payable, non-current portion, net</b>	2,130,490	-	2,130,490	2,228,695	-	2,228,695
<b>Total liabilities</b>	2,716,351	-	2,716,351	2,813,294	-	2,813,294
<b>Net assets</b>						
Net assets without donor restrictions						
Undesignated	5,647,616	-	5,647,616	5,402,605	-	5,402,605
Board designated	402,742	-	402,742	402,742	-	402,742
<b>Total net assets without donor restrictions</b>	6,050,358	-	6,050,358	5,805,347	-	5,805,347
Net assets with donor restrictions	1,850,701	1,656,893	3,507,594	1,366,986	1,574,069	2,941,055
<b>Total net assets</b>	7,901,059	1,656,893	9,557,952	7,172,333	1,574,069	8,746,402
<b>Liabilities and net assets</b>	<u>\$ 10,617,410</u>	<u>\$ 1,656,893</u>	<u>\$ 12,274,303</u>	<u>\$ 9,985,627</u>	<u>\$ 1,574,069</u>	<u>\$ 11,559,696</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, 2023

	Without Donor Restrictions		With Donor Restrictions		Total
	Operations	Endowment	Operations	Endowment	
<b>Support and revenue</b>					
Contributions and grants of financial assets	\$ 2,585,146	\$ -	\$ 928,101	\$ -	\$ 3,513,247
Contributions of nonfinancial assets	22,467	-	-	-	22,467
Program revenue, net	1,158,311	-	-	-	1,158,311
Government grant	909,305	-	-	-	909,305
Investment income					
Interest and dividends, net of fees	19,910	-	-	25,445	45,355
Net realized and unrealized losses	17,316	-	-	143,379	160,695
Special events	333,884	-	-	-	333,884
Rental income	52,884	-	-	-	52,884
Other revenue	101,082	-	-	-	101,082
Net assets released from restrictions	444,386	-	(444,386)	-	-
Endowment draw utilized for operations	86,000	-	-	(86,000)	-
<b>Total support and other revenue</b>	<b>5,730,691</b>	<b>-</b>	<b>483,715</b>	<b>82,824</b>	<b>6,297,230</b>
<b>Expenses</b>					
Program services	4,133,303	-	-	-	4,133,303
General and administrative	463,512	-	-	-	463,512
Development and fundraising	888,865	-	-	-	888,865
<b>Total expenses</b>	<b>5,485,680</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,485,680</b>
<b>Changes in net assets</b>	<b>245,011</b>	<b>-</b>	<b>483,715</b>	<b>82,824</b>	<b>811,550</b>
<b>Net assets at beginning of year</b>	<b>5,805,347</b>	<b>-</b>	<b>1,366,986</b>	<b>1,574,069</b>	<b>8,746,402</b>
<b>Net assets at end of year</b>	<b>\$ 6,050,358</b>	<b>\$ -</b>	<b>\$ 1,850,701</b>	<b>\$ 1,656,893</b>	<b>\$ 9,557,952</b>

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, 2022

	Without Donor Restrictions		With Donor Restrictions		Total
	Operations	Endowment	Operations	Endowment	
<b>Support and revenue</b>					
Contributions and grants of financial assets	\$ 2,723,958	\$ -	\$ 341,210	\$ -	\$ 3,065,168
Contributions of nonfinancial assets	28,038	-	-	-	28,038
Program revenue, net	1,144,789	-	-	-	1,144,789
Investment income					
Interest and dividends, net of fees	3,752	-	-	10,399	14,151
Net realized and unrealized losses	(8,843)	-	-	(344,714)	(353,557)
Special events	154,110	-	-	-	154,110
Rental income	51,892	-	-	-	51,892
Other revenue	76,261	-	-	-	76,261
Net assets released from restrictions	434,040	-	(434,040)	-	-
Endowment draw utilized for operations	66,000	-	-	(66,000)	-
Total support and other revenue	4,673,997	-	(92,830)	(400,315)	4,180,852
<b>Expenses</b>					
Program services	3,635,661	-	-	-	3,635,661
General and administrative	409,612	-	-	-	409,612
Development and fundraising	668,983	-	-	-	668,983
Total expenses	4,714,256	-	-	-	4,714,256
<b>Changes in net assets</b>	(40,259)	-	(92,830)	(400,315)	(533,404)
<b>Net assets at beginning of year</b>	5,845,606	-	1,459,816	1,974,384	9,279,806
<b>Net assets at end of year</b>	\$ 5,805,347	\$ -	\$ 1,366,986	\$ 1,574,069	\$ 8,746,402

