

Humane Society of Sonoma County

(a California Not-for-Profit Corporation)

**Financial Statements
For the Year Ended June 30, 2025**

Together with Independent Auditors' Report

Humane Society of Sonoma County

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Humane Society of Sonoma County, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2025 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. 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 available to be 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 24, 2025

Humane Society of Sonoma County

Statement of Financial Position

As of June 30, 2025

	<u>Operations</u>	<u>Endowment</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 836,086	\$ -	\$ 836,086
Accounts receivable	58,999	-	58,999
Interfund receivable (payable)	88,541	(88,541)	-
Prepaid expenses and other current assets	159,395	-	159,395
Total current assets	1,143,021	(88,541)	1,054,480
Restricted cash and cash equivalents	350,000	164,898	514,898
Investments	1,724,543	2,011,825	3,736,368
Leasehold interest	908,271	-	908,271
Property and improvements, net	5,355,872	-	5,355,872
Total assets	<u>\$ 9,481,707</u>	<u>\$ 2,088,182</u>	<u>\$ 11,569,889</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 96,835	\$ -	\$ 96,835
Accrued expenses	239,553	-	239,553
Deferred revenue	162,003	-	162,003
Notes payable, current portion, net	97,758	-	97,758
Total current liabilities	596,149	-	596,149
Notes payable, non-current portion, net	1,936,264	-	1,936,264
Total liabilities	2,532,413	-	2,532,413
Net assets			
Net assets without donor restrictions			
Undesignated	5,021,530	-	5,021,530
Board designated	402,742	-	402,742
Total net assets without donor restrictions	5,424,272	-	5,424,272
Net assets with donor restrictions	1,525,022	2,088,182	3,613,204
Total net assets	<u>6,949,294</u>	<u>2,088,182</u>	<u>9,037,476</u>
Liabilities and net assets	<u>\$ 9,481,707</u>	<u>\$ 2,088,182</u>	<u>\$ 11,569,889</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, 2025

	Without Donor Restrictions		With Donor Restrictions		Total
	Operations	Endowment	Operations	Endowment	
Support and revenue					
Contributions and grants of financial assets	\$ 2,733,481	\$ -	\$ 585,122	\$ -	\$ 3,318,603
Contributions of nonfinancial assets	90,896	-	-	-	90,896
Program revenue, net	1,372,688	-	-	-	1,372,688
Investment income					
Interest and dividends, net of fees	62,003	-	-	50,806	112,809
Net realized and unrealized gains	48,776	-	-	172,098	220,874
Special events	249,584	-	-	-	249,584
Rental income	62,395	-	-	-	62,395
Net assets released from restrictions	921,055	-	(921,055)	-	-
Endowment draw utilized for operations	103,491	-	-	(103,491)	-
Total support and other revenue	5,644,369	-	(335,933)	119,413	5,427,849
Expenses					
Program services	3,977,848	-	-	-	3,977,848
General and administrative	585,653	-	-	-	585,653
Development and fundraising	1,006,106	-	-	-	1,006,106
Total expenses	5,569,607	-	-	-	5,569,607
Changes in net assets	74,762	-	(335,933)	119,413	(141,758)
Net assets at beginning of year, restated	5,349,510	-	1,860,955	1,968,769	9,179,234
Net assets at end of year	<u>\$ 5,424,272</u>	<u>\$ -</u>	<u>\$ 1,525,022</u>	<u>\$ 2,088,182</u>	<u>\$ 9,037,476</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Statement of Functional Expenses

