



Report of Independent Auditors and  
Financial Statements for

**San Diego Humane Society  
and SPCA**

June 30, 2016 and 2015

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
San Diego Humane Society and SPCA

### **Report on Financial Statements**

We have audited the accompanying financial statements of San Diego Humane Society and SPCA, which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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 from material misstatement.

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

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

MOSS ADAMS<sub>LLP</sub>

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Humane Society and SPCA as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Moss Adams LLP***

San Diego, California

November 9, 2016

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

	June 30,	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 903,835	\$ 594,486
Investments	33,461,439	33,686,052
Receivables, net	11,541,726	9,259,789
Prepaid expenses and other assets	499,262	657,649
Property and equipment, net	13,942,501	14,701,859
Beneficial interest in trust	875,575	889,056
	\$ 61,224,338	\$ 59,788,891
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 2,030,086	\$ 1,836,772
Deferred revenue	661,283	508,279
Total liabilities	2,691,369	2,345,051
<b>Commitments and contingencies (Note 8)</b>		
<b>Net Assets</b>		
Unrestricted	49,218,063	50,805,175
Temporarily restricted	7,415,274	4,725,552
Permanently restricted	1,899,632	1,913,113
Total net assets	58,532,969	57,443,840
Total liabilities and net assets	\$ 61,224,338	\$ 59,788,891

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
<b>Support</b>				
Bequests	\$ 8,246,591	\$ -	\$ -	\$ 8,246,591
Contributions	6,669,244	2,147,745	-	8,816,989
Special events	1,848,487	-	-	1,848,487
Special events expense	(826,498)	-	-	(826,498)
Change in value of split-interest agreements	-	564,889	-	564,889
Net assets released from restrictions	1,101,460	(1,101,460)	-	-
Net support	17,039,284	1,611,174	-	18,650,458
<b>Revenue</b>				
Investment income (loss)	210,187	10,957	(13,481)	207,663
Field services and licensing	3,604,163	-	-	3,604,163
Adoptions and animal care	749,697	-	-	749,697
Veterinary health services	735,669	-	-	735,669
Educational program fees	273,479	-	-	273,479
Retail sales	497,075	-	-	497,075
Retail sales expense	(266,179)	-	-	(266,179)
Other	53,850	-	-	53,850
Net revenue	5,857,941	10,957	(13,481)	5,855,417
Total support and revenue	22,897,225	1,622,131	(13,481)	24,505,875
<b>EXPENSES</b>				
<b>Program Services</b>				
Adoptions and animal care	15,206,831	-	-	15,206,831
Investigations and field services	1,758,342	-	-	1,758,342
Community outreach	2,280,046	-	-	2,280,046
	19,245,219	-	-	19,245,219
<b>Supporting Services</b>				
Management and general	1,809,528	-	-	1,809,528
Donor development and fundraising	2,581,345	-	-	2,581,345
Marketing and public relations	885,231	-	-	885,231
	5,276,104	-	-	5,276,104
Total expenses	24,521,323	-	-	24,521,323
<b>CHANGE IN NET ASSETS BEFORE</b>				
<b>OTHER REVENUE/GAINS</b>	(1,624,098)	1,622,131	(13,481)	(15,448)
<b>Contributions - Capital Projects</b>	-	1,104,577	-	1,104,577
<b>Net assets released from restrictions - Capital Projects</b>	36,986	(36,986)	-	-
<b>CHANGE IN NET ASSETS</b>	(1,587,112)	2,689,722	(13,481)	1,089,129
<b>NET ASSETS</b>				
Beginning of year	50,805,175	4,725,552	1,913,113	57,443,840
End of year	\$ 49,218,063	\$ 7,415,274	\$ 1,899,632	\$ 58,532,969

