



Report of Independent Auditors
and Financial Statements

San Diego Humane Society and SPCA

June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 22, 2024

Financial Statements

San Diego Humane Society and SPCA
Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 4,448,417	\$ 4,558,246
Investments	48,012,013	48,939,713
Receivables, net	17,387,482	13,739,809
Prepaid expenses and other assets	934,386	679,916
Property and equipment, net	60,200,658	55,858,506
Right-of-use asset – operating	371,829	609,026
Beneficial interest in trust	1,636,072	1,349,232
	<u>\$ 132,990,857</u>	<u>\$ 125,734,448</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,175,808	\$ 5,711,574
Deferred revenue	3,299,431	3,088,891
Lease liability – operating	460,659	746,456
Loan payable	23,975,569	24,565,925
	<u>32,911,467</u>	<u>34,112,846</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS		
Without donor restrictions	80,867,438	73,627,680
With donor restrictions	19,211,952	17,993,922
	<u>100,079,390</u>	<u>91,621,602</u>
	<u>\$ 132,990,857</u>	<u>\$ 125,734,448</u>

See accompanying notes.

San Diego Humane Society and SPCA
Statement of Activities
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Contributions of cash and other financial assets	\$ 18,550,934	\$ 4,926,729	\$ 23,477,663
Bequests	10,394,225	-	10,394,225
Special events	3,125,042	-	3,125,042
Special events expense	(1,041,158)	-	(1,041,158)
Contributions of non-financial assets	3,120,204	-	3,120,204
Net assets released from restrictions	4,911,074	(4,911,074)	-
Net support	<u>39,060,321</u>	<u>15,655</u>	<u>39,075,976</u>
Revenue			
Field services and licensing	27,734,669	-	27,734,669
Investment income, net	4,442,297	805,288	5,247,585
Adoptions and animal care	1,611,305	-	1,611,305
Veterinary health services	1,914,089	-	1,914,089
Educational program fees	99,407	-	99,407
Retail sales	136,918	-	136,918
Retail sales expense	(23,879)	-	(23,879)
Other	158,039	-	158,039
Net revenue	<u>36,072,845</u>	<u>805,288</u>	<u>36,878,133</u>
Total support and revenue	<u>75,133,166</u>	<u>820,943</u>	<u>75,954,109</u>
EXPENSES			
Program services			
Adoptions and animal care	45,099,380	-	45,099,380
Investigations and field services	6,274,369	-	6,274,369
Community outreach	6,647,654	-	6,647,654
	<u>58,021,403</u>	<u>-</u>	<u>58,021,403</u>
Supporting services			
Management and general	3,370,892	-	3,370,892
Donor development and fundraising	4,886,932	-	4,886,932
Marketing and public relations	1,555,682	-	1,555,682
	<u>9,813,506</u>	<u>-</u>	<u>9,813,506</u>
Total expenses	<u>67,834,909</u>	<u>-</u>	<u>67,834,909</u>
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND (LOSSES) GAINS			
Change in value of split-interest agreements	-	182,087	182,087
Contributions – capital projects	-	215,000	215,000
Loss on disposal of fixed assets	(58,499)	-	(58,499)
CHANGE IN NET ASSETS	<u>7,239,758</u>	<u>1,218,030</u>	<u>8,457,788</u>
NET ASSETS			
Beginning of year	<u>73,627,680</u>	<u>17,993,922</u>	<u>91,621,602</u>
End of year	<u>\$ 80,867,438</u>	<u>\$ 19,211,952</u>	<u>\$ 100,079,390</u>

See accompanying notes.