For the Year Ended June 30, 2025

	Program Services				Support Services		
	Veterinary	Shelter	Education and Public Programs	Total	General and Administrative	Development and Fundraising	Total
Personnel expenses	\$ 1,373,998	\$ 1,163,943	\$ 96,288	\$ 2,634,229	\$ 382,769	\$ 543,674	\$ 3,560,672
Program expenses	225,809	235,366	3,528	464,703	1,599	-	466,302
Events	-	-	-	-	-	181,146	181,146
Utilities	48,309	90,830	10,231	149,370	22,780	6,647	178,797
Maintenance and repairs	44,459	56,842	6,097	107,398	13,950	26,870	148,218
Printing and postage	920	372	-	1,292	4,809	122,381	128,482
Insurance	32,572	41,795	6,483	80,850	26,396	3,228	110,474
Professional fees	4,137	4,543	361	9,041	36,506	29,757	75,304
Interest expense	25,419	32,199	5,387	63,005	9,231	2,643	74,879
Outside services	9,302	12,441	2,147	23,890	35,740	8,527	68,157
Bank and credit card fees	16,588	6,564	8,397	31,549	826	26,949	59,324
Dues and subscriptions	13,687	-	60	13,747	6,618	6,191	26,556
Equipment rental	11,058	7,642	141	18,841	594	4,344	23,779
Amortization	-	22,666	-	22,666	-	-	22,666
Telephone and internet	5,922	11,449	788	18,159	1,951	2,316	22,426
Taxes and licenses	3,100	4,308	445	7,853	1,688	11,345	20,886
Other expenses	3,417	3,357	189	6,963	4,747	5,162	16,872
Office supplies	3,990	4,161	235	8,386	1,031	6,114	15,531
Advertising and promotion	981	-	-	981	-	7,696	8,677
Vehicle expense	3,005	1,852	-	4,857	1,627	-	6,484
Computer expenses	1,562	1,980	331	3,873	559	163	4,595
Travel and training	58	127	22	207	21	424	652
	<u>1,828,293</u>	<u>1,702,437</u>	<u>141,130</u>	<u>3,671,860</u>	<u>553,442</u>	<u>995,577</u>	<u>5,220,879</u>
Depreciation	<u>117,931</u>	<u>175,181</u>	<u>12,876</u>	<u>305,988</u>	<u>32,211</u>	<u>10,529</u>	<u>348,728</u>
Total expenses	<u>\$ 1,946,224</u>	<u>\$ 1,877,618</u>	<u>\$ 154,006</u>	<u>\$ 3,977,848</u>	<u>\$ 585,653</u>	<u>\$ 1,006,106</u>	<u>\$ 5,569,607</u>

See accompanying Notes to Financial Statements.

Humane Society of Sonoma County

Statement of Cash Flows

For the Year Ended June 30, 2025

	<i>Increase (decrease) in cash and cash equivalents</i>
Cash flows from operating activities	
Decrease in net assets	\$ (141,758)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	348,728
Amortization	22,666
Loss on disposal of property and equipment	1,916
Amortization of debt issuance costs	3,129
Unrealized gain on investments	(194,067)
Realized losses on investments	(26,807)
Contributed stocks	(3,347)
Changes in assets and liabilities affecting operating activities:	
Decrease (increase) in assets:	
Accounts receivable	(19,100)
Prepaid expense and other current assets	(7,821)
Deferred tax asset	3,000
Increase (decrease) in liabilities:	
Accounts payable	58,402
Accrued expenses	(42,933)
Deferred revenue	40,471
Net cash and cash equivalents provided by operating activities	42,479
Cash flows from investing activities	
Acquisition of investments	(1,983,972)
Proceeds from sale of investments	1,939,107
Acquisition of property and improvements	(34,595)
Net cash and cash equivalents used in investing activities	(79,460)
Cash flows from financing activities	
Payments of principal on note payable	(98,854)
Net cash and cash equivalents used in financing activities	(98,854)
Net decrease in cash and cash equivalents	(135,835)
Balance at beginning of year	1,486,819
Balance at end of year	<u>\$ 1,350,984</u>
Unrestricted cash and cash equivalents	\$ 836,086
Restricted cash and cash equivalents	<u>514,898</u>
Total cash and cash equivalents	<u>\$ 1,350,984</u>

See accompanying Notes to Financial Statements

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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 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, summer camps for children in grades two through seven, education seminars, spay/neuter services, pet assisted therapy in hospitals and hospice situations, and dog behavior training programs.

Community Veterinary Clinic – The Community Veterinary Clinic (the "CVC") provides compassionate veterinary care to low-income pet owners.

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

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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 classifications described above.