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
<b>Support</b>				
Bequests	\$ 6,074,106	\$ -	\$ -	\$ 6,074,106
Contributions	5,246,255	962,094	-	6,208,349
Special events	1,702,728	-	-	1,702,728
Special events expense	(760,243)	-	-	(760,243)
Change in value of split-interest agreements	-	83,259	-	83,259
Net assets released from restrictions	1,511,539	(1,511,539)	-	-
Net support	<u>13,774,385</u>	<u>(466,186)</u>	<u>-</u>	<u>13,308,199</u>
<b>Revenue</b>				
Investment income	564,764	18,772	47,246	630,782
Field services and licensing	3,583,690	-	-	3,583,690
Adoptions and animal care	771,230	-	-	771,230
Veterinary health services	619,239	-	-	619,239
Educational program fees	257,278	-	-	257,278
Retail sales	568,325	-	-	568,325
Retail sales expense	(314,569)	-	-	(314,569)
Other	56,569	-	-	56,569
Net revenue	<u>6,106,526</u>	<u>18,772</u>	<u>47,246</u>	<u>6,172,544</u>
Total support and revenue	<u>19,880,911</u>	<u>(447,414)</u>	<u>47,246</u>	<u>19,480,743</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
Adoptions and animal care	16,866,755	-	-	16,866,755
Investigations and field services	1,999,248	-	-	1,999,248
Community outreach	1,779,155	-	-	1,779,155
	<u>20,645,158</u>	<u>-</u>	<u>-</u>	<u>20,645,158</u>
<b>Supporting Services</b>				
Management and general	1,720,482	-	-	1,720,482
Donor development and fundraising	2,479,820	-	-	2,479,820
Marketing and public relations	1,132,172	-	-	1,132,172
	<u>5,332,474</u>	<u>-</u>	<u>-</u>	<u>5,332,474</u>
Total expenses	<u>25,977,632</u>	<u>-</u>	<u>-</u>	<u>25,977,632</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER REVENUE/GAINS</b>				
	(6,096,721)	(447,414)	47,246	(6,496,889)
<b>Inherent Contribution</b>	<u>6,446,488</u>	<u>277,398</u>	<u>-</u>	<u>6,723,886</u>
<b>CHANGE IN NET ASSETS</b>	349,767	(170,016)	47,246	226,997
<b>NET ASSETS</b>				
Beginning of year	50,455,408	4,895,568	1,865,867	57,216,843
End of year	<u>\$ 50,805,175</u>	<u>\$ 4,725,552</u>	<u>\$ 1,913,113</u>	<u>\$ 57,443,840</u>

See accompanying notes.

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2016 (WITH COMPARITIVE INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	Program Services				Supporting Services				2016 Total Expenses	2015 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	\$ 8,073,176	\$ 1,003,338	\$ 969,668	\$ 10,046,182	\$ 1,170,643	\$ 1,073,137	\$ 529,763	\$ 2,773,543	\$ 12,819,725	\$ 13,992,502
Payroll taxes	795,166	85,681	74,571	955,418	76,846	77,786	30,954	185,586	1,141,004	1,201,937
Employee health and benefits	667,701	80,791	77,879	826,371	88,077	85,882	38,253	212,212	1,038,583	1,253,224
Retirement	211,987	32,471	34,851	279,309	43,782	37,361	19,709	100,852	380,161	358,561
Total salaries and related expenses	9,748,030	1,202,281	1,156,969	12,107,280	1,379,348	1,274,166	618,679	3,272,193	15,379,473	16,806,224
Animal feed, supplies, equipment, and habitat	1,247,616	-	593,567	1,841,183	-	-	-	-	1,841,183	1,251,425
Occupancy and utilities	1,278,337	75,610	129,098	1,483,045	64,114	54,403	15,664	134,181	1,617,226	1,553,923
Veterinary medicine and care	908,900	-	16,020	924,920	-	-	-	-	924,920	1,264,555
Insurance	591,827	96,028	72,838	760,693	68,526	18,116	6,921	93,563	854,256	801,403
Direct mailing	-	-	-	-	-	497,851	-	497,851	497,851	438,146
Advertising	122,766	606	29,510	152,882	1,361	238,374	12,227	251,962	404,844	370,782
Printing and publications	156,247	9,936	31,147	197,330	-	34,496	154,040	188,536	385,866	456,982
Computer maintenance	120,959	12,240	26,022	159,221	31,848	92,841	33,327	158,016	317,237	259,832
Other professional fees	8,198	27,359	12,824	48,381	159,185	86,493	9,275	254,953	303,334	513,576
Program supplies and uniforms	31,014	122,554	58,345	211,913	693	317	9,913	10,923	222,836	336,181
Professional development/travel	60,142	25,173	6,816	92,131	45,945	67,359	13,656	126,960	219,091	241,892
Miscellaneous	75,972	4,037	3,124	83,133	6,669	75,281	772	82,722	165,855	192,710
Employee/volunteer/donor relations	39,567	4,370	20,388	64,325	3,121	81,256	200	84,577	148,902	150,962
Automotive	37,916	77,244	23,306	138,466	90	-	-	90	138,556	176,939
Security	40,479	8,066	4,378	52,923	3,409	2,902	1,930	8,241	61,164	61,998
Office supplies	25,195	6,925	4,997	37,117	7,766	3,772	1,765	13,303	50,420	74,047
Postage	26,849	543	345	27,737	3,029	19,112	188	22,329	50,066	67,905
Legal fees	-	3,333	-	3,333	11,696	8,836	-	20,532	23,865	39,667
Total expenses before depreciation	14,520,014	1,676,305	2,189,694	18,386,013	1,786,800	2,555,575	878,557	5,220,932	23,606,945	25,059,149
Depreciation	686,817	82,037	90,352	859,206	22,728	25,770	6,674	55,172	914,378	918,483
Total expenses	<u>\$ 15,206,831</u>	<u>\$ 1,758,342</u>	<u>\$ 2,280,046</u>	<u>\$ 19,245,219</u>	<u>\$ 1,809,528</u>	<u>\$ 2,581,345</u>	<u>\$ 885,231</u>	<u>\$ 5,276,104</u>	<u>\$ 24,521,323</u>	<u>\$ 25,977,632</u>
June 30, 2015	<u>\$ 16,866,755</u>	<u>\$ 1,999,248</u>	<u>\$ 1,779,155</u>	<u>\$ 20,645,158</u>	<u>\$ 1,720,482</u>	<u>\$ 2,479,820</u>	<u>\$ 1,132,172</u>	<u>\$ 5,332,474</u>	<u>\$ 25,977,632</u>	



