

**SANTA BARBARA HUMANE SOCIETY
FOR THE PREVENTION OF
CRUELTY TO ANIMALS
FINANCIAL STATEMENTS
DECEMBER 31, 2019**

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

December 31, 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Santa Barbara Humane Society for the Prevention of Cruelty to Animals

Santa Barbara, California

We have audited the accompanying financial statements of the Santa Barbara Humane Society for the Prevention of Cruelty to Animals (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Humane Society for the Prevention of Cruelty to Animals as of December 31, 2019, and the change 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.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Humane Society for the Prevention of Cruelty to Animals 2018 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated October 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

July 14, 2020

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Comparative Totals As Of December 31, 2018)

ASSETS

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Memo) 2018 Total
Current Assets				
Cash and cash equivalents	\$ 233,778	\$ -	\$ 233,778	\$ 2,130,759
Accounts receivable	9,040	-	9,040	7,964
Investment income receivable	-	60,154	60,154	30,077
Pledges and bequests receivable, current portion	-	624,901	624,901	3,390,396
Prepaid expenses	34,769	-	34,769	60,169
Total Current Assets	<u>277,587</u>	<u>685,055</u>	<u>962,642</u>	<u>5,619,365</u>
Other Assets				
Investments	17,947,842	20,876,303	38,824,145	29,814,345
Perpetual interest trust	-	196,695	196,695	204,995
Pledges and bequests receivable, net of current portion	-	37,625	37,625	48,125
Other assets	320,320	-	320,320	419,010
Property and equipment, net	1,482,776	-	1,482,776	1,212,378
Total Other Assets	<u>19,750,938</u>	<u>21,110,623</u>	<u>40,861,561</u>	<u>31,698,853</u>
Total Assets	<u>\$ 20,028,525</u>	<u>\$ 21,795,678</u>	<u>\$ 41,824,203</u>	<u>\$ 37,318,218</u>

LIABILITIES AND NET ASSETS

Current Liabilities				
Accounts payable	\$ 59,563	\$ -	\$ 59,563	\$ 109,396
Accrued expenses	156,179	-	156,179	146,179
Total Current Liabilities	<u>215,742</u>	<u>-</u>	<u>215,742</u>	<u>255,575</u>
Net Assets				
Without donor restrictions	19,812,783	-	19,812,783	14,677,778
With donor restrictions	-	21,795,678	21,795,678	22,384,865
Total Net Assets	<u>19,812,783</u>	<u>21,795,678</u>	<u>41,608,461</u>	<u>37,062,643</u>
Total Liabilities and Net Assets	<u>\$ 20,028,525</u>	<u>\$ 21,795,678</u>	<u>\$ 41,824,203</u>	<u>\$ 37,318,218</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2019

(With Comparative Totals For the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Memo) 2018 Total
Support, Revenue, and Other Income				
Support				
Contributions, bequests, and grants	\$ 375,335	\$ 762,860	\$ 1,138,195	\$ 7,619,745
Membership	1,000	-	1,000	59,019
Other support	45,809	-	45,809	16,449
Total Support	<u>422,144</u>	<u>762,860</u>	<u>1,185,004</u>	<u>7,695,213</u>
Revenue				
Veterinary clinic	358,011	-	358,011	237,188
Boarding fees	125,520	-	125,520	123,422
Crematory	68,371	-	68,371	89,665
Other service revenue	180,703	-	180,703	61,595
Total Revenue	<u>732,605</u>	<u>-</u>	<u>732,605</u>	<u>511,870</u>
Other Income				
Royalty income	43,972	-	43,972	51,771
Change in value of perpetual interest trust	-	(8,300)	(8,300)	(29,488)
Interest and dividends	430,410	649,290	1,079,700	893,769
Realized gain (loss) on investments	10,460	15,691	26,151	(57,241)
Unrealized gain (loss) on investments	2,030,411	3,045,616	5,076,027	(2,054,812)
Unrealized gain (loss) on other assets	(98,690)	-	(98,690)	32,883
Net assets released from restrictions	5,054,344	(5,054,344)	-	-
Total Other Income	<u>7,470,907</u>	<u>(1,352,047)</u>	<u>6,118,860</u>	<u>(1,163,118)</u>
Total Support, Revenue, and Other Income	<u>8,625,656</u>	<u>(589,187)</u>	<u>8,036,469</u>	<u>7,043,965</u>
Expenses				
Program Services				
Shelter and kennel	1,330,851	-	1,330,851	1,054,558
Veterinary clinic	921,225	-	921,225	634,263
Education	54,102	-	54,102	110,764
Crematory	38,614	-	38,614	41,722
Total Program Services	<u>2,344,792</u>	<u>-</u>	<u>2,344,792</u>	<u>1,841,307</u>
Supporting Services				
General	794,545	-	794,545	525,253
Fundraising	351,314	-	351,314	222,002
Total Supporting Services	<u>1,145,859</u>	<u>-</u>	<u>1,145,859</u>	<u>747,255</u>
Total Expenses	<u>3,490,651</u>	<u>-</u>	<u>3,490,651</u>	<u>2,588,562</u>
Changes in Net Assets	5,135,005	(589,187)	4,545,818	4,455,403
Net Assets, Beginning of the Year	<u>14,677,778</u>	<u>22,384,865</u>	<u>37,062,643</u>	<u>32,607,240</u>
Net Assets, End of the Year	<u>\$ 19,812,783</u>	<u>\$ 21,795,678</u>	<u>\$ 41,608,461</u>	<u>\$ 37,062,643</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

