

**Santa Maria Valley Humane Society**

**Financial Statements**

**Year Ended June 30, 2017**

**Santa Maria Valley Humane Society**  
**Financial Statements**  
**Year Ended June 30, 2017**

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## Independent Auditors' Report

To the Board of Directors of  
Santa Maria Valley Humane Society

We have audited the accompanying financial statements of Santa Maria Valley Humane Society (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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.

### Auditors' 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 of 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 auditors' 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.

**Board of Directors**

**Santa Maria Valley Humane Society**

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Maria Valley Humane Society as of June 30, 2017, 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.

A handwritten signature in blue ink that reads "Glenn Burdette Attest Corporation". The signature is written in a cursive style and is placed over a light gray rectangular background.

Glenn Burdette Attest Corporation

San Luis Obispo, California

November 28, 2017

**Santa Maria Valley Humane Society**  
**Statement of Financial Position**  
**June 30, 2017**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 1,477,457
Accounts receivable	4,631
Promises to give, net of allowance	11,200
Inventories	21,711
Prepaid expenses	8,919
Investments	<u>169,479</u>
Total current assets	1,693,397

**Property and equipment, net of accumulated depreciation and amortization** 3,719,672

**Other assets:**

Investments	<u>255,600</u>
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    Total assets \$ 5,668,669

**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 7,063
Payroll liabilities	13,786
Accrued liabilities	12,369
Current portion of notes payable	<u>27,155</u>
Total current liabilities	<u>60,373</u>

**Long-term liabilities:**

Notes payable, net of current portion	<u>100,000</u>
Total long term liabilities	<u>100,000</u>

    Total liabilities 160,373

**Net assets:**

Unrestricted	5,365,185
Board designated quasi-endowment	53,195
Temporarily restricted	89,916
Total net assets	<u>5,508,296</u>

    Total liabilities and net assets \$ 5,668,669

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

**Santa Maria Valley Humane Society**  
**Statement of Activities**  
**Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and other revenue:</b>			
Contributions	\$ 344,825	\$ 93,525	\$ 438,350
Grants	129,500		129,500
In kind contributions - donated lease	146,400		146,400
In kind contributions - goods and services	57,733		57,733
Shelter services	61,061		61,061
Veterinary services	173,786		173,786
Fundraising, net of direct costs of \$18,115	101,431		101,431
Interest and dividends	13,858		13,858
Realized and unrealized gains on investments	33,475		33,475
Miscellaneous income	578		578
	<u>1,062,647</u>	<u>93,525</u>	<u>1,156,172</u>
<b>Total support and other revenue</b>			
	<u>1,062,647</u>	<u>93,525</u>	<u>1,156,172</u>
<b>Net assets released from restrictions</b>	<u>1,923,476</u>	<u>(1,923,476)</u>	<u>-</u>
<b>Expenses:</b>			
Program services - shelter	766,402		766,402
Program services - clinic	308,052		308,052
Management and general	193,363		193,363
Fundraising	134,472		134,472
Total expenses	<u>1,402,289</u>		<u>1,402,289</u>
Change in net assets	1,583,834	(1,829,951)	(246,117)
<b>Net assets - beginning of year</b>	<u>3,834,546</u>	<u>1,919,867</u>	<u>5,754,413</u>
<b>Net assets - end of year</b>	<u>\$ 5,418,380</u>	<u>\$ 89,916</u>	<u>\$ 5,508,296</u>

