

Humane Society Silicon Valley

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Humane Society Silicon Valley
Milpitas, California

We have audited the accompanying financial statements of Humane Society Silicon Valley (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society Silicon Valley as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 4 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Humane Society Silicon Valley's 2018 financial statements, and our report dated December 19, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 2, 2019

Humane Society Silicon Valley
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,299,789	\$ 6,359,663
Accounts receivable	106,284	67,381
Unconditional promises to give, current portion	467,598	1,018,361
Inventory	66,639	77,925
Prepaid expenses	301,825	167,836
Short-term investments - other	<u>500,000</u>	<u>500,000</u>
Total current assets	<u>4,742,135</u>	<u>8,191,166</u>
Property and equipment, net	<u>19,585,017</u>	<u>19,641,260</u>
Other assets		
Investments	14,792,923	10,981,785
Long-term investments - other	5,552,843	5,553,231
Unconditional promises to give, net of current portion	461,593	788,528
Cash and cash equivalents held for endowment purposes	136,800	378,759
Investments held for endowment purposes	3,628,235	3,080,305
Beneficial interest in perpetual trust	<u>229,576</u>	<u>229,576</u>
Total other assets	<u>24,801,970</u>	<u>21,012,184</u>
Total assets	<u><u>\$ 49,129,122</u></u>	<u><u>\$ 48,844,610</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 382,686	\$ 331,308
Bonds payable, current portion	450,000	450,000
Accrued payroll and related benefits	255,897	246,501
Accrued vacation	390,158	315,662
Deferred fees	<u>96,703</u>	<u>45,923</u>
Total current liabilities	<u>1,575,444</u>	<u>1,389,394</u>
Bonds payable, net of current portion	<u>10,015,533</u>	<u>10,451,499</u>
Total liabilities	<u>11,590,977</u>	<u>11,840,893</u>
Net assets		
Without donor restrictions		
Undesignated	2,706,312	2,045,684
Board-designated for building and equipment repairs	1,779,072	1,805,366
Board-designated for operating reserve	6,167,884	5,915,898
Board-designated for program development	2,000,000	2,000,000
Property and equipment	<u>19,585,017</u>	<u>19,641,260</u>
Total without donor restrictions	<u>32,238,285</u>	<u>31,408,208</u>
With donor restrictions		
Net assets restricted to the passage of time	929,191	1,806,889
Net assets restricted for a specified purpose	376,058	99,980
Unappropriated earnings on endowment	483,890	477,919
Beneficial interest held in perpetual trust	229,576	229,576
Perpetual endowment	<u>3,281,145</u>	<u>2,981,145</u>
Total with donor restrictions	<u>5,299,860</u>	<u>5,595,509</u>
Total net assets	<u>37,538,145</u>	<u>37,003,717</u>
Total liabilities and net assets	<u><u>\$ 49,129,122</u></u>	<u><u>\$ 48,844,610</u></u>

The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue				
Program services				
Program fees and charges	\$ 1,905,998	\$ -	\$ 1,905,998	\$ 1,807,407
Contracts with governmental agencies	386,705	-	386,705	378,799
Pet store and clinic sales, net	232,894	-	232,894	181,684
Total program services	<u>2,525,597</u>	<u>-</u>	<u>2,525,597</u>	<u>2,367,890</u>
Fundraising				
Contributions and grants	5,207,910	1,143,489	6,351,399	6,851,685
Trust, bequest, and endowments	2,167,909	300,000	2,467,909	2,271,139
In-kind contributions	186,792	-	186,792	178,000
Special events, net of \$669,840 and \$718,159 of direct benefit expenses, respectively	<u>598,355</u>	<u>-</u>	<u>598,355</u>	<u>699,803</u>
Total fundraising	<u>8,160,966</u>	<u>1,443,489</u>	<u>9,604,455</u>	<u>10,000,627</u>
Other income				
Investment income, net	1,096,657	214,651	1,311,308	581,600
Other income	<u>109,258</u>	<u>-</u>	<u>109,258</u>	<u>67,080</u>
Total other income	<u>1,205,915</u>	<u>214,651</u>	<u>1,420,566</u>	<u>648,680</u>
Net assets released from restriction	<u>1,953,789</u>	<u>(1,953,789)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,846,267</u>	<u>(295,649)</u>	<u>13,550,618</u>	<u>13,017,197</u>
Functional expenses				
Program services				
Programs to Save Lives	8,772,266	-	8,772,266	8,597,992
Community Programs for People and Pets	<u>1,334,091</u>	<u>-</u>	<u>1,334,091</u>	<u>1,207,349</u>
Total program services	<u>10,106,357</u>	<u>-</u>	<u>10,106,357</u>	<u>9,805,341</u>
Support services				
Management and general	1,196,407	-	1,196,407	1,149,178
Fundraising	1,609,897	-	1,609,897	970,136
Comprehensive campaign	<u>103,529</u>	<u>-</u>	<u>103,529</u>	<u>579,489</u>
Total support services	<u>2,909,833</u>	<u>-</u>	<u>2,909,833</u>	<u>2,698,803</u>
Total functional expenses	<u>13,016,190</u>	<u>-</u>	<u>13,016,190</u>	<u>12,504,144</u>
Change in net assets	830,077	(295,649)	534,428	513,053
Net assets, beginning of year	<u>31,408,208</u>	<u>5,595,509</u>	<u>37,003,717</u>	<u>36,490,664</u>
Net assets, end of year	<u>\$ 32,238,285</u>	<u>\$ 5,299,860</u>	<u>\$ 37,538,145</u>	<u>\$ 37,003,717</u>

The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

		Support Services					
	Program Services	Management and General	Fundraising	Comprehensive Campaign	Total Support Services	2019 Total	2018 Total
Salaries and benefits	\$ 6,401,535	\$ 832,485	\$ 1,054,316	\$ 147	\$ 1,886,948	\$ 8,288,483	\$ 8,042,602
Professional fees and contract services	593,182	201,354	114,571	82,070	397,995	991,177	1,113,137
Operating supplies and services	938,264	825	1,118	-	1,943	940,207	791,159
Direct mail, advertising and newsletter expenses	494,889	16,179	202,960	10,631	229,770	724,659	596,154
Depreciation	546,290	30,697	21,951	-	52,648	598,938	581,395
Occupancy expenses	357,836	18,776	13,426	-	32,202	390,038	431,466
Management information systems	210,917	31,428	65,613	3,500	100,541	311,458	231,692
Interest, fees and amortization on bonds	279,899	15,728	11,247	-	26,975	306,874	266,314
Other expenses	150,067	24,082	78,494	-	102,576	252,643	248,154
Office supplies and services	71,731	13,602	42,413	7,164	63,179	134,910	128,618
Automobile, travel and meetings	61,747	11,251	3,788	17	15,056	76,803	73,453
	<u>\$ 10,106,357</u>	<u>\$ 1,196,407</u>	<u>\$ 1,609,897</u>	<u>\$ 103,529</u>	<u>\$ 2,909,833</u>	<u>\$ 13,016,190</u>	<u>\$ 12,504,144</u>
Percentage of total	<u>78 %</u>	<u>9 %</u>	<u>12 %</u>	<u>1 %</u>	<u>22 %</u>	<u>100 %</u>	

