

Humane Society Silicon Valley

Financial Statements

June 30, 2023
(With Comparative Totals for 2022)



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Humane Society Silicon Valley and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these 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 Humane Society Silicon Valley'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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Humane Society Silicon Valley'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 Humane Society Silicon Valley'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.

Report on Summarized Comparative Information

We have previously audited Humane Society Silicon Valley's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

January 18, 2024

Humane Society Silicon Valley
Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,537,054	\$ 4,795,650
Accounts receivable	93,947	218,261
Unconditional promises to give, current portion	406,537	592,493
Inventory	135,922	81,915
Prepaid expenses	168,344	101,827
Short-term investments - other	516,814	500,000
Total current assets	<u>5,858,618</u>	<u>6,290,146</u>
Property and equipment, net	<u>18,480,858</u>	<u>18,778,196</u>
Other assets		
Investments	19,063,629	18,233,066
Long-term investments - other	5,111,150	6,161,973
Unconditional promises to give, net of current portion and allowance for doubtful promises	9,294,341	9,575,114
Cash and cash equivalents held for endowment purposes	222,095	200,208
Investments held for endowment purposes	5,237,444	4,119,474
Beneficial interest in perpetual trust	229,576	229,576
Total other assets	<u>39,158,235</u>	<u>38,519,411</u>
Total assets	<u>\$ 63,497,711</u>	<u>\$ 63,587,753</u>

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

Humane Society Silicon Valley
Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 520,409	\$ 551,537
Bonds payable, current portion	450,000	450,000
Accrued payroll and related benefits	226,576	166,110
Accrued vacation	519,014	462,067
Deferred fees	81,538	125,385
Total current liabilities	1,797,537	1,755,099
Bonds payable, net of current portion	8,271,667	8,707,633
Total liabilities	10,069,204	10,462,732
Net assets		
Without donor restrictions		
Undesignated	977,166	1,192,288
Board-designated for building and equipment repairs	2,587,033	2,587,033
Board-designated for operating reserve	9,733,945	9,733,945
Board-designated for program development	6,000,000	6,000,000
Property and equipment	18,480,858	18,778,196
Total without donor restrictions	37,779,002	38,291,462
With donor restrictions		
Net assets restricted to the passage of time	9,139,750	10,167,607
Net assets restricted for a specified purpose	259,511	116,694
Unappropriated earnings on endowment	764,106	515,108
Beneficial interest held in perpetual trust	229,576	229,576
Perpetual endowment	5,256,562	3,804,574
Total with donor restrictions	15,649,505	14,833,559
Total net assets	53,428,507	53,125,021
Total liabilities and net assets	\$ 63,497,711	\$ 63,587,753

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

Humane Society Silicon Valley
Statement of Activities
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023 Total</u>	<u>2022 Total</u>
Support and revenue				
Program services				
Program fees and charges	\$ 1,413,531	\$ -	\$ 1,413,531	\$ 1,609,448
Pet store and clinic sales, net	<u>96,771</u>	<u>-</u>	<u>96,771</u>	<u>85,984</u>
Total program services	<u>1,510,302</u>	<u>-</u>	<u>1,510,302</u>	<u>1,695,432</u>
Fundraising				
Contributions and grants	10,346,055	3,329,353	13,675,408	14,734,224
Contracts with governmental agencies	458,877	-	458,877	480,139
In-kind contributions	119,387	-	119,387	98,594
Forgiveness of Paycheck Protection Program loan	-	-	-	1,601,500
Special events, net of \$0 and \$1,350,748 of direct benefit expenses, respectively	-	-	-	125,023
Net assets released from restriction	<u>3,009,674</u>	<u>(3,009,674)</u>	<u>-</u>	<u>-</u>
Total fundraising	<u>13,933,993</u>	<u>319,679</u>	<u>14,253,672</u>	<u>17,039,480</u>
Other income (loss)				
Investment income (loss), net	1,403,114	496,267	1,899,381	(2,862,490)
Other income	<u>29,293</u>	<u>-</u>	<u>29,293</u>	<u>18,163</u>
Total other income (loss)	<u>1,432,407</u>	<u>496,267</u>	<u>1,928,674</u>	<u>(2,844,327)</u>
Total support and revenue	<u>16,876,702</u>	<u>815,946</u>	<u>17,692,648</u>	<u>15,890,585</u>
Functional expenses				
Program services				
Programs to Save Lives	11,634,656	-	11,634,656	9,647,548
Community Programs for People and Pets	<u>2,313,304</u>	<u>-</u>	<u>2,313,304</u>	<u>1,689,903</u>
Total program services	<u>13,947,960</u>	<u>-</u>	<u>13,947,960</u>	<u>11,337,451</u>
Support services				
Management and general	1,036,224	-	1,036,224	1,018,313
Fundraising	<u>2,404,978</u>	<u>-</u>	<u>2,404,978</u>	<u>2,687,315</u>
Total support services	<u>3,441,202</u>	<u>-</u>	<u>3,441,202</u>	<u>3,705,628</u>
Total functional expenses	<u>17,389,162</u>	<u>-</u>	<u>17,389,162</u>	<u>15,043,079</u>
Change in net assets	(512,460)	815,946	303,486	847,506
Net assets, beginning of year	<u>38,291,462</u>	<u>14,833,559</u>	<u>53,125,021</u>	<u>52,277,515</u>
Net assets, end of year	<u>\$ 37,779,002</u>	<u>\$ 15,649,505</u>	<u>\$ 53,428,507</u>	<u>\$ 53,125,021</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, 2023
(With Comparative Totals for 2022)