San Diego Humane Society and SPCA
Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Contributions of cash and other financial assets	\$ 15,058,687	\$ 1,637,069	\$ 16,695,756
Bequests	17,153,032	-	17,153,032
Special events	2,650,751	-	2,650,751
Special events expense	(841,154)	-	(841,154)
Contributions of non-financial assets	2,590,526	-	2,590,526
Net assets released from restrictions	1,315,981	(1,315,981)	-
Net support	<u>37,927,823</u>	<u>321,088</u>	<u>38,248,911</u>
Revenue			
Field services and licensing	24,385,065	-	24,385,065
Investment income, net	2,978,374	447,793	3,426,167
Adoptions and animal care	1,540,775	-	1,540,775
Veterinary health services	1,168,605	-	1,168,605
Educational program fees	156,793	-	156,793
Retail sales	134,044	-	134,044
Retail sales expense	(22,727)	-	(22,727)
Other	108,214	-	108,214
Net revenue	<u>30,449,143</u>	<u>447,793</u>	<u>30,896,936</u>
Total support and revenue	<u>68,376,966</u>	<u>768,881</u>	<u>69,145,847</u>
EXPENSES			
Program services			
Adoptions and animal care	39,199,644	-	39,199,644
Investigations and field services	5,685,059	-	5,685,059
Community outreach	4,993,276	-	4,993,276
	<u>49,877,979</u>	<u>-</u>	<u>49,877,979</u>
Supporting services			
Management and general	3,521,633	-	3,521,633
Donor development and fundraising	4,251,660	-	4,251,660
Marketing and public relations	1,312,451	-	1,312,451
	<u>9,085,744</u>	<u>-</u>	<u>9,085,744</u>
Total expenses	<u>58,963,723</u>	<u>-</u>	<u>58,963,723</u>
CHANGE IN NET ASSETS BEFORE			
OTHER REVENUE AND (LOSSES) GAINS	9,413,243	768,881	10,182,124
Change in value of split-interest agreements	-	(134,082)	(134,082)
Contributions – capital projects	-	510,164	510,164
Gain on sale of properties	11,758	-	11,758
CHANGE IN NET ASSETS	<u>9,425,001</u>	<u>1,144,963</u>	<u>10,569,964</u>
NET ASSETS			
Beginning of year	<u>64,202,679</u>	<u>16,848,959</u>	<u>81,051,638</u>
End of year	<u>\$ 73,627,680</u>	<u>\$ 17,993,922</u>	<u>\$ 91,621,602</u>

See accompanying notes.

San Diego Humane Society and SPCA
Statement of Functional Expenses
Year Ended June 30, 2024