The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Statement of Functional Expenses - Program Services
For the Year Ended June 30, 2019

	Programs to Save Lives					Community	
	Adoptions and	Medical		Apprenticeships	Total Programs	Programs for	Total Program
	Animal Care	Services	Mutual Rescue	for Knowledge	to Save Lives	People and Pets	Services
				Transfer			
Salaries and benefits	\$ 3,293,704	\$ 1,956,555	\$ 210,441	\$ 75,148	\$ 5,535,848	\$ 865,687	\$ 6,401,535
Professional fees and contract services	88,139	229,761	143,806	-	461,706	131,476	593,182
Operating supplies and services	269,059	646,376	4,006	-	919,441	18,823	938,264
Direct mail, advertising and newsletter expenses	293,794	92,115	98,483	-	484,392	10,497	494,889
Depreciation	360,714	86,225	-	-	446,939	99,351	546,290
Occupancy expenses	220,634	76,433	-	-	297,067	60,769	357,836
Management information systems	98,302	60,534	506	4,196	163,538	47,379	210,917
Interest, fees and amortization on bonds	184,817	44,178	-	-	228,995	50,904	279,899
Other expenses	73,378	43,002	1,260	-	117,640	32,427	150,067
Office supplies and services	33,358	22,288	2,190	90	57,926	13,805	71,731
Automobile, travel and meetings	31,941	14,048	3,681	9,104	58,774	2,973	61,747
	<u>\$ 4,947,840</u>	<u>\$ 3,271,515</u>	<u>\$ 464,373</u>	<u>\$ 88,538</u>	<u>\$ 8,772,266</u>	<u>\$ 1,334,091</u>	<u>\$ 10,106,357</u>

The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 534,428	\$ 513,053
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	598,938	581,395
Amortization of bond origination costs	14,034	14,033
Donated securities	(175,033)	(719,767)
Donated property and equipment	(20,000)	-
Proceeds from sale of donated investments	174,647	719,767
Net realized and unrealized gains on investments	(549,515)	(102,558)
Contributions restricted for long-term purposes	(300,000)	-
Changes in operating assets and liabilities		
Accounts receivable	(38,903)	19,350
Unconditional promises to give	877,698	735,851
Inventory	11,286	(578)
Prepaid expenses	(133,989)	(8,552)
Accounts payable and accrued expenses	51,378	54,155
Accrued payroll and related benefits	9,396	(5,886)
Accrued vacation	74,496	35,129
Deferred fees	50,780	12,438
Net cash provided by operating activities	<u>1,179,641</u>	<u>1,847,830</u>
Cash flows from investing activities		
Purchase of property and equipment	(522,695)	(28,501)
Proceeds from sale of investments	2,683,290	5,808,586
Purchase of investments	(6,492,069)	(5,706,156)
Net cash provided by (used in) investing activities	<u>(4,331,474)</u>	<u>73,929</u>
Cash flows from financing activities		
Payments on bonds	(450,000)	(450,000)
Contributions restricted for long-term purposes	300,000	-
Net cash used in financing activities	<u>(150,000)</u>	<u>(450,000)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(3,301,833)	1,471,759
Cash, cash equivalents and restricted cash, beginning of year	<u>6,738,422</u>	<u>5,266,663</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 3,436,589</u>	<u>\$ 6,738,422</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 3,299,789	\$ 6,359,663
Cash and cash equivalents held for endowment purposes	<u>136,800</u>	<u>378,759</u>
	<u>\$ 3,436,589</u>	<u>\$ 6,738,422</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 178,225	\$ 132,713
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The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

Humane Society Silicon Valley (the "Organization") is a California nonprofit public benefit corporation that has operated continuously since 1929. The focus of the Organization is companion animal rescue and homelessness prevention. The Organization serves as a safety net for companion animals in Silicon Valley, sets a national example for innovation and seeks to transform human lives through deeper connections to animals. The impact achieved reflects the quality of the Organization and its people.

Impact *

Humane Society Silicon Valley is saving homeless pets and transforming human lives at the local, regional and national levels. The Organization delivers its mission impact through accountability, engagement, innovation and transparency. Specifically, the Organization:

- Saves 100% of all healthy animals in the Organization's care and has done so since 2006. In the year ended June 30, 2019, the Organization saved 95% of *all* animals that came through its doors, including many needing rehabilitation or extended treatment. Save rate is calculated using the total number of animals that entered the shelter, adoptions, animals returned to owners, animals transferred to other agencies or colonies, animals euthanized, and animals that died in care. This save rate compares to the national average of 77% (as reported on <https://www.asPCA.org/animal-homelessness/shelter-intake-and-surrender/pet-statistics>).
- Takes in more than 7,100 animals per year. Of those animals, over 6,100 are adopted through Humane Society Silicon Valley's adoption programs, approximately 150 are reunited with their families, and 570 are transferred out to rescue groups and managed cat colonies.
- Performs more than 8,500 spay/neuter surgeries per year.
- Provides education for over 7,600 children, from pre-kindergarten through 12th grade. These education programs enable social and emotional learning through interactions with animals. This includes economically disadvantaged children and at-risk youth – many with little prior exposure to animals. The Organization also works with local schools to provide carefully designed programs tailored to their students' unique needs, especially those who need support in building empathy, responsible decision-making and relationship skills.
- Maintains a Net Promoter Score of more than 85 out of 100 for those visitors in our Adoption and Medical Center. Net Promoter measures the willingness of customers to recommend Humane Society Silicon Valley's services and their loyalty to the brand.
- Is supported by more than 5,900 unique volunteers who provided nearly 250,000 hours in a variety of volunteer roles in every aspect of the Organization.
- Is funded through the generosity of more than 17,000 individual supporters and households who provide donations to further the Organization's mission to save and enhance lives.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

The Organization is committed to maintaining a robust life-saving ecosystem in Silicon Valley. Specifically, the Organization:

- Created and leads an inter-agency coalition (WeCARE) to save the lives of companion animals in Silicon Valley. The Organization founded this coalition to provide a platform for public animal care agencies to work together as a community to save lives. Visionary leadership is igniting these organizations to collaborate in achieving goals previously thought unattainable. In 2004, the community-wide save rate was 30%; as of the end of calendar year 2018, the save rate was 92%.
- Prevents unintended births through targeted spay/neuter programs.
 - Humane Society Silicon Valley administers a targeted spay/neuter program to address large numbers of homeless animals coming from five specific zip codes in Santa Clara County. These funds enable the Organization to offer free spay/neuter surgeries, microchips, and vaccines to all dogs in the zip codes. This program is fulfilled at Humane Society Silicon Valley's Medical Center, San Jose Animal Care and Services, and through mobile clinics. Over 1,300 of the Organization's total surgeries in the year ended June 30, 2019 were completed as part of this targeted program.
 - Humane Society Silicon Valley's PUP program allows members of the public to surrender healthy, unintended litters of puppies and kittens with no surrender fee, and the Organization also spays or neuters the mother and father at no charge and returns them to the owners. Humane Society Silicon Valley finds homes for the surrendered puppies and kittens after providing vet care and spay/neuter surgeries. More than 19 spay/neuter surgeries have been completed through this program in the year ended June 30, 2019.
 - Humane Society Silicon Valley provides free trap neuter and release (TNR) services for Santa Clara County residents to lower the number of homeless cats in the county. More than 1,700 spay/neuter surgeries were provided to homeless community cats through this program in the year ended June 30, 2019.
- Finds homes for over 6,100 animals across three adoption locations: the Animal Community Center in Milpitas, and the Petco Neighborhood Adoption Centers in Sunnyvale and West San Jose.
- Keeps animals in homes by:
 - Providing post adoption support, including providing 136 animals with behavior support, 28 animals with scholarships for private dog training with a consultant, and 9 scholarships for dog training at Humane Society Silicon Valley.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