Cash and Cash Equivalents

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

As of June 30, 2025, the Society held cash and cash equivalents due to donor restrictions placed on the assets, and a debt service reserve fund required by a lender (Note 12). Such restricted cash and cash equivalents are reported as non-current assets on the Statement of Financial Position.

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

Accounts Receivable

Accounts receivable consist of amounts due from customers relating to veterinary and aftercare services provided by the Society as well as contracts with local agencies. The obligations are uncollateralized and are stated at the amount Society expects to collect. The Society maintains allowances for credit losses for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Society's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Society provides for estimated uncollectable amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Society has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Interest is not charged on accounts receivable balances. As of June 30, 2025, management expects the accounts receivable balance to be fully collected and therefore has not recorded an estimated credit loss.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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

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 Statement of Activities and Changes in Net Assets. The Society uses the allowance method to reserve for uncollectable accounts. Management periodically evaluates the allowance. As of June 30, 2025, the Society had no pledges or grants receivable.

Investments

The Society carries investments, which can include certificates of deposit, equity stocks, mutual funds, and alternative investments, at their fair values, in the Statement of Financial Position. Donated investments are recorded at their fair value at the date of donation. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets.

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

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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

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 Improvements

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

The Society reviews the carrying value of property, equipment, and improvements for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at June 30, 2025.

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. Grants are recognized as support when earned in accordance with the terms of each grant or agreement. Fees for services that have been received but not yet earned are reported as deferred revenue.

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

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.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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 skills.

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 \$8,677 for the year ended June 30, 2025.

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 year ended June 30, 2025 for the rental of a portion of the Society's debt financed facility, which is considered unrelated business income and therefore taxable under the Internal Revenue Code and the California Revenue and Taxation Code. 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 the deferred tax assets will fail to be fully realized. As of June 30, 2025, the Society has no deferred tax assets.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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

Income Taxes, *continued*

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, 2025, 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 estimated credit losses, certain functional allocations of general and administrative costs, and depreciable lives of property, equipment, 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.

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 pay/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 up to 5% of the average fair market value of the endowment fund averaged over the prior 3 years.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

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

Endowment Funds, *continued*

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, 2025.

Note 3. Beginning Balance Restatement

During the preparation of the financial statements as of and for the year ended June 30, 2025, the Society noted that certain investment accounts had not been included in their prior financial statements. As such, prior period adjustments were recorded to correct these errors and get the accounts properly reflected on the Society’s Statement of Financial Position. The effects of the prior period adjustments are as follows for net asset balances as of July 1, 2024:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Net assets with donor restrictions - Operations	\$ 1,722,700	\$ 138,255	\$ 1,860,955
Net assets with donor restrictions - Endowment	<u>1,710,597</u>	<u>258,172</u>	<u>1,968,769</u>
	<u>\$ 3,433,297</u>	<u>\$ 396,427</u>	<u>\$ 3,829,724</u>

Note 4. Liquidity and Availability of Financial Assets

The following reflects the Society’s financial assets as of June 30, 2025, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the Statement of Financial Position date:

Cash and cash equivalents	\$ 1,350,984
Accounts receivable	58,999
Investments	<u>3,736,368</u>
Total financial assets, at year end	5,146,351
Less those unavailable for general expenditures within one year, due to:	
Donor restricted funds	(616,751)
Board designated funds	(402,742)
Donor restricted endowments	<u>(2,088,182)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,038,676</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 4 Liquidity and Availability of Financial Assets, *continued*

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements is invested in short-term investments and money market funds. Cash needs are met primarily from daily service revenue streams and donations, with any shortfalls being met by drawing on savings and short-term investments.

Note 5. Cash Concentration Risk

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 \$512,000 in excess of the FDIC insured amount as of June 30, 2025.

