

Humane Society Silicon Valley

Financial Statements

June 30, 2020
(With Comparative Totals for 2019)



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Humane Society Silicon Valley (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society Silicon Valley as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 4 to the financial statements, the Organization has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 5 of the financial statements, 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. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Humane Society Silicon Valley's 2019 financial statements, and our report dated December 2, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

November 30, 2020

Humane Society Silicon Valley
Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,603,185	\$ 3,299,789
Accounts receivable	112,445	106,284
Unconditional promises to give, current portion	187,463	467,598
Inventory	109,315	66,639
Prepaid expenses	524,578	301,825
Short-term investments - other	500,000	500,000
Total current assets	8,036,986	4,742,135
Property and equipment, net	19,543,797	19,585,017
Other assets		
Investments	16,334,977	14,792,923
Long-term investments - other	6,440,569	5,552,843
Unconditional promises to give, net of current portion	221,586	461,593
Cash and cash equivalents held for endowment purposes	201,220	136,800
Investments held for endowment purposes	3,778,189	3,628,235
Beneficial interest in perpetual trust	229,576	229,576
Total other assets	27,206,117	24,801,970
Total assets	\$ 54,786,900	\$ 49,129,122
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 359,195	\$ 382,686
Bonds payable, current portion	450,000	450,000
Accrued payroll and related benefits	356,176	255,897
Accrued vacation	488,313	390,158
Deferred fees	164,741	96,703
Total current liabilities	1,818,425	1,575,444
Long-term liabilities		
Paycheck Protection Program forgivable loan	1,471,600	-
Bonds payable, net of current portion	9,579,566	10,015,533
Total long-term liabilities	11,051,166	10,015,533
Total liabilities	12,869,591	11,590,977
Net assets		
Without donor restrictions		
Undesignated	2,371,662	2,706,312
Board-designated for building and equipment repairs	2,668,345	1,779,072
Board-designated for operating reserve	6,576,340	6,167,884
Board-designated for program development	6,000,000	2,000,000
Property and equipment	19,543,797	19,585,017
Total without donor restrictions	37,160,144	32,238,285
With donor restrictions		
Net assets restricted to the passage of time	409,050	929,191
Net assets restricted for a specified purpose	139,130	376,058
Unappropriated earnings on endowment	471,363	483,890
Beneficial interest held in perpetual trust	229,576	229,576
Perpetual endowment	3,508,046	3,281,145
Total with donor restrictions	4,757,165	5,299,860
Total net assets	41,917,309	37,538,145
Total liabilities and net assets	\$ 54,786,900	\$ 49,129,122

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

Humane Society Silicon Valley
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support and revenue				
Program services				
Program fees and charges	\$ 1,587,387	\$ -	\$ 1,587,387	\$ 1,905,998
Pet store and clinic sales, net	166,840	-	166,840	232,894
Total program services	<u>1,754,227</u>	<u>-</u>	<u>1,754,227</u>	<u>2,138,892</u>
Fundraising				
Trust, bequest, and endowments	7,891,812	226,901	8,118,713	2,467,909
Contributions and grants	6,071,761	814,629	6,886,390	6,374,549
Contracts with governmental agencies	301,626	-	301,626	386,705
In-kind contributions	78,068	-	78,068	186,792
Special events, net of \$179,708 and \$669,840 of direct benefit expenses, respectively	(76,219)	-	(76,219)	575,205
Net assets released from restriction	<u>1,784,170</u>	<u>(1,784,170)</u>	<u>-</u>	<u>-</u>
Total fundraising	<u>16,051,218</u>	<u>(742,640)</u>	<u>15,308,578</u>	<u>9,991,160</u>
Other income				
Investment income, net	884,386	199,945	1,084,331	1,311,308
Other income	<u>48,345</u>	<u>-</u>	<u>48,345</u>	<u>109,258</u>
Total other income	<u>932,731</u>	<u>199,945</u>	<u>1,132,676</u>	<u>1,420,566</u>
Total support and revenue	<u>18,738,176</u>	<u>(542,695)</u>	<u>18,195,481</u>	<u>13,550,618</u>
Functional expenses				
Program services				
Programs to Save Lives	9,108,071	-	9,108,071	8,772,266
Community Programs for People and Pets	<u>1,278,535</u>	<u>-</u>	<u>1,278,535</u>	<u>1,344,091</u>
Total program services	<u>10,386,606</u>	<u>-</u>	<u>10,386,606</u>	<u>10,106,357</u>
Support services				
Management and general	1,217,469	-	1,217,469	1,196,407
Fundraising	2,212,242	-	2,212,242	1,609,897
Comprehensive campaign	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,529</u>
Total support services	<u>3,429,711</u>	<u>-</u>	<u>3,429,711</u>	<u>2,909,833</u>
Total functional expenses	<u>13,816,317</u>	<u>-</u>	<u>13,816,317</u>	<u>13,016,190</u>
Change in net assets	4,921,859	(542,695)	4,379,164	534,428
Net assets, beginning of year	<u>32,238,285</u>	<u>5,299,860</u>	<u>37,538,145</u>	<u>37,003,717</u>
Net assets, end of year	<u>\$ 37,160,144</u>	<u>\$ 4,757,165</u>	<u>\$ 41,917,309</u>	<u>\$ 37,538,145</u>