- Providing free pet food to community members who cannot afford to feed their pets through the Pet Pantry. The Organization gave nearly 7,000 pounds of dry food, 10,500 cans of wet food, and close to 350 pounds of litter to community members through this program in the year ended June 30, 2019.
- Reuniting more than 150 pets with their families.
- Providing more than 17,700 low-cost vaccinations and more than 2,900 microchips to the pets of community members in the year ended June 30, 2019.
- Educates more than 7,600 students in over 400 education programs that teach animal care, humane advocacy, and compassion for all living beings.
- Maintains a Doggy Day Out Program to provide exercise and lower the stress levels for large, high energy dogs. 300 Doggy Day Out volunteers gave 3,390 hours to take dogs on walks, hikes and field trips away from the shelter.
- Serves the needs of the community at its Animal Community Center through pet care services. In the year ended June 30, 2019, over 1,900 shelter and privately-owned animals were groomed through the grooming center, over 200 training classes served more than 1,000 dogs and puppies, and 54 new dogs joined the members only Dog Park.
- Transfers out more than 570 animals to rescue groups and manages cat colonies to increase lifesaving capacity.

The Organization is expanding collaborative partnerships throughout California to broaden its mission impact. Specifically, the Organization:

- Is expanding its Regional Rescue Program. This program is aimed at reducing euthanasia by identifying animals at shelters within our community and beyond that need more care or that are housed in overcrowded shelters. By working with partner shelters throughout California, the Organization is working to save vulnerable animals and increase California's save rate. The Organization's Foster Program supports rescue efforts by increasing the space and capacity available to take in and care for animals in need. In the year ended June 30, 2019, more than 3,800 animals were placed in foster care. As Silicon Valley has become more self-sustaining, the Organization has expanded its geographic reach to help animals throughout California. Through the Regional Rescue Program, the Organization brought in more than 570 animals from within Silicon Valley and over 3,300 animals from outside of Silicon Valley in the year ended June 30, 2019. The latter is a significant increase from the prior year, in which the Organization brought in over 2,100 animals from outside Silicon Valley.

Humane Society Silicon Valley
Notes to Financial Statements
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1. ORGANIZATION (continued)

- Is a core member of a six organization coalition called the California Humane Animal Transition Team (CHATT), which consists of animal control agencies, and rescue groups whose goal is to increase lifesaving and improve animal welfare in California's Central Valley. CHATT is committed to improving the flow of animals from Central Valley shelters like Kings County Animal Services, Tulare County Animal Care & Adoptions and Fresno Humane Animal Services, to destination shelters including Humane Society Silicon Valley, San Francisco SPCA and Marin Humane, using standardized processes, building sustainable improvement in the Central Valley through resource sharing, and widening lifesaving capacity through data collection, information sharing, protocol development, and safety nets.
- Provides consultations to under-resourced shelters to share best practices and improve their standards of care and capacity to save lives. 44 offsite and onsite shelter consultations have been completed as of June 30, 2019.

The Organization is leading the practice of shelter medicine to ensure quality of care for shelter animals across the sector:

- Provides education to future and current shelter veterinarians, veterinary technicians, and animal shelter employees. Educated 24 veterinary and veterinary technician student interns and externs and mentored 2 pre-veterinary summer interns. Hosted 12 shelter/rescue staff from across the country through Maddie's Apprenticeships to teach them about setting up and managing vital programs to save the lives of more animals. Hosted 2 Maddie's Executive Fellows for a year-long fellowship aimed at teaching leadership skills in the animal welfare sector.
- The Organization's Chief of Shelter Medicine made 14 presentation on shelter medicine and managing programs at national and regional conferences and webinars.

The Organization provides integrated services that impact both human and animal lives to provide value to our community well into the future.

- By addressing the key issues facing under-served individuals who consider pets part of their family and by enhancing the transitional growth and development of marginalized groups, Humane Society Silicon Valley aims to improve peoples' lives and increase its mission results.
 - Worked with Harvard Business School Community Partners to identify potential future strategic partners and uncover unmet needs within our community for people experiencing homelessness, elders, youth at risk, and other community segments in need.
 - Holds monthly wellness clinics to provide spay/neuter and other wellness services to animals belonging to people experiencing homelessness in the community.

Humane Society Silicon Valley
Notes to Financial Statements
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(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

- Collaborates with Downtown Streets Team, an organization aimed at providing people experiencing homelessness with employment skills-building and opportunities. Through this new pilot collaboration, the Organization has hired 2 Downtown Streets Team members to work in its Animal Care Department.
- Provides temporary emergency pet boarding for people looking to remove themselves from domestic violence situations or people experiencing homelessness who are hospitalized for medical treatment or rehabilitation.
- Elevates the cause of animal welfare through Mutual Rescue, a national initiative created to bring the causes of people and animals together through authentic storytelling, drive engagement with local shelters nationally through programs like Doggy Day Out, and drive more funds into the animal welfare sector through corporate sponsorships.
 - To date, the Doggy Day Out manual, created to help shelters start and manage their own Doggy Day Out programs, has been downloaded over 400 times.
 - The book “Mutual Rescue: How Adopting a Homeless Animal Can Save You, Too” was written by Humane Society Silicon Valley President and Mutual Rescue founder Carol Novello. The book, published in 2019, profiles the transformational impact that shelter pets have on humans, exploring the emotional, physical, and spiritual gifts that rescued animals provide.
 - Mutual Rescue films, which are aimed at demonstrating the incredible impact that an animal and a person have on each other, have over 150 million views.

