



**Report of Independent Auditors  
and Financial Statements for  
San Diego Humane Society  
and SPCA  
June 30, 2012 and 2011**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
San Diego Humane Society and SPCA

We have audited the accompanying statements of financial position of San Diego Humane Society and SPCA (the "Society") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

San Diego, California  
December 19, 2012

# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

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	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37,797	\$ 1,817,542
Investments	32,697,321	38,023,538
Receivables, net	9,145,290	6,335,661
Prepaid expenses and other assets	276,809	290,537
Property and equipment, net	12,935,011	13,045,633
Beneficial interest in trust	590,568	579,124
Total assets	<u>\$ 55,682,796</u>	<u>\$ 60,092,035</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 1,158,691	\$ 1,706,656
Due to City of San Diego	-	584,518
Deferred revenue	203,307	219,619
Total liabilities	<u>1,361,998</u>	<u>2,510,793</u>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Net Assets</b>		
Unrestricted	47,907,818	52,234,726
Temporarily restricted	4,798,355	3,743,336
Permanently restricted	1,614,625	1,603,180
Total net assets	<u>54,320,798</u>	<u>57,581,242</u>
Total liabilities and net assets	<u>\$ 55,682,796</u>	<u>\$ 60,092,035</u>

# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
<b>Support</b>				
Bequests	\$ 7,832,672	\$ -	\$ -	\$ 7,832,672
Contributions	3,444,371	1,865,616	-	5,309,987
Special events	1,175,660	-	-	1,175,660
Special events expense	(621,584)	-	-	(621,584)
Change in value of split-interest agreements	-	135,981	-	135,981
Net assets released from restrictions	941,408	(941,408)	-	-
	<u>12,772,527</u>	<u>1,060,189</u>	<u>-</u>	<u>13,832,716</u>
<b>Revenue</b>				
Net realized and unrealized investment loss	(1,225,315)	(22,954)	(4,869)	(1,253,138)
Interest and dividends, net of expenses	547,735	17,784	16,314	581,833
Field services and licensing	1,633,219	-	-	1,633,219
Adoptions and animal care	403,393	-	-	403,393
Veterinary health services	345,074	-	-	345,074
Educational program fees	233,920	-	-	233,920
Retail sales	572,248	-	-	572,248
Retail sales expense	(333,206)	-	-	(333,206)
Other	20,965	-	-	20,965
Net revenue	<u>2,198,033</u>	<u>(5,170)</u>	<u>11,445</u>	<u>2,204,308</u>
Total support and revenue	<u>14,970,560</u>	<u>1,055,019</u>	<u>11,445</u>	<u>16,037,024</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
Adoptions and animal care	13,286,397	-	-	13,286,397
Investigations and field services	1,391,163	-	-	1,391,163
Community outreach	991,872	-	-	991,872
	<u>15,669,432</u>	<u>-</u>	<u>-</u>	<u>15,669,432</u>
<b>Supporting Services</b>				
Management and general	1,412,628	-	-	1,412,628
Donor development and fundraising	1,743,379	-	-	1,743,379
Marketing and public relations	472,029	-	-	472,029
	<u>3,628,036</u>	<u>-</u>	<u>-</u>	<u>3,628,036</u>
Total expenses	<u>19,297,468</u>	<u>-</u>	<u>-</u>	<u>19,297,468</u>
<b>CHANGE IN NET ASSETS</b>	(4,326,908)	1,055,019	11,445	(3,260,444)
<b>NET ASSETS</b>				
Beginning of year	52,234,726	3,743,336	1,603,180	57,581,242
End of year	<u>\$ 47,907,818</u>	<u>\$ 4,798,355</u>	<u>\$ 1,614,625</u>	<u>\$ 54,320,798</u>

# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
<b>Support</b>				
Bequests	\$ 18,514,211	\$ -	\$ -	\$ 18,514,211
Contributions	2,080,757	949,645	1,000,000	4,030,402
Special events	1,016,879	-	-	1,016,879
Special events expense	(600,805)	-	-	(600,805)
Change in value of split-interest agreements	-	2,889	-	2,889
Net assets released from restrictions	757,243	(757,243)	-	-
	<u>21,768,285</u>	<u>195,291</u>	<u>1,000,000</u>	<u>22,963,576</u>
<b>Revenue</b>				
Net realized and unrealized investment gain	4,295,837	74,860	79,115	4,449,812
Interest and dividends, net of expenses	362,208	7,139	13,222	382,569
Field services and licensing	1,622,935	-	-	1,622,935
Adoptions and animal care	398,110	-	-	398,110
Veterinary health services	401,671	-	-	401,671
Educational program fees	262,658	-	-	262,658
Retail sales	477,666	-	-	477,666
Retail sales expense	(271,846)	-	-	(271,846)
Other	13,103	-	-	13,103
Net revenue	<u>7,562,342</u>	<u>81,999</u>	<u>92,337</u>	<u>7,736,678</u>
Total support and revenue	<u>29,330,627</u>	<u>277,290</u>	<u>1,092,337</u>	<u>30,700,254</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
Adoptions and animal care	11,345,055	-	-	11,345,055
Investigations and field services	1,196,625	-	-	1,196,625
Community outreach	804,454	-	-	804,454
	<u>13,346,134</u>	<u>-</u>	<u>-</u>	<u>13,346,134</u>
<b>Supporting Services</b>				
Management and general	1,293,218	-	-	1,293,218
Donor development and fundraising	2,521,989	-	-	2,521,989
Marketing and public relations	379,755	-	-	379,755
	<u>4,194,962</u>	<u>-</u>	<u>-</u>	<u>4,194,962</u>
Total expenses	<u>17,541,096</u>	<u>-</u>	<u>-</u>	<u>17,541,096</u>
<b>CHANGE IN NET ASSETS</b>	11,789,531	277,290	1,092,337	13,159,158
<b>NET ASSETS</b>				
Beginning of year	40,445,195	3,466,046	510,843	44,422,084
End of year	<u>\$ 52,234,726</u>	<u>\$ 3,743,336</u>	<u>\$ 1,603,180</u>	<u>\$ 57,581,242</u>

# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2012

	Program Services				Supporting Services				Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Total	
Salaries	\$ 7,116,402	\$ 833,212	\$ 547,528	\$ 8,497,142	\$ 691,276	\$ 824,569	\$ 293,454	\$ 1,809,299	\$ 10,306,441
Payroll taxes	620,625	69,237	49,527	739,389	56,216	67,243	25,171	148,630	888,019
Employee health and benefits	721,018	73,621	41,493	836,132	46,749	68,338	20,820	135,907	972,039
Retirement	295,972	33,057	27,294	356,323	35,811	36,160	12,644	84,615	440,938
Total salaries and related expenses	8,754,017	1,009,127	665,842	10,428,986	830,052	996,310	352,089	2,178,451	12,607,437
Occupancy and utilities	1,067,014	60,028	42,602	1,169,644	29,583	30,515	10,003	70,101	1,239,745
Other professional fees	222,651	24,059	38,637	285,347	199,734	22,395	17,104	239,233	524,580
Veterinary medicine and care	943,260	1,285	-	944,545	-	-	-	-	944,545
Animal feed, supplies, equipment, and habitat	609,124	13,615	1,276	624,015	-	-	-	-	624,015
Insurance	235,629	52,233	16,484	304,346	30,339	8,169	2,296	40,804	345,150
Printing and publications	91,667	18,673	30,767	141,107	12,728	77,199	29,060	118,987	260,094
Direct mailing	-	-	-	-	-	345,866	-	345,866	345,866
Professional development	122,533	12,447	11,761	146,741	24,028	12,503	6,676	43,207	189,948
Computer maintenance	116,397	10,053	4,283	130,733	14,478	23,274	4,409	42,161	172,894
Program supplies and uniforms	242,768	53,264	41,819	337,851	6,115	8,614	5,964	20,693	358,544
Legal fees	19,611	-	-	19,611	133,300	58,763	-	192,063	211,674
Miscellaneous	18,364	4,823	-	23,187	82,990	34,260	-	117,250	140,437
Automotive	49,376	76,919	10,889	137,184	268	-	-	268	137,452
Employee/volunteer/donor relations	11,973	1,077	36,927	49,977	13,082	57,849	340	71,271	121,248
Security	92,651	8,749	2,300	103,700	2,896	3,135	455	6,486	110,186
Office supplies	44,967	4,813	3,492	53,272	6,699	7,987	4,220	18,906	72,178
Postage	16,548	1,175	1,267	18,990	4,675	28,721	1,124	34,520	53,510
Advertising	14,857	208	4,823	19,888	102	187	28,943	29,232	49,120
Total expenses before depreciation	12,673,407	1,352,548	913,169	14,939,124	1,391,069	1,715,747	462,683	3,569,499	18,508,623
Depreciation	612,990	38,615	78,703	730,308	21,559	27,632	9,346	58,537	788,845
Total expenses	\$ 13,286,397	\$ 1,391,163	\$ 991,872	\$ 15,669,432	\$ 1,412,628	\$ 1,743,379	\$ 472,029	\$ 3,628,036	\$ 19,297,468

# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2011

	Program Services				Supporting Services				Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Total	
Salaries	\$ 5,613,617	\$ 671,563	\$ 473,242	\$ 6,758,422	\$ 703,843	\$ 654,589	\$ 243,332	\$ 1,601,764	\$ 8,360,186
Payroll taxes	504,907	59,470	42,523	606,900	48,716	57,101	21,429	127,246	734,146
Employee health and benefits	493,845	57,727	30,351	581,923	49,804	45,668	16,667	112,139	694,062
Retirement	219,710	22,179	25,376	267,265	33,556	25,559	7,632	66,747	334,012
Total salaries and related expenses	6,832,079	810,939	571,492	8,214,510	835,919	782,917	289,060	1,907,896	10,122,406
Occupancy and utilities	860,389	30,949	35,647	926,985	25,341	22,716	6,901	54,958	981,943
Other professional fees	344,784	11,820	3,649	360,253	130,170	25,616	5,519	161,305	521,558
Veterinary medicine and care	967,408	15,529	-	982,937	-	-	-	-	982,937
Animal feed, supplies, equipment, and habitat	660,254	512	210	660,976	-	-	-	-	660,976
Insurance	228,234	31,346	11,711	271,291	23,657	7,335	3,532	34,524	305,815
Printing and publications	91,321	11,000	26,943	129,264	11,673	65,828	40,191	117,692	246,956
Direct mailing	-	-	-	-	-	310,768	-	310,768	310,768
Professional development	170,941	19,633	13,027	203,601	26,405	13,312	4,193	43,910	247,511
Computer maintenance	137,136	13,905	3,088	154,129	17,467	8,939	1,873	28,279	182,408
Program supplies and uniforms	178,424	91,942	29,352	299,718	-	-	221	221	299,939
Legal fees	-	18,298	-	18,298	97,381	49,132	-	146,513	164,811
Miscellaneous	13,505	1,741	-	15,246	76,034	35,940	-	111,974	127,220
Automotive	47,019	81,531	9,458	138,008	-	-	142	142	138,150
Bad debt	-	-	-	-	2,142	1,075,000	-	1,077,142	1,077,142
Employee/volunteer/donor relations	23,449	2,592	32,025	58,066	3,594	45,856	676	50,126	108,192
Security	57,407	8,924	1,807	68,138	2,587	2,715	629	5,931	74,069
Office supplies	54,108	2,585	3,799	60,492	10,616	18,508	7,608	36,732	97,224
Postage	14,184	1,247	765	16,196	4,731	23,664	429	28,824	45,020
Advertising	34,218	483	5,234	39,935	11	584	9,966	10,561	50,496
Total expenses before depreciation	10,714,860	1,154,976	748,207	12,618,043	1,267,728	2,488,830	370,940	4,127,498	16,745,541
Depreciation	630,195	41,649	56,247	728,091	25,490	33,159	8,815	67,464	795,555
Total expenses	<u>\$ 11,345,055</u>	<u>\$ 1,196,625</u>	<u>\$ 804,454</u>	<u>\$ 13,346,134</u>	<u>\$ 1,293,218</u>	<u>\$ 2,521,989</u>	<u>\$ 379,755</u>	<u>\$ 4,194,962</u>	<u>\$ 17,541,096</u>

See accompanying notes.



# SAN DIEGO HUMANE SOCIETY AND SPCA

## STATEMENTS OF CASH FLOWS YEAR ENDED JUNE 30, 2012 AND 2011

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	2012	2011
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (3,260,444)	\$ 13,159,158
Reconciliation to net cash provided by operating activities:		
Depreciation	788,845	795,555
Contribution of charitable remainder trust	(1,059,812)	-
Provision for uncollectible accounts	-	1,000,000
Net realized and unrealized loss (gains) on investments	1,253,138	(4,449,812)
Change in value of split-interest gifts	(135,981)	(2,889)
(Increase) decrease in operating assets:		
Receivables	(1,613,836)	685,759
Prepaid expenses and other assets	13,728	(59,256)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(547,965)	608,118
Due to City of San Diego	(584,518)	453
Deferred revenue and advances	(16,312)	(321,268)
Net cash (used in) provided by operating activities	<u>(5,163,157)</u>	<u>11,415,818</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	64,884,753	94,463,477
Purchases of investments	(60,823,118)	(104,505,766)
Purchases of property and equipment	<u>(678,223)</u>	<u>(1,673,629)</u>
Net cash provided by (used in) investing activities	<u>3,383,412</u>	<u>(11,715,918)</u>
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,779,745)	(300,100)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,817,542</u>	<u>2,117,642</u>
End of year	<u>\$ 37,797</u>	<u>\$ 1,817,542</u>

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies

**Nature of Organization:** The mission of the San Diego Humane Society and SPCA (the “Society”) is to promote the humane treatment of animals, prevent cruelty to animals, and provide education to enhance the human-animal bond. Serving San Diego County since 1880, the Society provides vital services to animals and people alike.