See accompanying Notes to Financial Statements



# Humane Society of Sonoma County

## Statement of Functional Expenses

For the Year Ended June 30, 2023

	Program Services				Support Services		
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	Total
Personnel expenses	\$ 1,356,243	\$ 1,212,705	\$ 200,463	\$2,769,411	\$ 336,351	\$ 488,711	\$3,594,473
Program expenses	197,002	240,494	5,398	442,894	-	-	442,894
Utilities	76,409	113,384	5,067	194,860	21,773	6,291	222,924
Printing & postage	4,002	4,499	248	8,749	468	147,747	156,964
Maintenance & repairs	35,462	51,987	14,794	102,243	11,103	22,426	135,772
Events	-	-	-	-	-	124,935	124,935
Interest expense	29,439	38,858	2,195	70,492	9,500	2,720	82,712
Professional fees	-	-	-	-	38,817	23,134	61,951
Insurance	12,944	17,504	9,240	39,688	15,799	2,499	57,986
Bank & credit card charges	13,842	1,943	3,179	18,964	75	23,999	43,038
Dues & subscriptions	11,907	1,181	234	13,322	441	16,505	30,268
Outside services	5,126	8,276	382	13,784	15,824	474	30,082
Equipment rental	10,793	9,129	822	20,744	1,553	1,141	23,438
Amortization	8,067	10,649	601	19,317	2,603	746	22,666
Advertising & promotion	11,982	-	590	12,572	-	6,733	19,305
Office supplies	5,201	5,261	773	11,235	1,426	5,944	18,605
Telephone & internet	3,245	9,212	1,253	13,710	1,022	958	15,690
Taxes & licenses	5,773	3,752	4,274	13,799	970	419	15,188
Travel & training	4,739	5,283	1,002	11,024	1,891	1,389	14,304
Vehicle expense	-	1,574	6,428	8,002	512	341	8,855
Computer expenses	3,114	4,110	232	7,456	1,005	287	8,748
Other expenses	1,335	3,160	272	4,767	203	874	5,844
	<u>1,796,625</u>	<u>1,742,961</u>	<u>257,447</u>	<u>3,797,033</u>	<u>461,336</u>	<u>878,273</u>	<u>5,136,642</u>
Depreciation	<u>146,118</u>	<u>184,758</u>	<u>5,394</u>	<u>336,270</u>	<u>2,176</u>	<u>10,592</u>	<u>349,038</u>
<b>Total expenses</b>	<u>\$ 1,942,743</u>	<u>\$ 1,927,719</u>	<u>\$ 262,841</u>	<u>\$4,133,303</u>	<u>\$ 463,512</u>	<u>\$ 888,865</u>	<u>\$5,485,680</u>

See accompanying Notes to Financial Statements.