**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**

	Program Services				Supporting Services				2015 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	\$ 9,041,041	\$ 1,173,645	\$ 1,016,100	\$ 11,230,786	\$ 1,097,615	\$ 1,183,995	\$ 480,106	\$ 2,761,716	\$ 13,992,502
Employee health and benefits	894,187	104,213	76,007	1,074,407	70,398	80,165	28,254	178,817	1,253,224
Payroll taxes	798,586	100,370	87,103	986,059	83,477	93,868	38,533	215,878	1,201,937
Retirement	208,082	26,976	32,969	268,027	41,244	37,327	11,963	90,534	358,561
Total salaries and related expenses	10,941,896	1,405,204	1,212,179	13,559,279	1,292,734	1,395,355	558,856	3,246,945	16,806,224
Occupancy and utilities	1,232,709	67,938	131,691	1,432,338	54,023	52,489	15,073	121,585	1,553,923
Veterinary medicine and care	1,243,425	7,682	13,448	1,264,555	-	-	-	-	1,264,555
Animal feed, supplies, equipment, and habitat	1,219,140	31,195	1,090	1,251,425	-	-	-	-	1,251,425
Insurance	556,071	92,203	58,202	706,476	67,855	20,525	6,547	94,927	801,403
Other professional fees	32,044	5,407	27,501	64,952	117,437	98,341	232,846	448,624	513,576
Printing and publications	121,534	6,462	21,176	149,172	8,753	105,600	193,457	307,810	456,982
Direct mailing	-	-	-	-	-	438,146	-	438,146	438,146
Advertising	240,088	1,093	23,196	264,377	309	44,061	62,035	106,405	370,782
Program supplies and uniforms	60,583	116,677	95,095	272,355	15,531	25,423	22,872	63,826	336,181
Computer maintenance	149,019	15,705	27,744	192,468	15,468	38,696	13,200	67,364	259,832
Professional development/travel	100,587	30,123	17,773	148,483	58,697	21,646	13,066	93,409	241,892
Miscellaneous	90,508	4,659	4,427	99,594	4,616	87,926	574	93,116	192,710
Automotive	46,161	104,109	26,669	176,939	-	-	-	-	176,939
Employee/volunteer/donor relations	24,479	2,560	19,701	46,740	25,161	78,282	779	104,222	150,962
Office supplies	41,546	5,960	6,935	54,441	7,144	8,796	3,666	19,606	74,047
Postage	27,017	4,090	1,437	32,544	8,532	26,649	180	35,361	67,905
Security	43,594	7,477	5,422	56,493	2,114	2,703	688	5,505	61,998
Legal fees	-	13,196	-	13,196	18,928	7,543	-	26,471	39,667
Total expenses before depreciation	16,170,401	1,921,740	1,693,686	19,785,827	1,697,302	2,452,181	1,123,839	5,273,322	25,059,149
Depreciation	696,354	77,508	85,469	859,331	23,180	27,639	8,333	59,152	918,483
Total expenses	<u>\$ 16,866,755</u>	<u>\$ 1,999,248</u>	<u>\$ 1,779,155</u>	<u>\$ 20,645,158</u>	<u>\$ 1,720,482</u>	<u>\$ 2,479,820</u>	<u>\$ 1,132,172</u>	<u>\$ 5,332,474</u>	<u>\$ 25,977,632</u>

See accompanying notes.