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

**Santa Maria Valley Humane Society**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

	<u>Program Services</u>		<u>Support Services</u>		<u>Total</u>
	<u>Shelter</u>	<u>Clinic</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 289,945	\$ 123,723	\$ 113,932	\$ 64,837	\$ 592,437
In kind contributions expense - lease	146,400				146,400
In kind contributions expense - services	57,733				57,733
Depreciation and amortization	46,157	27,694	18,463		92,314
Veterinary fees	6,640	67,825			74,465
Payroll tax and service	30,417	12,629	11,630	6,618	61,294
Utilities	50,927	7,068	1,820	1,065	60,880
Pet medications	14,335	29,630			43,965
Supplies	12,436	6,318	3,798	2,885	25,437
Workers' compensation	10,591	4,396	4,048	2,305	21,340
Printing and publications	2,141	842	1,387	15,670	20,040
Insurance	16,505	2,291	592	345	19,733
Consulting fees		1,023	3,221	10,325	14,569
Other program expenses	14,362				14,362
Pet food	13,978				13,978
Repairs and maintenance	11,504	1,597	411	241	13,753
Employee training and appreciation	6,723	2,577	2,373	1,350	13,023
Information technology	11,102				11,102
Special events direct costs				10,288	10,288
Audit and accounting			9,825		9,825
Discounts		9,293			9,293
Miscellaneous			8,474		8,474
Bank and merchant fees	2,725	3,505	1,548	621	8,399
Grooming	8,056				8,056
Advertising and promotion	1,018		2,576	3,389	6,983
Equipment	1,893	4,355	695		6,943
Donor acknowledgement				6,778	6,778
Postage and delivery	39		2,453	2,834	5,326
Bad debt expense				4,869	4,869
Dues and subscriptions		2,943	1,777		4,720
Volunteer and education program	4,450				4,450
Uniforms	3,763				3,763
Equipment rental	2,472	343	88	52	2,955
Legal fees			2,151		2,151
Taxes			1,071		1,071
Interest			678		678
Licenses and fees			184		184
Vehicles			168		168
Dog training	90				90
Spay and neuter program					-
	<u>\$ 766,402</u>	<u>\$ 308,052</u>	<u>\$ 193,363</u>	<u>\$ 134,472</u>	<u>\$ 1,402,289</u>

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

**Santa Maria Valley Humane Society**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017**

<b>Cash flows from operating activities:</b>		
Change in net assets		\$ (246,117)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 92,314	
Realized gains on investments	(31,843)	
Changes in operating assets and liabilities:		
Accounts receivable	(2,781)	
Bequest receivable	849,569	
Promises to give, net of allowance	(11,200)	
Inventories	(1,583)	
Prepaid expenses	2,671	
Accounts payable	(12,082)	
Payroll liabilities	(4,319)	
Accrued liabilities	11,789	
Net cash provided by operating activities	<u>646,418</u>	646,418
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(57,915)	
Purchase of investments	(422,933)	
Proceeds from sale of investments	1,085,517	
Net cash provided by investing activities	<u>604,669</u>	604,669
<b>Cash flows from financing activities:</b>		
Repayments on note payable	(1,865)	
Net cash used in financing activities	<u>(1,865)</u>	(1,865)
Net increase in cash and cash equivalents		1,249,222
<b>Cash and cash equivalents - beginning of year</b>		<u>228,235</u>
<b>Cash and cash equivalents - end of year</b>		<u><u>\$ 1,477,457</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid during the period		\$ 13,978
Non cash investing and financing activities:		
Increase in fair value of investments		\$ 1,632

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



**Santa Maria Valley Humane Society**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 1: Nature of Business**

Santa Maria Valley Humane Society (the Organization), a California non-profit public benefit corporation and a 501(c)(3) exempt organization under the Internal Revenue Service code, provides shelter, care, adoption, and veterinary services to homeless dogs and cats in the greater Santa Maria Valley area of California. The Organization also provides educational services on topics such as animal welfare, pet overpopulation, and the responsibilities of pet ownership. The Organization derives its revenues primarily from contributions, grants, and fundraising.

**Note 2: Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting, which recognizes all revenue as income when earned and operating expenses as deductions from income when incurred. The Organization reports information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted. There were no permanently restricted net assets as of June 30, 2017.