* Statistics unaudited

2. PROGRAM SERVICES

The Organization's programs are as follows:

Programs to Save Lives: Adoptions and Animal Care *

- Adoptions - facilitates adoptions by matching prospective pet owners with the right pet for their family, supplies information on pet care to ensure a successful adoption placement, and provides post adoption support to adopters. Adoptions take place at three locations: the Animal Community Center in Milpitas and the Petco Neighborhood Adoption Centers in Sunnyvale and West San Jose. The Organization provides several ongoing discounts to make adoption more affordable to members of the public, including:
 - Seniors for Seniors Program - offers discounted adoption fees to adopters who are age 60 and older and adopt a senior pet.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. PROGRAM SERVICES (continued)

- Military Program – offers 50% discount off adoption fees for military personnel and veterans.
- Adoption Scholarship Program – waives the adoption fee for certain animals that have been at the shelter for a longer length of stay to encourage their adoption.
- Behavior – performs behavior assessments on all shelter guests to assist with matching individual animals' needs with new families and determining when behavior modifications can help an animal's behavior improve in preparation for adoption. Assists the adoptions process by providing pre-adoption counseling to adopters considering adopting an animal with challenging behaviors. The Behavior Department also oversees the Organization's Kitten Nursery, which housed and socialized nearly 400 under socialized kittens to increase their adoptability in the year ended June 30, 2019.
- Animal Care - furnishes food, exercise, training, care, enrichment and support for animals awaiting adoption.
- Shelter Services - provides shelter for animals, including incoming stray animals brought in under contract with the City of Sunnyvale. Assists in providing shelter services to other organizations impacted by local disasters. Offers pet surrender services to the public by appointment as well as pet retention and rehoming counseling. Provides end of life services for pets owned by members of the public.

Programs to Save Lives: Medical Services *

- Hospital and Triage – performs initial health exams, vaccinations, microchipping, and if needed, long term medical care for all incoming adoptable shelter animals. Approximately 3,400 animals required medical treatment and rehabilitation by medical staff in the year ended June 30, 2019.
- Medical Center Clinic – provides low-cost, affordable medical services to the public, including spay and neuter surgeries, vaccinations, disease testing, deworming, microchipping and other medical procedures. Approximately 20,700 microchip and vaccination services were administered to public client animals during the year ended June 30, 2019.
- Free Spay and Neuter Services – provides free spay/neuter, vaccination and microchip services to pets of owners living in five targeted zip codes in order to decrease the numbers of unwanted animals entering shelters in Santa Clara County.
- Prevent Unwanted Pregnancies (PUP) Program – provides free spay and neuter and surrender option to pet owners with unintended litters of puppies and kittens.
- Homeless Client Services – provided more than 260 spay/neuter and wellness services to the pets of people experiencing homelessness in the community in the year ended June 30, 2019.

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2. PROGRAM SERVICES (continued)

Community Programs for People and Pets *

- Dog Care Services – includes services for dog owners to keep their pets healthy and happy in their homes.
 - Members Only Dog Park – provides a fun and healthy off-leash play environment for dogs and their people.
 - Dog Training – provides obedience training focused on developing the human-canine bond with special attention on new adopters. Programs promote a positive, force-free philosophy to dog training. In the year ended June 30, 2019, over 1,000 participants attended approximately 200 classes.
 - Grooming – provides grooming services available to the public as well as nearly 50 shelter animals in the year ended June 30, 2019 to help them put their best paw forward while looking for a new home.
- Pet Store – offers products and education in areas like nutrition, basic behavior and training tools, grooming, developmental toys, supplements, and other products.
- Animal Behavior Counseling – counseled 136 post-adoption and pre-surrender pet owners experiencing behavioral challenges with their pets in the year ended June 30, 2019. Support is provided via email, telephone and in person. The Organization’s team educates pet owners on behavior management and training options.
- Pet Pantry – provides dog food, cat food and other supplies at no charge to community members who cannot afford to feed their pets or homeless cat colonies. 53 households, rescue groups and cat colonies participated in this program in the year ended June 30, 2019.
- Lost and Found – provides proactive services for people who have either lost a beloved pet or found an animal, including lost pet recovery counseling, lost and found tours, and other resources.
- Grief Counseling – offers a support group facilitated by a licensed marriage and family practitioner for people who have suffered the loss of a companion animal.
- Volunteer Programs – engages community members in a partnership to save and enhance the lives of animals. This partnership is achieved by including volunteers in nearly every aspect of the Organization through a variety of volunteer positions. Volunteer board members serve as leaders in the Organization, and volunteers also assist as animal socializers, adoption assistants, medical center assistants, pet store clerks, foster parents, animal transporters, and special event coordinators. Humane Society Silicon Valley’s Corporate Volunteer Experience provides Silicon Valley employees with team-building volunteer experiences in which they learn about the Organization’s mission and help save lives through hands-on animal experiences.

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2. PROGRAM SERVICES (continued)

- Education - offers a variety of programs for children and teens. They include Kind Kids Field Trips for elementary school students in Title I schools, and a Compassion in Action and Animal Starz programs for pre-teens and teens, Animal Care Workshops emphasizing community activism, Shelter Tours for children and families, Summer Camp, Girl Scouts workshops, and Birthday Parties.

Programs to Save Lives: Mutual Rescue

- Mutual Rescue is a national initiative created by Humane Society Silicon Valley to change the conversation around animal welfare from “people OR animals” to “people AND animals.”
- Mutual Rescue brings stories about how shelter animals have changed the lives of people for the better to the world stage. The initiative raises awareness that when people donate to a local animal shelter, they are helping to transform the lives of people in their community for the better through life-changing, human-animal relationships.
- Mutual Rescue drives engagement with local shelters throughout the country by promoting programs like Doggy Day Out that benefit both animals and humans.
- In the year ended June 30, 2019, \$221,750 of contributions and program fees were restricted or designated to the Mutual Rescue initiative.

Programs to Save Lives: Apprenticeships for Knowledge Transfer *

- Humane Society Silicon Valley is hosting two Maddie’s Executive Leadership Fellows for a year-long intensive professional opportunity for individuals committed to developing and strengthening their knowledge and skill sets in no-kill animal sheltering management and leadership. This program is part of the Organization’s mission to educate and inspire future leaders in animal welfare to improve standards of care for animals in shelters across the country.
- The Organization hosts 12 people per year as part of Maddie’s Kitten Lifesaving Apprenticeship Program. Apprentices learn about setting up and managing vital programs to manage kittens, including a kitten nursery, feline foster program, and treatments for kittens with diseases.
- The Organization provides education and mentorship to veterinary interns seeking to increase their knowledge in shelter medicine.

* Statistics unaudited

3. CHARITY RATINGS

Charity Navigator and GuideStar are key organizations that provide, on their websites, information on nonprofit organizations. The following information pertains to ratings and comparability to other nonprofits.

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3. CHARITY RATINGS (continued)

As part of the Organization's long term sustainability plan, the Organization carries low interest tax-exempt bond debt which was used to finance the construction, equipping and furnishing of the Animal Community Center. Tax-exempt bond financing is common for not-for-profit entities. However, under Charity Navigator's financial rating system, carrying debt is penalized, even for organizations like Humane Society Silicon Valley with a strong financial position. The Organization's current ratio was 3.0 to 1 and 5.9 to 1 at June 30, 2019 and 2018, respectively. The Organization has sufficient liquid assets to pay off the bond payable debt. However, these assets have been invested for long term growth to create an even stronger financial foundation for the future. See Note 10 for more information on the bonds payable.

The above factors negatively affect the financial portion of Humane Society Silicon Valley's rating on Charity Navigator, a key nonprofit charity rating organization.