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>Years Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,089,129	\$ 226,997
Reconciliation to net cash provided by (used in) operating activities:		
Inherent contribution	-	(6,723,886)
Depreciation	914,378	918,483
Net realized and unrealized loss on investments	574,265	63,453
Change in value of split-interest gifts	(564,889)	(83,259)
(Increase) decrease in operating assets:		
Receivables	(1,717,048)	1,941,648
Prepaid expenses and other assets	158,387	(91,018)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	193,314	(12,933)
Deferred revenue	153,004	127,009
Net cash provided by (used in) operating activities	<u>800,540</u>	<u>(3,633,506)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	29,499,595	28,131,051
Purchases of investments	(29,835,766)	(26,911,953)
Purchases of property and equipment	(155,020)	(599,226)
Cash acquired with mergers	-	2,138,639
Net cash (used in) provided by investing activities	<u>(491,191)</u>	<u>2,758,511</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	309,349	(874,995)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>594,486</u>	<u>1,469,481</u>
End of year	<u>\$ 903,835</u>	<u>\$ 594,486</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Income taxes paid, net of refunds	<u>\$ 35,000</u>	<u>\$ 9,378</u>
Assets and liabilities acquired in mergers		
Cash	\$ -	\$ 2,138,639
Receivables	-	1,355,741
Prepaid and other assets	-	93,059
Fixed assets	-	3,272,847
Less accounts payable and accrued liabilities	-	(136,400)
Net assets acquired	<u>-</u>	<u>6,723,886</u>
Consideration paid	<u>-</u>	<u>-</u>
Contribution inherent in merger	<u>\$ -</u>	<u>\$ 6,723,886</u>

## SAN DIEGO HUMANE SOCIETY AND SPCA NOTES TO FINANCIAL STATEMENTS

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

#### **Organization and Activities**

The San Diego Humane Society and SPCA (the “Society”), founded in 1880, is a private, nonprofit corporation that is not affiliated with any other humane society or SPCA. The Society’s mission is to promote the humane treatment of animals, prevent cruelty to animals, and provide education to enhance the human-animal bond.

The Society’s programs and services include:

- Sheltering and adopting of companion animals at campuses in San Diego, Escondido, and Oceanside, California;
- Investigating animal cruelty and neglect;
- Supplying pet food, supplies and veterinary service vouchers to low-income elderly, chronically ill, and disabled individuals for the care of their companion animals;
- Rescuing, caring for, and rehabilitating local wildlife;
- Providing positive reinforcement behavior modification training for shelter animals and the public;
- Teaching adult and youth education programs;
- Providing municipal field service, sheltering, and stray pet services to the residents of Oceanside, Escondido, San Marcos, Poway, and Vista, California;
- Rescuing animals in emergency situations;
- Sharing animals through pet-assisted therapy;
- Administering needs-based spay/neuter services for the public; and
- Partnering with rescue groups and other shelters to insure every healthy and treatable animal in San Diego County receives the care it needs.

During the fiscal year ended June 30, 2015, the Society completed transactions with the Escondido Humane Society and the Center for Humane Education Inc., Project Wildlife, and PAWS San Diego, Inc. The Society and the governing bodies of each entity have determined that these transactions will best serve the people and animals in the San Diego region. See Note 14 – *Mergers*, for further discussion.

# SAN DIEGO HUMANE SOCIETY AND SPCA

## NOTES TO FINANCIAL STATEMENTS

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

#### Significant Accounting Policies

**Income taxes** – The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701d 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 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.

**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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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.

**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 term maturity.

**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.

## 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)**

**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, 2016 and 2015, the discount was \$48,099 and \$72,513, 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 \$1,500,000 at June 30, 2016 and 2015.

**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 trusts' terms, 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 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 as determined by management or independent appraisal.

# 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)

**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.

**Revenue recognition** – Revenue from adoptions and animal care, veterinary health services, educational program fees, needs-based spay/neuter services, 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, Vista, Escondido, San Marcos, and Poway to provide animal services to the communities. The contract with Vista has been extended until June 30, 2018; the contracts with Oceanside, Escondido, San Marcos, and Poway have been extended until June 30, 2017 and are renewable for one one-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, Vista, Escondido, San Marcos, and Poway. Licensing revenue is recognized at the time the license is issued. Support generated at special events is recorded in the statement of activities when the event occurs.

**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 statements 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.

Restrictions on gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service, unless otherwise stipulated by the donor.

**Donated services and goods** – 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. Volunteers provided approximately 433,000 and 397,000 hours of service to the Society during the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, management estimates the value of these services to approximate \$11,936,000 and \$10,673,000, respectively. No amounts have been recognized in the accompanying statements of activities in accordance with ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*.

The Society records the fair value of donated supplies, assets, and other goods when those gifts are received.