	Program Services	Support Services		Total Support Services	2023 Total	2022 Total
		Management and General	Fundraising			
Salaries and benefits	\$ 9,920,410	\$ 656,265	\$ 1,022,668	\$ 1,678,933	\$ 11,599,343	\$ 9,710,389
Direct mail, advertising and newsletter expenses	191,074	-	1,041,466	1,041,466	1,232,540	1,519,318
Professional fees and contract services	724,018	227,705	163,113	390,818	1,114,836	771,301
Operating supplies and services	1,079,395	135	379	514	1,079,909	915,918
Depreciation	677,130	36,310	22,368	58,678	735,808	701,859
Occupancy expenses	467,361	29,949	14,701	44,650	512,011	492,041
Interest, fees and amortization on bonds	344,006	18,447	11,364	29,811	373,817	140,859
Other expenses	187,438	23,277	83,115	106,392	293,830	271,396
Management information systems	214,205	24,103	14,131	38,234	252,439	321,296
Office supplies and services	80,100	16,099	26,707	42,806	122,906	122,601
Automobile, travel and meetings	62,823	3,934	4,966	8,900	71,723	76,101
	<u>\$ 13,947,960</u>	<u>\$ 1,036,224</u>	<u>\$ 2,404,978</u>	<u>\$ 3,441,202</u>	<u>\$ 17,389,162</u>	<u>\$ 15,043,079</u>
Percentage of total	<u>80 %</u>	<u>6 %</u>	<u>14 %</u>	<u>20 %</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, 2023

	<u>Programs to Save Lives</u>			<u>Total Programs to Save Lives</u>	Community	<u>Total Program Services</u>
	<u>Adoptions and Animal Care</u>	<u>Medical Services</u>	<u>Mutual Rescue</u>		<u>Programs for People and Pets</u>	
Salaries and benefits	\$ 4,813,073	\$ 3,208,146	\$ 352,677	\$ 8,373,896	\$ 1,546,514	\$ 9,920,410
Operating supplies and services	500,962	575,581	33	1,076,576	2,819	1,079,395
Professional fees and contract services	170,883	169,846	130,380	471,109	252,909	724,018
Depreciation	451,356	106,523	518	558,397	118,733	677,130
Occupancy expenses	296,384	92,675	348	389,407	77,954	467,361
Interest, fees and amortization on bonds	229,305	54,117	264	283,686	60,320	344,006
Management information systems	113,819	54,382	6,138	174,339	39,866	214,205
Direct mail, advertising and newsletter expenses	-	-	18,851	18,851	172,223	191,074
Other expenses	117,157	42,698	3,408	163,263	24,175	187,438
Office supplies and services	44,021	20,377	2,195	66,593	13,507	80,100
Automobile, travel and meetings	27,466	28,002	3,071	58,539	4,284	62,823
	<u>\$ 6,764,426</u>	<u>\$ 4,352,347</u>	<u>\$ 517,883</u>	<u>\$ 11,634,656</u>	<u>\$ 2,313,304</u>	<u>\$ 13,947,960</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, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 303,486	\$ 847,506
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	735,808	701,859
Amortization of bond origination costs	14,034	14,033
Donated securities	(544,814)	(476,398)
Proceeds from sale of donated securities	534,974	468,246
Net realized and unrealized (gains) losses on investments	(1,308,210)	3,312,130
Contributions restricted for long-term purposes	(890,859)	(238,588)
Forgiveness of Paycheck Protection Program loan	-	(1,601,500)
Changes in operating assets and liabilities		
Accounts receivable	124,314	(162,411)
Unconditional promises to give	466,729	(3,679,314)
Inventory	(54,007)	11,124
Prepaid expenses	(66,517)	394,752
Accounts payable and accrued expenses	(31,128)	261,692
Accrued payroll and related benefits	60,466	(234,041)
Accrued vacation	56,947	17,881
Deferred fees	(43,847)	43,529
Net cash used in operating activities	<u>(642,624)</u>	<u>(319,500)</u>
Cash flows from investing activities		
Purchases of property and equipment	(438,470)	(400,625)
Proceeds from sale of investments	10,703,961	10,236,820
Purchases of investments	(10,300,435)	(10,007,925)
Net cash used in investing activities	<u>(34,944)</u>	<u>(171,730)</u>
Cash flows from financing activities		
Payments on bonds	(450,000)	(450,000)
Contributions restricted for long-term purposes	890,859	238,588
Net cash provided by (used in) financing activities	<u>440,859</u>	<u>(211,412)</u>
Net decrease in cash, cash equivalents and restricted cash	(236,709)	(702,642)
Cash, cash equivalents and restricted cash, beginning of year	<u>4,995,858</u>	<u>5,698,500</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 4,759,149</u>	<u>\$ 4,995,858</u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 4,537,054	\$ 4,795,650
Cash and cash equivalents held for endowment purposes	<u>222,095</u>	<u>200,208</u>
	<u>\$ 4,759,149</u>	<u>\$ 4,995,858</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 229,339	\$ 18,306
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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, 2023
(With Comparative Totals for 2022)