**Estimates**

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Contribution and Grant Revenue**

All contribution and grant revenues are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily or permanently restricted. The restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Organization. Donor-restricted contributions and grants whose restrictions are met in the same year are reported as unrestricted support. All gifts granted to the Organization are recorded at fair market value at the time of receipt.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments including demand deposits, money market accounts and certificates of deposit to be cash and cash equivalents. The Organization had cash equivalents at June 30, 2017 of \$831,038 that were held in money market accounts and certificates of deposit.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

The Organization provides an allowance for uncollectible accounts receivable based upon prior experience and management's assessment of the collectability of specific existing accounts. Based on a review of accounts receivable, management has determined that an allowance for doubtful accounts was unnecessary at June 30, 2017. Any bad debts in the future would be charged off as incurred.

**Promises to Give**

Promises to give are unconditional promises to make future payments to the Organization. Promises to give are recognized as contributions in the period pledged when all applicable eligibility requirements are met. Promises to give are recorded net of an allowance for doubtful accounts of \$4,900 at June 30, 2017. Management has determined that the discount to record promises to give at their present value is immaterial to the financial statements and therefore it has not been recorded.

**Inventories**

Inventories consist of pet care products and other retail items held for resale at the shelter and clinic. Inventories are recorded at the lower of cost or market value, using the average cost method.

**Investments and Quasi-Endowment Investments**

The Organization initially records marketable securities at acquisition cost if purchased and subsequently carries them at fair value. Donated investments are reported at fair value at the date of gift. Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold. Net unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

The Organization maintains a board-designated quasi-endowment fund with the Santa Barbara Foundation (the Foundation). The Foundation makes all decisions regarding the investment of funds and charges a fee to the Organization to manage the funds. Investment fees for the Foundation quasi-endowment were \$368 for the year ended June 30, 2017. The quasi-endowment fund is included in unrestricted net assets.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

The quasi-endowment is managed by the Foundation as follows:

*Return Objectives and Risk Parameters:*

The Foundation's goal is to achieve a total return on the Organization's investments equivalent to the Organization's spending requirements, including consideration of long-term inflation rates and management fees. The Foundation uses an investment time horizon of 25 years in which to achieve this goal. The Foundation recognizes both the need for annual income to be produced by the investment for the Organization, and the need for long-term growth of the principal balance in order to increase future purchasing power. These investment objectives call for a philosophy which avoids extreme positions or opportunistic styles and attempts to temper volatility.

*Strategies Employed for Achieving Objectives:*

To satisfy its objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's quasi-endowment invests in a diversified portfolio of fixed income securities and domestic and international equities to provide liquidity and income, as well as other less liquid assets such as private equity, real estate, and hedge funds, to provide long-term appreciation.

*Spending Policy and How the Investment Objectives Relate to Spending Policy:*

The Organization's Board may appropriate for expenditure in any year as much of the net appreciation, realized and unrealized, in value of the quasi-endowment over the original dollar value of the investment as is deemed prudent, however not to exceed the maximum spending rate established under each specific investor's agreement. The maximum spending rate applicable to the Organization's investment is equal to 4% of the average fund balance over the past three years. The adherence to a maximum spending rate is intended to protect the fund from a decline in value due to the effects of inflation and the costs of investment management. This is consistent with the objectives of maintaining and growing the purchasing power of the quasi-endowment while still providing annual income to the Organization.

**Property and Equipment**

Buildings and improvements, purchased equipment and computers, and furniture are recorded at cost. Donated furniture and equipment are recorded at estimated fair value at the date of receipt and the Organization has adopted a policy of not implying a time restriction on donated assets, which are recorded as increases in unrestricted net assets. It is the policy of the Organization to capitalize assets with a unit cost of more than \$500. Depreciation of buildings and improvements, equipment and computers, and furniture is provided using the straight-line method over the estimated useful lives.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

Buildings and improvements	10 - 50 years
Furniture and fixtures	10 - 20 years
Equipment and computers	3 - 10 years

**Fair Value Measurements**

The Organization records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) (the Topic). This Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Topic also establishes a three-tier hierarchy, as follows, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2:* Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Investments:* Mutual funds and quasi-endowment investments are recorded at fair value based upon quoted market prices using Level 1 and Level 2 inputs.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

