



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SAN DIEGO HUMANE SOCIETY AND SPCA

June 30, 2022 and 2021

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Report of Independent Auditors

The Board of Trustees
San Diego Humane Society and SPCA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of San Diego Humane Society and SPCA, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of San Diego Humane Society and SPCA as of June 30, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Humane Society and SPCA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Diego Humane Society and SPCA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Humane Society and SPCA's ability to continue as a going concern for a reasonable period of time.

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



San Diego, California
November 18, 2022

San Diego Humane Society and SPCA
Statements of Financial Position

ASSETS		June 30,	
		<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$	5,237,893	\$ 6,955,263
Investments		41,496,891	46,112,168
Receivables, net		16,606,470	11,067,489
Prepaid expenses and other assets		509,094	250,789
Property and equipment, net		47,738,612	47,819,911
Beneficial interest in trust		1,259,268	1,433,097
Total assets		<u>\$ 112,848,228</u>	<u>\$ 113,638,717</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$	3,983,606	\$ 3,799,420
Deferred revenue		2,671,062	3,122,602
Loan payable		25,141,922	25,702,152
Total liabilities		<u>31,796,590</u>	<u>32,624,174</u>
COMMITMENTS AND CONTINGENCIES (Note 9)			
NET ASSETS			
Without donor restrictions		64,202,679	64,740,066
With donor restrictions		16,848,959	16,274,477
Total net assets		<u>81,051,638</u>	<u>81,014,543</u>
Total liabilities and net assets		<u>\$ 112,848,228</u>	<u>\$ 113,638,717</u>

San Diego Humane Society and SPCA

Statement of Activities

	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Contributions of cash and other financial assets	\$ 15,154,669	\$ 2,331,570	\$ 17,486,239
Bequests	10,687,057	-	10,687,057
Special events	2,774,984	-	2,774,984
Special events expense	(741,854)	-	(741,854)
Contributions of non-financial assets	1,917,870	-	1,917,870
Net assets released from restrictions	526,644	(526,644)	-
Net support	30,319,370	1,804,926	32,124,296
Revenue			
Field services and licensing	22,381,835	-	22,381,835
Investment loss, net	(5,640,180)	(685,865)	(6,326,045)
Adoptions and animal care	1,368,826	-	1,368,826
Veterinary health services	524,311	-	524,311
Educational program fees	128,738	-	128,738
Retail sales	116,706	-	116,706
Retail sales expense	(19,119)	-	(19,119)
Other	203,419	-	203,419
Net revenue	19,064,536	(685,865)	18,378,671
Total support and revenue	49,383,906	1,119,061	50,502,967
EXPENSES			
Program services			
Adoptions and animal care	32,717,855	-	32,717,855
Investigations and field services	5,097,013	-	5,097,013
Community outreach	3,852,556	-	3,852,556
	41,667,424	-	41,667,424
Supporting services			
Management and general	3,140,586	-	3,140,586
Donor development and fundraising	3,946,750	-	3,946,750
Marketing and public relations	1,194,133	-	1,194,133
	8,281,469	-	8,281,469
Total expenses	49,948,893	-	49,948,893
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND (LOSSES) GAINS	(564,987)	1,119,061	554,074
Change in value of split-interest agreements	-	(1,454,579)	(1,454,579)
Contributions - capital projects	-	910,000	910,000
Gain on the sale of properties	27,600	-	27,600
CHANGE IN NET ASSETS	(537,387)	574,482	37,095
NET ASSETS			
Beginning of year	64,740,066	16,274,477	81,014,543
End of year	\$ 64,202,679	\$ 16,848,959	\$ 81,051,638

San Diego Humane Society and SPCA Statement of Activities

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Contributions of cash and other financial assets	\$ 10,307,363	\$ 476,096	\$ 10,783,459
Bequests	7,785,086	-	7,785,086
Special events	1,806,835	-	1,806,835
Special events expense	(139,446)	-	(139,446)
Contributions of non-financial assets	1,266,228	-	1,266,228
Net assets released from restrictions	1,851,066	(1,851,066)	-
Net support	<u>22,877,132</u>	<u>(1,374,970)</u>	<u>21,502,162</u>
Revenue			
Field services and licensing	21,575,618	-	21,575,618
Investment income, net	7,317,649	1,099,803	8,417,452
Adoptions and animal care	1,038,798	-	1,038,798
Veterinary health services	328,590	-	328,590
Educational program fees	114,922	-	114,922
Retail sales	36,561	-	36,561
Retail sales expense	(8,719)	-	(8,719)
Other	79,076	-	79,076
Net revenue	<u>30,482,495</u>	<u>1,099,803</u>	<u>31,582,298</u>
Total support and revenue	<u>53,359,627</u>	<u>(275,167)</u>	<u>53,084,460</u>
EXPENSES			
Program services			
Adoptions and animal care	28,626,291	-	28,626,291
Investigations and field services	4,996,959	-	4,996,959
Community outreach	2,817,728	-	2,817,728
	<u>36,440,978</u>	<u>-</u>	<u>36,440,978</u>
Supporting services			
Management and general	2,903,242	-	2,903,242
Donor development and fundraising	3,263,816	-	3,263,816
Marketing and public relations	1,144,193	-	1,144,193
	<u>7,311,251</u>	<u>-</u>	<u>7,311,251</u>
Total expenses	<u>43,752,229</u>	<u>-</u>	<u>43,752,229</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND GAINS	9,607,398	(275,167)	9,332,231
Change in value of split-interest agreements	-	491,232	491,232
Donation of land and building	2,189,811	-	2,189,811
Gain on the sale of properties	20,331	-	20,331
Contributions – capital projects	-	4,000,000	4,000,000
CHANGE IN NET ASSETS	11,817,540	4,216,065	16,033,605
NET ASSETS			
Beginning of year	<u>52,922,526</u>	<u>12,058,412</u>	<u>64,980,938</u>
End of year	<u>\$ 64,740,066</u>	<u>\$ 16,274,477</u>	<u>\$ 81,014,543</u>