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, providing animals in the community and beyond with expert care. The Organization serves as a safety net for both pets and people in need of resources and programs to keep them happy, healthy, and safe. It sets a national example for innovation and seeks to transform human lives through deeper connections to animals. The Organization is the first organization ever to meet the model shelter standard-of-care guidelines put forth by the Association of Shelter Veterinarians. The impact achieved reflects the quality of the Organization and its people.

Impact *

Humane Society Silicon Valley delivers its mission impact through accountability, engagement, innovation, and transparency. The Organization invests resources across three key areas: programs to save the lives of animals, community programs for pets and their people, and advancing animal welfare. Specifically, the Organization:

- Saves 100% of all healthy animals in the Organization's care and has done so since 2006. During the year ended June 30, 2023, the Organization saved 96% 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.
- Takes in more than 6,000 animals per year, including over 3,100 animals brought in from shelters through the Regional Rescue Program.
- In addition to finding homes for over 5,500 animals across multiple adoption locations, 132 were reunited with their families, and over 130 were transferred out to rescue groups and managed cat colonies.
- Performs more than 7,800 spay/neuter surgeries per year.

Support People & Animals in Our Community: The Organization improves access to veterinary care and provides support for pet owners in need, keeping bonded families together through integrated services that impact both human and animal lives and providing value to our community well into the future.

- Addresses the key issues facing under-served individuals who consider pets part of their family to improve peoples' lives and increase mission results. Programs range from emergency boarding to wellness clinics.
- Keeps animals in homes by:
 - Providing post adoption support, including behavior support.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. ORGANIZATION (continued)

- Providing free pet food to community members who cannot afford to feed their pets through the Pet Pantry.
- Implanting microchips and providing vaccination services at a low cost to public client animals.
- 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.

Expand Lifesaving Impact: With the Organization’s regional rescue partnerships, direct medical support, and spay/neuter programs, it is committed to helping California eliminate euthanasia for all healthy and treatable pets.

- Expanding its Regional Rescue Program, 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, 2023, over 2,800 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 1,192 animals from within Silicon Valley and almost 2,000 animals from outside of Silicon Valley during the year ended June 30, 2023.
- Leads an interagency 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.
- Is a core member of a 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 to destination shelters using standardized processes, building sustainable improvement in the Central Valley through resource sharing, and widening lifesaving capacity through data collection, information sharing, and protocol development.
- Prevents unintended births through a range of targeted spay/neuter programs.
 - Preventing Unintended Pregnancies (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. 167 spay/neuter surgeries were completed through this program during the year ended June 30, 2023.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. ORGANIZATION (continued)

- Humane Society Silicon Valley provides multiple free trap, neuter, and release (TNR) services. To lower the number of homeless cats in Santa Clara County, 2,262 spay/neuter surgeries were provided to homeless community cats through the TNR Program during the year ended June 30, 2023.

Advance Animal Welfare: Through innovation in shelter medicine, teaching programs, and mentorship for shelter partners, the Organization is empowering others to improve standards of care and build capacity to save lives.