(With Comparative Totals For the Year Ended December 31, 2018)

	Program Services					Supporting Services			2019	(Memo) 2018
	Shelter	Clinic	Education	Crematory	Total Program	Management	Fundraising	Total Supporting	Total	Total
Expenses										
Salaries	\$ 919,184	\$ 464,363	\$ 10,614	\$ -	\$ 1,394,161	\$ 227,675	\$ 198,521	\$ 426,196	\$ 1,820,357	\$ 1,258,768
Benefits	110,802	45,294	5,251	-	161,347	94,979	25,113	120,092	281,439	269,966
Payroll taxes	70,817	37,707	1,193	-	109,717	32,450	12,901	45,351	155,068	101,750
Clinical professional	3,182	24,002	6,913	-	34,097	5,370	3,905	9,275	43,372	104,971
Supplies	55,300	78,181	789	6,778	141,048	40,591	2,321	42,912	183,960	108,949
Legal and professional	19,825	23,129	3,304	6,608	52,866	336,682	6,608	343,290	396,156	194,137
Medications	84	78,519	-	-	78,603	-	-	-	78,603	121,155
Utilities	32,504	22,243	9,235	9,883	73,865	4,937	2,152	7,089	80,954	78,237
Depreciation	23,736	27,692	11,868	7,912	71,208	7,912	-	7,912	79,120	66,451
Insurance	13,536	15,792	2,256	4,512	36,096	4,512	4,512	9,024	45,120	39,594
Animal food	30,353	238	-	-	30,591	-	-	-	30,591	32,629
Auto, travel, and meetings	599	697	228	-	1,524	14,577	2,455	17,032	18,556	31,809
Repairs and maintenance	11,529	4,047	912	-	16,488	5,675	-	5,675	22,163	33,579
Printing and postage	961	401	-	-	1,362	8,678	19,363	28,041	29,403	24,297
Outside spay and neuter	-	79,100	-	-	79,100	-	-	-	79,100	32,000
Items purchased for resale	32,247	5,661	-	-	37,908	-	-	-	37,908	18,168
Bank fees	3,323	7,068	878	1,756	13,025	1,756	1,756	3,512	16,537	13,789
Advertising	-	-	-	-	-	-	70,985	70,985	70,985	38,700
Property and other taxes	2,166	2,527	361	1,165	6,219	1,337	722	2,059	8,278	8,153
Dues and perscriptions	560	2,731	300	-	3,591	3,678	-	3,678	7,269	4,225
Uniform and laundry	143	1,833	-	-	1,976	3,736	-	3,736	5,712	6,524
Membership	-	-	-	-	-	-	-	-	-	711
2019 Total Expenses	\$ 1,330,851	\$ 921,225	\$ 54,102	\$ 38,614	\$ 2,344,792	\$ 794,545	\$ 351,314	\$ 1,145,859	\$ 3,490,651	
2018 Total Expenses (Memo)	\$ 1,054,558	\$ 634,263	\$ 110,764	\$ 41,722	\$ 1,841,307	\$ 525,253	\$ 222,002	\$ 747,255		\$ 2,588,562

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

(With Comparative Totals For the Year Ended December 31, 2018)

