



Santa Barbara Humane  
Audited Financial Statements  
December 31, 2020



**SANTA BARBARA HUMANE**

December 31, 2020

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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 dba Santa Barbara Humane (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 dba Santa Barbara Humane as of December 31, 2020, 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 dba Santa Barbara Humane 2019 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated July 14, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California

June 15, 2021

**SANTA BARBARA HUMANE**

STATEMENT OF FINANCIAL POSITION

December 31, 2020

(With Comparative Totals As Of December 31, 2019)

**ASSETS**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Assets				
Cash and cash equivalents	\$ 830,772	\$ -	\$ 830,772	\$ 233,778
Accounts receivable	-	-	-	9,040
Investment income receivable	-	19,924	19,924	60,154
Pledges and bequests receivable	-	2,333,442	2,333,442	662,526
Prepaid expenses	68,918	-	68,918	34,769
Perpetual interest trust	-	247,793	247,793	196,695
Property and equipment, net	5,117,420	-	5,117,420	1,482,776
Other assets	202,725	-	202,725	320,320
Investments - undesignated	8,172,733	-	8,172,733	7,947,842
Investments - board designated	10,000,000	-	10,000,000	10,000,000
Investments - endowment	-	22,321,129	22,321,129	20,876,303
<b>Total Assets</b>	<b><u>\$ 24,392,568</u></b>	<b><u>\$ 24,922,288</u></b>	<b><u>\$ 49,314,856</u></b>	<b><u>\$ 41,824,203</u></b>

**LIABILITIES AND NET ASSETS**

Liabilities				
Accounts payable	\$ 141,027	\$ -	\$ 141,027	\$ 59,563
Accrued expenses	141,649	-	141,649	156,179
Total Liabilities	<u>282,676</u>	<u>-</u>	<u>282,676</u>	<u>215,742</u>
Net Assets				
Without Donor Restrictions				
Undesignated	8,992,472	-	8,992,472	8,330,007
Board designated quasi-endowment	10,000,000	-	10,000,000	10,000,000
Invested in property and equipment	5,117,420	-	5,117,420	1,482,776
Total Without Donor Restrictions	<u>24,109,892</u>	<u>-</u>	<u>24,109,892</u>	<u>19,812,783</u>
With Donor Restrictions	-	24,922,288	24,922,288	21,795,678
Total Net Assets	<u>24,109,892</u>	<u>24,922,288</u>	<u>49,032,180</u>	<u>41,608,461</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 24,392,568</u></b>	<b><u>\$ 24,922,288</u></b>	<b><u>\$ 49,314,856</u></b>	<b><u>\$ 41,824,203</u></b>

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

**SANTA BARBARA HUMANE**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the Year Ended December 31, 2020

(With Comparative Totals For the Year Ended December 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, Revenue, and Other Income				
Support				
Contributions and grants	\$ 513,460	\$ -	\$ 513,460	\$ 375,335
Membership	-	-	-	1,000
Other support	14,271	-	14,271	45,809
Total Support	527,731	-	527,731	422,144
Revenue				
Sheltering and rehoming	125,970	-	125,970	222,886
Veterinary care	493,515	-	493,515	346,996
Training and rehabilitation	22,674	-	22,674	22,490
Retail sales	167,977	-	167,977	71,862
Other service revenue	43,475	-	43,475	68,371
Total Revenue	853,611	-	853,611	732,605
Other Income				
Royalty income	30,531	-	30,531	43,972
Total Other Income	30,531	-	30,531	43,972
Net assets released from restrictions	1,466,037	(1,466,037)	-	-
Total Support, Revenue, and Other Income	2,877,910	(1,466,037)	1,411,873	1,198,721
Expenses				
Program Services				
Sheltering and rehoming	1,818,387	-	1,818,387	1,330,851
Veterinary care	1,563,978	-	1,563,978	921,225
Training and rehabilitation	125,494	-	125,494	54,102
Other	-	-	-	38,614
Total Program Services	3,507,859	-	3,507,859	2,344,792
Supporting Services				
Management and general	639,505	-	639,505	794,545
Fundraising	322,622	-	322,622	351,314
Total Supporting Services	962,127	-	962,127	1,145,859
Total Expenses	4,469,986	-	4,469,986	3,490,651
Operating Loss	(1,592,076)	(1,466,037)	(3,058,113)	(2,291,930)
Non-Operating Income				
Bequests	-	2,215,449	2,215,449	762,860
Change in value of perpetual interest trust	-	51,098	51,098	(8,300)
Gain on sale of assets	8,100	-	8,100	-
Unrealized loss on other assets	(117,595)	-	(117,595)	(98,690)
Interest and dividend income	485,937	565,875	1,051,812	1,079,700
Realized and unrealized gains on investments	1,511,570	1,760,225	3,271,795	5,102,178
Total Non-Operating Income	1,888,012	4,592,647	6,480,659	6,837,748
<b>Changes in Net Assets</b>	<b>295,936</b>	<b>3,126,610</b>	<b>3,422,546</b>	<b>4,545,818</b>
Net Assets, Beginning of the Year	19,812,783	21,795,678	41,608,461	37,062,643
Net Assets acquired via acquisition of Santa Maria Valley Humane Society	4,001,173	-	4,001,173	-
<b>Net Assets, End of the Year</b>	<b>\$ 24,109,892</b>	<b>\$ 24,922,288</b>	<b>\$ 49,032,180</b>	<b>\$ 41,608,461</b>