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

Humane Society Silicon Valley
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Services	Support Services		Total Support Services	2020 Total	2019 Total
		Management and General	Fundraising			
Salaries and benefits	\$ 6,819,275	\$ 896,589	\$ 1,412,450	\$ 2,309,039	\$ 9,128,314	\$ 8,288,483
Direct mail, advertising and newsletter expenses	594,662	12,988	377,783	390,771	985,433	724,659
Professional fees and contract services	570,002	171,122	174,577	345,699	915,701	991,177
Operating supplies and services	763,446	-	-	-	763,446	940,207
Depreciation	580,274	33,453	24,592	58,045	638,319	598,938
Occupancy expenses	394,270	20,660	15,187	35,847	430,117	390,038
Interest, fees and amortization on bonds	231,103	13,324	9,794	23,118	254,221	306,874
Management information systems	146,551	30,026	65,596	95,622	242,173	311,458
Other expenses	154,630	18,876	68,341	87,217	241,847	252,643
Office supplies and services	77,688	14,120	57,435	71,555	149,243	134,910
Automobile, travel and meetings	54,705	6,311	6,487	12,798	67,503	76,803
	<u>\$ 10,386,606</u>	<u>\$ 1,217,469</u>	<u>\$ 2,212,242</u>	<u>\$ 3,429,711</u>	<u>\$ 13,816,317</u>	<u>\$ 13,016,190</u>
Percentage of total	<u>75 %</u>	<u>9 %</u>	<u>16 %</u>	<u>25 %</u>	<u>100 %</u>	

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

Humane Society Silicon Valley
Statement of Functional Expenses - Program Services
For the Year Ended June 30, 2020

	<u>Programs to Save Lives</u>				<u>Total Programs to Save Lives</u>	<u>Community Programs for People and Pets</u>	<u>Total Program Services</u>
	<u>Adoptions and Animal Care</u>	<u>Medical Services</u>	<u>Mutual Rescue</u>	<u>Apprenticeships for Knowledge Transfer</u>			
Salaries and benefits	\$ 3,235,874	\$ 2,379,737	\$ 246,497	\$ 91,939	\$ 5,954,047	\$ 865,228	\$ 6,819,275
Direct mail, advertising and newsletter expenses	412,532	165,236	13,706	-	591,474	3,188	594,662
Professional fees and contract services	121,377	172,792	147,880	-	442,049	127,953	570,002
Operating supplies and services	194,872	559,474	1,996	-	756,342	7,104	763,446
Depreciation	383,149	92,585	73	-	475,807	104,467	580,274
Occupancy expenses	242,958	86,751	45	-	329,754	64,516	394,270
Interest, fees and amortization on bonds	152,597	36,871	29	-	189,497	41,606	231,103
Management information systems	68,303	53,225	613	-	122,141	24,410	146,551
Other expenses	73,696	51,799	2,551	-	128,046	26,584	154,630
Office supplies and services	37,848	28,419	1,120	-	67,387	10,301	77,688
Automobile, travel and meetings	35,184	13,608	2,528	207	51,527	3,178	54,705
	<u>\$ 4,958,390</u>	<u>\$ 3,640,497</u>	<u>\$ 417,038</u>	<u>\$ 92,146</u>	<u>\$ 9,108,071</u>	<u>\$ 1,278,535</u>	<u>\$ 10,386,606</u>

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

Humane Society Silicon Valley
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 4,379,164	\$ 534,428
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	638,319	598,938
Amortization of bond origination costs	14,034	14,034
Donated securities	(349,832)	(175,033)
Proceeds from sale of donated investments	351,344	174,647
Donated property and equipment	-	(20,000)
Net realized and unrealized gains on investments	(474,441)	(549,515)
Contributions restricted for long-term purposes	(226,901)	(300,000)
Changes in operating assets and liabilities		
Accounts receivable	(6,161)	(38,903)
Unconditional promises to give	520,142	877,698
Inventory	(42,676)	11,286
Prepaid expenses	(222,753)	(133,989)
Accounts payable and accrued expenses	(23,492)	51,378
Accrued payroll and related benefits	100,279	9,396
Accrued vacation	98,155	74,496
Deferred fees	68,038	50,780
Net cash provided by operating activities	<u>4,823,219</u>	<u>1,179,641</u>
Cash flows from investing activities		
Purchase of property and equipment	(597,099)	(522,695)
Proceeds from sale of investments	23,333,663	2,683,290
Purchase of investments	(25,440,468)	(6,492,069)
Net cash used in investing activities	<u>(2,703,904)</u>	<u>(4,331,474)</u>
Cash flows from financing activities		
Payments on bonds	(450,000)	(450,000)
Contributions restricted for long-term purposes	226,901	300,000
Proceeds from Paycheck Protection Program forgivable loan	1,471,600	-
Net cash provided by (used in) financing activities	<u>1,248,501</u>	<u>(150,000)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	3,367,816	(3,301,833)
Cash, cash equivalents and restricted cash, beginning of year	<u>3,436,589</u>	<u>6,738,422</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 6,804,405</u>	<u>\$ 3,436,589</u>

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

Humane Society Silicon Valley
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 6,603,185	\$ 3,299,789
Cash and cash equivalents held for endowment purposes	201,220	136,800
	\$ 6,804,405	\$ 3,436,589

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 146,074	\$ 178,225
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The accompanying notes are an integral part of these financial statements.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION

Humane Society Silicon Valley (the "Organization") is a California nonprofit public benefit corporation that has operated continuously since 1929. The focus of the Organization is companion animal rescue and homelessness prevention. The Organization serves as a safety net for companion animals in Silicon Valley, sets a national example for innovation and seeks to transform human lives through deeper connections to animals. The Organization is the first organization ever to meet the model shelter standard-of-care guidelines put forth by the Association of Shelter Veterinarians. The impact achieved reflects the quality of the Organization and its people.