	Year Ended June 30, 2024 (With Comparative Information for Year Ended June 30, 2023)											
	Program Services				Supporting Services						2024 Total Expenses	2023 Total Expenses
	Adoptions and Animal Care	Humane Law and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising		Marketing and Public Relations	Total			
						Total	Total					
Salaries	\$ 25,702,318	\$ 3,845,528	\$ 3,164,381	\$ 32,712,227	\$ 2,097,283	\$ 2,007,496	\$ 842,824	\$ 4,947,603	\$ 37,659,830	\$ 33,085,214		
Employee health and benefits	2,022,712	299,218	241,539	2,563,469	147,589	146,637	62,059	356,285	2,919,754	2,563,789		
Payroll taxes	2,750,383	429,143	368,550	3,548,076	155,383	139,432	56,056	350,871	3,898,947	3,396,643		
Retirement	526,206	30,231	85,675	642,112	87,293	60,158	25,123	172,574	814,686	729,570		
Total salaries and related expenses	31,001,619	4,604,120	3,860,145	39,465,884	2,487,548	2,353,723	986,062	5,827,333	45,293,217	39,775,216		
Occupancy, utilities, and security	3,897,638	384,125	207,259	4,489,022	137,377	46,687	9,294	193,358	4,682,380	4,213,575		
Animal feed, supplies, equipment, and habitat	2,638,970	143	1,862,134	4,501,247	-	297	-	297	4,501,544	3,598,151		
Veterinary medicine and care	1,961,991	12,700	99,043	2,073,734	-	-	-	-	2,073,734	1,846,872		
Information technology	927,087	209,295	116,516	1,252,898	298,057	104,953	28,405	431,415	1,684,313	1,445,406		
Interest	647,517	1,388	31,130	680,035	3,234	-	-	3,234	683,269	698,063		
Direct mailing	-	-	-	-	-	542,505	-	542,505	542,505	523,336		
Advertising	1,317	141	1,390	2,848	-	506,774	452,723	959,497	962,345	529,151		
Legal and other professional fees	162,053	12,496	3,404	177,953	140,337	154,245	38,288	332,870	510,823	576,363		
Employee/volunteer/donor relations	134,953	22,476	63,340	220,769	26,733	710,629	2,056	739,418	960,187	795,080		
Automotive	214,742	361,004	109,543	685,289	2,675	-	44	2,719	688,008	545,370		
Insurance	763,043	68,212	47,417	878,672	86,840	24,238	3,927	115,005	993,677	944,892		
Other expenses	339,268	27,773	17,763	384,804	11,282	296,917	2,778	310,977	695,781	506,615		
Program supplies and uniforms	220,872	234,960	145,650	601,482	860	231	205	1,296	602,778	694,395		
Professional development/travel	296,002	92,282	32,938	421,222	41,854	49,387	8,446	99,687	520,909	341,454		
Office supplies and postage	74,043	12,854	10,064	96,961	10,853	41,614	6,597	59,064	156,025	151,241		
Printing and publications	74,931	26,838	9,902	111,671	5,814	19,848	11,397	37,059	148,730	131,917		
Total expenses before depreciation	43,356,046	6,070,807	6,617,638	56,044,491	3,253,464	4,852,048	1,550,222	9,655,734	65,700,225	57,317,097		
Depreciation	1,743,334	203,562	30,016	1,976,912	117,428	34,884	5,460	157,772	2,134,684	1,646,626		
Total expenses	\$ 45,099,380	\$ 6,274,369	\$ 6,647,654	\$ 58,021,403	\$ 3,370,892	\$ 4,886,932	\$ 1,555,682	\$ 9,813,506	\$ 67,834,909	\$ 58,963,723		

See accompanying notes.

San Diego Humane Society and SPCA
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services				Supporting Services				2023 Total Expenses
	Adoptions and Animal Care	Humane Law and Field Services	Community Outreach	Total	Management and General	Donor Development and Fundraising	Marketing and Public Relations	Total	
Salaries	\$ 22,070,169	\$ 3,594,790	\$ 2,443,046	\$ 28,108,005	\$ 2,415,213	\$ 1,743,524	\$ 818,472	\$ 4,977,209	\$ 33,085,214
Employee health and benefits	1,754,121	280,258	187,074	2,221,453	154,056	128,707	59,573	342,336	2,563,789
Payroll taxes	2,430,461	386,602	273,565	3,090,628	144,337	111,178	50,500	306,015	3,396,643
Retirement	445,627	42,711	73,378	561,716	83,113	59,140	25,601	167,854	729,570
Total salaries and related expenses	26,700,378	4,304,361	2,977,063	33,981,802	2,796,719	2,042,549	954,146	5,793,414	39,775,216
Occupancy, utilities, and security	3,602,138	297,378	159,199	4,058,715	96,372	48,136	10,352	154,860	4,213,575
Animal feed, supplies, equipment, and habitat	2,514,348	7	1,083,796	3,598,151	-	-	-	-	3,598,151
Veterinary medicine and care	1,678,371	29,250	139,251	1,846,872	-	-	-	-	1,846,872
Information technology	764,658	239,626	88,808	1,093,092	128,684	195,122	28,508	352,314	1,445,406
Interest	661,149	1,826	31,786	694,761	3,302	-	-	3,302	698,063
Direct mailing	-	-	-	-	-	523,336	-	523,336	523,336
Advertising	664	-	-	664	-	316,594	211,893	528,487	529,151
Legal and other professional fees	64,995	33,860	493	99,348	200,170	219,985	56,860	477,015	576,363
Employee/volunteer/donor relations	144,171	25,251	76,765	246,187	16,045	530,381	2,467	548,893	795,080
Automotive	205,143	257,175	80,522	542,840	2,262	21	247	2,530	545,370
Insurance	729,065	71,722	41,313	842,100	80,132	18,217	4,443	102,792	944,892
Other expenses	231,891	14,264	9,955	256,110	10,351	237,049	3,105	250,505	506,615
Program supplies and uniforms	239,275	199,923	248,435	687,633	6,421	271	70	6,762	694,395
Professional development/travel	194,345	46,965	13,660	254,970	28,778	37,002	20,704	86,484	341,454
Office supplies and postage	82,281	17,717	7,990	107,988	10,904	28,407	3,942	43,253	151,241
Printing and publications	72,646	16,372	6,483	95,501	5,623	20,303	10,490	36,416	131,917
Total expenses before depreciation	37,885,518	5,555,697	4,965,519	48,406,734	3,385,763	4,217,373	1,307,227	8,910,363	57,317,097
Depreciation	1,314,126	129,362	27,757	1,471,245	135,870	34,287	5,224	175,381	1,646,626
Total expenses	\$ 39,199,644	\$ 5,685,059	\$ 4,993,276	\$ 49,877,979	\$ 3,521,633	\$ 4,251,660	\$ 1,312,451	\$ 9,085,744	\$ 58,963,723