Note 6. Fair Value Measurements

The following provides information about the Society's fair value measurements as of June 30, 2025:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments			
Certificates of deposit	\$ -	\$ 1,384,418	\$ 1,384,418
Equity stocks	1,663,831	-	1,663,831
Mutual funds	674,766	-	674,766
Alternative investments	-	13,353	13,353

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

Note 7. Investments

Investments stated at fair value as of June 30, 2025 include:

	<u>Cost</u>	<u>Fair Market Value</u>
Certificates of deposit	\$ 1,330,000	\$ 1,384,418
Equity stocks	1,258,857	1,663,831
Mutual funds	635,299	674,766
Alternative investments	13,733	13,353
	<u>\$ 3,237,889</u>	<u>\$ 3,736,368</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 7. Investments, *continued*

Investment income is expendable to support elderly vet care and spay/neuter programs. Investment income, net, consisted of the following for the year ended June 30, 2025:

Interest and dividend income	\$	136,958
Net realized gain		26,807
Net unrealized gain		194,067
Management fees		<u>(24,149)</u>
	\$	<u>333,683</u>

Investment income includes \$11,719 of interest income earned from operating checking accounts as of June 30, 2025.

Note 8. 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 calls 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 the year ended June 30, 2025. Future annual amortization is \$22,666 through the year ending June 30, 2064.

Note 9. Property and Improvements

Property and improvements consist of the following at June 30, 2025:

Land and buildings, pledged	\$	9,072,538
Improvements		1,620,023
Equipment and machinery		389,816
Vehicles, pledged		<u>186,208</u>
		11,268,585
Accumulated depreciation		<u>(5,912,713)</u>
	\$	<u>5,355,872</u>

Depreciation expense was \$348,728 for the year ended June 30, 2025. Property and vehicles were pledged as collateral for notes payable (see Note 12). The vehicles are fully depreciated.

Note 10. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2025:

Accrued payroll	\$	125,596
Accrued vacation		103,836
Other accrued expenses		<u>10,121</u>
	\$	<u>239,553</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 11. Deferred Revenue

Deferred revenue consists of the following as of June 30, 2025:

Gala	\$	121,218
Camps and classes		34,430
Other deferred revenue		<u>6,355</u>
	\$	<u>162,003</u>

Note 12. Note Payable

The Society has of a note payable from a financial institution, secured by the first deed of trust to the Santa Rosa facility. The note payable calls for monthly payments of \$14,205 of principal and interest, and matures in June 2041. The principal balance of the note payable was \$2,118,967 and is reported net of debt issuance costs of \$84,945 as of June 30, 2025.

Amortization of debt issuance costs is included in interest expense on the Statement of Functional Expenses in the amount of \$3,129 for the year ended June 30, 2025.

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 of interest rates for the remaining term of the loan. The note requires a minimum balance of \$350,000 to be maintained in a checking account. The Society is subject to certain financial covenants under this loan agreement. As of June 30, 2025, the Society was in compliance with these covenants.

The following are the scheduled future maturities of the note payable as of June 30, 2025:

	<u>Future Minimum Payments</u>	<u>Debt Issuance Costs</u>	<u>Net</u>
2026	\$ 101,902	\$ (4,144)	\$ 97,758
2027	105,314	(4,253)	101,061
2028	108,840	(4,365)	104,475
2029	112,484	(4,481)	108,003
2030	116,249	(4,601)	111,648
Thereafter	<u>1,574,178</u>	<u>(63,101)</u>	<u>1,511,077</u>
	<u>\$ 2,118,967</u>	<u>\$ (84,945)</u>	<u>\$ 2,034,022</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 13. 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, 2025, the Society's Board of Directors designated \$402,742 of net assets. This consists of funds to provide for operating reserves for the CVC 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, 2025:

Operating funds	\$	1,525,022
Endowment funds		<u>2,088,182</u>
Total net assets with donor restrictions	\$	<u><u>3,613,204</u></u>

The above net assets with donor restrictions are comprised of the following assets as of June 30, 2025:

Restricted cash	\$	164,898
Investments		2,540,035
Leasehold interest, net		<u>908,271</u>
	\$	<u><u>3,613,204</u></u>

Net assets released from restriction for the year ended June 30, 2025 are as follows:

Program	\$	898,389
Time		<u>22,666</u>
	\$	<u><u>921,055</u></u>

Note 14. Endowment Funds

The endowment funds were established to improve the financial stability of the Society. The endowment funds held by the Society consist of 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 \$2,088,182 as of June 30, 2025.