Impact *

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

- Saves 100% of all healthy animals in the Organization's care and has done so since 2006. In the year ended June 30, 2020, the Organization saved 95% of *all* animals that came through its doors, including many needing rehabilitation or extended treatment. Save rate is calculated using the total number of animals that entered the shelter, adoptions, animals returned to owners, animals transferred to other agencies or colonies, animals euthanized, and animals that died in care. This save rate compares to the national average of 77% (as reported on <https://www.aspca.org/animal-homelessness/shelter-intake-and-surrender/pet-statistics>).
- Takes in more than 6,200 animals per year, including over 3,800 animals brought in from shelters through the Regional Rescue Program.
- In addition to finding homes for over 5,600 animals across multiple adoption locations, 142 were reunited with their families and almost 260 were transferred out to rescue groups and managed cat colonies.
- Performs more than 7,100 spay/neuter surgeries per year.
- Provides education for approximately 3,600 children, from pre-kindergarten through twelfth grade. These humane education programs enable social and emotional learning through interactions with animals. This includes economically disadvantaged children and at-risk youth – many with little prior exposure to animals.
- Maintains a Net Promoter Score of more than 85 out of 100 for those visitors in Humane Society Silicon Valley's Adoption Center and 96 out of 100 for visitors to its Medical Center. Net Promoter measures the willingness of customers to recommend Humane Society Silicon Valley's services and their loyalty to the brand.
- Is supported by more than 3,700 unique volunteers who provide over 277,000 hours in a variety of volunteer roles in every aspect of the Organization.
- Is funded through the generosity of more than 24,000 individual supporters who provided donations to further the Organization's mission to save and enhance lives.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION (continued)

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

- Addresses the key issues facing under-served individuals who consider pets part of their family to improve peoples' lives and increase mission results. Programs range from emergency boarding to wellness clinics.
- Keeps animals in homes by:
 - Providing post adoption support, including providing 160 animals with behavior support, 74 animals with scholarships for private dog training with a consultant, and 18 scholarships for dog training at Humane Society Silicon Valley.
 - Providing free pet food to community members who cannot afford to feed their pets through the Pet Pantry. The Organization gave nearly 9,500 pounds of dry food, over 10,000 cans of wet food, and 511 pounds of litter to 187 households, wellness clinics, homeless encampments, rescue groups and cat colonies, supporting 3,012 animals, in the year ended June 30, 2020.
 - Administering approximately 15,400 microchips and vaccination services at low-cost to public client animals during the year ended June 30, 2020.
- Educates approximately 3,600 students in over 212 education programs that teach animal care, humane advocacy, and compassion for all living beings.
- Elevates the cause of animal welfare through Mutual Rescue, a national initiative created to bring the causes of people and animals together through authentic storytelling, drive engagement with local shelters nationally through programs like Doggy Day Out, and drive more funds into the animal welfare sector through corporate sponsorships.
 - The Organization maintains its own Doggy Day Out Program to provide exercise and lower the stress levels for large, high energy dogs. Over 210 Doggy Day Out volunteers gave more than 2,700 hours to take approximately 20 dogs a month on walks, hikes and field trips away from the shelter.
 - In the year ended June 30, 2020, \$467,135 of contributions and program fees were restricted or designated to the Mutual Rescue initiative.
 - To date, the Mutual Rescue Doggy Day Out manual, created to help shelters start and manage their own programs, has been downloaded over 560 times since its launch.
 - Mutual Rescue films, which are aimed at demonstrating the incredible impact that an animal and a person have on each other, have over 150 million views.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION (continued)

- During the year ended June 30, 2020, Mutual Rescue produced "Keema & Her Pack," the twelfth in its acclaimed series of short films. Rather than releasing "Keema" online, Mutual Rescue submitted it to selected film festivals in the United States. It was accepted into 9 juried film festivals and honored with 2 awards.
- During the year ended June 30, 2020, previous Mutual Rescue filmed at 6 charity events and film festivals.

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

- Expanding its Regional Rescue Program, aimed at reducing euthanasia by identifying animals at shelters within our community and beyond that need more care or that are housed in overcrowded shelters. By working with partner shelters throughout California, the Organization is working to save vulnerable animals and increase California's save rate. The Organization's Foster Program supports rescue efforts by increasing the space and capacity available to take in and care for animals in need. In the year ended June 30, 2020, more than 3,000 animals were placed in foster care. As Silicon Valley has become more self-sustaining, the Organization has expanded its geographic reach to help animals throughout California. Through the Regional Rescue Program, the Organization brought in more than 823 animals from within Silicon Valley and over 3,000 animals from outside of Silicon Valley in the year ended June 30, 2020.
 - Leads an inter-agency coalition (WeCARE) to save the lives of companion animals in Silicon Valley. The Organization founded this coalition to provide a platform for public animal care agencies to work together as a community to save lives.
 - Is a core member of a six organization coalition called the California Humane Animal Transition Team (CHATT), which consists of animal control agencies, and rescue groups whose goal is to increase lifesaving and improve animal welfare in California's Central Valley. CHATT is committed to improving the flow of animals from Central Valley shelters to destination shelters using standardized processes, building sustainable improvement in the Central Valley through resource sharing, and widening lifesaving capacity through data collection, information sharing, protocol development, and safety nets.
- Prevents unintended births through a range of targeted spay/neuter programs.
 - Administers the Portia Targeted Spay/Neuter Program to address large numbers of homeless animals coming from five specific zip codes in Santa Clara County. Of the Organization's total surgeries in the year ended June 30, 2020, 1,200 were completed as part of this Program.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION (continued)