	2019	(Memo) 2018
	<u>2019</u>	<u>2018</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 4,545,818	\$ 4,455,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,121	66,451
Unrealized (gain) loss on investments	(5,076,027)	2,054,812
Realized (gain) loss on investments	(26,151)	57,241
Decrease (increase) in accounts, pledges, and bequests receivable	2,774,919	(2,325,955)
Decrease (increase) in investment income receivable	(30,077)	13,419
Decrease (increase) in prepaid expenses	25,400	(17,529)
Decrease in value of perpetual interest trust	8,300	29,488
Decrease (increase) in value of other assets	98,690	(32,883)
Increase (decrease) in accounts payable and accrued expenses	<u>(39,834)</u>	<u>64,778</u>
Net Cash Provided by Operating Activities	<u>2,360,159</u>	<u>4,365,225</u>
Cash Flow from Investing Activities		
Purchase of property and equipment	(349,518)	(41,822)
Proceeds from sale of securities	22,139	1,897,914
Purchase of securities	<u>(3,929,761)</u>	<u>(4,283,770)</u>
Net Cash Used by Investing Activities	<u>(4,257,140)</u>	<u>(2,427,678)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,896,981)	1,937,547
Cash at Beginning of the Year	<u>2,130,759</u>	<u>193,212</u>
Cash at End of the Year	<u>\$ 233,778</u>	<u>\$ 2,130,759</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES

Organization

The Santa Barbara Humane Society for the Prevention of Cruelty to Animals (the Society), a California nonprofit corporation, was founded in 1887 and is dedicated to the welfare of all animals in Santa Barbara, California and the surrounding area. Its services include shelter care of animals, adoption services, spay and neuter clinical services, euthanasia services, investigation services and education. Based on total expenses, the shelter and kennel activity constitutes the major activity of the Society. These activities are funded primarily by public support and investment income.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting following accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

The Organization reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions." Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the Organization as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Society classifies unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Property and Equipment

Property and equipment in excess of \$1,000 are capitalized at cost. The Society's investment in equipment and leasehold improvements is stated at cost, or fair market value if donated. Depreciation is calculated using the straight-line method over an estimated useful life of three to forty years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include: allocation of certain expenses by function, fair market value of other assets, and depreciable lives of property and equipment.

Contributions and Bequests

Contributions received are recorded at their fair value on the date of donation. Contributions receivable are recognized as revenue when committed and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Society accrues bequests when all the events required for the transfer of the assets from the estate of the donor to the Society have occurred and/or the court has issued an order to transfer the assets.

Donated Services

Some individuals and organizations have donated time to the Society, to further its programs and objectives. Volunteers contributed approximately 5,368 hours to the Society in 2019. As this volunteer service does not meet the recognition requirements of generally accepted accounting principles, no amount has been recorded in these financial statements for these services.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

The Society allocates its expenses on a functional basis among its various projects and support services. Expenses that can be identified with a specific project and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Society is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d). The Society is not currently involved in any activity that is subject to unrelated business income tax; therefore, no provision for income taxes is required. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Society evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2019, the Society had no uncertain tax positions requiring accrual. The Society files tax returns in U.S. federal and California jurisdictions. The Society is no longer subject to U.S. federal and state tax examinations by tax authorities for the years ending before 2016 and 2015, respectively.

Subsequent Events

The Society has evaluated subsequent events through July 14, 2020, the date which the financial statements were available to be issued.

Note 3 - PLEDGES AND BEQUESTS RECEIVABLE

Pledges and bequests receivable are included in the financial statements as net assets with donor restrictions. The Society is also income beneficiary of a charitable lead annuity trust, and residual beneficiary of a charitable remainder trust, which are included in the amounts reported as pledges and bequests receivable. A discount factor of 2% is applied to amounts receivable in more than one year. These amounts are considered fully collectible and therefore no allowance for uncollectible receivables has been recorded. At December 31, 2019, contributions and bequests receivable are expected to be realized in the following periods:

In one year or less	\$ 624,901
In more than one year	<u>37,625</u>
Pledges and bequests receivable, net	<u>\$ 662,526</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2019:

Land	\$ 117,917
Land improvements	306,501
Buildings and improvements	2,789,277
Furniture and office equipment	239,620
Shelter equipment	239,693
Vehicles	<u>252,847</u>
Total Property and Equipment	3,945,855
Less: Accumulated depreciation	<u>(2,463,079)</u>
Property and equipment, net	<u>\$ 1,482,776</u>

Note 5 - INVESTMENTS

Investments are presented in the financial statements at fair market value. Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the balance sheet date. Realized and unrealized gains and losses on investments are reflected in the Statement of Activities. At December 31, 2019, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gains</u>
Money market funds	\$ 2,344,637	\$ 2,344,637	\$ -
Equities and index funds	14,469,166	19,845,584	5,376,418
Bonds and fixed income	<u>16,157,271</u>	<u>16,633,924</u>	<u>476,653</u>
Total	<u>\$ 32,971,074</u>	<u>\$ 38,824,145</u>	<u>\$ 5,853,071</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gains</u>
Balance at end of the year	\$ 32,971,074	\$ 38,824,145	\$ 5,853,071
Balance at beginning of the year	\$ 29,037,301	\$ 29,814,345	<u>777,044</u>
Unrealized loss			<u>\$ 5,076,027</u>

