

Woods Humane Society, Inc.

Financial Statements

June 30, 2021

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Independent Auditors' Report on the Financial Statements

To the Board of Directors
Woods Humane Society, Inc.
San Luis Obispo, California

We have audited the accompanying financial statements of the Woods Humane Society, Inc. ("the Organization"), a non-profit organization, which comprise the statements of financial position as of June 30, 2021, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Woods Humane Society, Inc. as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Caliber Audit & Attest, LLP

San Luis Obispo, California
March 4, 2022

Woods Humane Society, Inc.

*Statement of Financial Position
June 30, 2021*

ASSETS

Cash and cash equivalents	\$ 1,123,215
Investments	10,980,752
Investment held at agency organization	35,845
Accounts receivable	38,501
Inventory of supplies, at cost	31,924
Prepaid expenses	4,063
Property and equipment, net of accumulated depreciation	5,299,741
Promise-to-give land lease receivable	382,813
Total assets	<u>\$ 17,896,854</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 25,887
Accrued expenses	3,121
Accrued compensation	88,571
Accrued vacation	95,302
Advance - PPP funds	437,673
Total liabilities	<u>650,554</u>

Commitments and Contingencies

Net Assets

Without donor restrictions	
Undesignated	484,329
Board-designated for operating and capital outlay reserves	9,629,742
Invested in property and equipment	5,299,741
Total without donor restrictions	<u>15,413,812</u>
With donor restrictions	
Purpose restrictions	117,555
Time-restricted for future periods	382,813
Restricted in perpetuity - endowment	1,332,120
Total with donor restrictions	<u>1,832,488</u>
Total net assets	<u>17,246,300</u>
Total liabilities and net assets	<u>\$ 17,896,854</u>

See Notes to Financial Statements.

Woods Humane Society, Inc.

*Statement of Activities
Year Ended June 30, 2021*

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>Total</i></u>
<i>Public Support and Revenue:</i>			
<i>Public support:</i>			
Contributions	\$ 1,620,580	\$ 1,200,439	\$ 2,821,019
Government grant - federal PPP funds	468,950	-	468,950
Fundraising events, net of direct costs of \$34,852	147,959	-	147,959
Total support	<u>2,237,489</u>	<u>1,200,439</u>	<u>3,437,928</u>
<i>Revenue:</i>			
Program revenue	763,497	-	763,497
Interest and dividend income	59,892	-	59,892
Gain loss on investments	1,822,519	-	1,822,519
Total revenue	<u>2,645,908</u>	<u>-</u>	<u>2,645,908</u>
Net assets released from restrictions	167,737	(167,737)	-
Total public support and revenues	<u>5,051,134</u>	<u>1,032,702</u>	<u>6,083,836</u>
<i>Functional Expenses:</i>			
Program services	2,970,432	-	2,970,432
Management and general	299,733	-	299,733
Fundraising	217,410	-	217,410
Total functional expenses	<u>3,487,575</u>	<u>-</u>	<u>3,487,575</u>
Change in net assets	<u>\$ 1,563,559</u>	<u>\$ 1,032,702</u>	<u>\$ 2,596,261</u>

See Notes to Financial Statements.

Woods Humane Society, Inc.

*Statement of Functional Expenses
Year Ended June 30, 2021*

	<i>Program Services</i>	<i>Supporting Services</i>		<i>Total</i>
		<i>Management and General</i>	<i>Fundraising</i>	
Personnel costs:				
Salaries and wages	\$ 1,178,657	\$ 138,666	\$ 69,333	\$ 1,386,656
Employee benefits	134,031	15,768	7,884	157,683
Payroll taxes	86,036	10,121	5,061	101,218
Total personnel costs	<u>1,398,724</u>	<u>164,555</u>	<u>82,278</u>	<u>1,645,557</u>
Advertising and promotion	-	-	26,363	26,363
Bank and credit card fees	26,807	6,702	-	33,509
Computer	24,961	4,405	-	29,366
Conference and staff training	6,814	-	-	6,814
Depreciation	223,928	39,517	-	263,445
Insurance	87,209	15,390	-	102,599
Interest	135	24	-	159
Miscellaneous	43,270	4,314	-	47,584
Occupancy	127,889	6,731	-	134,620
Office supplies	3,901	3,121	780	7,802
Postage and printing	-	23,119	92,479	115,598
Professional fees	73,644	10,192	6,809	90,645
Repairs and maintenance	47,239	8,336	-	55,575
Spay/neuter/rabies	799,830	-	-	799,830
Supplies	94,810	2,978	-	97,788
Telephone	10,151	10,151	8,701	29,003
Travel	1,120	198	-	1,318
Total functional expenses	<u>\$ 2,970,432</u>	<u>\$ 299,733</u>	<u>\$ 217,410</u>	<u>\$ 3,487,575</u>