However, the Organization's strengths are its program efficiency ratio and its accountability and transparency ratings. The Organization's program expenses are 78% of total expenses, which is considered excellent by Charity Navigator's ratings methodology. In addition, the Organization scored maximum points on the accountability and transparency factors of the rating.

Additionally, from the other third-party watchdog, GuideStar, the Organization has earned the highest rating of a Platinum Seal of Transparency for voluntarily and publicly sharing information about its mission impact.

In the future, Charity Navigator is planning to incorporate mission impact in its rating systems. Management believes that the impact rating will most likely be based on GuideStar's rating systems, since it already publishes mission impact information from GuideStar. Since the Organization has the highest rating of Platinum on GuideStar, management believes that most likely the Organization will receive full points for the new mission impact section. Management believes that this would likely drive up the Organization's overall Charity Navigator rating to 4 stars.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Humane Society Silicon Valley have been prepared on the accrual basis of accounting.

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Humane Society Silicon Valley
Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an undesignated fund, property and equipment fund plus net assets designated by the Board for specific purposes, if any.
- *Net assets with donor restrictions* - include those assets which are subject to donor-imposed stipulations that will be met by actions of the Organization, and/or the passage of time or are maintained in perpetuity by the Organization. When the donor-imposed stipulation ends or the Organization satisfies an action, the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions.

Changes in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.

Humane Society Silicon Valley
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting principle (continued)

4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2018, with the option to omit the disclosures about liquidity and availability of resources for the prior year comparative period.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Revenue recognition and deferred revenue

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Contract revenue is recognized ratably over the term of the contract. Revenue for clinic fees, some of which are received in advance of performance of services, is recognized at the time of service. Any amounts received for services not yet performed are included in deferred fees.

Humane Society Silicon Valley
Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with donor restrictions or without donor restrictions depending on the nature of the donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

In-kind contributions

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which required a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also received donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. While these contributed services are not reflected in the financial statements, the estimated value of these services is disclosed in Note 12.

Cash and cash equivalents

Cash equivalents include highly liquid investments and investments with an original maturity of three months or less. The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

During the year ended June 30, 2018, the Organization adopted the provisions of the Financial Accounting Standards Board Accounting Standards Update 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. As a result, restricted cash is included with cash and cash equivalent activities in the statement of cash flows. Such changes are reflected for all periods presented.

Inventory

Inventory consists of items for sale in the Pet Store and Clinic and are stated at average cost (which approximates the first in, first out method) or the lower of cost or net realizable value.

Humane Society Silicon Valley
Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Net realized and unrealized gains or losses are classified as increases or decreases in net assets without donor restrictions, unless their use is restricted by the donor.

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."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Promises to give

Unconditional promises to give are recognized as contribution support in the period received and as assets, decrease in liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at present value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are recorded at fair value.

Humane Society Silicon Valley
Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to give (continued)

The Organization's fair value method uses a market interest rate to discount the promises to give. Management believes the market rate already factors in much of the credit risk. However, to account for additional risk, a specific identification method is also used to account for the promises considered uncollectible. Allowance for doubtful promises to give as of June 30, 2019 and 2018, was \$32,019 and \$105,110, respectively.

Investments - other

Certificates of deposit held for investment that are not debt securities are included in "investments - other".

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 50 years. Equipment purchases for \$3,000 and over are capitalized. Amounts expended for maintenance and repairs are charged to operations as incurred.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30. Accrued vacation as of June 30, 2019 and 2018, totaled \$390,158 and \$315,662, respectively.

Functional expenses

Directly identifiable expenses are charged to programs and support services. Expenses related to more than one function are charged to programs and support services based on an analysis of personnel time, equipment and facilities utilized for the related activities.

Income tax status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

Humane Society Silicon Valley
Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended June 30, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the tax years ended June 30, 2015 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2019 and 2018, totaled \$133,241 and \$175,976, respectively.

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2019 or potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 2, 2019.

5. CONCENTRATIONS OF RISK

Credit risks

Financial instruments which potentially expose the Organization to credit risk include cash and cash equivalents, investments, accounts receivable, unconditional promises to give, prepaid expenses and cash and cash equivalents held for endowment purposes.

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5. CONCENTRATIONS OF RISK (continued)

Credit risks (continued)

The Organization attempts to limit its credit risk associated with its investments by utilizing outside investment managers to place the Organization's investments with highly rated corporate and financial institutions in accordance with the Organization's written investment policy statements. In addition, the efforts of the investment managers are monitored by the Organization's Investment Committee of the Board of Directors at least quarterly. Management believes the risk assumed is commensurate with the investment objectives specified in the investment policy statements.

Unconditional promises to give result from pledges by donors located primarily in the San Francisco Bay area. The Organization routinely assesses the financial strength of these various parties. Management does not believe significant risk exists in connection with the Organization's concentration of credit risk for unconditional promises to give at June 30, 2019.

Management does not believe significant risk exists in connection with the other financial instruments identified above at June 30, 2019.

Other risks

Future economic and other conditions including reduction in bequests, reduction in the amounts received through fundraising efforts, reduction in investment income, increase in bond interest expense, natural disasters or other events diverting contributions, changes in life expectancy on bequests, changes in the regulatory environment, union disruptions, inability to negotiate a new union contract, and changes in the demand for humane society type services may adversely affect income and receipts of the Organization. Changes in the near term are not expected to materially affect the amounts reported in the financial statements.

6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Long-term investments include endowment funds consisting of donor-restricted endowments. Unless otherwise stated by donors, income from donor-restricted endowments is restricted until appropriated in accordance with the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 17, the endowment has a spending rate of up to 7%. Accordingly, \$208,680 of unappropriated earnings on endowment will be available within the next 12 months.

The Organization expects that accounts receivables from program service fee revenue will be collected and available within 90 days of the fiscal year end.

Humane Society Silicon Valley
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6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

Short-term contributions receivable consists of grants, bequests and pledges receivable expected to be received within one year from June 30, 2019. Unrestricted short-term grants, bequests and pledges receivable will be available to support general operations of the Organization.

Assets, excluding investments, serve as collateral on the bonds payable. Bonds payable balance at June 30, 2019 is \$10,800,000. Additionally, a letter of credit covenant requires that the Organization maintain \$10,000,000 in liquid assets.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 3,436,589
Investments	20,845,766
Accounts receivable	106,284
Unconditional promises to give	929,191
Investments held for endowment purposes	<u>3,628,235</u>
	<u>28,946,065</u>
Less: amounts unavailable for general expenditure within one year	
Perpetual endowment	(3,281,145)
Net assets restricted to the passage of time (\$929,191 less amount to be received within one year \$467,598)	(461,593)
Net assets restricted for a specified purpose	(376,058)
Unappropriated earnings on endowment (\$483,890 less planned appropriation of \$208,680)	(275,210)
Board-designated for program development	(2,000,000)
Board-designated for operating reserve	(6,167,884)
Board-designated for building and equipment repairs	<u>(1,779,072)</u>
	<u>(14,340,962)</u>
	<u>\$ 14,605,103</u>

As of June 30, 2019, the Organization had financial assets available to cover approximately twelve months of operating expenses based on the fiscal year 2020 budget. In addition, the board-designated funds could be made available in their entirety if needed.