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, 2020

(With Comparative Totals For the Year Ended December 31, 2019)

	Program Services				Total Program	Supporting Services			2020	2019
	Sheltering and Rehoming	Veterinary Care	Training and Rehabilitation	Other		Management and General	Fundraising	Total Supporting	Total	Total
Expenses										
Salaries	\$ 1,019,219	\$ 787,178	\$ 52,776	\$ -	\$ 1,859,173	\$ 383,638	\$ 214,656	\$ 598,294	\$ 2,457,467	\$ 1,820,357
Benefits	180,143	165,922	9,746	-	355,811	71,111	47,406	118,517	474,328	281,439
Payroll taxes	72,888	56,467	3,836	-	133,191	50,779	15,901	66,680	199,871	155,068
Clinical professional	-	12,343	-	-	12,343	-	-	-	12,343	43,372
Supplies	74,090	105,390	2,594	-	182,074	10,749	6,194	16,943	199,017	183,960
Legal and professional	1,140	6,142	-	-	7,282	50,833	4,600	55,433	62,715	396,156
Medications	1,068	89,641	-	-	90,709	-	-	-	90,709	78,603
Utilities	71,676	35,215	7,367	-	114,258	9,168	5,283	14,451	128,709	80,954
Depreciation	94,235	81,753	32,515	-	208,503	3,315	1,910	5,225	213,728	79,120
Insurance	34,830	34,830	4,975	-	74,635	14,927	9,952	24,879	99,514	45,120
Animal food	27,868	206	-	-	28,074	-	-	-	28,074	30,591
Auto, travel, and meetings	9,412	7,274	333	-	17,019	2,425	1,397	3,822	20,841	18,556
Repairs and maintenance	94,950	60,494	6,458	-	161,902	12,646	7,287	19,933	181,835	22,163
Printing and postage	15,886	12,978	828	-	29,692	6,023	3,471	9,494	39,186	29,403
Outside spay and neuter	-	24,614	-	-	24,614	-	-	-	24,614	79,100
Items purchased for resale	40,777	6,988	-	-	47,765	-	-	-	47,765	37,908
Bank fees	1,769	8,487	32	-	10,288	14,803	2,726	17,529	27,817	16,537
Advertising	77,384	61,495	4,034	-	142,913	-	-	-	142,913	70,985
Property and other taxes	293	728	-	-	1,021	354	-	354	1,375	8,278
Dues and prescriptions	720	5,377	-	-	6,097	5,127	1,839	6,966	13,063	7,269
Uniform and laundry	39	456	-	-	495	3,607	-	3,607	4,102	5,712
<b>2020 Total Expenses</b>	<b>\$ 1,818,387</b>	<b>\$ 1,563,978</b>	<b>\$ 125,494</b>	<b>\$ -</b>	<b>\$ 3,507,859</b>	<b>\$ 639,505</b>	<b>\$ 322,622</b>	<b>\$ 962,127</b>	<b>\$ 4,469,986</b>	
<b>2019 Total Expenses (Memo)</b>	<b>\$ 1,330,851</b>	<b>\$ 921,225</b>	<b>\$ 54,102</b>	<b>\$ 38,614</b>	<b>\$ 2,344,792</b>	<b>\$ 794,545</b>	<b>\$ 351,314</b>	<b>\$ 1,145,859</b>		<b>\$ 3,490,651</b>