See Notes to Financial Statements.

Woods Humane Society, Inc.

*Statement of Changes in Net Assets
Year Ended June 30, 2021*

	<i><u>Without Donor Restrictions</u></i>	<i><u>With Donor Restrictions</u></i>	<i><u>Total</u></i>
<i>Year Ended June 30, 2020 - as previously presented</i>	\$ 14,048,967	\$ -	\$ 14,048,967
Prior period adjustment (Note 12)	<u>(198,714)</u>	<u>799,786</u>	<u>601,072</u>
<i>Year Ended June 30, 2020 - as restated</i>	13,850,253	799,786	14,650,039
Change in net assets	<u>1,563,559</u>	<u>1,032,702</u>	<u>2,596,261</u>
<i>Year Ended June 30, 2021</i>	<u>\$ 15,413,812</u>	<u>\$ 1,832,488</u>	<u>\$ 17,246,300</u>

See Notes to Financial Statements.

Woods Humane Society, Inc.

*Statement of Cash Flows
Year Ended June 30, 2021*

Cash flows from operating activities:

Change in net assets \$ 2,596,261

Adjustments to reconcile the change in net assets to net cash provided by operating activities:

Contributions restricted for endowments 1,000,000

Depreciation 263,445

Net gain on investments (1,822,519)

Amortization and adjustment of promise-to-give
receivable, land lease 18,750

PPP funds - received in prior year (468,950)

Changes in operating assets and liabilities:

Investment held at agency organization (5,211)

Accounts receivable (21,582)

Prepaid expenses (1,994)

Inventory of supplies 506

Accounts payable 17,173

Accrued expenses 1,552

Accrued compensation (3,553)

Accrued vacation 29,619

Net cash provided by operating activities 1,603,497

Cash flows from investing activities:

Purchase of property and equipment (89,975)

Purchase of investments (2,193,471)

Proceeds from sale of investments 362,636

Net cash used in investing activities (1,920,810)

Cash flows from financing activities:

Proceeds from advance - PPP funds 437,673

Net cash provided by financing activities 437,673

Net increase in cash and cash equivalents 120,360

Cash and cash equivalents, beginning of year 1,002,855

Cash and cash equivalents, end of year \$ 1,123,215

See Notes to Financial Statements.

Woods Humane Society, Inc.

Notes to Financial Statements

Note 1. Operations and Summary of Significant Accounting Policies

Nature of operations:

The Woods Humane Society, Inc. (“the Organization”) is a California non-profit corporation, organized to provide for the treatment, housing, and placement of unwanted animals, and to further humane education and responsible pet ownership in the County of San Luis Obispo, California. The Organization solicits donations to facilitate its purpose. It also provides adoptions for which it charges a fee to individuals. The Organization was established in May 1955 and is located at 875 Oklahoma Avenue, San Luis Obispo, California. There is also a location at 2300 Ramona Road, Atascadero, California, that was acquired in January 2017.

The Organization is governed by an elected board of directors and officers responsible for the development of policies. Staff conduct the Organization’s activities in accordance with board-established policy.

Basis of accounting:

The financial statements are presented on an accrual basis, which recognizes income when performance obligations are met, and expenses when incurred, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial statement presentation and net assets:

The Organization has presented its financial statements in accordance with GAAP for not-for-profit organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions or with donor restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, 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 restriction.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a capital outlay reserve.

Net Assets With Donor Restrictions: Net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Woods Humane Society, Inc.

Notes to Financial Statements

Donor-restricted contributions are reported as increases in 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 statements of activities as net assets released from restrictions.