# Humane Society of Sonoma County

## Statement of Functional Expenses

For the Year Ended June 30, 2022

	Program Services				Support Services		
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	Total
Personnel expenses	\$ 1,075,882	\$ 1,044,186	\$ 174,563	\$2,294,631	\$ 281,731	\$ 426,587	\$3,002,949
Program expenses	236,646	223,646	18,081	478,373	-	-	478,373
Utilities	58,364	97,936	4,216	160,516	24,369	5,261	190,146
Maintenance & repairs	24,252	47,915	11,312	83,479	10,419	15,910	109,808
Printing & postage	2,874	4,838	293	8,005	989	97,115	106,109
Interest expense	23,889	41,565	2,348	67,802	13,649	7,334	88,785
Professional fees	-	-	-	-	37,775	27,916	65,691
Insurance	11,386	17,470	9,229	38,085	17,373	2,528	57,986
Bank & credit card charges	12,412	935	3,024	16,371	126	15,266	31,763
Events	-	-	-	-	-	29,390	29,390
Equipment rental	11,322	9,146	840	21,308	3,193	1,450	25,951
Outside services	6,446	11,589	2,787	20,822	3,106	664	24,592
Amortization	-	22,666	-	22,666	-	-	22,666
Advertising & promotion	9,996	-	2,322	12,318	-	9,219	21,537
Computer expenses	6,803	9,987	565	17,355	3,279	700	21,334
Telephone & internet	2,606	10,582	1,723	14,911	2,407	1,544	18,862
Taxes & licenses	6,309	5,250	3,857	15,416	1,893	1,022	18,331
Office supplies	3,295	5,147	359	8,801	1,919	7,553	18,273
Dues & subscriptions	5,226	685	123	6,034	467	5,993	12,494
Other expenses	2,487	3,068	-	5,555	2,842	1,301	9,698
Vehicle expense	-	1,012	6,161	7,173	471	314	7,958
Travel & training	1,400	1,495	203	3,098	771	371	4,240
	<u>1,501,595</u>	<u>1,559,118</u>	<u>242,006</u>	<u>3,302,719</u>	<u>406,779</u>	<u>657,438</u>	<u>4,366,936</u>
Depreciation	<u>142,431</u>	<u>185,107</u>	<u>5,404</u>	<u>332,942</u>	<u>2,833</u>	<u>11,545</u>	<u>347,320</u>
<b>Total expenses</b>	<u>\$ 1,644,026</u>	<u>\$ 1,744,225</u>	<u>\$ 247,410</u>	<u>\$3,635,661</u>	<u>\$ 409,612</u>	<u>\$ 668,983</u>	<u>\$4,714,256</u>

See accompanying Notes to Financial Statements.

# Humane Society of Sonoma County

## Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 811,550	\$ (533,404)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	349,038	347,320
Amortization	22,666	22,666
Amortization of debt issuance costs	3,227	3,431
Unrealized loss (gain) on investments	(178,583)	596,278
Realized gains on investments	17,888	(242,721)
Contributed stocks	(51,337)	(147,268)
Interest income reinvested	(44,388)	(28,241)
Changes in assets and liabilities affecting operating activities		
Decrease (increase) in assets:		
Accounts receivable	(3,663)	10,039
Pledges and grants receivable	130,000	(130,000)
Prepaid expense and other current assets	(45,381)	(21,646)
Deferred tax assets	-	3,000
Increase (decrease) in liabilities:		
Accounts payable	(13,846)	12,127
Accrued expenses	16,802	(26,899)
Deferred revenue	6,925	66,374
Net cash provided by (used in) operating activities	<u>1,020,898</u>	<u>(68,944)</u>
<b>Cash flows from investing activities</b>		
Acquisition of investments	(356,269)	(2,576,246)
Proceeds from sale of investments	1,272,077	2,614,942
Acquisition of property and improvements	(62,042)	(175,755)
Net cash used in investing activities	<u>853,766</u>	<u>(137,059)</u>
<b>Cash flows from financing activities</b>		
Payments of principal	(110,051)	(121,996)
Net cash used in financing activities	<u>(110,051)</u>	<u>(121,996)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,764,613	(327,999)
<b>Balance at beginning of year</b>	<u>2,104,642</u>	<u>2,432,641</u>
<b>Balance at end of year</b>	<u>\$ 3,869,255</u>	<u>\$ 2,104,642</u>
Unrestricted cash and cash equivalents	\$ 2,749,542	\$ 1,516,725
Restricted cash and cash equivalents	<u>1,119,713</u>	<u>587,917</u>
<b>Total cash and cash equivalents</b>	<u>\$ 3,869,255</u>	<u>\$ 2,104,642</u>

See accompanying Notes to Financial Statements

# Humane Society of Sonoma County

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## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### 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.

*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 Activities and Changes in Net Assets as net assets released from restrictions.

# Humane Society of Sonoma County

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## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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

#### Basis of Presentation, *continued*

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, 2023 and 2022, 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, 2023 and 2022 as management expects the accounts receivable balance to be fully collected.

#### Pledges and Grants 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, 2023 and 2022, Management expects all contributions receivable to be collected.

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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

#### Investments

The Society carries investments, which include certificate of deposit, equity stocks, 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.

#### 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 restrictions related to the promised use of facilities are released to net assets without donor restrictions 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 five to forty years. Ongoing repair and maintenance expenses are recognized as current period expenses on the Statements of Activities and Changes in Net Assets.