- Preventing Unintended Pregnancies (PUP) Program allows members of the public to surrender healthy, unintended litters of puppies and kittens with no surrender fee, and the Organization also spays or neuters the mother and father at no charge and returns them to the owners. Eighteen spay/neuter surgeries have been completed through this program in the year ended June 30, 2020.
- Humane Society Silicon Valley provides multiple free trap, neuter and release (TNR) services:
 - The Milpitas Community Cat Program (MCCP) is a targeted TNR program that has helped over 230 cats in Milpitas in the year ended June 30, 2020.
 - To lower the number of homeless cats in Santa Clara County, more than 1,290 spay/neuter surgeries were provided to homeless community cats through the TNR Program in the year ended June 30, 2020.

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

- Provides consultations to under-resourced shelters to share best practices and improve their standards of care and capacity to save lives. Fifteen offsite and onsite shelter consultations were completed as of June 30, 2020.
- Provides education to future and current shelter veterinarians, veterinary technicians, and animal shelter employees. Educated 15 veterinary externs. Hosted 12 shelter/rescue staff from across the country through Maddie’s Apprenticeships to teach them about setting up and managing vital programs to save the lives of more animals. Hosted 2 Maddie’s Executive Fellows for a year-long fellowship (ended January 2020) aimed at teaching leadership skills in the animal welfare sector.
- The Organization's Chief of Shelter Medicine made 9 presentations on shelter medicine and shelter management at national and regional conferences and webinars.

* Statistics unaudited

2. PROGRAM SERVICES

The Organization's programs are as follows:

Community Programs for People and Pets *

- *Dog Training* provides obedience training focused on developing the human-canine bond with special attention on new adopters. Programs promote a positive, force-free philosophy to dog training. In the year ended June 30, 2020, nearly 900 participants attended approximately 230 classes.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

- *Pet Store* offers products and information in areas like nutrition, basic behavior and training tools, grooming, developmental toys, supplements, and other products.
- *Animal Behavior Counseling* counseled 157 post-adoption and pre-surrender pet owners experiencing behavioral challenges with their pets in the year ended June 30, 2020. Support is provided via email, telephone and in person. The Organization's team educates pet owners on behavior management and training options.
- *Lost and Found* provides proactive services for people who have either lost a beloved pet or found an animal, including lost pet recovery counseling, lost and found tours, and other resources.
- *Pet Pantry* provides dog food, cat food and other supplies at no charge to community members who cannot afford to feed their pets or homeless cat colonies.
- *Temporary Emergency Pet Boarding* provides pet boarding for people looking to remove themselves from domestic violence situations or people experiencing homelessness who are hospitalized for medical treatment or rehabilitation.
- *Wellness Clinics* are held monthly to provide spay/neuter and other wellness services to animals belonging to people experiencing homelessness in the community.
- *Grief Counseling* offers, on a regular basis, a support group facilitated by a licensed marriage and family practitioner for people who have suffered the loss of a companion animal.
- *Volunteer Programs* engages community members in a partnership to save and enhance the lives of animals. This partnership is achieved by including volunteers in nearly every aspect of the Organization through a variety of volunteer positions. The Volunteer Board members serve as leaders in the Organization, and volunteers also assist as animal socializers, adoption assistants, medical center assistants, pet store clerks, foster parents, animal transporters, and special event coordinators. The Corporate Volunteer Experience provides Silicon Valley employees with team-building volunteer experiences in which they learn about the Organization's mission and help save lives through hands-on animal experiences.
- *Education* offers a variety of programs for children and teens. They include Kind Kids Field Trips for elementary school students in Title I schools, and a Compassion in Action and Animal Starz programs for pre-teens and teens, Animal Care Workshops emphasizing community activism, Shelter Tours for children and families, Summer Camp, Girl Scouts workshops, and Birthday Parties.

Humane Society Silicon Valley
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

- *Mutual Rescue* is a national initiative created by Humane Society Silicon Valley to change the conversation around animal welfare from “people OR animals” to “people AND animals.” Mutual Rescue brings stories about how shelter animals have changed the lives of people for the better to the world stage. It raises awareness that when people donate to a local animal shelter, they are helping to transform the lives of people in their community for the better through life-changing, human-animal relationships. It also drives engagement with local shelters throughout the country by promoting programs like Doggy Day Out that benefit both animals and humans.
- The following services were discontinued during the year ended June 30, 2020 to focus resources on areas of greater mission impact.
 - *Members Only Dog Park* provided off-leash play environment for dogs and their people.
 - *Grooming* provided grooming services available to the public as well as nearly 50 shelter animals in the year ended June 30, 2020.