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7. INVESTMENTS

Investment composition by type of fund as of June 30, 2019 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Certificates of deposit	\$ 6,052,843	\$ -	\$ 6,052,843
Fixed income securities	10,210,791	1,185,811	11,396,602
Equity mutual funds	<u>4,582,132</u>	<u>2,442,424</u>	<u>7,024,556</u>
	<u>\$ 20,845,766</u>	<u>\$ 3,628,235</u>	<u>\$ 24,474,001</u>

Investment composition by type of fund as of June 30, 2018 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Certificates of deposit	\$ 6,053,231	\$ -	\$ 6,053,231
Fixed income securities	7,859,771	530,212	8,389,983
Equity mutual funds	2,763,634	2,372,939	5,136,573
Other mutual funds	<u>358,380</u>	<u>177,154</u>	<u>535,534</u>
	<u>\$ 17,035,016</u>	<u>\$ 3,080,305</u>	<u>\$ 20,115,321</u>

Investment income for the year ended June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 692,439	\$ 154,666	\$ 847,105
Unrealized gains (losses), net	246,013	(429,976)	(183,963)
Realized gains, net	225,915	507,563	733,478
Investment management fees	<u>(67,710)</u>	<u>(17,602)</u>	<u>(85,312)</u>
	<u>\$ 1,096,657</u>	<u>\$ 214,651</u>	<u>\$ 1,311,308</u>

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7. INVESTMENTS (continued)

Investment income for the year ended June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 466,350	\$ 99,740	\$ 566,090
Unrealized gains, net	44,483	197,909	242,392
Realized losses, net	(110,826)	(29,008)	(139,834)
Investment management fees	<u>(69,245)</u>	<u>(17,803)</u>	<u>(87,048)</u>
	<u>\$ 330,762</u>	<u>\$ 250,838</u>	<u>\$ 581,600</u>

The Organization has implemented formal Investment Policy Statements for working capital funds, investments held for endowment purposes, funds raised for the new building campaign to be used for bond debt service, and investments of unrestricted operating funds.

8. UNCONDITIONAL PROMISES TO GIVE

For unconditional promises to give expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the grant as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2019 ranged from 3.5% to 5%.

Unconditional promises to give consisted of the following:

	2019	2018
Receivable in less than one year	\$ 513,396	\$ 1,134,910
Receivable in one to five years	<u>511,934</u>	<u>904,189</u>
	<u>1,025,330</u>	<u>2,039,099</u>
Less: discounts to net present value	(64,120)	(127,100)
Less: allowance for uncollectible promises to give	<u>(32,019)</u>	<u>(105,110)</u>
Net unconditional promises to give	929,191	1,806,889
Less: current portion of unconditional promises to give	<u>(467,598)</u>	<u>(1,018,361)</u>
	<u>\$ 461,593</u>	<u>\$ 788,528</u>

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9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,146,351	\$ 5,146,351
Land improvements	2,615,308	2,615,308
Buildings	16,443,089	16,381,031
Machinery, equipment, furniture, and fixtures	1,786,243	1,332,428
Trucks and vans	<u>137,561</u>	<u>110,742</u>
	26,128,552	25,585,860
Accumulated depreciation	<u>(6,543,535)</u>	<u>(5,944,600)</u>
	<u><u>\$ 19,585,017</u></u>	<u><u>\$ 19,641,260</u></u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$598,938 and \$581,395, respectively.

10. BONDS PAYABLE

Bonds payable consist of the following:

	<u>2019</u>	<u>2018</u>
Bonds payable	\$ 10,800,000	\$ 11,250,000
Unamortized bond issuance costs	<u>(334,467)</u>	<u>(348,501)</u>
	10,465,533	10,901,499
Less: current portion of bonds payable	<u>(450,000)</u>	<u>(450,000)</u>
	<u><u>\$ 10,015,533</u></u>	<u><u>\$ 10,451,499</u></u>

On April 30, 2008, the California Enterprise Development Authority, a public entity, issued \$16,000,000 of tax exempt variable rate demand revenue bonds to finance the construction, equipping and furnishing of the Animal Community Center. The bond principal and interest are secured by an irrevocable direct pay letter of credit issued by First Republic Bank. During the year ended June 30, 2017, this letter of credit was renewed, extending the expiration date to April 29, 2022. The bonds are subject to mandatory redemption upon termination of the letter of credit if an alternative letter of credit is not obtained prior to expiration. The bonds are further secured by an irrevocable, transferable confirming letter of credit issued by the Federal Home Loan Bank of San Francisco expiring on April 29, 2022. When the confirming letter of credit was issued on December 15, 2010, the maturity date on the bonds was also extended from April 1, 2038 to May 1, 2043. The bonds were rated AA+ effective as of August 11, 2011.

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10. BONDS PAYABLE (continued)

Substantially all of the assets are pledged as collateral for the letter of credit except for securities, investments or other funds held solely for investment purposes provided these assets are not pledged as security for any other debt without the consent of the bank.

Interest on the bonds is determined each week by the remarketing agent based on the minimum interest rate which would enable the remarketing agent to sell the bonds on the date the rate becomes effective at a price equal to the principal amount plus accrued interest, if any, with a maximum rate of 12%. Interest is payable monthly. Subject to the terms and conditions of the indenture, the bonds can be converted from a weekly variable interest rate to a fixed rate for the remaining term of the bonds. During the fiscal years ended June 30, 2019 and 2018, the interest rate plus the cost of the letters of credit and administration fees ranged from 1.97% to 3.40% and 1.80% to 2.84%, respectively.

Under the indenture, the bonds are not subject to mandatory sinking fund requirements. However, under certain conditions, the bonds are subject to optional and mandatory redemption prior to maturity on May 1, 2043.

Debt issuance costs are being amortized as interest expense on a straight-line basis over the life of the bonds.

The future maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>	
2020	\$ 450,000
2021	450,000
2022	450,000
2023	450,000
2024	450,000
Thereafter	<u>8,550,000</u>
	<u><u>\$ 10,800,000</u></u>

Covenants under the letter of credit reimbursement agreement require that the debt service coverage ratio equal or exceed 1.10 to 1 calculated annually and that liquid assets as of the second and fourth quarters of each fiscal year exceed \$10,000,000. The Organization was in compliance with these covenants at June 30, 2019 and 2018, and for the fiscal years ended June 30, 2019 and 2018.

See Note 16 for fair value on the bonds payable.

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11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent contributions receivable for general support for future periods and funds held with specific donor restrictions.