# Humane Society of Sonoma County

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## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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

#### Property and Equipment, *continued*

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.

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.

# Humane Society of Sonoma County

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## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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

#### Advertising

Advertising costs are expensed as incurred. Advertising expenses totaled \$19,305 and \$21,537 for the years ended June 30, 2023 and 2022, 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).

Income tax provisions have been calculated for the years ended June 30, 2023 and 2022 for the rental of a portion of the Society's debt financed facility, which are considered unrelated business income and therefore taxable under the Internal Revenue Code and the California Revenue and Taxation Code. As of June 30, 2023, 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, 2023, 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, 2023, 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.



# Humane Society of Sonoma County

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## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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

#### 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.

*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 Society calculates the amount available to be spent annually as 4% of the average fair market value of the endowment fund averaged over the prior 3 years.

*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. The fair value of the permanently restricted endowment fund, which is required to be maintained in perpetuity, had no deficiency as of June 30, 2023 and 2022.

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,869,255	\$ 2,104,642
Accounts receivable	53,697	50,034
Pledges and grants receivable	-	130,000
Investments	<u>1,631,429</u>	<u>2,290,81</u>
Total financial assets, at year end	5,554,381	4,575,493
Less those unavailable for general expenditures within one year, due to:		
Cash from donor restricted gifts	(897,098)	(390,717)
Board designated funds	(402,742)	(402,742)
Donor restricted endowments	<u>(1,656,893)</u>	<u>(1,574,069)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,597,648</u>	<u>\$ 2,207,965</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 \$13,500 and \$1,559,000 in excess of the FDIC insured amount as of June 30, 2023 and 2022, respectively.

#### *Significant Revenue Sources*

During the year ended June 30, 2023, there was a government grant received in the amount of \$909,305 which accounted for 14% of the Society's total support for the year. There were no significant revenue sources during the year ended June 30, 2022.

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 5. Fair Value Measurements

The following provides information about the Society's fair value measurements as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments			
Mutual funds	\$ 556,015	\$ 9,624	\$ 565,639
Equity stocks	1,065,790	-	1,065,790

The following provides information about the Society's fair value measurements as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments			
Certificates of deposit	\$ 775,218	\$ -	\$ 775,218
Mutual funds	453,467	-	453,467
Equity stocks	1,062,132	-	1,062,132

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:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Fair Market Value</u>
Certificates of deposit	\$ -	\$ -	\$ 775,000	\$ 775,218
Mutual funds	551,655	565,639	514,843	453,467
Equity stocks	1,052,930	1,065,790	1,189,069	1,062,132
	<u>\$ 1,604,585</u>	<u>\$ 1,631,429</u>	<u>\$ 2,478,912</u>	<u>\$ 2,290,817</u>

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:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 61,095	\$ 28,598
Net realized gain (loss)	(17,888)	242,721
Net unrealized gain (loss)	178,583	(596,278)
Management fees	(15,740)	(14,447)
	<u>\$ 206,050</u>	<u>\$ (339,406)</u>

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 6. Investments, *continued*

Investment income includes \$12,420 and \$357 as of June 30, 2023 and 2022, respectively, of interest income earned from operating checking accounts.

### 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 leasehold interest was determined to be \$1,147,415, and is amortized over the life of the lease. Annual amortization of the leasehold interest was \$22,666 for each year ended June 30, 2023 and 2022. 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:

	<b>2023</b>	<b>2022</b>
Land and buildings, pledged	\$ 9,072,538	\$ 9,072,538
Improvements	1,277,988	1,268,456
Equipment and machinery	452,170	514,779
Vehicles, pledged	164,446	168,818
	10,967,142	11,024,591
Accumulated depreciation	(5,335,128)	(5,105,581)
	<u>\$ 5,632,014</u>	<u>\$ 5,919,010</u>

Property and vehicles are pledged as collateral for notes payable (see Note 10). The vehicles were fully depreciated as of June 30, 2023. The net book value of the vehicles was \$8,695 as of June 30, 2022. Depreciation expense for the vehicles was \$8,695 and \$17,772 for the years ended June 30, 2023 and 2022, respectively.

Depreciation expense was \$349,038 and \$347,320 for years ended June 30, 2023 and 2022, respectively.