- Provides consultations to under-resourced shelters to share best practices and improve their standards of care and capacity to save lives.
- Provides education to future and current shelter veterinarians, veterinary technicians, and animal shelter employees.

* Statistics unaudited

2. PROGRAM SERVICES

The Organization's programs are as follows:

Community Programs for People and Pets *

- *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. During the year ended June 30, 2023, over 1,500 participants attended classes.
- *Pet Store* offers products and information in areas like nutrition, basic behavior and training tools, grooming, developmental toys, supplements, and other products.
- *Animal Behavior Counseling* counsels post-adoption and pre-surrender pet owners experiencing behavioral challenges with their pets. Support is provided via email, telephone and in person. The Organization's team educates pet owners on behavior management and training options.
- *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.
- *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.
- *Temporary Emergency Pet Boarding* provides pet boarding for people looking to remove themselves from domestic violence situations or people experiencing homelessness who are hospitalized for medical treatment or rehabilitation.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. PROGRAM SERVICES (continued)

- *Wellness Clinics* are held monthly to provide spay/neuter and other wellness services to animals belonging to people experiencing homelessness in the community.
- *Grief Counseling* offers, on a regular basis, a support group facilitated by a licensed marriage and family practitioner for people who have suffered the loss of a companion animal.
- *Volunteer Programs* engage 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. The Volunteer Board members serve as leaders in the Organization, and volunteers also assist as animal socializers, adoption assistants, medical center assistants, foster parents, animal transporters, and special event coordinators.
- *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. It 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. It also drives engagement with local shelters throughout the country by promoting programs like Doggy Day Out that benefit both animals and humans.

Programs to Save Lives: Adoptions and Animal Care *

- *Adoptions* facilitates adoptions by matching prospective pet owners with the right pet for their family, supplying information on pet care to ensure a successful adoption placement, and providing post adoption support to adopters. Adoptions take place at multiple locations, including the Animal Community Center in Milpitas and the Petco Neighborhood Adoption Center in West San Jose. The Organization provides several ongoing discounts to make adoption more affordable to members of the public, including:
 - 60+ Discount offers half-priced adoption fees to adopters who are age 60 and older and adopt a senior pet.
 - Veterans Discount waives the adoption fee of one feline and/or canine within a six-month period for military personnel and veterans.
 - Mommy & Me Pricing when adopting a mother cat, adopters can also take home one of her kittens at no additional cost.
 - FeLV+ Cats (Feline Leukemia Virus) positive cats have an adoption fee of \$10.

Humane Society Silicon Valley
Notes to Financial Statements
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(With Comparative Totals for 2022)

2. PROGRAM SERVICES (continued)

- *Behavior* performs behavior assessments on all shelter animals 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.
- *Animal Care* furnishes food, exercise, training, care, enrichment, and support for animals awaiting adoption.
- *Community 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.
- *Medical Center Clinic* provides low-cost medical services to the public, including spay and neuter surgeries, vaccinations, disease testing, deworming, microchipping and other medical procedures.
- *Free Spay and Neuter Services*
 - Portia's Targeted Spay/Neuter Program 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. This program is fulfilled at Humane Society Silicon Valley's Medical Center and through mobile clinics.
 - The Prevent Unwanted Pregnancies (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.
 - Homeless Client Services provides spay/neuter and wellness services to the pets of people experiencing homelessness in the community.
 - Trap-Neuter-Return (TNR) services for community cats includes spay/neuter surgery, FVRCP (feline distemper combo) and rabies vaccinations, internal/external parasite treatment, an ear tip, and optional microchip and/or FeLV/FIC combination testing.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. PROGRAM SERVICES (continued)

Programs to Advance Animal Welfare: Apprenticeships for Knowledge Transfer *

- The Organization, through the Chief of Medicine and staff, provided consultations for a range of organizations, from national education programs to local shelters across the country. Topics ranged from medical protocols and practices, to shelter processes and operations, and emergency-related adaptations to programs and processes.

* Statistics unaudited

3. 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 ("U.S. GAAP"), 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.

- *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 the specific purposes.
- *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.

Adoption of accounting standards updated

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as right-of-use ("ROU") assets and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liability should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of accounting standards updated (continued)

ASU 2016-02 is effective for the fiscal year beginning after December 15, 2021. The Organization adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach.

The adoption of the new lease accounting standard had no impact on the Organization's statement of financial position, operating results and cash flows.