With campuses in both central San Diego and Oceanside, California, the Society’s programs and services include admissions services for owner-relinquished pets, sheltering and adopting of companion animals, investigating animal cruelty and neglect, rescuing animals in emergency situations, providing positive reinforcement behavior modification training for shelter animals and the public, providing adult and youth education programs, sharing animals through pet-assisted therapy, providing municipal field service, sheltering, and stray pet services to the residents of Oceanside and Vista, California; and extending compassion through owner-requested euthanasia and aftercare for terminally ill or suffering pets. The Society also owns and operates an off-leash dog park in Oceanside.

**Income Taxes:** The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701(d) of the California Revenue and Taxation Code, except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Society follows the provisions of ASC 740-10, *Income Taxes*, related to accounting for uncertain tax positions. The Society does not have any uncertain income tax positions. The Society files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California. The Society is no longer subject to income tax examinations by taxing authorities for years before 2008 for its federal filings and for years before 2007 for its state filings.

**Method of Accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting.

**Financial Statement Presentation:** The Society follows the provisions of ASC 958-205, *Not-for-Profit Entities Presentation of Financial Statements*, for the presentation of its financial statements, which requires that net assets and revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted net assets represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions which are contingent upon specific performance of a future event or a specific passage of time before the Society may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations. At June 30, 2012 and 2011, the Society has \$1,614,625 and \$1,603,180, respectively, of permanently restricted net assets.

**Cash Equivalents:** The Society considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount approximates the fair value due to the short maturity.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Investments:** Investments are stated at fair value. The fair values of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. Net realized and unrealized gains and losses are reflected as increases or decreases in unrestricted net assets, unless their use is restricted by the donor.

**Pooled Income Funds:** Included in investments are two pooled income funds which are held and managed by the Society. During the life of the donors, income from the pooled funds is distributed to the donors based on the number of units each holds. Upon each donor's death, the principal is to be distributed to the Society. A discount to net present value is recorded as deferred revenue, and the net amount is included in temporarily restricted net assets. At June 30, 2012 and 2011, the discount was \$45,830 and \$99,219, respectively.

**Receivables:** Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value based on a discounted cash flow model. In future years, the discounts to present value are computed using discount rates established in the years in which the promise was received. Amortization of the discount is included in contributions. Other receivables represent amounts due to the Society for services rendered prior to June 30. The Society does not obtain collateral. An allowance for uncollectible amounts totaled \$1,000,000 at June 30, 2012 and 2011.

**Charitable Remainder Trusts:** The Society is the beneficiary of a number of charitable remainder trusts which generally provide for the payment of distributions to designated beneficiaries over the term of the trusts (usually the designated beneficiary's lifetime). At the end of the trust's term, all or a portion of the remaining assets are to be distributed to the Society. The assets held in the trusts are managed by donor-designated trustees and are not accessible to the Society until the end of the trusts' terms. The contributions, which are recorded at their fair values, are calculated using discount rates, and applicable mortality tables are included in temporarily restricted net assets. The beneficial interests in charitable remainder trusts are included in receivables.

**Property and Equipment:** Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Trucks and automobiles	3 to 5 years
Furniture and equipment	5 to 10 years
Buildings, land, and leasehold improvements	7 to 39 years
Computer hardware	5 to 7 years
Computer software	3 years

The Society capitalizes property and equipment with costs of \$5,000 or greater. Donated assets are recorded at fair value.

**Impairment of Long-lived Assets:** The Society evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Revenue Recognition:** Revenue from adoptions and animal care, veterinary services, educational fees, and retail sales are recognized when services are rendered or when items are sold. Rental income is recognized on a straight-line basis over the lease period. Revenue from shelter operations, field services, and licensing are recognized when services are rendered. The Society has contracts with the cities of Oceanside and Vista to provide animal services to the communities. The contract with Oceanside is in effect until June 30, 2013; the contract with Vista is in effect until June 30, 2013 and is renewable for one two-year term thereafter. Revenue is recognized ratably over the term of the contracts. Revenue from the contracts is presented as field services revenue in the statements of activities. The Society also issues dog licenses on behalf of the cities of Oceanside and Vista. Licensing revenue is recognized at the time the license is issued.