Support revenue and contributions:

All public support revenue is considered to be available for use without donor restriction unless specifically restricted by the donor or the terms of a grant. Revenue from public support is recognized at the time an unconditional promise to give or transfer of assets is made.

Contributions of assets other than cash, which are primarily donated investment securities, are recorded at estimated fair market value at the time of receipt and are liquidated as soon as feasible. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Revenues from grant agreements that represent exchange transactions are recognized as the revenue is earned over the grant term, if any. The Organization currently does not have any grants that are considered exchange transactions.

Program revenue:

The Organization follows the five step, principles-based method to recognize revenue upon the transfer of promised goods or services to individuals and in an amount that reflects the consideration for which the Organization expects to be entitled in exchange for those goods and services.

Revenues from program services provided, such as spay and neuter, adoption fees, and sale of adoption related supplies, are recognized in the period the service or good is provided, which is when the performance obligation is met and is at the point-in-time that the animal receives the service or is adopted.

Donated services and assets:

The Organization receives significant donations of time and services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed. There were no such amounts recorded for the year ended June 30, 2021.

In-kind donations of fixed assets, facilities, and supplies used directly by the Organization are valued at their estimated fair values at the time of the donation. There were no such amounts for the year ended June 30, 2021.

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Notes to Financial Statements

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

Use of estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents:

The Organization considers cash equivalents to be all short-term securities purchased with a maturity of three months or less.

Concentrations of credit risk:

The Organization maintains cash balances with financial institutions located in California. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The cash balances from time to time can exceed this limit.

Balance at brokerage firms are insured up to \$500,000 (with a limit of \$100,000 for cash) by SPIC. During June 30, 2021, the securities balance exceeded the SPIC insurance limitations.

Investment valuation and income recognition:

The Organization's investments are stated at fair market value in the statement of financial position, with all gains and losses included in the statement of activities. Fair value is 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. See Note 4 for discussion of fair value measurement.

Investments acquired by gift are recorded at their fair market value at the date of the gift.

Investments are made according to the Investment Policy adopted by the Organization's Board of Directors. These guidelines provide for a balanced diversified portfolio with investments in equities and fixed income securities with performance measured against appropriate indices with a minimum goal of total return of 2 – 3% after inflation over a full market cycle. These guidelines are periodically reviewed and modified.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method.

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Unrealized gains and losses represent the change in the fair market value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Investment held at agency organization:

The investment held at agency organization is carried at the allocated fair market value of the pooled investments held by the Community Foundation of San Luis Obispo County.

Accounts receivable:

Accounts receivable relate to amounts for program revenue. Management has determined that an allowance for doubtful accounts receivable would be zero based on the Organization's credit policies, prior collection experience, and the type of customers associated with the Organization.

Promise-to-give land lease receivable:

The promise-to-give land lease receivable is based on the 40-year land lease with the County of San Luis Obispo and represents donated use of facilities (See Note 6).

The donated services, assets, and use of facilities recorded by the Organization have been recorded at fair values, based on management's estimate of fair value on a non-recurring basis from comparisons of similar assets or services or from the value as provided by the donor. This is considered Level 2 of the fair value hierarchy (see fair value Level descriptions in Note 4).

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain donated use of facilities could result in a different fair value measurement at the reporting date.

Inventory of adoption related supplies:

Inventory (mainly consists of adoption related supplies) is stated at the lower of cost or market using the average cost method.

Property and equipment:

Purchased property and equipment are stated at cost and donated assets are valued at their estimated fair value on the date donated. Property and equipment additions over \$2,500 are recorded. All assets are depreciated over estimated useful lives on a straight line basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statement of activities.

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Notes to Financial Statements

Estimated useful lives are as follows:

	<u>Years</u>
Vehicles	5 – 7
Equipment	3 – 10
Facilities	7 – 39

Compensated absences:

The Organization allows all employees to receive compensation for vacation leave. The estimate related to compensated absences is based on vacation hours available and current pay rates. The obligation for compensated absences has been recorded to accrued vacation.

Income tax status:

The Organization's activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code. Since the Organization is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expense. The Organization is not a private foundation. Management is not aware of any transactions that would impact the Organization's tax-exempt status.