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 14. Endowment Funds, *continued*

The activities of the Society's endowment funds as of June 30, 2025 are presented as follows:

	With Temporary Restrictions	With Permanent Restrictions	Total Endowment Funds
Balance as of June 30, 2024, restated	\$ 548,648	\$ 1,420,121	\$ 1,968,769
Interest and dividends, net of fees	50,806	-	50,806
Net realized and unrealized gains	172,098	-	172,098
Transfer to operating funds	(103,491)	-	(103,491)
	<u> </u>	<u> </u>	<u> </u>
Balance as of June 30, 2025	<u>\$ 668,061</u>	<u>\$ 1,420,121</u>	<u>\$ 2,088,182</u>

Note 15. 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, 2025 are presented as follows:

Operating funds without donor restrictions, undesignated	\$ 5,021,530
Operating funds without donor restrictions, designated	402,742
Operating funds with temporary donor restrictions	<u>1,525,022</u>
	<u>\$ 6,949,294</u>

The activities of the Society's operating funds as of June 30, 2025 are presented as follows:

	Without Donor Restrictions	With Temporary Donor Restrictions	Total Operating Funds
Balance at June 30, 2024, restated	\$ 5,349,510	\$ 1,860,955	\$ 7,210,465
Revenues, gains and other support	4,619,823	585,122	5,204,945
Net assets released from restrictions	921,055	(921,055)	-
Endowment fund draws	103,491	-	103,491
Expenses	(5,569,607)	-	(5,569,607)
	<u> </u>	<u> </u>	<u> </u>
Balance at June 30, 2025	<u>\$ 5,424,272</u>	<u>\$ 1,525,022</u>	<u>\$ 6,949,294</u>

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 16. Contributions of Nonfinancial Assets

Contributions of nonfinancial assets recognized in the Statement of Activities and Changes in Net Assets as of June 30, 2025 included:

<u>Category</u>	<u>Revenue Recognized</u>	<u>Utilization in Programs or Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques</u>
Vehicles	\$ 37,994	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.
Auction supplies	30,695	Fundraising	No associated donor restrictions	Supplies were valued at readily available retail market value.
Animal supplies	10,181	Adoptions program	No associated donor restrictions	Determined according to the actual cash proceeds on their sale.
Marketing	6,010	General operations and fundraising	No associated donor restrictions	Determined by the regular market rate for the services provided.
Food	5,516	Fundraising	No associated donor restrictions	Value determined by readily available retail market value.
Facilities	500	Fundraising	No associated donor restrictions	Determined by the regular market rate for facility rented.
	<u>\$ 90,896</u>			

Humane Society of Sonoma County

Notes to Financial Statements For the Year Ended June 30, 2025

Note 17. 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 the year ended June 30, 2025.

The Society also rents out parts of its facility to other nonprofit organizations for short-term use. During the year ended June 30, 2025 rental income from these rentals amounted to \$9,318.

The Society rents to a nonprofit organization a separate part of its facility in Santa Rosa, under a 10-year lease that commenced in July 2023. The lease has escalating payments that approximate straight-line rents. Rental income amounted to \$34,777 for the year ended June 30, 2025.

Future expected rental income from the long-term lease is as follows:

2026	\$	37,848
2027		38,784
2028		39,708
2029		39,756
2030		40,752
Thereafter		<u>128,472</u>
	\$	<u>325,320</u>

Note 18. 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 17. The unrelated business activities incurred during the year ended June 30, 2025 are summarized as the following:

Rental income	\$	18,600
Reportable percentage		<u>54.31%</u>
Reportable rental income		10,102
Less:		
Reportable occupancy costs		<u>(2,024)</u>
Net reportable income	\$	<u>8,078</u>

The Society applied their net operating loss carryforward from prior years and, as such, no material tax liability was recorded for the year ended June 30, 2025. As of June 30, 2025, the Society had no deferred tax assets remaining from prior years.

Note 19. Subsequent Events

The Society evaluated subsequent events from July 1, 2025 through October 24, 2025, the date which the financial statements were available to be issued, and determined there were no material subsequent events that required recognition or additional disclosure in these financial statements.