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

**SANTA BARBARA HUMANE**

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2020

(With Comparative Totals For the Year Ended December 31, 2019)

	2020	2019
Cash Flow from Operating Activities		
Change in net assets	\$ 3,422,546	\$ 4,545,818
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	213,728	79,121
Unrealized (gain) loss on investments	2,554,889	(5,076,027)
Realized gain on investments	(5,826,684)	(26,151)
Decrease (increase) in accounts, pledges, and bequests receivable	(1,661,876)	2,774,919
Decrease (increase) in investment income receivable	40,230	(30,077)
Decrease (increase) in prepaid expenses	(34,149)	25,400
Decrease (increase) in value of perpetual interest trust	(51,098)	8,300
Decrease in value of other assets	117,595	98,690
Increase (decrease) in accounts payable and accrued expenses	66,934	(39,834)
Net Cash Provided (Used) by Operating Activities	(1,157,885)	2,360,159
 Cash Flow from Investing Activities		
Proceeds from sale of property and equipment	8,100	-
Purchase of property and equipment	(135,440)	(349,518)
Proceeds from sale of securities	38,486,945	22,139
Purchase of securities	(36,604,726)	(3,929,761)
Net Cash Provided (Used) by Investing Activities	1,754,879	(4,257,140)
 <b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>596,994</b>	<b>(1,896,981)</b>
 Cash at Beginning of the Year	233,778	2,130,759
 <b>Cash at End of the Year</b>	<b>\$ 830,772</b>	<b>\$ 233,778</b>

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



**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 1 - ORGANIZATION AND ACTIVITIES

Organization (Who We Are)

The Santa Barbara Humane Society for the Prevention of Cruelty to Animals, dba Santa Barbara Humane (SB Humane) and Santa Maria Valley Humane Society (SMVHS), is a California nonprofit corporation founded in 1887 and dedicated to the welfare of all animals in Santa Barbara County. SB Humane operates two campuses in Santa Barbara and Santa Maria providing care for community-owned and homeless animals. Both locations offer affordable high quality veterinary care, compassionate behavior training programs, and a relinquishment program for owners who can no longer care for their pets. Homeless animals receive medical care, shelter, and basic behavior training until their adoption.

Effective February 1, 2020, SB Humane acquired all of the assets and liabilities of SMVHS and in consideration thereof the Santa Maria operations will continue. The fair value of the acquired assets and liabilities were \$4,105,109 and \$103,936, respectively. 2019 amounts in financials include only SB Humane.

Program Services (What We Do)

**Veterinary care:** The pandemic caused a major shift in community need for affordable, high quality veterinary care. Families who had never utilized shelter clinic services were reaching out for care for their animals from basic services like vaccines to more intense needs like enucleations and amputations. Of the more than 25,000 services performed at affordable costs, more than 1,000 families utilized a new donor-funded medical assistance program. Because prohibitive veterinary costs are a common reason why families relinquish their pets, this program ultimately kept animals healthy and in their homes.

**Sheltering and rehoming:** Despite an initial closure of services due to the global pandemic, a robust transfer program supporting regional overcrowded shelters sourced 824 animals for the adoption program and provided temporary shelter for more than 100 stray animals locally. A shift in operations to an open-admission shelter also provided a new chance for 498 publicly surrendered animals to receive care and a new home without being pre-screened for age, health, or other concerns. A large portion of the program expenses ensured homeless animals were ready for adoption, including an initial medical exam, a behavior assessment, and basic obedience training along with shelter, food, and care. Adoptions were so swift that the length of stay for animals rarely extended past three days. In total, 1,433 animals were placed in loving homes in 2020.

**Training and rehabilitation:** Through the Confident Canine School of Behavior, affordable training was offered at both campuses for families and pets who gained skills to limit uncomfortable experiences and increase trust. Scholarships were provided for those who needed financial support to ensure no one was turned away. Shelter animals received individualized attention beginning with a behavior assessment upon intake, and any dogs who needed extra attention were assigned a behavior treatment plan for daily attention, providing the best chance at succeeding in their future homes. With the addition of four new members to the team, SB Humane was able to assist 1,322 animals through the shelter program and more than 500 families through public classes.