Programs to Save Lives: Adoptions and Animal Care *

- *Adoptions* facilitates adoptions by matching prospective pet owners with the right pet for their family, supplying information on pet care to ensure a successful adoption placement, and providing post adoption support to adopters. Adoptions take place at multiple locations, including the Animal Community Center in Milpitas and the Petco Neighborhood Adoption Centers in Sunnyvale and West San Jose. The Organization provides several ongoing discounts to make adoption more affordable to members of the public, including:
 - 60+ Discount offers half-priced adoption fees to adopters who are age 60 and older and adopt a senior pet.
 - Veterans Discount waives the adoption fee of one feline and/or canine within a six-month period for military personnel and veterans.
 - Mommy & Me Pricing when adopting a mother cat, adopters can also take home one of her kittens at no additional cost.
 - FeLV+ Cats (Feline Leukemia Virus) positive cats have an adoption fee of \$10.
- *Behavior* performs behavior assessments on all shelter animals to assist with matching individual animals’ needs with new families and determining when behavior modifications can help an animal’s behavior improve in preparation for adoption. Assists the adoptions process by providing pre-adoption counseling to adopters considering adopting an animal with challenging behaviors. The Behavior Department also oversees the Organization’s Kitten Nursery, which housed and socialized nearly 240 under socialized kittens to increase their adoptability in the year ended June 30, 2020.
- *Animal Care* furnishes food, exercise, training, care, enrichment and support for animals awaiting adoption.

Humane Society Silicon Valley
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2. PROGRAM SERVICES (continued)

- *Intake* provides shelter for animals, including incoming stray animals brought in under contract with the City of Sunnyvale. Assists in providing shelter services to other organizations impacted by local disasters. Offers pet surrender services to the public by appointment as well as pet retention and rehoming counseling. Provides end of life services for pets owned by members of the public.

Programs to Save Lives: Medical Services *

- *Hospital and Triage* performs initial health exams, vaccinations, microchipping, and if needed, long-term medical care for all incoming adoptable shelter animals. Approximately 3,000 animals required medical treatment and rehabilitation by medical staff and fosters in the year ended June 30, 2020.
- *Medical Center Clinic* provides low cost medical services to the public, including spay and neuter surgeries, vaccinations, disease testing, deworming, microchipping and other medical procedures.
- Free Spay and Neuter Services
 - Portia’s Targeted Spay/Neuter Program provides free spay/neuter, vaccination and microchip services to pets of owners living in five targeted zip codes in order to decrease the numbers of unwanted animals entering shelters in Santa Clara County. This program is fulfilled at Humane Society Silicon Valley’s Medical Center, San Jose Animal Care and Services, and through mobile clinics.
 - The Prevent Unwanted Pregnancies (PUP) Program allows members of the public to surrender healthy, unintended litters of puppies and kittens with no surrender fee, and the Organization also spays or neuters the mother and father at no charge and returns them to the owners. Humane Society Silicon Valley finds homes for the surrendered puppies and kittens after providing vet care and spay/neuter surgeries.
 - Homeless Client Services provided more than 260 spay/neuter and wellness services to the pets of people experiencing homelessness in the community in the year ended June 30, 2020.
 - Trap-Neuter-Return (TNR) services for community cats includes spay/neuter surgery, FVRCP (feline distemper combo) and rabies vaccinations, internal/external parasite treatment, an ear tip, and optional microchip and/or FeLV/FIC combination testing.

Programs to Advance Animal Welfare: Apprenticeships for Knowledge Transfer *

- Humane Society Silicon Valley hosted two Maddie’s Executive Leadership Fellows for a year-long intensive professional opportunity for individuals committed to developing and strengthening their knowledge and skill sets in no-kill animal sheltering management and leadership. This program is part of the Organization’s mission to educate and inspire future leaders in animal welfare to improve standards of care for animals in shelters across the country.

Humane Society Silicon Valley
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2. PROGRAM SERVICES (continued)

- The Organization hosts 12 people per year as part of Maddie's Kitten Lifesaving Apprenticeship Program. Apprentices learn about setting up and managing vital programs to manage kittens, including a kitten nursery, feline foster program, and treatments for kittens with diseases.
- The Organization provides education and mentorship to veterinary interns seeking to increase their knowledge in shelter medicine.

* Statistics unaudited

3. CHARITY RATINGS

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

As part of the Organization's long term sustainability plan, the Organization carries low interest, tax-exempt bond debt which was used to finance the construction, equipping and furnishing of the Animal Community Center. Tax-exempt bond financing is common for not-for-profit entities. However, under Charity Navigator's financial rating system, carrying debt is penalized, even for organizations like Humane Society Silicon Valley with a strong financial position. The Organization's current ratio was 4.4 to 1 and 3.0 to 1 at June 30, 2020 and 2019, respectively. The Organization has sufficient liquid assets to pay off the bond payable debt. However, these assets have been invested for long term growth to create an even stronger financial foundation for the future. See Note 10 for more information on the bonds payable.

The Organization's strengths are its program efficiency ratio and its accountability and transparency ratings. The Organization's program expenses are 75% of total expenses, which is considered excellent by Charity Navigator's ratings methodology. In addition, the Organization scored maximum points on the accountability and transparency factors of the rating.

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

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

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

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

Changes in accounting principle

In June 2018, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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

Use of estimates

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

Revenue recognition and deferred revenue

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

Contributions and promises to give

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

In-kind contributions

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which required a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also received donated services that are central to the Organization's operations. While these contributed services are not reflected in the financial statements, the estimated value of these services is disclosed in Note 13.

Cash and cash equivalents

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

Inventory

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

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

Investments

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

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

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

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

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

Promises to give

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

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

Promises to give (continued)

The Organization's fair value method uses a market interest rate to discount the promises to give. Management believes the market rate already factors in much of the credit risk. However, to account for additional risk, a specific identification method is also used to account for the promises considered uncollectible. Allowance for doubtful promises to give as of June 30, 2020 and 2019, was \$11,972 and \$32,019, respectively.

Investments - other

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

Property and equipment

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

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30. Accrued vacation as of June 30, 2020 and 2019, totaled \$488,313 and \$390,158, respectively.