See accompanying notes.

San Diego Humane Society and SPCA

Statement of Functional Expenses

	Year Ended June 30, 2022 (With Comparative Information for Year Ended June 30, 2021)									
	Program Services				Supporting Services				2022 Total Expenses	2021 Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor		Total		
						Development and Fundraising	Marketing and Public Relations			
Salaries	\$ 18,230,236	\$ 3,376,562	\$ 2,010,547	\$ 23,617,345	\$ 1,855,303	\$ 1,772,313	\$ 737,842	\$ 4,365,458	\$ 27,982,803	\$ 25,504,742
Employee health and benefits	2,039,098	378,574	214,791	2,632,463	129,731	108,220	43,022	280,973	2,913,436	2,926,384
Payroll taxes	1,481,144	265,085	154,941	1,901,170	128,835	131,597	54,138	314,570	2,215,740	2,023,396
Retirement	406,351	58,511	66,458	531,320	75,473	66,924	28,549	170,946	702,266	666,165
Total salaries and related expenses	22,156,829	4,078,732	2,446,737	28,682,298	2,189,342	2,079,054	863,551	5,131,947	33,814,245	31,120,687
Occupancy, utilities, and security	3,178,347	239,649	129,503	3,547,499	107,145	65,753	13,688	186,586	3,734,085	3,261,770
Animal feed, supplies, equipment, and habitat	1,895,639	3,227	836,928	2,735,794	-	400	-	400	2,736,194	1,715,761
Veterinary medicine and care	1,512,533	24,112	4,758	1,541,403	-	-	-	-	1,541,403	1,159,922
Information technology	735,489	162,967	97,822	996,278	145,036	121,724	22,067	288,827	1,285,105	1,221,939
Interest	539,898	2,251	29,376	571,525	143,315	-	-	143,315	714,840	67,689
Direct mailing	-	-	-	-	-	579,822	-	579,822	579,822	493,399
Advertising	497	-	-	497	-	326,922	211,899	538,821	539,318	384,200
Legal and other professional fees	69,473	11,963	4,217	85,653	237,582	140,727	55,382	433,691	519,344	402,801
Employee/volunteer/donor relations	113,310	20,484	60,173	193,967	28,732	292,996	2,132	323,860	517,827	312,904
Automotive	183,257	238,765	50,465	472,487	1,808	355	-	2,163	474,650	437,732
Insurance	360,396	14,580	15,543	390,519	63,946	6,236	1,715	71,897	462,416	409,593
Miscellaneous	168,383	13,240	9,650	191,273	4,782	236,730	1,473	242,985	434,258	377,424
Program supplies and uniforms	124,971	147,815	115,885	388,671	273	193	180	646	389,317	403,220
Professional development/travel	146,156	20,046	8,300	174,502	31,370	10,755	4,142	46,267	220,769	99,224
Office supplies and postage	128,990	15,428	5,890	150,308	9,696	34,461	1,832	45,989	196,297	173,301
Printing and publications	96,004	14,158	6,604	116,766	4,133	16,467	10,833	31,433	148,199	133,284
Total expenses before depreciation	31,410,172	5,007,417	3,821,851	40,239,440	2,967,160	3,912,595	1,188,894	8,068,649	48,308,089	42,174,850
Depreciation	1,307,683	89,596	30,705	1,427,984	173,426	34,155	5,239	212,820	1,640,804	1,577,379
Total expenses	\$ 32,717,855	\$ 5,097,013	\$ 3,852,556	\$ 41,667,424	\$ 3,140,586	\$ 3,946,750	\$ 1,194,133	\$ 8,281,469	\$ 49,948,893	\$ 43,752,229