The following summarizes the investment return included in the statement of activities for the year ended December 31, 2019:

Interest and dividend income	\$ 1,079,700
Realized gain on value of securities	26,151
Unrealized gain on value of securities	<u>5,076,027</u>
Total Investment Return	<u>\$ 6,181,878</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 6 - INTEREST IN TRUSTS

Perpetual Income Trust Interest

The Society is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by the Society. Under these arrangements, the Society has the irrevocable right to receive income earned on the underlying assets held in perpetuity. Income received from the trust is for support of general operations. Since the Society is a beneficiary of this stream of income in perpetuity, the Society's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of \$196,695 at December 31, 2019. Any change in subsequent fair market value of the Society's share of the investments is recorded in the Statement of Activities as a change in value of perpetual interest in trust. For the year ended December 31, 2019, the Society received \$672 in distributions from the trust.

Discretionary Income Trust Interest

The Society is named as an income beneficiary of a discretionary trust, the corpus of which is not controlled by the Society. Under these arrangements, the Society has the right to receive income earned on the underlying assets, subject to the discretion of the trustee. Income received from the trust is for support of general operations. Because the trustee retains discretion over distributions of income, the assets are not recorded on the Society's financial statements. For the year ended December 31, 2019, the Society received \$2,959 in distributions from the trust.

Community Foundation Endowment Trust Interest

The Society is the beneficiary of four endowments held by Santa Barbara Foundation. Because the Santa Barbara Foundation has been granted variance power, the endowment assets are not recorded on the Society's financial statements. The income from these endowments is used to support general operations. The Society is entitled to the income produced by the endowment in accordance with the Santa Barbara Foundation's spending policy, but has no control or access to the principal. For the year ended December 31, 2019, the Society received \$71,344 in distributions from these endowment trusts.

Note 7 - OTHER ASSETS

Other assets of the Society totaling \$320,320 for the year ended December 31, 2019, includes oil and gas rights and undeveloped land.

Oil and gas rights are a 50% undivided interest in 130 properties located in Oklahoma, Missouri and Louisiana with an estimated fair value of \$276,820 as of December 31, 2019.

Undeveloped land consists of a 1/8th interest in land in Fresno, California with an estimated fair value of \$3,500, and undeveloped land located in Hornbrook, California with an estimate fair value of \$40,000 as of December 31, 2019.

NOTES TO FINANCIAL STATEMENTS

Note 8 - FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Society to sell an asset or be paid by the Society to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including estimates by management and information valuation methods

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair market valuation of Level 3 securities is based on estimates of management, information valuation methods used within a particular industry, or other market factors to determine if the carrying value of these investments should be adjusted. Because of the inherent uncertainty of valuations, however, the estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 8 - FAIR VALUE MEASUREMENT (continued)

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 2,344,637	\$ -	\$ -	\$ 2,344,637
Equities and index funds	19,845,584	-	-	19,845,584
Bonds and fixed income	<u>16,633,924</u>	<u>-</u>	<u>-</u>	<u>16,633,924</u>
Total Investments	<u>38,824,145</u>	<u>-</u>	<u>-</u>	<u>38,824,145</u>
Perpetual interest trust	196,695	-	-	196,695
Oil and gas rights	-	-	276,820	276,820
Undeveloped land	<u>-</u>	<u>-</u>	<u>43,500</u>	<u>43,500</u>
Total assets measured at fair value	<u>\$ 39,020,840</u>	<u>\$ -</u>	<u>\$ 320,320</u>	<u>\$ 39,341,160</u>

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Money market funds – include held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Equities and index funds – include a variety of publically traded stocks and exchange traded index funds from various industries. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Bonds and fixed income –include fixed income mutual funds and corporate bonds to provide a hedge against deflation, provide a stable return, and to minimize the overall volatility. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) during 2019:

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Gain (Loss)</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Ending Balance</u>
Oil and gas rights	\$ 375,510	\$ (98,690)	\$ -	\$ -	\$ 276,820
Undeveloped land	<u>43,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,500</u>
Total	<u>\$ 419,010</u>	<u>\$ (98,690)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,320</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 9 - CONCENTRATIONS AND RISKS

Concentrations of Pledges and Bequests Receivable

As of December 31, 2019, approximately 55% of the pledges and bequests receivable were due from two estates.

Credit Risk

The Society maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, balances may exceed federally insured limits. At December 31, 2019, cash and cash equivalent balances were fully insured. The Society maintains a majority of cash balances in money market funds. Such balances may not be fully insured.