Functional expenses

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

Income tax status

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

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Notes to Financial Statements
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes

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

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended June 30, 2017 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the tax years ended June 30, 2016 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2020 and 2019, totaled \$65,490 and \$133,241, respectively.

Reclassifications

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

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2020 or potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 30, 2020.

5. CONCENTRATIONS AND RISK

Credit risks

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

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5. CONCENTRATIONS AND RISK (continued)

Credit risks (continued)

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

Unconditional promises to give result from pledges by donors located primarily in the San Francisco Bay area. The Organization routinely assesses the financial strength of these various parties. Management does not believe significant risk exists in connection with the Organization's concentration of credit risk for unconditional promises to give at June 30, 2020.

Management does not believe significant risk exists in connection with the other financial instruments identified above at June 30, 2020.

Other risks

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

COVID-19

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. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption to programs and services is expected to be temporary, the Organization was forced to postpone The Fur Ball (the annual fundraiser gala), close corporate programs, and, for a short period of time, close adoptions and other services/programs for the public. As the situation continued to evolve, the Organization adjusted operations to re-open mission critical public programs and services to the extent possible while protecting employees, volunteers, and the public. It is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial condition is likely to be determined by factors which are uncertain and unpredictable.

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6. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE

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

Long-term investments include endowment funds consisting of donor-restricted endowments. Unless otherwise stated by donors, income from donor-restricted endowments is restricted until appropriated in accordance with the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 18, the endowment has a spending rate of up to 7%. Accordingly, \$212,473 of unappropriated earnings on endowment will be available within the next 12 months.

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

Short-term contributions receivable consists of grants, bequests and pledges receivable expected to be received within one year from June 30, 2020. Unrestricted short-term grants, bequests and pledges receivable will be available to support general operations of the Organization.

Assets, excluding investments, serve as collateral on the bonds payable. Bonds payable balance at June 30, 2020 is \$10,350,000. Additionally, a letter of credit covenant requires that the Organization maintain \$10,000,000 in liquid assets.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 6,804,405
Investments	23,275,546
Accounts receivable	112,445
Unconditional promises to give	409,049
Investments held for endowment purposes	3,778,189
	<u>34,379,634</u>
Less: amounts unavailable for general expenditure within one year	
Perpetual endowment	(3,508,046)
Net assets restricted to the passage of time (\$409,050 less amount to be received within one year \$187,463)	(221,587)
Net assets restricted for a specified purpose	(139,130)
Unappropriated earnings on endowment	(471,363)
Board-designated for program development	(6,000,000)
Board-designated for operating reserve	(6,576,340)
Board-designated for building and equipment repairs	(2,668,345)
	<u>(19,584,811)</u>
	<u>\$ 14,794,823</u>

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

As of June 30, 2020, the Organization had financial assets available to cover approximately twelve months of operating expenses based on the fiscal year 2021 budget. In addition, the board-designated funds could be made available in their entirety if needed.

7. INVESTMENTS

Investment composition by type of fund as of June 30, 2020 was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Certificates of deposit	\$ 6,940,569	\$ -	\$ 6,940,569
Fixed income securities	9,953,006	991,134	10,944,140
Equity mutual funds	<u>6,381,971</u>	<u>2,787,055</u>	<u>9,169,026</u>
	<u>\$ 23,275,546</u>	<u>\$ 3,778,189</u>	<u>\$ 27,053,735</u>

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

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

Investment income for the year ended June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 598,003	\$ 87,399	\$ 685,402
Unrealized gains (losses), net	(95,017)	101,199	6,182
Realized gains, net	437,681	30,578	468,259
Investment management fees	<u>(56,281)</u>	<u>(19,231)</u>	<u>(75,512)</u>
	<u>\$ 884,386</u>	<u>\$ 199,945</u>	<u>\$ 1,084,331</u>

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7. INVESTMENTS (continued)

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

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

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

8. UNCONDITIONAL PROMISES TO GIVE

For unconditional promises to give expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the grant as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of June 30, 2020 ranged from 3.5% to 5%.

Unconditional promises to give consisted of the following:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 207,853	\$ 513,396
Receivable in one to five years	<u>238,828</u>	<u>511,934</u>
	<u>446,681</u>	<u>1,025,330</u>
Less: discounts to net present value	(25,660)	(64,120)
Less: allowance for uncollectible promises to give	<u>(11,972)</u>	<u>(32,019)</u>
Net unconditional promises to give	409,049	929,191
Less: current portion of unconditional promises to give	<u>(187,463)</u>	<u>(467,598)</u>
	<u>\$ 221,586</u>	<u>\$ 461,593</u>

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9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Land	\$ 5,146,351	\$ 5,146,351
Land improvements	2,615,308	2,615,308
Buildings	16,472,299	16,443,089
Machinery, equipment, furniture, and fixtures	1,567,114	1,786,243
Trucks and vans	497,999	137,561
	26,299,071	26,128,552
Accumulated depreciation	(6,755,274)	(6,543,535)
	\$ 19,543,797	\$ 19,585,017

Depreciation expense for the years ended June 30, 2020 and 2019 was \$638,319 and \$598,938, respectively.