San Diego Humane Society and SPCA Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Supporting Services				2021 Total Expenses
	Adoptions and Animal Care	Investigations and Field Services	Community Outreach	Total	Management and General	Donor		Total	
						Development and Fundraising	Marketing and Public Relations		
Salaries	\$ 16,439,768	\$ 3,288,211	\$ 1,643,463	\$ 21,371,442	\$ 1,902,040	\$ 1,488,916	\$ 742,344	\$ 4,133,300	\$ 25,504,742
Employee health and benefits	2,072,197	360,053	197,178	2,629,428	144,213	96,405	56,338	296,956	2,926,384
Payroll taxes	1,333,331	262,402	125,888	1,721,621	136,045	110,895	54,835	301,775	2,023,396
Retirement	373,413	64,943	60,043	498,399	79,345	58,946	29,475	167,766	666,165
Total salaries and related expenses	20,218,709	3,975,609	2,026,572	26,220,890	2,261,643	1,755,162	882,992	4,899,797	31,120,687
Occupancy, utilities, and security	2,755,866	187,750	115,671	3,059,287	110,712	67,519	24,252	202,483	3,261,770
Animal feed, supplies, equipment, and habitat	1,367,148	5,950	342,663	1,715,761	-	-	-	-	1,715,761
Information technology	688,630	209,685	52,136	950,451	147,525	96,518	27,445	271,488	1,221,939
Veterinary medicine and care	1,139,904	19,440	578	1,159,922	-	-	-	-	1,159,922
Direct mailing	-	-	-	-	-	493,399	-	493,399	493,399
Automotive	169,944	216,934	47,959	434,837	2,616	30	249	2,895	437,732
Insurance	322,931	10,871	8,276	342,078	57,067	7,731	2,717	67,515	409,593
Program supplies and uniforms	95,266	184,350	123,427	403,043	81	83	13	177	403,220
Legal and other professional fees	85,192	17,634	7,322	110,148	120,704	117,901	54,048	292,653	402,801
Advertising	208	-	-	208	-	252,258	131,734	383,992	384,200
Miscellaneous	143,249	9,066	6,102	158,417	4,836	213,311	860	219,007	377,424
Employee/volunteer/donor relations	71,729	14,826	39,443	125,998	17,243	168,327	1,336	186,906	312,904
Office supplies and postage	115,582	17,702	4,288	137,572	9,512	23,161	3,056	35,729	173,301
Printing and publications	82,115	12,881	3,548	98,544	4,358	23,405	6,977	34,740	133,284
Professional development/travel	47,325	29,092	4,822	81,239	4,026	11,039	2,920	17,985	99,224
Interest	40,934	2,667	2,604	46,205	21,484	-	-	21,484	67,689
Total expenses before depreciation	27,344,732	4,914,457	2,785,411	35,044,600	2,761,807	3,229,844	1,138,599	7,130,250	42,174,850
Depreciation	1,281,559	82,502	32,317	1,396,378	141,435	33,972	5,594	181,001	1,577,379
Total expenses	\$ 28,626,291	\$ 4,996,959	\$ 2,817,728	\$ 36,440,978	\$ 2,903,242	\$ 3,263,816	\$ 1,144,193	\$ 7,311,251	\$ 43,752,229

See accompanying notes.

San Diego Humane Society and SPCA Statements of Cash Flows

	Years Ended June 30,	
	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ 37,095	\$ 16,033,605
Reconciliation to net cash provided by operating activities		
Depreciation	1,640,804	1,577,379
Costs associated with debt issuance	-	(254,938)
Amortization of debt issuance costs	8,498	708
Donation of land and buildings	-	(2,189,811)
Contributions restricted for investment in property and equipment	(910,000)	(4,000,000)
Net realized and unrealized loss (gain) on investments and beneficial interest in trust	6,716,809	(7,958,187)
Gain on sale of property and equipment	(27,600)	(20,331)
Change in value of split-interest gifts	1,454,580	(491,232)
(Increase) decrease in operating assets		
Receivables	(1,820,943)	293,350
Pledges	(3,612,077)	1,409,474
Bequests	(1,691,698)	697,270
Prepaid expenses and other assets	(258,305)	160,545
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	184,186	(255,950)
Deferred revenue	(451,540)	1,543,293
Net cash provided by operating activities	<u>1,269,809</u>	<u>6,545,175</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	8,576,843	4,500,107
Purchases of investments	(10,566,007)	(9,536,430)
Proceeds from sale of property and equipment	27,600	20,331
Purchases of property and equipment	(1,559,505)	(26,571,235)
Net cash used in investing activities	<u>(3,521,069)</u>	<u>(31,587,227)</u>
FINANCING ACTIVITIES		
Proceeds from loan payable	-	26,000,000
Payments on loan payable	(568,728)	(43,618)
Contributions restricted for investment in property and equipment	910,000	4,000,000
Payment received on pledge held in perpetuity	192,618	175,318
Net cash (used in) provided by financing activities	<u>533,890</u>	<u>30,131,700</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,717,370)	5,089,648
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>6,955,263</u>	<u>1,865,615</u>
End of year	<u>\$ 5,237,893</u>	<u>\$ 6,955,263</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 714,840</u>	<u>\$ 67,689</u>
Taxes paid, net of refunds	<u>\$ 870</u>	<u>\$ 245</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING INFORMATION		
Donation of land and buildings	<u>\$ -</u>	<u>\$ 2,189,811</u>

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Organization and activities – The San Diego Humane Society and SPCA (“SDHS”), founded in 1880, is a private, nonprofit corporation that is not affiliated with any other humane society or SPCA. The mission of SDHS is to create a more humane world by inspiring compassion, providing hope, and advancing the welfare of animals and people. SDHS has helped San Diego become the largest city in the U.S. to keep healthy and treatable animals from being euthanized.