**Contributions and Bequests:** Contributions are recognized as support when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions. Bequests are recorded as contributions when the Society is informed of unconditional rights to the proceeds of the bequest.

**Donated Services:** The Society receives donated services from a variety of unpaid volunteers. The volunteers perform a variety of tasks that assist the Society in the areas of animal care, animal rescue, behavior training, community programs, mobile adoptions, pet-assisted therapy, and events. During the years ended June 30, 2012 and 2011, volunteers provided approximately 119,000 and 123,000 hours of service to the Society, respectively. For the years ended June 30, 2012 and 2011, management estimates the value of these services to approximate \$2,884,000 and \$2,888,000, respectively. No amounts have been recognized in the accompanying statements of activities in accordance with ASC 985-650, *Not-for-Profit Entities Revenue Recognition*.

**Advertising Costs:** Advertising costs are expensed as incurred.

**Functional Allocation of Expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates:** The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 2 – Concentration of Risk

Financial instruments which potentially subject the Society to risk consist primarily of cash and cash equivalents, investments, and receivables, including charitable remainder trusts.

**Cash and Cash Equivalents:** The Society maintains its cash in bank deposit accounts. Amounts placed with Federal Deposit Insurance Corporation-insured institutions are federally insured up to: (a) \$250,000 for interest bearing accounts; and (b) unlimited for non-interest bearing accounts (subject to certain restrictions.) The Society has cash and cash equivalents accounts which, at times, exceed the insured amounts. The Society has not experienced any losses in such accounts.

**Investments:** Investments are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near-term could materially affect the amounts reported in the financial statements. Investments are managed by several managers to diversify risk and manage liquidity.

**Receivables:** Receivables include charitable remainder trusts which are exposed to various risks such as interest rate risks and donor life expectancies. Changes in the near-term are not expected to materially affect the amounts reported in the financial statements.

### Note 3 – Investments

Investments consist of the following at June 30, 2012 and 2011:

	2012	2011
Cash and cash equivalents	\$ 2,798,818	\$ 13,306,716
Common stock	12,229,734	14,594,326
Mutual funds	7,307,397	7,613,488
Fixed income	<u>10,361,372</u>	<u>2,509,008</u>
Total investments	<u>\$ 32,697,321</u>	<u>\$ 38,023,538</u>

Investment income consists of the following for the years ended June 30, 2012 and 2011:

Interest and dividends	\$ 748,768	\$ 504,804
Investment expenses	<u>(166,935)</u>	<u>(122,235)</u>
	<u>\$ 581,833</u>	<u>\$ 382,569</u>
Net realized and unrealized gains (losses)	<u>\$ (1,253,138)</u>	<u>\$ 4,449,812</u>

Investing decisions are subject to the guidelines set forth in the Society's investment policy. The Finance Committee of the Board of Directors of the Society approves investment advisors, investment allocations, and overall portfolio composition to ensure conformity with policies.

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

### Note 4 – Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:** Quoted prices in active markets for identical assets or liabilities;
- Level 2:** Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In Note 1, and below, the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position are described.

Transfers of assets between levels are recognized at the end of the reporting period.

The following fair value hierarchy table presents information about the Society's financial assets measured at fair value on a recurring basis as of June 30, 2012:

	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Balance as of June 30, 2012</b>
Cash and cash equivalents	\$ 2,798,818	\$ -	\$ -	\$ 2,798,818
Fixed income securities:				
U.S. government bonds	3,891,966	-	-	3,891,966
U.S. government asset backed	6,469,406	-	-	6,469,406
Total fixed income securities	<u>10,361,372</u>	<u>-</u>	<u>-</u>	<u>10,361,372</u>
Common stock:				
Large cap equities	<u>12,229,734</u>	<u>-</u>	<u>-</u>	<u>12,229,734</u>
Mutual funds:				
Bond funds	544,411	-	-	544,411
Equity funds	6,458,140	-	-	6,458,140
Pooled income funds	-	304,846	-	304,846
Total mutual funds	<u>7,002,551</u>	<u>304,846</u>	<u>-</u>	<u>7,307,397</u>
Split interest agreements	-	-	3,501,478	3,501,478
Beneficial interest in trust	-	590,568	-	590,568
	<u>\$ 32,392,475</u>	<u>\$ 895,414</u>	<u>\$ 3,501,478</u>	<u>\$ 36,789,367</u>