10. BONDS PAYABLE

Bonds payable consist of the following:

	2020	2019
Bonds payable	\$ 10,350,000	\$ 10,800,000
Unamortized bond issuance costs	(320,434)	(334,467)
	10,029,566	10,465,533
Less: current portion of bonds payable	(450,000)	(450,000)
	\$ 9,579,566	\$ 10,015,533

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

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

Humane Society Silicon Valley
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10. BONDS PAYABLE (continued)

Interest on the bonds is determined each week by the remarketing agent based on the minimum interest rate which would enable the remarketing agent to sell the bonds on the date the rate becomes effective at a price equal to the principal amount plus accrued interest, if any, with a maximum rate of 12%. Interest is payable monthly. Subject to the terms and conditions of the indenture, the bonds can be converted from a weekly variable interest rate to a fixed rate for the remaining term of the bonds. During the fiscal years ended June 30, 2020 and 2019, the interest rate plus the cost of the letters of credit and administration fees ranged from 1.12% to 7.75% and the average of 2.21% and 1.97% to 3.40% and the average of 2.59%, respectively.

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

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

The future maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>		
2021	\$	450,000
2022		450,000
2023		450,000
2024		450,000
2025		450,000
Thereafter		<u>8,100,000</u>
		<u><u>\$ 10,350,000</u></u>

Covenants under the letter of credit reimbursement agreement require that the debt service coverage ratio equal or exceed 1.10 to 1 calculated annually and that liquid assets as of the second and fourth quarters of each fiscal year exceed \$10,000,000. The Organization was in compliance with these covenants at June 30, 2020 and 2019, and for the fiscal years ended June 30, 2020 and 2019.

See Note 17 for fair value on the bonds payable.

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11. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On April 17, 2020, the Organization received loan proceeds of \$1,471,600 from a promissory note issued by CRF Small Business Loan Company, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization recorded the loan as liability as of June 30, 2020. The Organization submitted the application for forgiveness of the PPP loan subsequent to June 30, 2020.

On June 5, 2020, Paycheck Protection Program Flexibility Act ("PPFPA") was signed into law, and was followed by revised forgiveness applications on June 16, 2020 and revised interim final rules "(IFRS)" on June 22, 2020. The enactment of PPFPA and subsequent releases of the related IFRS and forgiveness applications provided several structural changes to the program aimed to provide businesses with added flexibility to utilize the funds and to be able to obtain forgiveness. The Primary modifications include: a reduction from 75% to 60% the percent of a borrower's loan proceeds which must be used for payroll costs; an increase from 8 weeks to 24 weeks the covered period, which is the period eligible costs can qualify for forgiveness; an extension of the deferral period for principal and interest on the loan to the date SBA remits the loan forgiveness amount to the lender or ten months after the loan forgiveness covered period if the borrower has not applied for forgiveness.

12. NET ASSETS WITH DONOR RESTRICTIONS

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

Net assets with donor restrictions consisted of the following:

	Balance at June 30, 2019	Additions	Releases	Balance at June 30, 2020
Time restricted	\$ 929,191	\$ 130,131	\$ (650,272)	\$ 409,050
Purpose restricted	376,058	684,498	(921,426)	139,130
Unappropriated earnings on endowment	483,890	199,945	(212,472)	471,363
Beneficial interest held in perpetual trust	229,576	-	-	229,576
Perpetual endowment	<u>3,281,145</u>	<u>226,901</u>	<u>-</u>	<u>3,508,046</u>
	<u>\$ 5,299,860</u>	<u>\$ 1,241,475</u>	<u>\$ (1,784,170)</u>	<u>\$ 4,757,165</u>

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13. IN-KIND CONTRIBUTIONS

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

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

	2020	2019
Donated pro bono legal services	\$ 31,407	\$ 103,611
Donated supplies from operations	46,661	63,181
Donated property and equipment	-	20,000
	78,068	186,792
Special events supplies and auction items	89,862	101,375
	\$ 167,930	\$ 288,167

The Organization also received donated services that are central to the Organization's operations. During the years ended June 30, 2020 and 2019, approximately 3,770 and 5,950 active volunteers donated approximately 277,000 and 249,000 hours of time valued at approximately \$7,539,000 and \$6,333,000, respectively to the Organization. The value of volunteer time is based on the estimated hourly value of volunteer time in the United States as determined by Independent Sector (independentsector.org). Independent Sector estimates this hourly average based on average annual wages of non-management, non-agricultural workers, as provided by the Bureau of Labor Statistics, increased by 12 percent for estimated fringe benefits. Active volunteers are now defined as any person, including corporate volunteers, who gives any amount of volunteer service hours in a one-year period. Starting with the fiscal year ended June 30, 2018, the active volunteer numbers include regular volunteers that log into the Organization's volunteer software, in addition to corporate, doggy day out and youth volunteers.

14. RETIREMENT PLAN

Humane Society Silicon Valley maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. Starting during the fiscal year ended June 30, 2006, the Organization implemented an employer matching program for all eligible employees who are contributing to their tax deferred plan. The Organization is matching 100% of the employee's contributions, up to a maximum of 1.75% of the employee's payroll compensation. The Organization's contributions for the years ended June 30, 2020 and 2019, totaled \$116,208 and \$104,201, respectively.

15. CONTRACTS WITH GOVERNMENTAL AGENCIES

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

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15. CONTRACTS WITH GOVERNMENTAL AGENCIES (continued)

The Organization also entered into agreements for the years ended June 30, 2020 and 2019 with the County of Santa Clara to subsidize spay and neuter surgeries for county residents and to handle surgeries for the County of Santa Clara's San Martin shelter animals.

During the years ended June 30, 2020 and 2019 contract revenue from these agreements totaled \$301,626 and \$386,705, respectively.