## 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)**

**Advertising costs** – Advertising costs are expensed as incurred.

**Functional allocation of expenses** – 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.

**Reclassifications** – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. There was no impact on net assets.

#### **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.

**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.

## SAN DIEGO HUMANE SOCIETY AND SPCA

### NOTES TO FINANCIAL STATEMENTS

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#### Note 3 - Investments

Investments consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,373,881	\$ 945,981
Common stock	7,901,223	8,488,331
Mutual funds	13,258,424	13,280,751
Fixed income	10,927,911	10,970,989
	<u>                    </u>	<u>                    </u>
Total investments	<u>\$ 33,461,439</u>	<u>\$ 33,686,052</u>

Investment income consists of the following for the years ended June 30:

Interest and dividends	\$ 923,291	\$ 868,617
Investment expenses	<u>(141,363)</u>	<u>(174,382)</u>
Interest and dividends, net of expenses	781,928	694,235
	<u>                    </u>	<u>                    </u>
Net realized and unrealized losses	<u>(574,265)</u>	<u>(63,453)</u>
	<u>                    </u>	<u>                    </u>
Investment income	<u>\$ 207,663</u>	<u>\$ 630,782</u>

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



## SAN DIEGO HUMANE SOCIETY AND SPCA

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 4 – Fair Value Measurements**

Fair value is defined 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, *Fair Value Measurements and Disclosures*, 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 investments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position are described.

When an investment is transferred between levels, the transfer is recognized at the end of the reporting period. During the years ended June 30, 2016 and 2015, there were no transfers between levels.

The Chief Financial Officer (“CFO”) and Controller, under the supervision of the Society’s Finance Committee of the Board, determine the fair value measurement policies and procedures in consultation with the Society’s investment managers. These policies and procedures are reassessed at least annually, or as new assets are acquired or pledged, to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

In determining the reasonableness of the methodology, the CFO, in consultation with the Society’s investment advisor, evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms (for example: duration or payout data), while others are substantiated utilizing available market data (discount rates and mortality tables).

**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, 2016:

	<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, 2016</b>
Cash and cash equivalents	\$ 1,373,881	\$ -	\$ -	\$ 1,373,881
Fixed-income securities:				
U.S. government bonds	4,072,956	-	-	4,072,956
U.S. government asset-backed	576,313	2,118,552	-	2,694,865
Corporate bonds	3,578,690	-	-	3,578,690
Corporate asset-backed	361,284	10,217	-	371,501
Foreign bonds	190,053	-	-	190,053
Municipal bonds	19,846	-	-	19,846
Total fixed-income securities	<u>8,799,142</u>	<u>2,128,769</u>	<u>-</u>	<u>10,927,911</u>
Common stock:				
Large cap equities	7,901,223	-	-	7,901,223
Mutual funds:				
Bond funds	599,059	-	-	599,059
Equity funds	12,395,325	-	-	12,395,325
Pooled income funds	-	264,040	-	264,040
Total mutual funds	<u>12,994,384</u>	<u>264,040</u>	<u>-</u>	<u>13,258,424</u>
Charitable remainder trusts	-	-	3,225,366	3,225,366
Beneficial interest in trust	-	875,575	-	875,575
Total	<u>\$ 31,068,630</u>	<u>\$ 3,268,384</u>	<u>\$ 3,225,366</u>	<u>\$ 37,562,380</u>

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

**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, 2015:

	<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, 2015</b>
Cash and cash equivalents	\$ 945,981	\$ -	\$ -	\$ 945,981
Fixed-income securities:				
U.S. government bonds	2,945,058	-	-	2,945,058
U.S. government asset-backed	1,536,510	413,101	-	1,949,611
Corporate bonds	5,325,331	-	-	5,325,331
Corporate asset-backed	130,669	10,625	-	141,294
Foreign bonds	609,695	-	-	609,695
Total fixed-income securities	<u>10,547,263</u>	<u>423,726</u>	<u>-</u>	<u>10,970,989</u>
Common stock:				
Large cap equities	<u>8,488,331</u>	<u>-</u>	<u>-</u>	<u>8,488,331</u>
Mutual funds:				
Bond funds	636,181	-	-	636,181
Equity funds	12,380,533	-	-	12,380,533
Pooled income funds	<u>-</u>	<u>264,037</u>	<u>-</u>	<u>264,037</u>
Total mutual funds	<u>13,016,714</u>	<u>264,037</u>	<u>-</u>	<u>13,280,751</u>
Charitable remainder trusts	-	-	2,684,893	2,684,893
Beneficial interest in trust	<u>-</u>	<u>889,056</u>	<u>-</u>	<u>889,056</u>
 Total	 <u>\$ 32,998,289</u>	 <u>\$ 1,576,819</u>	 <u>\$ 2,684,893</u>	 <u>\$ 37,260,001</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 (marketable securities), which approximates the future anticipated cash flow.