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 4 – Fair Value Measurements (Continued)

The following fair value hierarchy table presents information about the Society's financial assets measured at fair value on a recurring basis as of June 30, 2011:

	<b>Markets for Identical Assets Level 1</b>	<b>Observable Inputs Level 2</b>	<b>Unobservable Inputs Level 3</b>	<b>Balance as of June 30, 2011</b>
Cash and cash equivalents	<u>\$ 13,306,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,306,716</u>
Fixed income securities:				
U.S. government bonds	2,088,340	-	-	2,088,340
U.S. government asset backed	46,142	-	-	46,142
Foreign bonds	<u>374,526</u>	<u>-</u>	<u>-</u>	<u>374,526</u>
Total fixed income securities	<u>2,509,008</u>	<u>-</u>	<u>-</u>	<u>2,509,008</u>
Common stock:				
Large cap equities	<u>14,594,326</u>	<u>-</u>	<u>-</u>	<u>14,594,326</u>
Mutual funds:				
Bond funds	160,189			160,189
Equity funds	7,143,203	-	-	7,143,203
Pooled income funds	-	310,096	-	310,096
Total mutual funds	<u>7,303,392</u>	<u>310,096</u>	<u>-</u>	<u>7,613,488</u>
Split interest agreements	-	-	2,353,823	2,353,823
Beneficial interest in trust	-	579,124	-	579,124
	<u>\$ 37,713,442</u>	<u>\$ 889,220</u>	<u>\$ 2,353,823</u>	<u>\$ 40,956,485</u>

The pooled income funds are reported at fair value based on net asset value estimates provided by the custodian.

The beneficial interest in trust is reported at fair value based on the value of the underlying assets, which approximates the future anticipated cash flow.

The split-interest agreements classified as Level 3 financial instruments are irrevocable charitable remainder trusts, of which the Society is a beneficiary. The trusts hold assets, including marketable investments and real estate. The fair value of the trusts, and therefore the Society's interest in the trusts, is estimated annually using actuarial tables, discount rates, and the fair value of the underlying assets. Changes in the fair value of the beneficial interest in charitable remainder trusts for the year ended June 30, 2012 and 2011, as shown in the following table, are the results of changes in these measurement factors.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 4 – Fair Value Measurements (Continued)

The table below includes a rollforward of the split-interest agreements classified as Level 3 for the years ended June 30, 2012 and 2011:

<b>Balance, July 1, 2010</b>	\$ 2,347,834
Unrealized gains	<u>5,989</u>
<b>Balance, June 30, 2011</b>	<u>2,353,823</u>
Contributions	1,059,812
Maturities	(164,859)
Unrealized gains	<u>252,702</u>
<b>Balance, June 30, 2012</b>	<u><u>\$ 3,501,478</u></u>

The unrealized gain is reflected in the statements of activities as change in value of split-interest agreements.

### Note 5 – Receivables

Receivables are due as follows as of June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Less than one year:		
Pledges and bequests	\$ 4,890,204	\$ 3,005,718
Other	45,223	97,527
One to five years:		
Pledges and bequests	1,708,289	1,913,696
Charitable remainder trusts	2,055,280	1,982,472
More than five years:		
Charitable remainder trusts	<u>2,466,731</u>	<u>829,267</u>
	11,165,727	7,828,680
Less provision for uncollectible accounts:		
Charitable remainder trusts	1,000,000	1,000,000
Less discount to net present value:		
From 2 to 6 percent	<u>1,020,437</u>	<u>493,019</u>
	<u><u>\$ 9,145,290</u></u>	<u><u>\$ 6,335,661</u></u>

### Note 6 – Property and Equipment

Property and equipment consists of the following at June 30, 2012 and 2011:

Land	\$ 4,028,938	\$ 4,018,940
Buildings	10,960,268	10,844,582
Leasehold improvements	494,798	191,746
Furniture and fixtures	3,065,542	2,926,478
Trucks and automobiles	1,239,501	1,139,427
Computer hardware and software	1,394,256	1,383,907
Machinery and equipment	<u>225,145</u>	<u>225,145</u>
	21,408,448	20,730,225
Less: accumulated depreciation	<u>(8,473,437)</u>	<u>(7,684,592)</u>
	<u><u>\$ 12,935,011</u></u>	<u><u>\$ 13,045,633</u></u>



# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 7 – Commitments and Contingencies