SDHS’s programs and services include:

- Sheltering and adopting of companion animals at campuses in San Diego, El Cajon, 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 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, Imperial Beach, Vista, Carlsbad, Del Mar, Encinitas, San Diego, Santee, El Cajon, La Mesa, and Solana Beach, California;
- Rescuing animals in emergency and hoarding situations;
- Administering need-based spay/neuter services for the public; and
- Partnering with rescue groups and other shelters to ensure every healthy and treatable animal in San Diego County receives the care it needs.

Income taxes – SDHS 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. SDHS does not have any uncertain income tax positions. SDHS 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.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Financial statement presentation – SDHS’s resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- *Net assets without donor restrictions* – represent expendable funds available for operations that are not otherwise limited by donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees (the “Board”) or may otherwise be limited by contractual agreements with outside parties.
- *Net assets with donor restrictions* – consist of contributed funds subject to donor-imposed restrictions that are contingent upon specific performance of a future event or a specific passage of time before SDHS may spend the funds. Some net assets with donor restrictions are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income, net of investment expenses to fund current operations.

Cash equivalents – SDHS 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.

Investments – Investments are stated at fair value. The fair values of all debt and equity securities and mutual funds 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 net assets without donor restrictions 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 SDHS. 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 SDHS. A discount to net present value is recorded as deferred revenue, and the net amount is included in net assets with donor restrictions. At June 30, 2022 and 2021, the discount was approximately \$36,000 and \$18,000, respectively.

Receivables – Receivables represent amounts due to SDHS for services rendered prior to June 30 (Note 5). SDHS does not obtain collateral. The allowance is based on historical experience and management’s evaluation of receivables at the end of each year. There were no receivables considered uncollectible as of June 30, 2022 and 2021.

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. There were no unconditional promises to give considered uncollectible as of June 30, 2022 and 2021. Unconditional promises to give are included in receivables in the statements of financial position.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Charitable remainder trusts – SDHS 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 SDHS. The assets held in the trusts are managed by donor-designated trustees and are not accessible to SDHS 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, and are included in net assets with donor restrictions. The beneficial interests in charitable remainder trusts are included in receivables (unconditional promises to give).

Property and equipment – Property and equipment are stated at cost. Donated assets are recorded at fair value at the time of the donation as determined by management or independent appraisal. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings, building improvements, and land improvements	7 to 39 years
Furniture, fixtures, machinery, and equipment	5 to 10 years
Computer hardware	5 years
Trucks and automobiles	3 to 5 years
Computer software	3 years
Leasehold improvements	6 to 25 years

SDHS capitalizes property and equipment with costs of \$20,000 or greater.

Impairment of long-lived assets – SDHS 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.

Beneficial interest in trust – SDHS is the beneficiary of investments held in an irrevocable trust. The principal and all earnings held in trust are to be paid to SDHS at a later date.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Revenue and Revenue Recognition

Field services and licensing – SDHS is the animal services provider to numerous cities in San Diego County. These services include field services and licensing. Field services, which include patrolling, enforcing applicable laws, picking up and holding stray and injured animals, and responding to calls, are based on fixed fee contracts which entitle SDHS to payment for its performance to date even if the contracts are cancelled for any reason other than SDHS’s nonperformance. Field services provided to the public are considered the performance obligation. As a result, field services revenue is recognized over time as services are rendered over the term of the agreement. The fixed fee contracts stipulate monthly invoicing to the cities for services rendered during that month, up to the date of the invoice. The invoice amount represents the right to payment to SDHS that corresponds directly with the value provided to the city being invoiced. Based on this, management has adopted the “right-to-invoice” practical expedient to recognize revenue. Licensing revenue is paid by pet owners to SDHS. Issuance of the license is considered the performance obligation. SDHS records licensing revenue at the point in time when the license is issued to the pet owner as SDHS’s obligations subsequent to issuance are minimal. License fees are not refundable and not transferable. Also included in licensing revenue are citation, reclaim, and quarantine fees. These revenues are recognized at the time of occurrence, as they are nonrefundable and future obligations by SDHS are minimal. The following table shows the breakdown between field services and licensing:

	<u>2022</u>	<u>2021</u>
Field services	\$ 20,105,749	\$ 19,228,178
Licensing	<u>2,276,086</u>	<u>2,347,440</u>
Total	<u>\$ 22,381,835</u>	<u>\$ 21,575,618</u>

Adoptions, animal care, and veterinary health services – SDHS recognizes revenue from adoptions, animal care, and veterinary health services at a point in time when the services have been provided. The service itself is considered the performance obligation. These fees are either nonrefundable or the amount of refunds is minimal.