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, 2022, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Organization satisfies a performance obligation.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grants

Contributions and grants are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions and grants are recorded as with donor restrictions or without donor restrictions depending on the nature of the donor restrictions. Restricted contributions and grants are reported as increases in net assets with donor restrictions. When the restriction is met on a contribution or grant 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 are 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 11.

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.

Inventory

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

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."

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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.

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, 2023 and 2022, was \$449,308 and \$252,108, respectively.

Investments - other

Certificates of deposit held for investment that are not debt securities and stock donations pending liquidation are included in "investments - other".

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

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, 2023 and 2022, totaled \$519,014 and \$462,067, 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, and 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.

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, 2020 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the tax years ended June 30, 2019 and beyond remain subject to possible examination by the Franchise Tax Board.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2023 and 2022, totaled \$108,348 and \$83,739, 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, 2023 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, January 18, 2024. See Note 18 for any subsequent events.

4. CONCENTRATIONS AND 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.

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 Finance 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, 2023.

Management does not believe significant risk exists in connection with the other financial instruments identified above at June 30, 2023.

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4. CONCENTRATIONS AND RISK (continued)

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.

5. 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 16, the endowment has a spending rate of up to 7%. Accordingly, \$247,269 of unappropriated earnings on endowment will be available within the next 12 months.

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

Short-term unconditional promises to give consists of grants, bequests and pledges receivable expected to be received within one year from June 30, 2023. 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, 2023 and 2022 was \$9,000,000 and \$9,450,000, respectively. Additionally, a letter of credit covenant requires that the Organization maintain \$10,000,000 in liquid assets.

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5. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2023 and 2022 to fund general expenditures and other obligations when they become due:

	2023	2022
Financial assets		
Cash, cash equivalents and restricted cash	\$ 4,759,149	\$ 4,995,858
Investments	24,691,593	24,895,039
Accounts receivable	93,947	218,261
Unconditional promises to give	9,700,878	10,167,607
Investments held for endowment purposes	5,237,444	4,119,474
	44,483,011	44,396,239
Less: amounts unavailable for general expenditure within one year		
Net assets restricted to the passage of time (\$9,139,750 less amount to be collected within one year \$276,872)	(8,862,878)	(9,575,114)
Net assets restricted for a specified purpose	(259,511)	(116,694)
Unappropriated earnings on endowment	(764,106)	(515,108)
Perpetual endowment	(5,256,562)	(3,804,574)
Investments held for long-term purposes	(24,174,779)	(24,395,039)
	(39,317,836)	(38,406,529)
	\$ 5,165,175	\$ 5,989,710

In addition, investments held for long-term purposes could be made available if needed.

6. INVESTMENTS

Investment composition by type of fund as of June 30, 2023 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Certificates of deposit	\$ 5,611,150	\$ -	\$ 5,611,150
Fixed income securities	9,701,537	1,592,413	11,293,950
Equity mutual funds	9,378,906	3,645,031	13,023,937
	\$ 24,691,593	\$ 5,237,444	\$ 29,929,037

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6. INVESTMENTS (continued)

Investment composition by type of fund as of June 30, 2022 was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Certificates of deposit	\$ 6,661,973	\$ -	\$ 6,661,973
Fixed income securities	10,139,267	1,276,757	11,416,024
Equity mutual funds	<u>8,093,799</u>	<u>2,842,717</u>	<u>10,936,516</u>
	<u>\$ 24,895,039</u>	<u>\$ 4,119,474</u>	<u>\$ 29,014,513</u>

Investment income for the year ended June 30, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 583,096	\$ 103,973	\$ 687,069
Unrealized gains, net	1,189,193	468,972	1,658,165
Realized losses, net	(296,960)	(52,995)	(349,955)
Investment management fees	<u>(72,215)</u>	<u>(23,683)</u>	<u>(95,898)</u>
	<u>\$ 1,403,114</u>	<u>\$ 496,267</u>	<u>\$ 1,899,381</u>

Investment loss for the year ended June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 481,438	\$ 87,016	\$ 568,454
Unrealized losses, net	(2,604,184)	(606,128)	(3,210,312)
Realized gains (losses), net	(103,909)	2,091	(101,818)
Investment management fees	<u>(93,527)</u>	<u>(25,287)</u>	<u>(118,814)</u>
	<u>\$ (2,320,182)</u>	<u>\$ (542,308)</u>	<u>\$ (2,862,490)</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.

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7. 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 unconditional promises to give as of both June 30, 2023 and 2022 ranged from 1.69% to 5%.