**Leases:** The Society leases office equipment and certain space with lease terms that expire through December 2025. Annual lease payments range from approximately \$204 to \$208,764. The lease payments for the years ended June 30, 2012 and 2011 were approximately \$342,000 and \$155,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2012:

Years ending June 30,	
2013	\$ 335,970
2014	316,341
2015	254,677
2016	262,190
2017	246,144
Thereafter	<u>2,412,642</u>
	<u>\$ 3,827,964</u>

**Benefit Plan:** The Society has a 403(b) tax deferred annuity plan (the “Plan”) which covers its employees. The Society contributes 6 percent of qualified employees’ salaries to the Plan. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code. Total expenses for the years ended June 30, 2012 and 2011 were approximately \$441,000 and \$334,000, respectively.

**Capital Campaign:** The Society was party to a joint fundraising campaign agreement (the “Campaign”) with the City of San Diego (the “City”). Contributions raised by the Campaign, which were not specifically designated to the Society or the City, were allocated 80 percent to the Society and 20 percent to the City. The portion payable to the City is due upon collection of the related pledge. Amounts due to the City were reported as liabilities. In April 2012, the amount due to the City of San Diego was paid in full.

**Line of Credit:** The Society has a line of credit agreement with Wells Fargo bank that expires August 5, 2013. The terms of the line of credit include a maximum borrowing limit of \$900,000, with a floating interest rate of the prime rate plus 1 percent, and subject to a minimum interest rate of 5 percent. The floating interest rate was 4.25 percent as of June 30, 2012. No amounts are due at June 30, 2012 or 2011.

**Litigation:** The Society may be involved in legal matters that arise from time to time in the ordinary course of business. Management and legal counsel do not believe that the resolution of any of these matters would have a material impact on the Society’s financial position or results of operations.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows at June 30, 2012 and 2011:

	2012	2011
Time restrictions:		
Charitable remainder trusts	\$ 3,501,478	\$ 2,353,823
Pooled income funds	259,016	210,877
Future operations	<u>112,670</u>	<u>112,670</u>
	<u>3,873,164</u>	<u>2,677,370</u>
Restricted purpose or program:		
Veterinarian compensation	400,000	562,825
Volunteer program	265,356	277,239
Behavior Assistance Program	113,000	109,200
Animal Adventure Camp (unappropriated earnings)	76,828	81,999
Education Program	42,000	-
Other purposes (under \$20,000 each)	<u>28,007</u>	<u>34,703</u>
	<u>925,191</u>	<u>1,065,966</u>
	<u>\$ 4,798,355</u>	<u>\$ 3,743,336</u>

### Note 9 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenditures that satisfied the following restricted purposes during the years ended June 30, 2012 and 2011:

Veterinarian and hospital manager	\$ 562,825	\$ 255,432
Volunteer program	261,883	81,690
Behavior Assistance Program	109,200	-
Animal care and protection	7,500	128,351
Treatable pet initiative	-	291,350
Petco gift cards	<u>-</u>	<u>420</u>
	<u>\$ 941,408</u>	<u>\$ 757,243</u>

### Note 10 - Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds, which are investment assets held by a trustee for the benefit of the Society (Note 11). In accordance with the trust agreement, the income from the trust investments, less the fees of administering the trust, is distributable to the Society. The trustee has no variance power. Investment assets of \$611,457 were contributed to the Society during the year ended June 30, 2007. During the year ended June 30, 2008, an additional \$5,180 was contributed to the trust. Distributions from the trust are recorded as investment income. At June 30, 2012 and 2011, the trust held investment assets valued at \$590,568 and \$579,124, respectively. The change in value during the years ended June 30, 2012 and 2011 is reported as permanently restricted investment gains. The Society does not consider the trust to be an endowment subject to ASC 985-205, as there is an absence of intention to preserve the corpus.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 10 – Permanently Restricted Net Assets (Continued)

The North Campus on San Luis Rey Road and Jones Road in Oceanside is located on two parcels of land donated in the late 1950s. The land was recorded at a fair value of \$24,060 at the time of the contribution. A condition of the gift includes that the land conveyed shall be used solely for the site of an animal shelter and that the Society shall forever use the land and the premises solely for the purpose of maintaining an animal shelter. In the event the property is not used solely and perpetually for animal shelter purposes, the land and premises shall revert to the grantor and its heirs, successors, or assigns; while the grantee, its heirs, successors, or assigns shall forfeit all rights thereto.

In 2005, the donor approved the parcel on Jones Road to be developed into a dog park. In addition, the donor and the Society signed a Memorandum of Understanding on June 1, 2005 for the joint development of the dog park site. Donations related to this development were capitalized as land improvements.