See accompanying notes.

San Diego Humane Society and SPCA
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Change in net assets	\$ 8,457,788	\$ 10,569,964
Reconciliation to net cash provided by operating activities		
Depreciation	2,134,684	1,646,626
Amortization of the right-of-use asset	237,197	229,345
Amortization of debt issuance costs	8,498	8,498
Loss on disposal of fixed assets	58,499	-
Contributions restricted for investment in property and equipment	(215,000)	(510,164)
Contributions restricted in perpetuity	(9,971)	(62,026)
Net realized and unrealized (gain) on investments and beneficial interest in trust	(3,681,507)	(2,587,818)
Amortization of discount	(134,661)	(117,421)
Gain on sale of property and equipment	(3,889)	(11,758)
Change in value of split-interest gifts	(182,087)	134,081
(Increase) decrease in operating assets		
Receivables	(1,628,477)	2,792,248
Pledges	(5,729,522)	(157,709)
Bequests	3,393,336	223,151
Prepaid expenses and other assets	(254,470)	(170,822)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(535,766)	325,580
Deferred revenue	210,540	417,829
Lease liability	(285,797)	(269,124)
Net cash provided by operating activities	1,839,395	12,460,480
INVESTING ACTIVITIES		
Proceeds from sale of investments	6,801,872	2,252,367
Purchases of investments	(2,481,455)	(7,205,024)
Proceeds from sale of property and equipment	3,889	26,035
Purchases of property and equipment	(6,535,335)	(8,201,200)
Net cash used in investing activities	(2,211,029)	(13,127,822)
FINANCING ACTIVITIES		
Payments on loan payable	(598,854)	(584,495)
Contributions restricted for investment in property and equipment	215,000	510,164
Contributions restricted in perpetuity	9,971	62,026
Payment received on pledge restricted in perpetuity	635,688	-
Net cash provided by (used in) financing activities	261,805	(12,305)
DECREASE IN CASH AND CASH EQUIVALENTS	(109,829)	(679,647)
CASH AND CASH EQUIVALENTS		
Beginning of year	4,558,246	5,237,893
End of year	\$ 4,448,417	\$ 4,558,246
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 683,270	\$ 698,063
Taxes paid, net of refunds	\$ 4,050	\$ 2,428
Right-of-use assets obtained in exchange for new lease obligations	\$ -	\$ 838,371
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 43,200	\$ 1,579,597

See accompanying notes.

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 and other vet 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

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, 2024 and 2023, the discount was approximately \$41,500 and \$42,000, respectively.

Receivables – Receivables represent amounts due to SDHS for services rendered prior to June 30 (Note 5). SDHS does not obtain collateral.