The charitable remainder trusts 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 years ended June 30, 2016 and 2015, 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 charitable remainder trusts for the years ended June 30, 2016 and 2015:

<b>Balance, July 1, 2014</b>	\$ 2,944,178
Maturities	(341,282)
Unrealized gain	<u>81,997</u>
<b>Balance, June 30, 2015</b>	2,684,893
Unrealized gain	<u>540,473</u>
<b>Balance, June 30, 2016</b>	<u><u>\$ 3,225,366</u></u>

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

The table below includes quantitative inputs for charitable remainder trusts for the year ended June 30, 2016:

<u>Asset Description</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Charitable remainder trusts	<u>\$ 3,225,366</u>	Discounted cash flow	Discount Rates	1.86% to 2.30%
			Life Expectancy	16.3 to 28.5 years

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Receivables**

Receivables are due as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Less than one year:		
Pledges and bequests	\$ 6,004,578	\$ 5,768,305
In-kind lease receivable	30,000	30,000
Other	467,973	294,467
One to five years:		
Pledges and bequests	2,595,376	1,700,337
In-kind lease receivable	120,000	120,000
More than five years:		
Pledges and bequests	636,087	-
Charitable remainder trusts	4,894,134	5,021,500
In-kind lease receivable	390,000	420,000
	<u>15,138,148</u>	<u>13,354,609</u>
Less provision for uncollectible accounts:		
Pledges and bequests	1,500,000	1,500,000
Less discount to net present value:		
From 1.8 to 2.3 percent	<u>2,096,422</u>	<u>2,594,820</u>
Total	<u>\$ 11,541,726</u>	<u>\$ 9,259,789</u>

**Note 6 - Charitable Gift Annuity**

The Society has entered into five charitable gift annuity agreements whereby the donor contributes assets in exchange for the Society's promise to pay a fixed amount to the donor for the life of the donor. Assets received from donors to establish gift annuities are managed in a pooled account and accounted for individually. The excess of gift annuity related assets over gift annuity obligations (net assets) is temporarily restricted. Gift annuity obligations are actuarially determined and represents the present value of future payments to beneficiaries. Gift annuities are managed in compliance with applicable state statutes. The state of California required Reserve Fund was \$130,678 and \$46,760 at June 30, 2016 and 2015, respectively. The recorded values at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Asset value - cash	\$ 270,000	\$ 100,000
Annuity payment liability	130,678	45,680

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Property and Equipment**

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 4,042,217	\$ 4,042,217
Buildings and improvements	14,290,483	14,260,380
Leasehold improvements	877,542	866,062
Furniture and fixtures	3,353,049	3,316,556
Trucks and automobiles	1,416,028	1,396,375
Computer hardware and software	1,474,887	1,458,903
Machinery and equipment	225,145	225,145
Construction in progress	41,306	-
	<u>25,720,657</u>	<u>25,565,638</u>
Less: accumulated depreciation	<u>(11,778,156)</u>	<u>(10,863,779)</u>
Total	<u>\$ 13,942,501</u>	<u>\$ 14,701,859</u>

**Note 8 – Commitments and Contingencies**

**Leases** – The Society leases office equipment and certain space with lease terms that expire through December 2025. The lease payments for the years ended June 30, 2016 and 2015 were approximately \$405,200 and \$404,400, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2016:

Years ending June 30,	
2017	\$ 464,427
2018	468,772
2019	467,839
2020	467,868
2021	452,064
Thereafter	<u>1,393,755</u>
Total	<u>\$ 3,714,725</u>

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 8 – Commitments and Contingencies (continued)**

**Escondido land lease** – The Society leases certain public property located in Escondido from the City of Escondido. The lease term is 20 years commencing July 7, 2014, with an option to renew for an additional five years and a second option to extend another additional five years. Consideration for the lease is \$1 per year until the second option to extend at which time the annual rent payable during the extension term shall be the Market Rate. The value of the annual rent payments totaling \$330,000 was recorded as a gift in kind in the 2015 statement of activities. The remaining value of the future payments has been included in receivables, net of a present value discount. Gift in kind income of \$13,500 was recorded against the present value discount for the year ended June 30, 2016.

The Society has entered into an option agreement with the City of Escondido which grants the Society the right and option to purchase the property. The term of the option commences July 7, 2014 and remains in effect for as long as the lease remains in effect, including any renewal term and any extension term. The purchase price shall be the fair value of the property on the date the option is exercised.

**Benefit plan** – The Society has a 403(b) tax-deferred annuity plan (the “Plan”) which covers its employees. The Society contributed 6 percent of qualified employees’ salaries to the Plan through June 30, 2013, switching to a contribution of 2 percent of qualified salaries and matching up to an additional 3 percent effective July 1, 2013. As of January 1, 2016, the Society changed to a match up to 5 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, 2016 and 2015 were approximately \$380,200 and \$358,500, respectively.