Market Risk

The Society holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Note 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the passage of time or by satisfying the restricted purposes specified by donors. For the year ended December 31, 2019, net assets released from restriction totaled \$5,054,344.

Note 11 - ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors of the Society has interpreted the California-adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, the Society has classified, at the explicit direction of the donor, as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard for prudence prescribed by UPMIFA.

NOTES TO FINANCIAL STATEMENTS

Note 11 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law (continued)

In accordance with California UPMIFA, the Society considers the following factors in making a determination to appropriate or invest donor restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Society 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 Society.
- (7) The investment policies of the Society.

Endowment Investment and Spending Policies

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity for donor-specified periods and purposes. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Society's endowment is invested in a diversified portfolio of equities, index funds, and fixed income. The portfolio employs both passive index funds and actively managed funds. The portfolio's objective is to achieve a total return equivalent to or greater than the Society's financial requirements over the long-term time horizon. Long-term investment strategies are used to manage risk with the goal to grow charitable dollars over time.

The Society uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Board of Directors calculates the amount of money annually distributed from the Society's various discretionary funds and other endowed funds for general operations. The percentage is based upon the decision of the Board and is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. For the year ended December 31, 2019, the overall spending policy was approximately 4% of the fair market value of investments, while the spending policy related specifically to permanently restricted endowments was 7%.

Endowment net assets with donor restrictions totaled \$20,876,303, consisting of total original gift endowment contributions of \$12,572,000 and accumulated earnings of \$8,304,303 as of December 31, 2019.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 12 - EMPLOYEE BENEFIT PLANS

Pension Plan

The Society maintains a defined contribution pension plan for full-time employees. Upon employment, employees are eligible for participation in the pension plan. No elective employee deferrals are allowed under the Plan. Employees are eligible for employer contributions if they are 21 years of age or greater, have completed one year of employment, and 1,000 hours of work. For eligible employees, the Society makes an annual contribution of 5% of the employees' gross wages. Participants are fully vested after six years. Net contributions to the plan by the Society totaled \$31,714 for the year ended December 31, 2019.

Tax Deferred Annuity

The Society has available to its employees a tax deferred investment plan. All full-time employees are eligible to participate. The Society does not contribute to this plan.

Deferred Compensation

The Society has in place a deferred compensation plan whereby employees can elect to receive salary upon separation from service. At December 31, 2019, there were no active participants in this plan.

Note 13 - LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019:

Current assets	
Cash and cash equivalents available within one year	\$ 233,778
Pledges receivable, current portion	624,901
Accounts receivable	69,194
Other current assets	<u>34,769</u>
Total current assets	<u>962,642</u>
Investments	38,824,145
Less, investments unavailable for general expenditures within one year:	<u>(19,996,303)</u>
Total Investments	<u>18,827,842</u>
Current Liabilities	<u>(215,742)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019	<u>\$19,574,742</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 14 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2019, net assets without donor restrictions consist of the following:

Operating net assets	\$ 8,009,687
Capital improvements	10,000,000
Property and equipment, net	1,482,776
Other assets	<u>320,320</u>
Total Net Assets Without Donor Restrictions	<u>\$ 19,812,783</u>

Net Assets With Donor Restrictions

As of December 31, 2019, net assets with donor restrictions consist of the following:

Pledges, bequests, and interest receivable	\$ 722,680
Donor-restricted endowments	12,572,000
Unappropriated earnings on endowments	8,304,303
Perpetual interest trust	<u>196,695</u>
Total Net Assets With Donor Restrictions	<u>\$ 21,795,678</u>

Note 15 - RECLASSIFICATIONS

Certain amounts from the December 31, 2018 financial statements have been reclassified to conform with the current year's presentation.

Note 16 - SBA LOAN UNDER PAYCHECK PROTECTION PROGRAM

On April 30, 2020, the Society received loan funding of \$224,035 under the Paycheck Protection Program as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The Society determined the funding was not necessary for continued operations. As of July 14, 2020, the entire amount of \$224,035 was in process of being returned.

Note 17 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of July 14, 2020, the Society's office remains open, subject to regulated and reduced hours.

The Society cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Society's financial position, changes in net assets and cash flows in 2020 and the future.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 17 - SUBSEQUENT EVENTS (continued)

Effective February 1, 2020, the Santa Barbara Humane Society acquired the Santa Maria Valley Humane Society. The acquisition includes all the assets and liabilities of the Santa Maria Valley Humane Society. The fair values of the assets and liabilities acquired as of February 1, 2020, were approximately \$4,179,000 and \$104,000, respectively. In consideration of the acquisition, the Santa Maria operations will continue.