Unconditional promises to give consisted of the following:

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 603,252	\$ 828,561
More than one year	<u>13,558,303</u>	<u>13,787,974</u>
	<u>14,161,555</u>	<u>14,616,535</u>
Less: discounts to net present value	(4,011,369)	(4,196,820)
Less: allowance for uncollectible promises to give	<u>(449,308)</u>	<u>(252,108)</u>
Net unconditional promises to give	9,700,878	10,167,607
Less: current portion of unconditional promises to give	<u>(406,537)</u>	<u>(592,493)</u>
	<u>\$ 9,294,341</u>	<u>\$ 9,575,114</u>

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 5,146,351	\$ 5,146,351
Land improvements	2,823,625	3,012,837
Buildings	16,416,630	16,403,741
Machinery, equipment, furniture, and fixtures	1,884,004	1,839,024
Trucks and vans	<u>422,994</u>	<u>497,999</u>
	26,693,604	26,899,952
Accumulated depreciation	<u>(8,212,746)</u>	<u>(8,121,756)</u>
	<u>\$ 18,480,858</u>	<u>\$ 18,778,196</u>

Depreciation expense for the years ended June 30, 2023 and 2022 was \$735,808 and \$701,859, respectively.

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9. BONDS PAYABLE

Bonds payable consist of the following:

	2023	2022
Bonds payable	\$ 9,000,000	\$ 9,450,000
Unamortized bond issuance costs	<u>(278,333)</u>	<u>(292,367)</u>
	8,721,667	9,157,633
Less: current portion of bonds payable	<u>(450,000)</u>	<u>(450,000)</u>
	<u>\$ 8,271,667</u>	<u>\$ 8,707,633</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. During the year ended June 30, 2022, the Organization renewed, extending the expiration date to April 30, 2025. 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 mature on May 1, 2043. The bonds were rated AA+ effective as of August 11, 2011.

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 year ended June 30, 2023, the fees for the letter of credit, administration, and interest rate ranged from 1.65% to 6.33%, with an average of 3.81%. During the fiscal year ended June 30, 2022, the fees for the letter of credit, administration, and interest rate ranged from 1.02% to 1.98%, with an average of 1.24%.

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 Organization paid letter of credit fees in the amount of \$68,717 during the year ended June 30, 2023.

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9. BONDS PAYABLE (continued)

The future maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>		
2024	\$	450,000
2025		450,000
2026		450,000
2027		450,000
2028		450,000
Thereafter		<u>6,750,000</u>
	<u>\$</u>	<u>9,000,000</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, or received a temporary waiver for, all covenants at June 30, 2023 and 2022, and for the fiscal years ended June 30, 2023 and 2022.

See Note 15 for fair value on the bonds payable.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent unconditional promises to give 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, 2022	Additions	Releases	Reclass	Balance at June 30, 2023
	<u>2022</u>	<u>Additions</u>	<u>Releases</u>	<u>Reclass</u>	<u>2023</u>
Time restricted	\$ 10,167,607	\$ 1,231,452	\$ (1,698,180)	\$ (561,129)	\$ 9,139,750
Purpose restricted	116,694	1,207,042	(1,064,225)	-	259,511
Unappropriated earnings on endowment	515,108	496,267	(247,269)	-	764,106
Beneficial interest held in perpetual trust	229,576	-	-	-	229,576
Perpetual endowment	<u>3,804,574</u>	<u>890,859</u>	<u>-</u>	<u>561,129</u>	<u>5,256,562</u>
	<u>\$ 14,833,559</u>	<u>\$ 3,825,620</u>	<u>\$ (3,009,674)</u>	<u>\$ -</u>	<u>\$ 15,649,505</u>

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11. IN-KIND CONTRIBUTIONS

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

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

	2023	2022
Donated pro bono legal services	\$ 103,300	\$ 34,835
Donated supplies	16,087	63,759
	119,387	98,594
Special events supplies and auction items	-	15,813
	\$ 119,387	\$ 114,407

The Organization recognized contributed nonfinancial assets within revenue, including contributed professional services, supplies, and auction items. Unless otherwise noted, contributed non-financial assets did not have donor-imposed restrictions. The donated professional services consisted of legal services. The value of these professional services are measured using the estimated hourly rate for the attorney providing the services. Donated supplies and auction items are valued at the price paid by the donor to acquire these items.

The Organization also received donated services that are central to the Organization's operations. During the years ended June 30, 2023 and 2022, approximately 2,400 and 2,000 active volunteers donated approximately 156,500 and 146,800 hours of time valued at approximately \$4,976,000 and \$4,397,000, respectively to the Organization. The value of volunteer time is based on the estimated hourly value of volunteer time in the United States 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. 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 the fiscal year ended 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.