**Line of credit** – The Society has a line of credit agreement with First Republic Bank that expires June 22, 2017. The terms of the line of credit include a maximum borrowing limit of \$2,500,000, with a variable interest rate of the prime rate, subject to a minimum interest rate of 3.50 percent. The prime interest rate was 3.50 percent as of June 30, 2016. No amounts are due at June 30, 2016 or 2015.

**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 change in net assets.

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions:		
Charitable remainder trusts	\$ 3,225,366	\$ 2,684,893
Bequest	589,500	-
Pooled income funds	215,940	191,524
Future operations	112,670	112,670
Total	<u>4,143,476</u>	<u>2,989,087</u>
Restricted purpose or program:		
Veterinary hospital renovation	1,167,571	100,000
Volunteer program	800,000	225,000
Veterinarian compensation	519,055	300,000
In-kind Escondido lease	297,000	313,500
Animal Adventure Camp (unappropriated earnings)	185,311	234,404
Project Wildlife	150,000	-
Project Wildlife relocation and expansion	55,000	-
Other purposes (under \$20,000 each)	36,594	60,965
Escondido building & construction	34,079	47,103
Escondido campus safety lighting	23,950	-
Senior level staff training	3,238	3,238
Spay/neuter program	-	250,000
Behavior assistance program	-	100,000
Development training	-	62,255
Escondido kitten nursery	-	20,000
Project Wildlife specialized vet care and medical supplies	-	20,000
Total	<u>3,271,798</u>	<u>1,736,465</u>
Total temporarily restricted net assets	<u>\$ 7,415,274</u>	<u>\$ 4,725,552</u>



**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 10 – 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Veterinarian and hospital manager	\$ 300,000	\$ 300,000
Spay/neuter program	250,000	100,000
Volunteer program	225,000	225,000
Behavior assistance program	100,000	100,000
Philanthropy training	63,000	-
Animal Adventure Camp	60,050	65,864
Other purposes (under \$20,000 each)	56,990	15,524
Veterinary hospital expansion	36,986	-
Project Wildlife	26,420	213,800
Escondido kitten nursery	20,000	-
Maturities of split-interest agreements	-	348,361
Senior level staff training	-	56,762
Escondido Humane Society	-	31,208
PAWS San Diego	-	30,020
Education program	-	25,000
	<u>          </u>	<u>          </u>
Total net assets released from restriction	<u>\$ 1,138,446</u>	<u>\$ 1,511,539</u>

**Note 11 – Endowment Funds**

ASC 958-205, *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.

## **SAN DIEGO HUMANE SOCIETY AND SPCA**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 11 - Endowment Funds (continued)**

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

The Society has an investment and spending policy for unrestricted assets 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 a 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 percent) 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.

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 11 - Endowment Funds (continued)**

Endowment net assets consist of the following at June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, July 1, 2014</b>	\$ 2,876,558	\$ 281,496	\$ 1,000,000	\$ 4,158,054
Investment return:				
Interest and dividends, net of expenses	-	31,263	-	31,263
Net realized and unrealized gain (loss)	46,431	(12,491)	-	33,940
Net investment returns	46,431	18,772	-	65,203
Expenditures	-	(65,864)	-	(65,864)
Change in endowment assets	46,431	(47,092)	-	(661)
<b>Endowment net assets, June 30, 2015</b>	<u>2,922,989</u>	<u>234,404</u>	<u>1,000,000</u>	<u>4,157,393</u>
Investment return:				
Interest and dividends, net of expenses	-	31,282	-	31,282
Net realized and unrealized gain (loss)	17,582	(20,325)	-	(2,743)
Net investment returns	17,582	10,957	-	28,539
Expenditures	(20,760)	(60,050)	-	(80,810)
Change in endowment assets	(3,178)	(49,093)	-	(52,271)
<b>Endowment net assets, June 30, 2016</b>	<u>\$ 2,919,811</u>	<u>\$ 185,311</u>	<u>\$ 1,000,000</u>	<u>\$ 4,105,122</u>

In September 2006, the Board 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 ending in 2021 of \$112,670 at June 30, 2016 and 2015. 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, 2016 and 2015.

## **SAN DIEGO HUMANE SOCIETY AND SPCA**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 12 – 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 addition to the endowment assets, permanently restricted net assets included amounts for a beneficial interest in a trust and land held in perpetuity.