Educational program fees – SDHS’s educational program revenues include summer camps, humane law academies, animal training, and school programs. The performance obligation of delivering educational services is simultaneously received and consumed by the recipients; therefore, the revenue is recognized ratably over the period in which the program occurs. In most cases, payments are required before the programs start. If the timing difference between receipt of payment and providing of service is significant, revenue is deferred to the applicable period.

Retail sales – Revenues derived from retail sales are recognized at the point in time the goods are delivered to the buyer. Returns are minimal and recognized at the time of the refund.

There are no contract assets or liabilities as of June 30, 2022 and 2021.

San Diego Humane Society and SPCA

Notes to Financial Statements

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

Contributions and bequests – Contributions are recognized as support when received or unconditionally pledged or conditions are met, if a conditional contribution. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to without donor restrictions 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 contributions without donor restrictions. Bequests are recorded as contributions when SDHS is informed of unconditional rights to the proceeds of the bequest.

Restrictions on gifts of property and equipment or contributions restricted for the purchase of property and equipment expire when the asset is placed in service.

Special events – SDHS holds fundraising events throughout the year. Income from sponsorships, the sale of event tickets, and contributions received at the events are recognized when the event occurs.

Donated services – SDHS receives donated services from a variety of unpaid volunteers. The volunteers perform a variety of tasks that assist SDHS in the areas of animal care, animal rescue, behavior training, community programs, mobile adoptions, and events. Volunteers provided approximately 446,000 and 385,000 hours of service to SDHS during the years ended June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, management estimates the value of these services to be approximately \$15,853,000 and \$12,947,000, respectively. The value of volunteer time is based on the estimated hourly value of volunteer time in California as determined by Independent Sector (independentsector.org). Independent Sector estimates this hourly average based on average annual wages of non-management, non-agricultural workers, as provided by the Bureau of Labor Statistics, increased by 15.7 percent for estimated fringe benefits. No amounts have been recognized in the accompanying statements of activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities: Revenue Recognition*.

Donated goods – SDHS received the following contributions of nonfinancial assets for the years ended June 30:

	2022	2021
Animal food	\$ 1,217,201	\$ 777,269
Other supplies	319,537	212,135
Vehicles	206,375	261,380
Auction items	174,757	15,444
	\$ 1,917,870	\$ 1,266,228

San Diego Humane Society and SPCA

Notes to Financial Statements

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

SDHS records the fair value of donated supplies, assets, and other goods when those gifts are received as contributions on the statements of activities. Donated goods are valued based upon estimates of fair value that would be received for selling the goods in the principal market considering their condition and utility for use at the time the goods are contributed by the donor. Donated goods are not sold and are only distributed for program use with the exception of items to be sold at an annual event at which there is a silent auction. Proceeds from the auction are used to further the mission of SDHS. It is SDHS's policy to sell all contributed vehicles at auction immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles were sold and recognized according to the auction sales price.

See Note 7 for disclosure of donated land and buildings.

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. The nature of costs that were allocated include occupancy, utility, security, automotive, information technology, insurance, and employee support expenses. Allocations are based on cost drivers, which include employees per department, square footage, and vehicle usage.

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.

Recently adopted accounting standards – On July 1, 2021, SDHS adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received.

Note 2 – Concentration of Risk

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

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 2 – Concentration of Risk (continued)

Cash and cash equivalents – SDHS 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). SDHS has cash and cash equivalents accounts which, at times, exceed the insured amounts. SDHS 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. SDHS maintains a diversified portfolio to manage risk.

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.

Revenue – Of the regular and recurring field service and licensing revenue, approximately 63 percent and 65 percent were related to a contract with the City of San Diego for the years ended June 30, 2022 and 2021, respectively.

Of the total contributions, approximately 19 percent and 27 percent were related to grants from one foundation for the years ended June 30, 2022 and 2021, respectively.

Note 3 – Investments

Investments consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 69,359	\$ 198,059
Pooled income funds	174,617	218,757
Mutual funds	30,111,080	38,232,533
U.S. government bonds	<u>11,141,835</u>	<u>7,462,819</u>
Total investments	<u>\$ 41,496,891</u>	<u>\$ 46,112,168</u>

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 3 – Investments (continued)

Investment income, net of investment expenses, consists of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends, net	\$ 738,635	\$ 645,661
Net realized and unrealized (losses) gains	<u>(7,064,680)</u>	<u>7,771,791</u>
Investment income, net	<u>\$ (6,326,045)</u>	<u>\$ 8,417,452</u>

Investing decisions are subject to the guidelines set forth in SDHS's Investment Policy Statement, which is approved by SDHS's Board. The Finance Committee of the Board approves the selection of investment advisors and/or investments and investment allocations and monitors overall portfolio composition to ensure conformity with the Investment Policy Statement.

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 financial assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position are described.