12. 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, 2023 and 2022, totaled \$156,570 and \$128,173, respectively.

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13. 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.

During the year ended June 30, 2022, the Organization started a contract with the City of San Jose (San Jose Animal Care Center or "SJACC").

During the years ended June 30, 2023 and 2022, contract revenue from these agreements totaled \$458,877 and \$480,139, respectively.

14. COLLECTIVE BARGAINING UNIT

Approximately 49% of the Organization's employees are covered by a collective bargaining union agreement with the Services Employees International Union, Local 521. It was renewed in January 2023 and expires on August 31, 2026. 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.

15. 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, 2023 was estimated to be \$8,625,000. 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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15. 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ 5,611,150	\$ -	\$ -	\$ 5,611,150
Fixed income securities	11,293,950	-	-	11,293,950
Equity mutual funds	<u>13,023,937</u>	<u>-</u>	<u>-</u>	<u>13,023,937</u>
	<u>\$ 29,929,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,929,037</u>
Unconditional promises to give, current portion				
Campaign pledges	\$ -	\$ -	\$ 299,782	\$ 299,782
Operating pledges without donor restrictions	<u>-</u>	<u>-</u>	<u>106,755</u>	<u>106,755</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,537</u>	<u>\$ 406,537</u>
Unconditional promises to give, net of current portion				
Campaign pledges	\$ -	\$ -	\$ 6,062,847	\$ 6,062,847
Operating pledges without donor restrictions	<u>-</u>	<u>-</u>	<u>3,231,494</u>	<u>3,231,494</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,294,341</u>	<u>\$ 9,294,341</u>

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15. 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ 6,661,973	\$ -	\$ -	\$ 6,661,973
Fixed income securities	11,416,024	-	-	11,416,024
Equity mutual funds	<u>10,936,516</u>	<u>-</u>	<u>-</u>	<u>10,936,516</u>
	<u>\$ 29,014,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,014,513</u>
Unconditional promises to give, current portion				
Campaign pledges	\$ -	\$ -	\$ 255,536	\$ 255,536
Operating pledges without donor restrictions	-	-	334,151	334,151
Special events pledges	<u>-</u>	<u>-</u>	<u>2,806</u>	<u>2,806</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 592,493</u>	<u>\$ 592,493</u>
Unconditional promises to give, net of current portion				
Campaign pledges	\$ -	\$ -	\$ 5,975,464	\$ 5,975,464
Operating pledges without donor restrictions	<u>-</u>	<u>-</u>	<u>3,599,650</u>	<u>3,599,650</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,575,114</u>	<u>\$ 9,575,114</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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15. 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, 2023:

	Unconditional Promises to Give
Balance, June 30, 2022	\$ 10,167,607
New promises to give, net of present value adjustments	987,851
Payments on promises to give, net of present value adjustments	(1,257,380)
Increase in allowance for doubtful accounts	(197,200)
Balance, June 30, 2023	\$ 9,700,878

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2022:

	Unconditional Promises to Give
Balance, June 30, 2021	\$ 6,488,293
New promises to give, net of present value adjustments	4,584,717
Payments on promises to give, net of present value adjustments	(804,892)
Increase in allowance for doubtful accounts	(100,511)
Balance, June 30, 2022	\$ 10,167,607

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, 2023 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	\$ 193,114	\$ 185,308	\$ (197,252)	\$ 181,170
Special events, net	(2,400)	143	52	(2,205)
	\$ 190,714	\$ 185,451	\$ (197,200)	\$ 178,965

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15. 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, 2022 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	\$ 5,225,979	\$ (865,072)	\$ (100,542)	\$ 4,260,365
Special events, net	<u>5,000</u>	<u>123</u>	<u>31</u>	<u>5,154</u>
	<u>\$ 5,230,979</u>	<u>\$ (864,949)</u>	<u>\$ (100,511)</u>	<u>\$ 4,265,519</u>

The carrying values and fair values of the Organization's financial instruments at June 30, 2023:

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 4,537,054	\$ 4,537,054
Accounts receivable	93,947	93,947
Unconditional promises to give, current portion	406,537	406,537
Short-term investments - other	516,814	516,814
Investments	19,063,629	19,063,629
Long-term investments - other	5,111,150	5,111,150
Unconditional promises to give, net of current portion	9,294,341	9,294,341
Cash and cash equivalents held for endowment purposes	222,095	222,095
Investments held for endowment purposes	<u>5,237,444</u>	<u>5,237,444</u>
	<u>\$ 44,483,011</u>	<u>\$ 44,483,011</u>
Financial liabilities		
Current liabilities, excluding bonds payable	\$ 1,347,537	\$ 1,347,537
Bonds payable	<u>9,000,000</u>	<u>8,625,000</u>
	10,347,537	9,972,537
Unamortized bond issuance costs	<u>(278,333)</u>	<u>(278,333)</u>
	<u>\$ 10,069,204</u>	<u>\$ 9,694,204</u>