Effective July 1, 2023, SDHS adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326), which required the use of the current expected credit losses (CECL) impairment model for a broad scope of financial instruments. For SDHS this includes receivables from the sources of revenue identified in the Revenue and Revenue Recognition section of this footnote (pledges receivable, in-kinds receivable, and charitable remainder trusts are excluded from this standard). The CECL model required the immediate recognition of estimated expected credit losses over the life of the financial instrument. Under this standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. The adoption of this standard on July 1, 2023, did not impact the financial statements and only resulted in new and enhanced disclosures.

San Diego Humane Society and SPCA

Notes to Financial Statements

Management identified the following types of receivables at June 30, 2024, for which expected credit losses should be evaluated:

Animal Services Agreements – SDHS has animal services agreements with numerous cities and several sovereign Indian tribes within San Diego County. SDHS invoices them as the services are provided.

Licensing Services – SDHS partners with a third party pet licensing servicer. This platform allows pet owners to purchase a new license or renew a current license for their pet. It also allows pet owners to make contributions in addition to paying the licensing fee, should they so choose. This service provider submits monthly reports to SDHS detailing payments received. SDHS uses this information to record the receivable.

Guest Payment Plan Financing – SDHS has partnered with a third party which enables SDHS to offer its guests the option to enter into a payment plan to pay for services rendered. Guests may apply directly to the third party for a payment plan for up to 12 months. Once a client has entered into a payment plan, the third party guarantees payment to SDHS. SDHS records a receivable only after the requirements have been met for the third party to guarantee the amount to SDHS.

For all of these receivables, the payments are current and SDHS has not experienced any material historical losses. SDHS is not aware of any current or future conditions that would lead to an expectation of SDHS not receiving payments for amounts owed. SDHS determined that the probability of default on these receivables is extremely low.

Accounting Standards Codification (ASC) 326-20-30-10 does not require a reporting entity to measure expected credit losses on an instrument, or a pool of instruments, if historical information adjusted for current conditions and reasonable and supportable forecasts result in zero expected credit losses in all scenarios. In these situations, the risk of default may be greater than zero, but the amount of the expected loss is zero. Based on management's evaluation of the receivables to which this standard applies, zero expected credit losses were recorded.

There were no receivables considered uncollectible as of June 30, 2024 and 2023.

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, 2024 and 2023. Unconditional promises to give are included in receivables in the statements of financial position.

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).

San Diego Humane Society and SPCA

Notes to Financial Statements

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	7–39 years
Leasehold improvements	6–25 years
Furniture, fixtures, machinery, and equipment	5–10 years
Computer hardware	5 years
Trucks and automobiles	3–5 years
Computer software	3 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.

Leases – SDHS determines if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the statement of financial position and lease expense is recognized on a straight-line basis over the lease term. Right-of-use (ROU) assets represent SDHS's right to use an underlying asset for the lease term, and lease liabilities represent SDHS's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at their commencement date, based on the present value of lease payments over the lease term. In determining the present value, SDHS discounts lease payments based on the risk-free interest rate at the lease commencement date unless the rate implicit in the lease is known and less than SDHS's incremental borrowing rate.

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

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:

	2024	2023
Field services	\$ 25,014,806	\$ 21,729,270
Licensing	2,719,863	2,655,795
Total	\$ 27,734,669	\$ 24,385,065

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, 2024 and 2023.

San Diego Humane Society and SPCA

Notes to Financial Statements

Contributions and bequests – Contributions are recognized as support when received or unconditionally pledged or, if conditions are met, 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 566,000 and 522,000 hours of service to SDHS during the years ended June 30, 2024 and 2023, respectively. For the years ended June 30, 2024 and 2023, management estimates the value of these services to be approximately \$21,863,000 and \$19,480,000, 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 15.4% for estimated fringe benefits. No amounts have been recognized in the accompanying statements of activities in accordance with FASB 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:

	2024	2023
Animal food	\$ 2,092,089	\$ 1,207,829
Other supplies	595,995	977,550
Vehicles	318,705	203,280
Auction items	113,415	201,867
	\$ 3,120,204	\$ 2,590,526

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.