### Note 11 – Endowment Funds

ASC 985-205, *Not-for-Profit Entities Presentation of Financial Statements*, requires organizations holding donor-restricted endowments to implement policies and procedures to uphold a standard of prudence relative to accounting practices, investment management, and spending policies.

The Society implemented a policy requiring the preservation of the fair value of the original gift or corpus as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Society classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence. The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Society and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Society
- g. The investment policies of the Society

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 11 – Endowment Funds (Continued)

The Society has an investment and spending policy for unrestricted and endowment assets which attempts to provide a predictable stream of funding to programs, as specified by a donor. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity. Under the Society's Investment Policy Statement, as approved by the Trustees, the endowment assets are invested in a manner in which the investments are competitive with indices/benchmarks for all permanently restricted endowment assets. To satisfy its long-term rate of return, the Society relies on total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Society has a policy of appropriating for distribution no more than four percent (4%) of the market values of the portfolio, determined at least quarterly and averaged over the last three calendar years preceding the appropriation for the expenditures. In establishing this policy, the Society considered the long-term expected return on its endowment.

Endowment net assets consist of the following at June 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, July 1, 2010</b>	<u>\$ 1,935,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,935,595</u>
Investment return:				
Interest and dividends, net of expenses	-	74,860	-	74,860
Net realized and unrealized gain	<u>393,892</u>	<u>7,139</u>	<u>-</u>	<u>401,031</u>
Net investment returns	<u>393,892</u>	<u>81,999</u>	<u>-</u>	<u>475,891</u>
Contributions	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Change in endowment assets	<u>393,892</u>	<u>81,999</u>	<u>1,000,000</u>	<u>1,475,891</u>
<b>Endowment net assets, June 30, 2011</b>	<u>2,329,487</u>	<u>81,999</u>	<u>1,000,000</u>	<u>3,411,486</u>
Investment return:				
Interest and dividends, net of expenses	-	17,784	-	17,784
Net realized and unrealized gain (loss)	<u>(40,941)</u>	<u>(22,954)</u>	<u>-</u>	<u>(63,895)</u>
Net investment returns	<u>(40,941)</u>	<u>(5,170)</u>	<u>-</u>	<u>(46,111)</u>
Expenditures	<u>(8,241)</u>	<u>-</u>	<u>-</u>	<u>(8,241)</u>
Change in endowment assets	<u>(49,182)</u>	<u>(5,170)</u>	<u>-</u>	<u>(54,352)</u>
<b>Endowment net assets, June 30, 2012</b>	<u>\$ 2,280,305</u>	<u>\$ 76,829</u>	<u>\$ 1,000,000</u>	<u>\$ 3,357,134</u>

In September 2006, the Board of Directors voted to designate \$1,929,448 in unrestricted investments to fund the capital maintenance of the Gaines Street facility for a period of 20 years. This amount is included in the unrestricted endowment assets above.

The Society has one term endowment of \$112,670 at June 30, 2012 and 2011. The term endowment is managed in accordance with the donor's instructions with regard to management of the investments. There were no contributions or restriction releases during the years ended June 30, 2012 and 2011.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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### Note 12 – Joint Costs

The Society achieves some of its programmatic and fundraising activities in newsletter mailings which include requests for contributions. The costs of conducting the mailings included \$139,998 and \$148,868, respectively, for the years ended June 30, 2012 and 2011 of joint costs that are not directly attributable to either the program or management and general components, or the fundraising components of the activities. Those joint costs were allocated as follows for the years ended June 30, 2012, and 2011:

	2012	2011
Fundraising	\$ 45,937	\$ 48,449
Adoptions and animal care	29,409	43,095
Community outreach	25,156	17,238
Marketing and public relations	24,062	36,565
Investigations	12,639	1,954
Management and general	2,795	1,567
	<u>\$ 139,998</u>	<u>\$ 148,868</u>

### Note 13 – Related-party Transactions

A Board of Trustees (the “Board”) member is a Managing Director with an investment bank serving as the custodian of funds managed by a non-related investment manager. At June 30, 2012 and 2011, approximately \$12,470,806 and \$14,321,000, respectively, of investments was in the custody of the investment company. No fees were paid to the member of the Board.

### Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the statements of financial position date, but before the financial statements are issued. The Society recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. The Society’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial position, but arose after the statements of financial position date and before the financial statements are available to be issued. The Society has evaluated subsequent events through December 19, 2012, which is the date the financial statements were available to be issued.