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 SDHS's financial assets measured at fair value on a recurring basis as of June 30, 2022:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2022
Cash and cash equivalents	\$ 69,359	\$ -	\$ -	\$ 69,359
U.S. government bonds	11,141,835	-	-	11,141,835
Mutual funds				
Bond funds	10,640,561	-	-	10,640,561
International funds	3,788,343	-	-	3,788,343
Extended market funds	3,686,536	-	-	3,686,536
Total stock funds	11,995,640	-	-	11,995,640
Total mutual funds	30,111,080	-	-	30,111,080
Pooled income funds	-	174,617	-	174,617
Charitable remainder trusts	-	-	3,578,385	3,578,385
Beneficial interest in trust	-	1,259,268	-	1,259,268
Total	<u>\$ 41,322,274</u>	<u>\$ 1,433,885</u>	<u>\$ 3,578,385</u>	<u>\$ 46,334,544</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 SDHS's financial assets measured at fair value on a recurring basis as of June 30, 2021:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2021
Cash and cash equivalents	\$ 198,059	\$ -	\$ -	\$ 198,059
U.S. government bonds	7,462,819	-	-	7,462,819
Mutual funds				
Bond funds	13,068,962	-	-	13,068,962
International funds	4,748,838	-	-	4,748,838
Extended market funds	4,802,286	-	-	4,802,286
Total stock funds	15,612,447	-	-	15,612,447
Total mutual funds	38,232,533	-	-	38,232,533
Pooled income funds	-	218,757	-	218,757
Charitable remainder trusts	-	-	4,971,504	4,971,504
Beneficial interest in trust	-	1,433,097	-	1,433,097
Total	\$ 45,893,411	\$ 1,651,854	\$ 4,971,504	\$ 52,516,769

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 SDHS is a beneficiary. The trusts hold assets, including marketable investments and real estate. The fair value of the trusts, and therefore SDHS'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, 2022 and 2021, are the results of changes in these measurement factors.

San Diego Humane Society and SPCA
Notes to Financial Statements

Note 4 – Fair Value Measurements (continued)

The table below includes quantitative inputs for charitable remainder trusts as of June 30, 2022:

Asset Description	Fair Value	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	<u>\$ 3,578,385</u>	Discounted cash flow	Discount rates Life expectancy	2.98% to 3.38% 13.3 to 24.8 years

Note 5 – Receivables

Receivables are due as follows as of June 30, 2022 and 2021:

	2022	2021
Less than one year		
Pledges and bequests	\$ 6,911,589	\$ 3,807,214
In-kind lease receivable	30,000	30,000
Receivable from city contracts	3,347,551	1,399,306
Other	106,393	217,194
One to five years		
Pledges and bequests	2,436,172	371,262
In-kind lease receivable	120,000	120,000
More than five years		
Pledges and bequests	96,154	123,666
Charitable remainder trusts	6,239,067	6,796,598
In-kind lease receivable	210,000	240,000
	<u>19,496,926</u>	<u>13,105,240</u>
Less: discount to net present value from .46 to 3.38 percent	<u>(2,890,456)</u>	<u>(2,037,751)</u>
Total	<u>\$ 16,606,470</u>	<u>\$ 11,067,489</u>

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 6 – Charitable Gift Annuity

SDHS has entered into 32 charitable gift annuity agreements whereby the donor contributes assets in exchange for SDHS'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 the value of the gift annuity related assets over gift annuity obligations (net assets) is included in net assets with donor restrictions. Gift annuity obligations, recorded as deferred revenue on the statements of financial position, are actuarially determined and represent 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 approximately \$1,446,000 and \$1,394,000 at June 30, 2022 and 2021, respectively. No payments were made during the years ending June 30, 2022 and 2021. The recorded values at June 30 are as follows:

	<u>2022</u>	<u>2021</u>
Asset value – cash and fixed income securities	\$ 2,072,967	\$ 2,199,624
Annuity payment liability	\$ 1,446,363	\$ 1,393,693

Note 7 – Property and Equipment

Property and equipment consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 24,470,408	\$ 24,470,408
Buildings and improvements	23,006,776	22,789,714
Leasehold improvements	8,262,983	8,262,983
Furniture and fixtures	3,737,787	3,737,787
Trucks and automobiles	1,618,484	1,501,922
Computer hardware and software	683,373	683,372
Machinery and equipment	376,215	376,215
Construction in progress	<u>2,110,742</u>	<u>958,496</u>
	64,266,768	62,780,897
Less: accumulated depreciation	<u>(16,528,156)</u>	<u>(14,960,986)</u>
Total	<u>\$ 47,738,612</u>	<u>\$ 47,819,911</u>

On August 31, 2020, SDHS acquired property in Ramona, California, as a donation from Humane Society of the United States (HSUS). The property is comprised of land and three buildings situated on 12.72 acres of land. The property was appraised at a value of approximately \$2,100,000. In addition to the property, the agreement with HSUS included a separate grant agreement between HSUS and SDHS which will provide cash funding if certain conditions are met over the course of four years.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 7 – Property and Equipment (continued)

On April 30, 2021, SDHS purchased property adjacent to the Gaines Street facility in San Diego, California, from an unrelated third party. The property is comprised of land and five buildings situated on 3.61 acres of land. The property was purchased for \$26,000,000 and was financed with a loan (see Note 8).