San Diego Humane Society and SPCA

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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.

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.

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 noninterest-bearing accounts (subject to certain restrictions). SDHS has cash equivalent 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 66% and 62% were related to a contract with the City of San Diego for the years ended June 30, 2024 and 2023, respectively.

Of the total contributions, approximately 21% and 9% were related to grants from one foundation for the years ended June 30, 2024 and 2023, respectively.

San Diego Humane Society and SPCA
Notes to Financial Statements

Note 3 – Investments

Investments consisted of the following at June 30, 2024 and 2023:

	2024	2023
Cash and cash equivalents	\$ 67,215	\$ 162,939
Pooled income funds	171,028	173,217
Mutual funds	36,435,026	32,375,899
U.S. government bonds	11,338,744	16,227,658
Total investments	\$ 48,012,013	\$ 48,939,713

Investment income, net of investment expenses, consisted of the following for the years ended June 30, 2024 and 2023:

	2024	2023
Interest and dividends, net	\$ 1,566,300	\$ 1,040,652
Net realized and unrealized gains	3,681,285	2,385,515
Investment income, net	\$ 5,247,585	\$ 3,426,167

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.

San Diego Humane Society and SPCA

Notes to Financial Statements

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.

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, 2024:

	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, 2024
Cash and cash equivalents	\$ 67,215	\$ -	\$ -	\$ 67,215
U.S. government bonds	11,338,744	-	-	11,338,744
Mutual funds				
Bond funds	12,445,348	-	-	12,445,348
International funds	4,549,892	-	-	4,549,892
Extended market funds	4,387,193	-	-	4,387,193
Total stock funds	15,052,593	-	-	15,052,593
Total mutual funds	36,435,026	-	-	36,435,026
Pooled income funds	-	171,028	-	171,028
Charitable remainder trusts	-	-	3,636,030	3,636,030
Beneficial interest in trust	-	1,636,072	-	1,636,072
Total	\$ 47,840,985	\$ 1,807,100	\$ 3,636,030	\$ 53,284,115

San Diego Humane Society and SPCA
Notes to Financial Statements

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, 2023:

	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, 2023
Cash and cash equivalents	\$ 162,939	\$ -	\$ -	\$ 162,939
U.S. government bonds	16,227,658	-	-	16,227,658
Mutual funds				
Bond funds	10,706,840	-	-	10,706,840
International funds	3,997,124	-	-	3,997,124
Extended market funds	3,982,016	-	-	3,982,016
Total stock funds	13,689,919	-	-	13,689,919
Total mutual funds	32,375,899	-	-	32,375,899
Pooled income funds	-	173,217	-	173,217
Charitable remainder trusts	-	-	3,451,992	3,451,992
Beneficial interest in trust	-	1,349,232	-	1,349,232
Total	\$ 48,766,496	\$ 1,522,449	\$ 3,451,992	\$ 53,740,937

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, 2024 and 2023, are the results of changes in these measurement factors.

San Diego Humane Society and SPCA
Notes to Financial Statements

The table below includes quantitative inputs for charitable remainder trusts as of June 30, 2024:

Asset Description	Fair Value	Valuation Technique	Unobservable Inputs	Range
			Discount rates	4.36%–4.61%
Charitable remainder trusts	<u>\$ 3,636,030</u>	Discounted cash flow	Life expectancy	11.9–23 years

Note 5 – Receivables

Receivables are due as follows as of June 30, 2024 and 2023:

	2024	2023
Less than one year		
Pledges and bequests	\$ 7,913,810	\$ 6,944,639
In-kind lease receivable	30,000	30,000
Receivables from animal service agreements	1,659,620	194,702
Other	663,552	483,493
One to five years		
Pledges and bequests	3,480,092	2,512,912
In-kind lease receivable	120,000	120,000
More than five years		
Pledges and bequests	174,737	31,195
Charitable remainder trusts	7,154,805	6,566,773
In-kind lease receivable	150,000	180,000
	<u>21,346,616</u>	<u>17,063,714</u>
Less discount to net present value from 4.33% to 4.77%	<u>(3,959,134)</u>	<u>(3,323,905)</u>
Total	<u>\$ 17,387,482</u>	<u>\$ 13,739,809</u>