Net assets with donor restrictions consisted of the following:

	Balance at June 30, 2018	Additions	Releases	Balance at June 30, 2019
Pledges, time restricted	\$ 1,806,889	\$ 252,204	\$ (1,129,902)	\$ 929,191
Beneficial interest held in perpetual trust	229,576	-	-	229,576
Unappropriated earnings on endowment	477,919	214,651	(208,680)	483,890
Program services	99,980	891,285	(615,207)	376,058
Perpetual endowment	<u>2,981,145</u>	<u>300,000</u>	<u>-</u>	<u>3,281,145</u>
	<u>\$ 5,595,509</u>	<u>\$ 1,658,140</u>	<u>\$ (1,953,789)</u>	<u>\$ 5,299,860</u>

12. IN-KIND CONTRIBUTIONS

The estimated fair value of donated supplies, expert services and property and equipment received are recorded as contributions.

In-kind contributions received during the year were as follows:

	2019	2018
Donated pro bono legal services	\$ 103,611	\$ 102,906
Donated supplies from operations	63,181	75,094
Donated property and equipment	<u>20,000</u>	<u>-</u>
	186,792	178,000
Special events supplies and auction items	<u>101,375</u>	<u>60,734</u>
	<u>\$ 288,167</u>	<u>\$ 238,734</u>

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. During the years ended June 30, 2019 and 2018, approximately 5,950 and 4,370 active volunteers donated approximately 249,000 and 230,800 hours of time valued at approximately \$6,333,000 and \$5,698,000, respectively to the Organization. Active volunteers are now defined as any person, including corporate volunteers, who gives any amount of volunteer service hours in a one-year period. Starting with fiscal year end June 30, 2018, the active volunteer numbers include regular volunteers that log into the Organization's volunteer software, in addition to corporate, doggy day out and youth volunteers.

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13. RETIREMENT PLAN

Humane Society Silicon Valley maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. Starting during the fiscal year ended June 30, 2006, the Organization implemented an employer matching program for all eligible employees who are contributing to their tax deferred plan. The Organization is matching 100% of the employee's contributions, up to a maximum of 1.75% of the employee's payroll compensation. The Organization's contributions for the years ended June 30, 2019 and 2018, totaled \$104,201 and \$104,846, respectively.

14. CONTRACTS WITH GOVERNMENTAL AGENCIES

In April 2007, the Organization entered into a stray animal sheltering contract with the City of Sunnyvale that has a potential term of twenty years.

The Organization also entered into agreements for the years ended June 30, 2019 and 2018 with the County of Santa Clara to subsidize spay and neuter surgeries for county residents and to handle surgeries for the County of Santa Clara's San Martin shelter animals.

During the years ended June 30, 2019 and 2018 contract revenue from these agreements totaled \$386,705 and \$378,799, respectively.

15. COLLECTIVE BARGAINING UNIT

Approximately 41% of the Organization employees are covered by a collective bargaining union agreement with the Services Employees International Union, Local 521. It was renewed in October 2018 and expires four years thereafter on June 30, 2022. It shall be renewed from year to year thereafter unless either party gives written notice of a desire to change the agreement at least ninety days prior to expiration. It is typically renewed for a period of four years.

16. FAIR VALUE

For cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and other current liabilities, the carrying amount approximates the fair value because of the immediate or short-term nature of those instruments.

The fair value of the bonds payable at June 30, 2019, was estimated to be \$10,687,000. The fair value is based on the discounted cash flow of the interest rate differential between the bonds and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index for bonds with similar characteristics. Also included is an adjustment for nonperformance risk. The Organization does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Since the bonds are a financial liability, the Organization believes the interest rate of the bonds already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, the Organization does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

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16. FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Investments				
Certificates of deposit	\$ 6,052,843	\$ -	\$ -	\$ 6,052,843
Fixed income securities	11,396,602	-	-	11,396,602
Equity mutual funds	7,024,556	-	-	7,024,556
Cash and cash equivalents held for endowment purposes	<u>136,800</u>	<u>-</u>	<u>-</u>	<u>136,800</u>
	<u><u>\$ 24,610,801</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,610,801</u></u>
Unconditional promises to give, current portion				
Campaign pledges	\$ -	\$ -	\$ 397,354	\$ 397,354
Operating pledges without donor restrictions	-	-	61,136	61,136
Special events pledges	<u>-</u>	<u>-</u>	<u>9,108</u>	<u>9,108</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 467,598</u></u>	<u><u>\$ 467,598</u></u>
Unconditional promises to give, net of current portion				
Campaign pledges	\$ -	\$ -	\$ 365,098	\$ 365,098
Operating pledges without donor restrictions	-	-	85,028	85,028
Special events pledges	<u>-</u>	<u>-</u>	<u>11,467</u>	<u>11,467</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 461,593</u></u>	<u><u>\$ 461,593</u></u>

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16. FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ 6,053,231	\$ -	\$ -	\$ 6,053,231
Fixed income securities	8,389,983	-	-	8,389,983
Equity mutual funds	5,136,573	-	-	5,136,573
Cash and cash equivalents held for endowment purposes	378,759	-	-	378,759
Other mutual funds	<u>535,534</u>	<u>-</u>	<u>-</u>	<u>535,534</u>
	<u>\$ 20,494,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,494,080</u>
Unconditional promises to give, current portion				
Campaign pledges	\$ -	\$ -	\$ 783,883	\$ 783,883
Operating pledges without donor restrictions	-	-	223,838	223,838
Special events pledges	<u>-</u>	<u>-</u>	<u>10,640</u>	<u>10,640</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,018,361</u>	<u>\$ 1,018,361</u>
Unconditional promises to give, net of current portion				
Campaign pledges	\$ -	\$ -	\$ 674,781	\$ 674,781
Operating pledges without donor restrictions	<u>-</u>	<u>-</u>	<u>113,747</u>	<u>113,747</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 788,528</u>	<u>\$ 788,528</u>

The Organization has irrevocably elected to use fair value as the initial and subsequent measure of unconditional promises to give under ASC 825-10 in order to improve financial reporting by mitigating the volatility in reported changes in net assets caused by measuring promises to give differently. The Organization uses a present value technique to measure fair value so the discount rate assumptions and all other elements of the measurement are revised at each measurement date to reflect current market conditions. If necessary, the fair value is adjusted to reflect specific uncollectible promises. Any restrictions that are an attribute of the asset and, therefore, would transfer to a market participant are the only restrictions reflected in fair value. Donor restrictions that are specific to the donee are reflected in the classification of net assets, not in the measurement of fair value.