Note 8 – Debt

Line of credit – SDHS has a line of credit agreement with First Republic Bank that expires March 22, 2023. 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 3.25 percent. The prime interest rate was 4.75 percent as of June 30, 2022. No amounts are due at June 30, 2022 and 2021.

Loan payable – On April 1, 2021, SDHS entered into a new Loan Agreement with First Republic Bank for \$26,000,000 in order to purchase property adjacent to the San Diego campus. The loan requires monthly payments of \$106,018 through May 2051 at a fixed rate of 2.70 percent per annum. The purchased property, as well as 5500 Gaines Street, serves as collateral for the loan. In connection with the loan, SDHS is subject to various financial covenants and to a prepayment penalty. Debt issuance costs in the amount of \$254,938 are amortized over the life of the loan. These costs are presented net with the loan payable in the statements of financial position.

Future principal payments required under the loan are due as follows:

Years Ending June 30,	
2023	\$ 584,439
2024	598,796
2025	617,239
2026	634,350
2027	651,935
Thereafter	<u>22,300,895</u>
Total	25,387,654
Less: unamortized debt issuance costs	<u>(245,732)</u>
Total	<u>\$ 25,141,922</u>

Note 9 – Commitments and Contingencies

Leases – SDHS leases office equipment and certain space with lease terms that expire through December 2025.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 9 – Commitments and Contingencies (continued)

Lease payments for the years ended June 30, 2022 and 2021, were approximately \$292,000 and \$673,000, respectively. The following is a summary of future minimum rental payments for operating leases as of June 30, 2022:

Years Ending June 30,	
2023	\$ 297,288
2024	303,852
2025	311,808
2026	<u>158,208</u>
Total	<u>\$ 1,071,156</u>

Escondido land lease – SDHS leases certain public property located in Escondido, California, 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 financial statements. The remaining value of the future payments has been included in receivables, net of a present value discount (Note 5). Gift in-kind income of approximately \$14,000 was recorded against the present value discount for the years ended June 30, 2022 and 2021.

SDHS has entered into an option agreement with the City of Escondido that grants SDHS 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.

Capital commitment – SDHS has entered into a construction contract of approximately \$11,260,000 to remodel the adoption areas at the Gaines Street facility. As of June 30, 2022, \$10,765,000 of such contract had not yet been incurred.

Benefit plan – SDHS has a 403(b) tax-deferred annuity plan (the “Plan”), which covers its employees. SDHS matches 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 IRC. Total expenses for the years ended June 30, 2022 and 2021, were approximately \$702,000 and \$666,000, respectively.

Litigation – SDHS 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 SDHS’s financial position or change in net assets.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2022 and 2021:

	2022	2021
Time restrictions		
Charitable remainder trusts	\$ 3,578,385	\$ 4,971,504
Bequest	361,729	363,562
Pooled income funds	139,073	200,533
Future operations	112,670	112,670
Total	4,191,857	5,648,269
Purpose or program restrictions		
Campus renovation projects	5,096,000	4,000,000
Community cat initiative	777,602	-
Veterinary medicine	603,269	489,186
Animal Adventure Camp (unappropriated earnings)	406,469	628,809
In-kind Escondido lease	198,000	214,500
Project Wildlife (unappropriated earnings)	152,758	532,926
Emergency and disaster relief	147,644	141,565
Other purposes (\$50,000 and under each)	32,881	53,943
Total	7,414,623	6,060,929
Restricted to be maintained in perpetuity		
Investments held in perpetuity	5,242,479	4,372,661
Unconditional promises to give	-	192,618
Total	5,242,479	4,565,279
Total net assets with donor restrictions	\$ 16,848,959	\$ 16,274,477

Net assets with donor restrictions requiring that the assets be maintained in perpetuity consist of endowment funds, which are investment assets held and managed by SDHS (Note 12). In addition to the endowment assets, net assets to be maintained in perpetuity included amounts for a beneficial interest in a trust and land held in perpetuity.

At June 30, 2022 and 2021, the beneficial interest in trust held investment assets valued at approximately \$1,259,000 and \$1,433,000, respectively. The change in value during the years ended June 30, 2022 and 2021, is reported as with donor restricted investment income, net of investment expenses or loss. The trustee distributed \$29,000 and \$32,000 to SDHS in the years ended June 30, 2022 and 2021, respectively. The trustee has no variance power. SDHS 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.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 10 – Net Assets with Donor Restrictions (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 approximately \$24,000 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 SDHS 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 SDHS 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. As of June 30, 2022 and 2021, this parcel is no longer available to the public as a dog park but is used exclusively by SDHS as part of the animal sheltering services provided on that site.