### Note 9. Accrued Expenses

Accrued expenses consist of the following as of June 30:

	<b>2023</b>	<b>2022</b>
Accrued payroll	\$ 112,514	\$ 97,920
Accrued vacation	127,697	121,525
Other accrued expenses	20,247	24,211
	<u>\$ 260,458</u>	<u>\$ 243,656</u>

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 10. Notes Payable

Notes payable consist of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Note payable to a financial institution, first deed of trust to the facility pledged as collateral, monthly payments of \$14,205, maturity June 2041.	\$ 2,313,277	\$ 2,406,350
Note payable to a financial institution, Ford vehicle pledged as collateral, \$490 per month at zero interest rate, final maturity January 2024.	3,582	8,772
Note payable to a financial institution, Ford vehicle pledged as collateral, \$483 per month at zero interest rate, final maturity January 2024.	3,462	8,771
Note payable, PG&E, equipment pledged as collateral, \$1,851 per month at zero interest rate, matured October 2022.	-	6,479
	<u>2,320,321</u>	<u>2,430,372</u>
Less unamortized debt issuance costs	<u>(91,316)</u>	<u>(94,543)</u>
	2,229,005	2,335,829
Less current portion of debt	<u>(98,515)</u>	<u>(107,134)</u>
	<u>\$ 2,130,490</u>	<u>\$ 2,228,695</u>

The facility's note payable 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. The note also requires a minimum balance of \$350,000 be maintained in a checking account.

Amortization of debt issuance costs is included in interest expense on the Statements of Functional Expenses in the amount of \$3,227 and \$3,431 for the years ended June 30, 2023 and 2022, respectively.

Scheduled future maturities of notes payable as of June 30, 2023 are as follows:

	<u>Future Minimum Payments</u>	<u>Debt Issuance Costs</u>	<u>Net</u>
2024	\$ 102,451	\$ (3,936)	\$ 98,515
2025	98,601	(4,038)	94,563
2026	101,902	(4,144)	97,758
2027	105,314	(4,253)	101,061
2028	108,840	(4,365)	104,475
Thereafter	<u>1,803,213</u>	<u>(70,580)</u>	<u>1,732,633</u>
	<u>\$ 2,320,321</u>	<u>\$ (91,316)</u>	<u>\$ 2,229,005</u>

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 11. 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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Operating funds	\$ 1,850,701	\$ 1,366,986
Endowment funds	<u>1,656,893</u>	<u>1,574,069</u>
Total net assets with donor restrictions	<u>\$ 3,507,594</u>	<u>\$ 2,941,055</u>

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

	<u>2023</u>	<u>2022</u>
Restricted cash	\$ 1,119,713	\$ 587,917
Investments	1,434,278	1,376,869
Leasehold interest, net	<u>953,603</u>	<u>976,269</u>
	<u>\$ 3,507,594</u>	<u>\$ 2,941,055</u>

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

	<u>2023</u>	<u>2022</u>
Program	\$ 421,720	\$ 411,374
Time	<u>22,666</u>	<u>22,666</u>
	<u>\$ 444,386</u>	<u>\$ 434,040</u>

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 12. Endowment Funds

The Society's endowment funds were established to improve the financial stability of the Organization. The endowment funds held by the Society contain 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 \$1,656,893 and \$1,574,069 as of June 30, 2023 and 2022, respectively.

The activities of the Society's endowment funds as of June 30, 2023 and 2022 are presented as follows:

	With Temporary Restrictions	With Permanent Restrictions	Total Endowment Funds
Balance as of July 01, 2021	\$ 733,155	\$ 1,241,229	\$ 1,974,384
Interest and dividends, net of fees	10,399	-	10,399
Net realized and unrealized losses	(344,714)	-	(344,714)
Transfer to operating funds	(66,000)	-	(66,000)
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2022	332,840	1,241,229	1,574,069
Interest and dividends, net of fees	25,445	-	25,445
Net realized and unrealized gains	143,379	-	143,379
Transfer to operating funds	(86,000)	-	(86,000)
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2023	<u>\$ 415,664</u>	<u>\$ 1,241,229</u>	<u>\$ 1,656,893</u>