At June 30, 2016 and 2015, the trust held investment assets valued at \$875,575 and \$889,056, respectively. The change in value during the years ended June 30, 2016 and 2015 is reported as permanently restricted investment income or loss. The trustee distributed \$21,000 to the Society in each of the years ended June 30, 2016 and 2015. The trustee has no variance power. The Society does not consider the trust to be an endowment subject to ASC 958-205, as there is an absence of intention to preserve the corpus.

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 \$24,057 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.

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
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**Note 13 - Joint Costs**

The Society achieves some of its programmatic and fundraising activities in magazine mailings which include requests for contributions. The costs of conducting the mailings included \$265,323 and \$240,840, respectively, for the years ended June 30, 2016 and 2015 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Marketing and public relations	\$ 150,902	\$ 190,370
Adoptions and animal care	84,962	29,662
Community outreach	17,168	8,854
Fundraising	<u>12,291</u>	<u>11,954</u>
Total	<u>\$ 265,323</u>	<u>\$ 240,840</u>

**Note 14 - Mergers**

**Escondido Humane Society and Center for Humane Education, Inc.** - On March 21, 2014, the Society entered into an agreement and plan of merger (the "Agreement") with the Escondido Humane Society and Center for Humane Education Inc., a California nonprofit corporation ("EHS"), located in the city of Escondido, California wherein EHS would be merged into the Society. The Society and EHS's governing bodies determined that such a combination will best serve the people and animals in the San Diego region. Upon satisfactory certification and completion of certain conditions, the Agreement was filed with the California Secretary of State on July 1, 2014, which is the effective date ("Effective Date") of the merger. On that date, separate corporate existence was ceased.

The Society recorded the fair value of the identifiable assets acquired and liabilities assumed as of July 1, 2014. The Society engaged a third-party appraiser to determine the fair value of leasehold improvements acquired. The value was recorded in the statement of financial position as of the effective date. The excess of the identifiable assets acquired over liabilities assumed was recognized as an inherent contribution in the Society's statement of activities. No consideration was paid.

To the extent that net assets were subject to donor restrictions, those restrictions carried over and will be honored by the Society.

## SAN DIEGO HUMANE SOCIETY AND SPCA

### NOTES TO FINANCIAL STATEMENTS

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#### Note 14 - Mergers (continued)

**PAWS San Diego County, Inc.** – On July 29, 2014, the Society entered into an acquisition agreement with PAWS San Diego County, Inc., a California nonprofit corporation (“PAWS”), located in the city of San Diego, California, wherein PAWS’s assets would be acquired by the Society. The Society and PAWS’s governing bodies determined that such a combination will best serve the people and animals in the San Diego region. PAWS provides pet services and support to low-income pet families who are seniors, chronically ill, and/or disabled, offering an in-home delivery program of pet food and supplies, a food and supply pantry, and a wellness program subsidizing veterinary care for their clients. Upon satisfactory certification and completion of certain conditions, the acquisition agreement was filed with the California Secretary of State on September 1, 2014, which is the effective date of the acquisition and on that date, separate corporate existence was ceased.

**Project Wildlife** – On October 2, 2014, the Society entered into an agreement and plan of merger with Project Wildlife (“PW”), a California nonprofit corporation, located in the city of San Diego, California, wherein PW would be merged into the Society. The Society and PW governing bodies have determined that such a merger will best serve the people and animals in the San Diego region. Upon satisfactory certification and completion of certain conditions, the agreement was filed with the California Secretary of State on November 1, 2014, which is the effective date of the merger.

As of November 1, 2014, PW was merged with and into the Society and the separate corporate existence was ceased.

Recognized amounts of identifiable assets acquired and liabilities assumed by the Society in the year ended June 30, 2015, are as follows:

	<b>Escondido Humane Society</b>	<b>PAWS San Diego County</b>	<b>Project Wildlife</b>	<b>Total</b>
Assets acquired:				
Cash	\$ 1,689,774	\$ 131,537	\$ 317,328	\$ 2,138,639
Accounts receivable	1,355,741	-	-	1,355,741
Prepaid and other assets	30,664	54,327	8,068	93,059
Fixed assets	3,191,800	21,787	59,260	3,272,847
Liabilities assumed:				
Accounts payable and accrued liabilities	(99,916)	-	(36,484)	(136,400)
Net assets acquired	6,168,063	207,651	348,172	6,723,886
Consideration paid	-	-	-	-
Inherent contribution	<u>\$ 6,168,063</u>	<u>\$ 207,651</u>	<u>\$ 348,172</u>	<u>\$ 6,723,886</u>

**SAN DIEGO HUMANE SOCIETY AND SPCA**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 15 - Subsequent Events**

Subsequent events are events or transactions that occur after the statement 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 statement 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 statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The Society has evaluated subsequent events through November 9, 2016, which is the date the financial statements were available to be issued.