Note 11 – 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, 2022 and 2021:

	2022	2021
Veterinary medicine	\$ 259,185	\$ 390,396
Other purposes (\$50,000 and under each)	113,720	184,488
Emergency and disaster relief	77,861	-
Project Wildlife	75,878	77,549
Staffing	-	712,500
Community cat initiative	-	220,383
Resource center	-	200,000
Behavior and training	-	65,750
	\$ 526,644	\$ 1,851,066
Total net assets released from donor restrictions		

Note 12 – 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.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 12 – Endowment Funds (continued)

SDHS 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, SDHS classifies as net assets with donor restrictions to be maintained in perpetuity the original value of the gifts donated to the perpetual 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 net assets with donor restrictions to be maintained in perpetuity is classified as net assets with donor restrictions with purpose or program restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence.

The Endowment Policy specifies that SDHS's Investment Management Policy with respect to such endowments seeks an appropriate balance among three goals:

- To provide current programs with a predictable and stable stream of income;
- To ensure that the real value (defined as purchasing power) of revenue streams does not decline over the long term; and
- To ensure that the real value of the endowment assets does not decline over the long term.

Distributions seek a proper balance between present and future needs of SDHS. The spending rate is determined as follows:

- Five percent of the total market value of the assets as determined by the average total market value on the last business day of each of the eight immediately preceding calendar quarters ("Payout"). SDHS shall expend no more than the Payout each year. If less than the Payout is expended in any one year, SDHS may expend more than the approved Payout in a subsequent year, as long as the expenditures do not exceed the approved spending rate on a cumulative basis.
- Income in excess of the spending rate will be reinvested, thereby increasing the endowment.
- Excess Payout may be added back to the Endowment's corpus if the actual expenditures in any given year are below the approved spending rate.
- Payout may be temporarily reduced or halted on funds that are more than five percent underwater at the end of SDHS's fiscal year. Underwater is defined as occurring when the market value is less than the corpus.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 12 – Endowment Funds (continued)

Endowment net assets consist of the following at June 30, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2020	\$ 2,850,476	\$ 3,591,816	\$ 6,442,292
Contributions	-	21,200	21,200
Investment return, net	714,139	767,005	1,481,144
Expenditures	-	(110,161)	(110,161)
Change in endowment assets	714,139	678,044	1,392,183
Endowment net assets, June 30, 2021	3,564,615	4,269,860	7,834,475
Contributions	-	851,029	851,029
Investment return, net	(427,147)	(512,036)	(939,183)
Expenditures	(97,884)	(97,646)	(195,530)
Change in endowment assets	(525,031)	241,347	(283,684)
Endowment net assets, June 30, 2022	\$ 3,039,584	\$ 4,511,207	\$ 7,550,791

In September 2006, the Board voted to designate approximately \$1,929,000 in unrestricted investments to fund the capital maintenance of the Gaines Street facility for a period of 20 years. This amount comprises the net assets without donor restrictions above.

SDHS has one term endowment ending in 2022 of approximately \$113,000 at June 30, 2022 and 2021. 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, 2022 and 2021. Since the corpus is not to be held in perpetuity, the term endowment is not included in the table above.

Note 13 – Liquidity and Availability

SDHS operates with a balanced budget and anticipates collecting sufficient cash from its revenue sources (including donor support, municipal animal services, and other operating activities) to cover general expenditures. General expenditures include Program Services and Supporting Services expected to be paid in the subsequent year. Annual operations are defined as activities occurring during SDHS's fiscal year. Refer to the statements of cash flows, which identifies the sources and uses of SDHS's cash for fiscal year ended June 30, 2022.

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 13 – Liquidity and Availability (continued)

Donor support includes contributions and promises to give with donor restrictions to be used in accordance with the associated purpose restrictions. SDHS also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, SDHS receives support without donor restrictions.

SDHS considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

Endowment funds without donor restrictions are board designated and the board could approve the removal of the designation. As a result, SDHS views these assets as available to meet general expenditures.

SDHS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. SDHS has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. See Note 8 for information about SDHS's line of credit. SDHS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The table below presents financial assets available for general expenditures within one year at June 30, 2022 and 2021:

	2022	2021
Financial assets at year end		
Cash and cash equivalents	\$ 5,237,893	\$ 6,955,263
Investments	41,496,891	46,112,168
Receivables, net	16,606,470	11,067,489
Beneficial interest in trust	1,259,268	1,433,097
Total financial assets	64,600,522	65,568,017
Less: amounts not available to be used within one year		
Investments held in custodial and non-custodial trusts	(1,259,268)	(1,433,097)
Investments held in charitable gift annuities & pooled income funds	(2,247,584)	(2,418,381)
Investments held for endowments with donor restrictions	(4,511,207)	(4,269,860)
Contributions receivable – for restricted gifts, net	(222,618)	(205,318)
Contributions receivable – due after one year, net	(6,210,937)	(5,613,775)
Financial assets not available to be used within one year	(14,451,614)	(13,940,431)
Financial assets available to meet general expenditures within one year	\$ 50,148,908	\$ 51,627,586

San Diego Humane Society and SPCA

Notes to Financial Statements

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. SDHS 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. SDHS'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 statement of financial position date and before the financial statements are available to be issued.

SDHS has evaluated subsequent events through November 18, 2022, which is the date the financial statements were available to be issued.