### Note 13. 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:

	<u>2023</u>	<u>2022</u>
Operating funds without donor restrictions, undesignated	\$ 5,647,616	\$ 5,402,605
Operating funds without donor restrictions, designated	402,742	402,742
Operating funds with temporary donor restrictions	1,850,701	1,366,986
	<hr/>	<hr/>
	<u>\$ 7,901,059</u>	<u>\$ 7,172,333</u>

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 13. Operating Funds, *continued*

The activities of the Society's operating funds as of June 30, 2023 and 2022 are presented as follows:

	Without Donor Restrictions	With Temporary Restrictions	Total Operating Funds
Balance at July 01, 2021	\$ 5,845,606	\$ 1,459,816	\$ 7,305,422
Revenues, gains and other support	4,173,957	341,210	4,515,167
Net assets released from restrictions	434,040	(434,040)	-
Endowment fund draws	66,000	-	66,000
Expenses	(4,714,256)	-	(4,714,256)
Balance at June 30, 2022	5,805,347	1,366,986	7,172,333
Revenues, gains and other support	5,200,305	928,101	6,128,406
Net assets released from restrictions	444,386	(444,386)	-
Endowment fund draws	86,000	-	86,000
Expenses	(5,485,680)	-	(5,485,680)
Balance at June 30, 2023	<u>\$ 6,050,358</u>	<u>\$ 1,850,701</u>	<u>\$ 7,901,059</u>

### Note 14. Contributions of Nonfinancial Assets

Contributions of nonfinancial assets recognized in the Statements of Activities and Changes in Net Assets as of June 30, 2023 included:

Category	Revenue Recognized	Utilization in Programs or Activities	Donor Restrictions	Valuation Techniques
Vehicles	\$ 16,268	Policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Determined according to the actual cash proceeds on their disposition.
Supplies	6,199	Adoptions Program	No associated donor restrictions	Supplies were valued at readily available retail market value.
	<u>\$ 22,467</u>			



# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 14. Contributions of Nonfinancial Assets, *continued*

Contributions of nonfinancial assets recognized in the Statements of Activities and Changes in Net Assets as of June 30, 2022 included:

<u>Category</u>	<u>Revenue Recognized</u>	<u>Utilization in Programs or Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques</u>
Vehicles	\$ 21,466	Policy to sell all contributed vehicles immediately upon receipt, unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Determined according to the actual cash proceeds on their disposition.
Professional services	1,700	Development and Fundraising	No associated donor restrictions	Determined by the regular market rate for the individual performing the services.
Supplies	4,872	Adoptions Program	No associated donor restrictions	Supplies were valued at readily available retail market value.
	<u>\$ 28,038</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 amounted to \$18,600 for each of the years ended June 30, 2023 and 2022.

In July 2019, the Society entered into a lease to rent a separate part of its facility in Santa Rosa to a nonprofit organization. The lease initially had a three-year term with escalating payments. The lease expired on June 30, 2022, and converted to a month-to-month lease. Subsequent to year-end in September 2023, the lease was renewed with escalating payments and a new expiration date of June 2032. Rental income is recognized on a straight-line basis and amounted to \$34,284 and \$33,292 for the years ended June 30, 2023 and 2022, respectively.

# Humane Society of Sonoma County

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 15. Rental Income, *continued*

Future expected rental income is as follows:

2024	\$	36,024
2025		36,924
2026		37,848
2027		38,784
2028		39,708
Thereafter		<u>208,980</u>
	\$	<u>398,268</u>

### 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:

	<u>2023</u>	<u>2022</u>
Rental income	\$ 18,600	\$ 18,600
Less:		
Occupancy costs	<u>(3,531)</u>	<u>(3,280)</u>
Net income	<u>\$ 15,069</u>	<u>\$ 15,320</u>

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, 2023 and 2022. As of June 30, 2023 and 2022, the Society has deferred tax assets in the amount of \$3,000, all generated from NOL carryforward from prior years.

At June 30, 2023 and 2022, the Society had NOL carryforwards of approximately \$20,000 and \$25,000, respectively, for federal and state purposes. If not utilized, the NOL carryforwards will begin to expire in 2037.

### Note 17. Subsequent Events

The Society evaluated subsequent events from July 1, 2023 through October 20, 2023 the date which the financial statements were available to be issued, and determined that other than the lease renewal in Note 15 there are no material subsequent events that required recognition or additional disclosure in these financial statements.