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16. FAIR VALUE (continued)

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2019:

	Unconditional Promises to Give
Balance, June 30, 2018	\$ 1,806,889
New promises to give, net of present value adjustments	180,664
Payments on promises to give, net of net of present value adjustments	(1,131,452)
Decrease in allowance for doubtful accounts	<u>73,090</u>
Balance, June 30, 2019	<u><u>\$ 929,191</u></u>

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2018:

	Unconditional Promises to Give
Balance, June 30, 2017	\$ 2,542,740
New promises to give, net of present value adjustments	816,940
Payments on promises to give, net of net present value adjustments	(1,584,933)
Decrease in allowance for doubtful accounts	<u>32,142</u>
Balance, June 30, 2018	<u><u>\$ 1,806,889</u></u>

Gains and losses (realized and unrealized) related to Unconditional Promises to Give as included in the Statement of Activities for the fiscal year ended June 30, 2019 and are reported in support and revenue as follows:

	New Promises to Give, net	NPV Discount on Promises Paid	(Increase) Decrease in Allowance	Total
Support and revenue				
Contributions and grants	\$ 152,120	\$ 64,231	\$ 73,099	\$ 289,450
Special events, net	<u>28,544</u>	<u>(1,251)</u>	<u>(9)</u>	<u>27,284</u>
	<u><u>\$ 180,664</u></u>	<u><u>\$ 62,980</u></u>	<u><u>\$ 73,090</u></u>	<u><u>\$ 316,734</u></u>

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16. FAIR VALUE (continued)

Gains and losses (realized and unrealized) related to Unconditional Promises to Give as included in the Statement of Activities for the fiscal year ended June 30, 2018 and are reported in support and revenue as follows:

	New Promises to Give, net	NPV Discount on Promises Paid	(Increase) Decrease in Allowance	Total
Support and revenue				
Contributions and grants	\$ 798,845	\$ 51,821	\$ 32,645	\$ 883,311
Special events, net	<u>18,095</u>	<u>(557)</u>	<u>(503)</u>	<u>17,035</u>
	<u>\$ 816,940</u>	<u>\$ 51,264</u>	<u>\$ 32,142</u>	<u>\$ 900,346</u>

The carrying values and fair values of the Organization's financial instruments at June 30, 2019:

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 3,299,789	\$ 3,299,789
Accounts receivable	106,284	106,284
Unconditional promises to give, current portion	467,598	467,598
Short-term investments - other	500,000	500,000
Investments	14,792,923	14,792,923
Long-term investments - other	5,552,843	5,552,843
Unconditional promises to give, net of current portion	461,593	461,593
Cash and cash equivalents held for endowment purposes	136,800	136,800
Investments held for endowment purposes	<u>3,628,235</u>	<u>3,628,235</u>
	<u>\$ 28,946,065</u>	<u>\$ 28,946,065</u>
Financial liabilities		
Current liabilities, excluding bonds payable	\$ 1,125,444	\$ 1,125,444
Bonds payable	<u>10,800,000</u>	<u>10,687,000</u>
	11,925,444	11,812,444
Unamortized bond issuance costs	<u>(334,467)</u>	<u>(334,467)</u>
	<u>\$ 11,590,977</u>	<u>\$ 11,477,977</u>

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16. FAIR VALUE (continued)

The carrying values and fair values of the Organization's financial instruments at June 30, 2018:

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 6,359,663	\$ 6,359,663
Accounts receivable	67,381	67,381
Unconditional promises to give, current portion	1,018,361	1,018,361
Short-term investments - other	500,000	500,000
Investments	10,981,785	10,981,785
Long-term investments - other	5,553,231	5,553,231
Unconditional promises to give, net of current portion	788,528	788,528
Cash and cash equivalents held for endowment purposes	378,759	378,759
Investments held for endowment purposes	<u>3,080,305</u>	<u>3,080,305</u>
	<u>\$ 28,728,013</u>	<u>\$ 28,728,013</u>
Financial liabilities		
Current liabilities, excluding bonds payable	\$ 939,394	\$ 939,394
Bonds payable	<u>11,250,000</u>	<u>11,174,000</u>
	12,189,394	12,113,394
Unamortized bond issuance costs	<u>(348,501)</u>	<u>(348,501)</u>
	<u>\$ 11,840,893</u>	<u>\$ 11,764,893</u>

17. ENDOWMENT

The Organization endowment consists of three donor-restricted endowment fund categories. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors of Humane Society Silicon Valley has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations 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. In accordance with the California version of UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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17. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

Investment return objectives, risk parameters, strategies and how the investment objectives relate to the spending policy

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets in order to assure compliance with UPMIFA and the Board's policies on investment and expenditure of the earnings, protect the fund assets, increase the likelihood that the investment of the funds will be able to meet the financial needs of the Organization, establish a relevant investment horizon for which the fund assets will be invested, provide guidance and limitations to all investment managers regarding the investment of the fund assets and establish a basis for evaluation of investment results. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceed the annual spending appropriation of up to 7% of the fund with acceptable levels of risk. Beginning July 1, 2010, the Organization engaged professional managers to invest these funds in accordance with the Organization's Investment Policy Statement for the Donor Restricted Endowment Fund.

Spending policy

In the absence of explicit instructions by the donor, the Organization has a policy of appropriating for expenditure all amounts in the endowment up to 7% of the fair value of the original gift as defined by the Board. Any earnings in excess of 7% are net assets with donor restrictions and are available for appropriation in future years in accordance with the Board's policy. If the endowment fund is less than the original gift as of the gift date, although the Board is permitted to determine and continue a prudent payout amount, no amounts are appropriated for expenditure without additional Board review and direction.

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17. ENDOWMENT (continued)

Spending policy (continued)

Investments and cash and cash equivalents are carried at fair value and investment earnings are reflected in the Statement of Activities.

Endowment composition

Endowment assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Investments held for endowment purposes	\$ 3,628,235	\$ 3,080,305
Cash and cash equivalents held for endowment purposes	<u>136,800</u>	<u>378,759</u>
	<u>\$ 3,765,035</u>	<u>\$ 3,459,064</u>

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Unappropriated Earnings on Endowment</u>	<u>Perpetual Endowment</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 483,890</u>	<u>\$ 3,281,145</u>	<u>\$ 3,765,035</u>

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unappropriated Earnings on Endowment</u>	<u>Perpetual Endowment</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ 477,919</u>	<u>\$ 2,981,145</u>	<u>\$ 3,459,064</u>

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17. ENDOWMENT (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Balance, June 30, 2018	\$ 477,919	\$ 2,981,145	\$ 3,459,064
Investment return			
Interest and dividend income	154,666	-	154,666
Net appreciation (realized and unrealized)	77,587	-	77,587
Investment management fees	(17,602)	-	(17,602)
Total investment return	214,651	-	214,651
Contributions	-	300,000	300,000
Appropriation of earnings for expenditure	(208,680)	-	(208,680)
	<u>5,971</u>	<u>300,000</u>	<u>305,971</u>
Balance, June 30, 2019	<u>\$ 483,890</u>	<u>\$ 3,281,145</u>	<u>\$ 3,765,035</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Balance, June 30, 2017	\$ 435,761	\$ 2,981,145	\$ 3,416,906
Investment return			
Interest and dividend income	99,740	-	99,740
Net appreciation (realized and unrealized)	168,901	-	168,901
Investment management fees	(17,803)	-	(17,803)
Total investment return	250,838	-	250,838
Appropriation of earnings for expenditure	(208,680)	-	(208,680)
	<u>42,158</u>	<u>-</u>	<u>42,158</u>
Balance, June 30, 2018	<u>\$ 477,919</u>	<u>\$ 2,981,145</u>	<u>\$ 3,459,064</u>

18. RELATED PARTY TRANSACTIONS

Contributions, including new pledges, received from members of the Organization's Board of Directors totaled approximately \$1,402,000 and \$451,000, for the years ended June 30, 2019 and 2018, respectively.