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of SB Humane 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

SB Humane 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 SB Humane as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

SB Humane 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. SB Humane'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 fifty 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.

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

Donated Services

Some individuals and organizations have donated time to SB Humane, to further its programs and objectives. Volunteers contributed approximately 4,767 hours to SB Humane in 2020. 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**  
**NOTES TO FINANCIAL STATEMENTS**

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

SB Humane 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

SB Humane 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). SB Humane is not currently involved in any activity that is subject to unrelated business income tax; therefore, no provision for income taxes is required. SB Humane 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).

Income Taxes

SB Humane 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, 2020, SB Humane had no uncertain tax positions requiring accrual. SB Humane files tax returns in U.S. federal and California jurisdictions. SB Humane is no longer subject to U.S. federal and state tax examinations by tax authorities for the years ending before 2017 and 2016, respectively.

Subsequent Events

SB Humane has evaluated subsequent events through June 15, 2021, 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. SB Humane 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, 2020, contributions and bequests receivable are expected to be realized in the following periods:

In one year or less	\$ 2,284,266
In more than one year	<u>49,176</u>
Pledges and bequests receivable, net	<u>\$ 2,333,442</u>

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2020:

Land	\$ 117,917
Land improvements	306,501
Buildings and improvements	6,719,627
Furniture and office equipment	760,682
Shelter equipment	239,693
Vehicles	<u>256,144</u>
Total Property and Equipment	8,400,564
Less: Accumulated depreciation	<u>(3,283,144)</u>
Property and equipment, net	<u>\$ 5,117,420</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, 2020, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gains</u>
Money market funds	\$ 458,811	\$ 458,811	\$ -
Equities and index funds	15,874,441	19,074,978	3,200,537
Bonds and fixed income	20,795,183	20,892,828	97,645
SB Foundation Fund	<u>67,245</u>	<u>67,245</u>	<u>-</u>
Total	<u>\$ 37,195,680</u>	<u>\$ 40,493,862</u>	<u>\$ 3,298,182</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	\$ 37,195,680	\$ 40,493,862	\$ 3,298,182
Balance at beginning of the year	\$ 32,971,074	\$ 38,824,145	<u>5,853,071</u>
Unrealized loss			<u>\$ (2,554,889)</u>

The following summarizes the investment return included in the statement of activities for the year ended December 31, 2020:

Interest and dividend income	\$ 1,051,812
Realized gain on sale of securities	5,826,684
Unrealized loss on value of securities	<u>(2,554,889)</u>
Total Investment Return	<u>\$ 4,323,607</u>

The realized gain on sale of securities is due to a change in investment managers in 2020. The investment portfolio was liquidated with the prior investment firm which caused an increase in realized gains. The sales proceeds were reinvested in a portfolio with the new investment manager.

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 6 - INTEREST IN TRUSTS

Perpetual Income Trust Interest

SB Humane is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by SB Humane. Under these arrangements, SB Humane 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 SB Humane is a beneficiary of this stream of income in perpetuity, SB Humane's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of \$247,793 at December 31, 2020. Any change in subsequent fair market value of the SB Humane'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, 2020, SB Humane received \$8,300 in distributions from the trust.

Discretionary Income Trust Interest

SB Humane is named as an income beneficiary of a discretionary trust, the corpus of which is not controlled by SB Humane. Under these arrangements, SB Humane 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 SB Humane's financial statements. For the year ended December 31, 2020, SB Humane received \$15,000 in distributions from the trust.

Community Foundation Endowment Trust Interest

SB Humane 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 SB Humane's financial statements. The income from these endowments is used to support general operations. SB Humane 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, 2020, SB Humane received \$71,107 in distributions from these endowment trusts.

Note 7 - OTHER ASSETS

Other assets of SB Humane totaling \$202,725 for the year ended December 31, 2020, 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 \$159,225 as of December 31, 2020.

Undeveloped land consists of a 1/8<sup>th</sup> 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, 2020.

**SANTA BARBARA HUMANE**  
**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 SB Humane to sell an asset or be paid by SB Humane 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.