This hierarchy requires the Organization to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

At June 30, 2017, the following sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 169,479	\$	\$	\$ 169,479
Certificate of deposit	202,405			202,405
Santa Barbara Foundation Fund		53,195		53,195
Total assets at fair value	<u>\$ 371,884</u>	<u>\$ 53,195</u>	<u>\$ -</u>	<u>\$ 425,079</u>

**Income Taxes**

The Organization is recognized by the Internal Revenue Service as a qualified section 501(c)(3) non-profit organization, and as such, is not liable for Federal income and State franchise tax. However, the Organization remains subject to taxes on any net income that is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose with certain exclusions. No income taxes have been recorded in the accompanying financial statements since management believes the Organization has no taxable unrelated business income.

Income Taxes Topic of FASB ASC requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of June 30, 2017, management has considered its tax positions and believes that the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. The Organization does not expect any material changes through June 30, 2018. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after June 30, 2014, and by the California Franchise Tax Board for fiscal years ending on or after June 30, 2013.

**Donated Goods and Services**

The Organization receives donations of time and services from members of the community and volunteers. The value of these donations is not reflected in the accompanying financial statements since no objective basis is available to measure the value of these services. In-kind donations of fixed assets, professional services, and supplies used directly by the organization are valued at their appraised values at the time of the gift. The total value of these in kind contributions was \$204,133 for the year ended June 30, 2017.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2017 totaled \$6,983.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Concentrations**

*Credit Risk:*

The Organization's bank accounts from time to time exceed the Federal Deposit Insurance Corporation (FDIC) limit, which covers up to \$250,000 of the Organization's combined accounts. As of June 30, 2017, the company had \$690,067 in excess of the FDIC insurance limits.

*Major Funding:*

At June 30, 2017, pledges from three donors made up 37% of the promises to give balance.

**Note 3: Promises to Give**

At June 30, 2017, promises to give were comprised of:

Solar panel project	\$ 16,100
Less allowance for uncollectible accounts	<u>(4,900)</u>
Promises to give, net	<u><u>\$ 11,200</u></u>
Amounts due in:	
One year or less	\$ 3,650
One to five years	<u>12,450</u>
Total amounts due	<u><u>\$ 16,100</u></u>

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 4: Investments and Quasi-Endowment Investments**

At June 30, 2017, investments were carried at fair value and consisted of the following:

Mutual funds	\$ 169,479
Certificate of deposit	202,405
Quasi-endowment investments:	
Santa Barbara Foundation Endowment Fund	<u>53,195</u>
Total investments	<u>\$ 425,079</u>

*Quasi-Endowment Investments*

The Santa Barbara Foundation Fund represents a quasi-endowment established by the board in October 2016 and is invested with the Santa Barbara Foundation (the Foundation). The Foundation is a California non-profit, non-stock, public benefit corporation that was established in 1928. The Foundation administers various funds contributed by individuals, organization, and businesses. The funds are managed as a pool of assets. The Foundation's portfolio includes a wide range of investments, including domestic and international equities, fixed income securities, and alternative investments.

For the year ended June 30, 2017, changes in quasi-endowment net assets were as follows:

Quasi-endowment net assets - beginning of year	\$
Investment in Santa Barbara Foundation Endowment Fund	50,000
Investment return:	
Investment income, net of fees	314
Net appreciation (realized and unrealized)	<u>2,881</u>
Quasi-endowment net assets - end of year	<u>\$ 53,195</u>

**Note 5: Property and Equipment**

At June 30, 2017, property and equipment consisted of the following:

Buildings & improvements	\$ 3,796,825
Machinery & equipment	64,038
Furniture & fixtures	152,744
Computers & software	4,650
Construction in progress	<u>17,703</u>
	4,035,960
Less accumulated depreciation and amortization	<u>(316,288)</u>
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 3,719,672</u>