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15. FAIR VALUE (continued)

The carrying values and fair values of the Organization's financial instruments at June 30, 2022:

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 4,795,650	\$ 4,795,650
Accounts receivable	218,261	218,261
Unconditional promises to give, current portion	592,493	592,493
Short-term investments - other	500,000	500,000
Investments	18,233,066	18,233,066
Long-term investments - other	6,161,973	6,161,973
Unconditional promises to give, net of current portion	9,575,114	9,575,114
Cash and cash equivalents held for endowment purposes	200,208	200,208
Investments held for endowment purposes	4,119,474	4,119,474
	\$ 44,396,239	\$ 44,396,239
Financial liabilities		
Current liabilities, excluding bonds payable	\$ 1,305,099	\$ 1,305,099
Bonds payable	9,450,000	9,419,000
	10,755,099	10,724,099
Unamortized bond issuance costs	(292,367)	(292,367)
	\$ 10,462,732	\$ 10,431,732

16. 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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16. 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. As of June 30, 2023, there were three individual endowment funds with deficiencies totaling \$2,603. There were no such deficiencies as of June 30, 2022.

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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16. 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:

	2023	2022
Investments held for endowment purposes	\$ 5,237,444	\$ 4,119,474
Cash and cash equivalents held for endowment purposes	222,095	200,208
Endowment unconditional promises to give	561,129	-
	\$ 6,020,668	\$ 4,319,682

Endowment net asset composition by type of fund as of June 30, 2023 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Donor-restricted endowment funds	\$ 764,106	\$ 5,256,562	\$ 6,020,668

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Donor-restricted endowment funds	\$ 515,108	\$ 3,804,574	\$ 4,319,682

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16. ENDOWMENT (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2023 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
	<u> </u>	<u> </u>	<u> </u>
Balance, June 30, 2022	\$ 515,108	\$ 3,804,574	\$ 4,319,682
Investment return			
Interest and dividend income	103,973	-	103,973
Net gains (realized and unrealized)	415,977	-	415,977
Investment management fees	<u>(23,683)</u>	<u>-</u>	<u>(23,683)</u>
Total investment return	496,267	-	496,267
Contributions	-	890,859	890,859
Reclass (see Note 10)	-	561,129	561,129
Appropriation of earnings for expenditure	<u>(247,269)</u>	<u>-</u>	<u>(247,269)</u>
	<u>248,998</u>	<u>1,451,988</u>	<u>1,700,986</u>
Balance, June 30, 2023	<u>\$ 764,106</u>	<u>\$ 5,256,562</u>	<u>\$ 6,020,668</u>

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
	<u> </u>	<u> </u>	<u> </u>
Balance, June 30, 2021	\$ 1,293,843	\$ 3,565,986	\$ 4,859,829
Investment return			
Interest and dividend income	87,016	-	87,016
Net losses (realized and unrealized)	(604,037)	-	(604,037)
Investment management fees	<u>(25,287)</u>	<u>-</u>	<u>(25,287)</u>
Total investment return	(542,308)	-	(542,308)
Contributions	-	238,588	238,588
Appropriation of earnings for expenditure	<u>(236,427)</u>	<u>-</u>	<u>(236,427)</u>
	<u>(778,735)</u>	<u>238,588</u>	<u>(540,147)</u>
Balance, June 30, 2022	<u>\$ 515,108</u>	<u>\$ 3,804,574</u>	<u>\$ 4,319,682</u>

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17. RELATED PARTY TRANSACTIONS

Contributions, including new pledges, received from members of the Organization's Board of Directors totaled approximately \$618,000 and \$6,758,000, for the years ended June 30, 2023 and 2022, respectively.

18. SUBSEQUENT EVENTS

On September 1, 2023, the Organization entered into a new leasing arrangement for storage space in Milpitas, California for a period of three years and one month. The total commitment over the term of the lease is approximately \$104,000.

During the year ending June 2024, the Organization received a donation of preferred stock. In addition, the Organization is actively looking to lease a space for a community clinic.

On November 28, 2023, the Board of Directors approved a plan to repay the balance of the Organization's bond in its entirety during the year ending June 30, 2024.