San Diego Humane Society and SPCA
Notes to Financial Statements

Note 6 – Charitable Gift Annuity

SDHS has entered into 35 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 \$1,391,000 and \$1,431,000 at June 30, 2024 and 2023, respectively. No payments were made during the years ended June 30, 2024 and 2023. The recorded values at June 30 are as follows:

	2024	2023
Asset value – cash and fixed income securities	\$ 1,866,455	\$ 1,957,390
Annuity payment liability	\$ 1,391,251	\$ 1,431,482

Note 7 – Property and Equipment

Property and equipment consisted of the following at June 30, 2024 and 2023:

	2024	2023
Land and improvements	\$ 24,470,408	\$ 24,470,408
Buildings and improvements	47,166,220	31,845,440
Leasehold improvements	645,990	645,990
Furniture and fixtures	3,390,586	2,754,044
Trucks and automobiles	2,248,902	1,997,458
Computer hardware and software	597,537	443,254
Machinery and equipment	376,215	376,215
Construction in progress	188,478	10,147,472
	79,084,336	72,680,281
Less accumulated depreciation	(18,883,678)	(16,821,775)
Total	\$ 60,200,658	\$ 55,858,506

San Diego Humane Society and SPCA

Notes to Financial Statements

Note 8 – Debt

Line of credit – SDHS had a line of credit agreement with First Republic Bank that expired in February 2024. That line of credit was not renewed or replaced.

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% 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,	
2025	\$ 617,239
2026	634,350
2027	651,935
2028	668,356
2029	688,534
Thereafter	<u>20,943,891</u>
Total	24,204,305
Less unamortized debt issuance costs	<u>(228,736)</u>
Total	<u><u>\$ 23,975,569</u></u>

Note 9 – Leases

SDHS leases building space with a lease term that expires in December 2025.

Lease payments for the years ended June 30, 2024 and 2023, were approximately \$303,000 and \$294,000, respectively. The weighted-average discount rate is 2.85% and the weighted-average for the remaining lease term is 1.5 years. The following is a summary of future minimum rental payments for operating leases as of June 30, 2024:

Years Ending June 30,	
2025	\$ 311,808
2026	<u>158,208</u>
Total future lease payments	470,016
Less present value discount	<u>(9,357)</u>
Total lease liabilities	<u><u>\$ 460,659</u></u>

San Diego Humane Society and SPCA

Notes to Financial Statements

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, 2024 and 2023.

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 commenced July 7, 2014, and remains in effect for as long as the lease remains in effect, including any renewal term and any extension term. SDHS exercised this option to purchase the property and closed on the transaction in November 2024. The purchase price of approximately \$4,400,000 was based on the fair value of the property on the date the option was exercised.

Note 10 – Commitments and Contingencies

Benefit plan – SDHS has a 403(b) tax-deferred annuity plan (the Plan), which covers its employees. SDHS matches up to 5% 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, 2024 and 2023, were approximately \$815,000 and \$730,000, 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 11 – Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2024 and 2023:

	2024	2023
Time restrictions		
Charitable remainder trusts	\$ 3,636,029	\$ 3,451,992
Bequest	257,634	274,778
Pooled income funds	129,433	131,385
Future operations	112,670	112,670
Total	4,135,766	3,970,825
Purpose or program restrictions		
Community Vet Program	1,945,571	-
Project Wildlife (unappropriated earnings)	1,405,447	326,382
Campus renovation projects	1,299,565	5,547,000
Greyhound Care Fund	936,656	611,708
Community Cat Initiative	872,062	79,295
Animal Adventure Camp (unappropriated earnings)	711,762	518,731
Shelter Collaborative Program	355,597	-
Lost and Found	246,554	-
In-kind Escondido lease	165,000	181,500
Veterinary medicine	164,911	280,457
Emergency and disaster relief	134,916	152,429
Professional Development	100,000	-
Other purposes (\$50,000 and under each)	59,944	44,205
Total	8,397,985	7,741,707
Restricted to be maintained in perpetuity		
Project Wildlife	2,000,000	2,000,000
Unrestricted use	1,847,072	1,460,232
Humane Law Enforcement	1,008,626	998,655
Annenberg adventure camp	1,000,000	1,000,000
Community Support Services	798,446	798,446
Other	24,057	24,057
Total	6,678,201	6,281,390
Total net assets with donor restrictions	\$ 19,211,952	\$ 17,993,922

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 13). 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.

San Diego Humane Society and SPCA

Notes to Financial Statements

At June 30, 2024 and 2023, the beneficial interest in trust held investment assets valued at approximately \$1,636,000 and \$1,349,000, respectively. The change in value during the years ended June 30, 2024 and 2023, is reported as with donor restricted investment income, net of investment expenses or loss. The trustee distributed approximately \$38,000 and \$36,000 to SDHS in the years ended June 30, 2024 and 2023, 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.

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.

Note 12 – 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, 2024 and 2023:

	2024	2023
San Diego Campus Adoptions Remodel	\$ 4,311,000	\$ -
Veterinary medicine	228,214	252,812
Project Wildlife	170,913	161,000
Community cat initiative	77,005	777,602
Other purposes (\$50,000 and under each)	71,867	69,048
Emergency and disaster relief	52,075	55,519
Total net assets released from donor restrictions	\$ 4,911,074	\$ 1,315,981

Note 13 – 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.

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.

San Diego Humane Society and SPCA

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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:

- 5% 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 twelve 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 5% 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

Endowment net assets consisted of the following at June 30, 2024 and 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2022	\$ 3,039,584	\$ 4,511,207	\$ 7,550,791
Contributions	-	948,947	948,947
Investment return, net	280,471	357,828	638,299
Expenditures	(250,873)	(130,025)	(380,898)
Change in endowment assets	29,598	1,176,750	1,206,348
Endowment net assets, June 30, 2023	3,069,182	5,687,957	8,757,139
Contributions	-	109,971	109,971
Investment return, net	368,271	518,448	886,719
Expenditures	(206,055)	(111,732)	(317,787)
Change in endowment assets	162,216	516,687	678,903
Endowment net assets, June 30, 2024	\$ 3,231,398	\$ 6,204,644	\$ 9,436,042

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 that ended in 2022 of approximately \$113,000 at June 30, 2024 and 2023. 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, 2024 and 2023. Since the corpus is not to be held in perpetuity, the term endowment is not included in the table above.

Note 14 – 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 years ended June 30, 2024 and 2023.

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.

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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. 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, 2024 and 2023:

	2024	2023
Financial assets at year end		
Cash and cash equivalents	\$ 4,448,417	\$ 4,558,246
Investments	48,012,013	48,939,713
Receivables, net	17,387,482	13,739,809
Beneficial interest in trust	1,636,072	1,349,232
Total financial assets	71,483,984	68,587,000
Less amounts not available to be used within one year		
Investments held in custodial and non-custodial trusts	(1,636,072)	(1,349,232)
Investments held in charitable gift annuities and pooled income funds	(2,037,483)	(2,130,607)
Investments held for endowments with donor restrictions	(6,204,644)	(5,687,957)
Contributions receivable – due within one year but not available for general expenditures	(631,642)	(80,834)
Contributions receivable – due after one year, net	(7,120,500)	(6,086,975)
Financial assets not available to be used within one year	(17,630,341)	(15,335,605)
Financial assets available to meet general expenditures within one year	\$ 53,853,643	\$ 53,251,395

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Notes to Financial Statements

Note 15 – 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 22, 2024, which is the date the financial statements were available to be issued.