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 6: Notes Payable**

At June 30, 2017, notes payable consisted of the following:

Note payable to the Lee Heller Trust for \$125,000. Note is non-interest bearing and the principal is due in annual installments of \$25,000 through June 2022. A discount on the note was not been recorded as it was considered immaterial to the financial statements.	\$ 125,000
Note payable, due in monthly installments of \$187, including interest charged at 7.0% per annum. The note matures on June 28, 2018.	<u>2,155</u>
	127,155
Less current portion	<u>(27,155)</u>
Notes payable, net of current portion	<u>\$ 100,000</u>

At June 30, 2017, future minimum principal payments were as follows:

<u>For the Year Ending June 30,</u>	
2018	\$ 27,155
2019	25,000
2020	25,000
2021	25,000
2022	<u>25,000</u>
Total	<u>\$ 127,155</u>

**Note 7: Line of Credit**

On April 5, 2017, the Organization entered into a \$250,000 revolving line of credit with Rabobank. The line of credit matures on February 26, 2018. The line of credit bears interest at 6% annually. There was no outstanding balance on the line of credit as of June 30, 2017.

**Note 8: Net Assets**

At June 30, 2017, temporarily restricted net assets were available for the following purposes:

Purpose restricted donations:	
Guardian angel program	\$ 20,030
Solar panel project	50,805
Other specific programs	<u>19,081</u>
Temporarily restricted net assets	<u>\$ 89,916</u>



**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 9: Operating Lease**

The Organization leases 21,000 square feet of property from the City of Santa Maria under a forty year operating lease agreement effective July 20, 2010, with the option to extend the lease for two additional five year periods upon maturity. This property contains the Organization's main operating office and facilities, which are owned outright by the Organization and not included in the lease agreement. The monthly rent on the property has been waived by the City of Santa Maria for the duration of the lease as the Organization is deemed to provide valuable services to the community. The fair value of the lease for the year ended June 30, 2017 has been recorded at \$146,400 and included as in-kind contributions on the statement of activities.

**Note 10: Power Purchase Agreement**

In December 2016 the Organization entered into a power purchase agreement with a solar power supplier. Under the agreement, the Organization will purchase solar energy from the power supplier for a monthly fee based upon kilowatt hours of energy used each month. The solar power will be provided by solar panels constructed by a third party and installed on the roof of the Organization's office building. These solar panels were not constructed as of June 30, 2017, and as such the power purchase agreement had not commenced as of that date. Legal title to the solar panels is not held by the Organization, but rather by the power supplier, who will lease the roof space from the Organization at a nominal monthly amount. Once construction of the solar panels is complete, the power purchase agreement will commence and the Organization will begin making monthly payments based upon usage of solar energy provided by the panels.

The minimum term of this power purchase agreement is five years, at which time the Organization may choose to extend the agreement for a maximum of 15 additional years. If the Organization withdraws from the power purchase agreement for any reason before commencement, it will be required to repay to the power supplier the abandoned construction costs of the solar panels, which were \$151,000 as of June 30, 2017, plus accrued interest on this amount at 9% per annum. Additionally, if the Organization withdraws from the power purchase agreement at any time after commencement, it will be required to pay the stipulated loss value, which ranges from \$228,000 in year one to \$30,000 in year twenty. The Organization has the option of purchasing the solar panels from the power supplier at their current fair market value at the end of years five, 10, or 20 of the agreement.

**Note 11: Subsequent Events**

Events subsequent to June 30, 2017 have been evaluated through November 28, 2017, which is the date the financial statements were available to be issued. Management identified the following event that meets the requirements for disclosure.

**Santa Maria Valley Humane Society**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 11: Subsequent Events (Continued)**

During July 2017 the Organization entered into two operating lease agreements to lease lab equipment and various copy and printing machines. The lab equipment lease has a term of six years and requires monthly payments of \$662. The two copy and printing machines leases each have a term of five years and require monthly payments of \$675 and \$804.