16. COLLECTIVE BARGAINING UNIT

Approximately 40% of the Organization employees are covered by a collective bargaining union agreement with the Services Employees International Union, Local 521. It was renewed in October 2018 and expires four years thereafter on June 30, 2022. It shall be renewed from year to year thereafter unless either party gives written notice of a desire to change the agreement at least ninety days prior to expiration. It is typically renewed for a period of four years.

17. FAIR VALUE

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

The fair value of the bonds payable at June 30, 2020, was estimated to be \$10,213,000. The fair value is based on the discounted cash flow of the interest rate differential between the bonds and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index for bonds with similar characteristics. Also included is an adjustment for nonperformance risk. The Organization does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Since the bonds are a financial liability, the Organization believes the interest rate of the bonds already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, the Organization does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

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17. FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ 6,940,569	\$ -	\$ -	\$ 6,940,569
Fixed income securities	10,944,140	-	-	10,944,140
Equity mutual funds	9,169,026	-	-	9,169,026
Cash and cash equivalents held for endowment purposes	<u>201,220</u>	<u>-</u>	<u>-</u>	<u>201,220</u>
	<u>\$ 27,254,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,254,955</u>
Unconditional promises to give, current portion				
Campaign pledges	\$ -	\$ -	\$ 124,301	\$ 124,301
Operating pledges without donor restrictions	-	-	57,701	57,701
Special events pledges	<u>-</u>	<u>-</u>	<u>5,461</u>	<u>5,461</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,463</u>	<u>\$ 187,463</u>
Unconditional promises to give, net of current portion				
Campaign pledges	\$ -	\$ -	\$ 183,578	\$ 183,578
Operating pledges without donor restrictions	<u>-</u>	<u>-</u>	<u>38,008</u>	<u>38,008</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,586</u>	<u>\$ 221,586</u>

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17. FAIR VALUE (continued)

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

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

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

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17. FAIR VALUE (continued)

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2020:

	Unconditional Promises to Give
Balance, June 30, 2019	\$ 929,191
New promises to give, net of present value adjustments	81,140
Payments on promises to give, net of net of present value adjustments	(621,329)
Decrease in allowance for doubtful accounts	20,047
Balance, June 30, 2020	\$ 409,049

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

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

Gains and losses (realized and unrealized) related to Unconditional Promises to Give as included in the Statement of Activities for the fiscal year ended June 30, 2020 and are reported in support and revenue as follows:

	New Promises to Give, net	NPV Discount on Promises Paid	(Increase) Decrease in Allowance	Total
Support and revenue				
Contributions and grants	\$ 74,950	\$ 36,934	\$ 10,592	\$ 122,476
Special events, net	2,200	1,527	354	4,081
Trusts, bequests, and endowments	3,990	-	9,101	13,091
	\$ 81,140	\$ 38,461	\$ 20,047	\$ 139,648

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17. FAIR VALUE (continued)

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

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

The carrying values and fair values of the Organization's financial instruments at June 30, 2020:

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 6,603,185	\$ 6,603,185
Accounts receivable	112,445	112,445
Unconditional promises to give, current portion	187,463	187,463
Short-term investments - other	500,000	500,000
Investments	16,334,977	16,334,977
Long-term investments - other	6,440,569	6,440,569
Unconditional promises to give, net of current portion	221,586	221,586
Cash and cash equivalents held for endowment purposes	201,220	201,220
Investments held for endowment purposes	<u>3,778,189</u>	<u>3,778,189</u>
	<u>\$ 34,379,634</u>	<u>\$ 34,379,634</u>
Financial liabilities		
Current liabilities, excluding bonds payable	\$ 1,368,425	\$ 1,368,425
Bonds payable	<u>10,350,000</u>	<u>10,213,000</u>
	11,718,425	11,581,425
Unamortized bond issuance costs	<u>(320,434)</u>	<u>(320,434)</u>
	<u>\$ 11,397,991</u>	<u>\$ 11,260,991</u>

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17. FAIR VALUE (continued)

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

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

18. ENDOWMENT

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

Interpretation of relevant law

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

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18. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020 and 2019.

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

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

Spending policy

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

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18. ENDOWMENT (continued)

Spending policy (continued)

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

Endowment composition

Endowment assets consisted of the following:

	2020	2019
Investments held for endowment purposes	\$ 3,778,189	\$ 3,628,235
Cash and cash equivalents held for endowment purposes	201,220	136,800
	\$ 3,979,409	\$ 3,765,035

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Donor-restricted endowment funds	\$ 471,363	\$ 3,508,046	\$ 3,979,409

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

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

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18. ENDOWMENT (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2020 is as follows:

	Unappropriated Earnings on Endowment	Perpetual Endowment	Total
Balance, June 30, 2019	\$ 483,890	\$ 3,281,145	\$ 3,765,035
Investment return			
Interest and dividend income	87,399	-	87,399
Net appreciation (realized and unrealized)	131,777	-	131,777
Investment management fees	(19,231)	-	(19,231)
Total investment return	199,945	-	199,945
Contributions	-	226,901	226,901
Appropriation of earnings for expenditure	(212,472)	-	(212,472)
	<u>(12,527)</u>	<u>226,901</u>	<u>214,374</u>
Balance, June 30, 2020	<u>\$ 471,363</u>	<u>\$ 3,508,046</u>	<u>\$ 3,979,409</u>

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

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

19. RELATED PARTY TRANSACTIONS

Contributions, including new pledges, received from members of the Organization's Board of Directors totaled approximately \$735,000 and \$1,402,000, for the years ended June 30, 2020 and 2019, respectively.