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**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, 2020:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 458,811	\$ -	\$ -	\$ 458,811
Equities and index funds	19,074,978	-	-	19,074,978
Bonds and fixed income	20,892,828	-	-	20,892,828
SB Foundation Fund	-	67,245	-	67,245
Total Investments	<u>40,426,617</u>	<u>67,245</u>	<u>-</u>	<u>40,493,862</u>
Perpetual interest trust	247,793	-	-	247,793
Oil and gas rights	-	-	159,225	159,225
Undeveloped land	-	-	43,500	43,500
Total assets measured at fair value	<u>\$ 40,674,410</u>	<u>\$ 67,245</u>	<u>\$ 202,725</u>	<u>\$ 40,944,380</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 2020:

<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	\$ 276,820	\$ (117,595)	\$ -	\$ -	\$ 159,225
Undeveloped land	43,500	-	-	-	43,500
Total	<u>\$ 320,320</u>	<u>\$ (117,595)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,725</u>



**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 9 - CONCENTRATIONS AND RISKS

Concentrations of Pledges and Bequests Receivable

As of December 31, 2020, approximately 80% of the pledges and bequests receivable were due from three estates.

Credit Risk

SB Humane 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, 2020, uninsured cash and cash equivalent balances totaled approximately \$311,000. SB Humane maintains a majority of cash balances in money market funds. Such balances may not be fully insured.

Market Risk

SB Humane 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, 2020, net assets released from restriction totaled \$1,466,037.

Note 11 - ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors of SB Humane 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, SB Humane 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 SB Humane in a manner consistent with the standard for prudence prescribed by UPMIFA.

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 11 - ENDOWMENT FUNDS (continued)

In accordance with California UPMIFA, SB Humane 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 SB Humane 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 SB Humane.
- (7) The investment policies of SB Humane.

Endowment Investment and Spending Policies

SB Humane 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 SB Humane 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.

SB Humane'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 SB Humane'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.

SB Humane 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 SB Humane'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, 2020, 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 \$22,321,129, consisting of total original gift endowment contributions of \$12,572,000 and accumulated earnings of \$9,749,129 as of December 31, 2020.

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 12 - EMPLOYEE BENEFIT PLANS

Pension Plan

SB Humane maintains a defined contribution 401(k) 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, SB Humane makes an annual contribution of 5% of the employees' gross wages. Participants are fully vested after six years. Net contributions to the plan by SB Humane totaled \$31,457 for the year ended December 31, 2020.

Tax Deferred Annuity

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

Deferred Compensation

SB Humane has in place a deferred compensation plan whereby employees can elect to receive salary upon separation from service. At December 31, 2020, 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, 2020:

Current assets	
Cash and cash equivalents available within one year	\$ 830,772
Pledges receivable, current portion	2,284,266
Accounts receivable	19,924
Other current assets	<u>68,918</u>
Total current assets	<u>3,203,880</u>
Investments	40,493,862
Less, investments unavailable for general expenditures within one year:	<u>(31,441,089)</u>
Total Investments	<u>9,052,773</u>
Current Liabilities	<u>(282,676)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2020	<u>\$11,973,977</u>

**SANTA BARBARA HUMANE**  
**NOTES TO FINANCIAL STATEMENTS**

Note 14 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2020, net assets without donor restrictions consist of the following:

Operating net assets	\$ 8,789,747
Board designated	10,000,000
Property and equipment, net	5,117,420
Other assets	<u>202,725</u>
Total Net Assets Without Donor Restrictions	<u>\$ 24,109,892</u>

Net Assets With Donor Restrictions

As of December 31, 2020, net assets with donor restrictions consist of the following:

Pledges, bequests, and interest receivable	\$ 2,353,366
Donor-restricted endowments	12,572,000
Unappropriated earnings on endowments	9,749,129
Perpetual interest trust	<u>247,793</u>
Total Net Assets With Donor Restrictions	<u>\$ 24,922,288</u>

Note 15 - RECLASSIFICATIONS

Certain amounts from the December 31, 2019 financial statements have been reclassified to conform with the current year's presentation.

Note 16 - RELATED PARTY

The Treasurer of SB Humane is part owner of an accounting firm which provides bookkeeping services to SB Humane. SB Humane paid \$10,330 for bookkeeping services during 2020.

Note 17 - UNCERTAINTY

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 June 15, 2021, SB Humane's office remains open, subject to regulated and reduced hours.

SB Humane cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact SB Humane's financial position, changes in net assets and cash flows in 2021 and the future.