For the year ended June 30, 2021, management of the Organization is not aware of any material uncertain tax positions to be accounted for in the financial statements under the principles of the *Income Taxes* topic of the FASB (*ASC*). The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

Advertising:

The Organization expenses advertising costs as incurred. Advertising costs totaled \$26,363 for the year ended June 30, 2021.

Recent accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The new standard is effective for private companies for fiscal years beginning after December 15, 2021, which means that it will be effective for the Company for the year beginning July 1, 2022. Early adoption is permitted. The new standard is required to be adopted using a modified retrospective approach. Management will be evaluating the potential impact of the new guidance and is currently uncertain what impact the pronouncement will have on the financial statements, if any.

Woods Humane Society, Inc.

Notes to Financial Statements

Note 2. *Liquidity and Availability*

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, including reserves, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,123,215
Investments - board-designated reserves	9,629,742
Investment held at agency organization	35,845
Accounts receivable	38,501
	<u>\$ 10,827,303</u>

As part of the Organization's liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments that are considered board-designated reserves for purposes of operations and capital outlay. For the board-designated reserve funds, the board of directors has approved a goal of no more than a five-percent annual draw on investments that can be used to cover the Organization's needs for general expenditure. This figure is represented above as Investments – board-designated reserves.

Note 3. *Property and Equipment*

Major classes of property and equipment and accumulated depreciation are as follows at June 30, 2021:

Land	\$ 52,425
Vehicles	110,924
Equipment	465,389
Facilities	6,877,216
Construction in progress	48,507
	<u>7,554,461</u>
Less accumulated depreciation	(2,254,720)
Total property and equipment	<u>\$ 5,299,741</u>

Depreciation expense for the year ended June 30, 2021 was \$263,445.

Woods Humane Society, Inc.

Notes to Financial Statements

Note 4. Investments and Fair Value Measurements

Investments consist of the following at June 30, 2021:

Cash equivalents	\$ 1,370,774
Bond funds	2,982,628
Equity funds	6,410,232
Exchange traded funds	217,118
Total investments	<u>\$ 10,980,752</u>

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

Level 2 – Inputs to the valuation methodology include:

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

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

The asset or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The investments are valued on a recurring basis based on quoted market prices and are all considered Level 1.

Note 5. Endowment Funds

The Organization's endowment (the Endowment) consists of 2 individual funds. Endowment funds are maintained in separate investment custodial accounts. Funds to be held in perpetuity are established by donors in order for the earnings to provide funding for specific activities and general operations.

The Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor

Woods Humane Society, Inc.

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stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Investment and Spending Policies:

The Organization's investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current income (dividend and interest) and aggregate return from capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual compound total rate of return in excess inflation in order to support the Organization's spending needs.

The Organization's investment policy includes a spending policy for the North County spay/neuter endowment for cats that outlines a 5% annual payout strategy for spay and neuter programs in North County. The fund agreement for this endowment allows the fund to be accessed in an emergency for purposes other than spay/neutering by a 2/3 vote of the board. However, the board intends to continue to treat the fund as a permanent endowment.

The endowment for dogs was received during the year ended June 30, 2021 and the board will be setting the spending policy in the future once the fund has established earnings.

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Notes to Financial Statements

At June 30, 2021, the Organization's endowment net asset composition by type of fund is as follows:

	<i>Original Gift</i>	<i>Available, Subject to Spending Policy</i>	<i>Total Endowment</i>
Endowment for spay/neuter - cats	\$ 332,120	\$ 18,889	\$ 351,009
Endowment for dogs	1,000,000	1	1,000,001
Total	<u>\$ 1,332,120</u>	<u>\$ 18,890</u>	<u>\$ 1,351,010</u>

The changes in endowment net assets for the year ended June 30, 2021, are as follows:

Endowment net assets, June 30, 2020	\$ 295,721
Investment return, net	72,367
Contributions	1,000,000
Appropriation of endowment for expenditure	(17,078)
Endowment net assets, June 30, 2021	<u>\$ 1,351,010</u>

Note 6. Commitments and Contingencies

Operating leases and donated land lease:

The Organization entered into an agreement on December 11, 2001 with the County of San Luis Obispo to build a new facility on land currently owned by the County. Cash rent is waived in exchange for the Organization furnishing services to the San Luis Obispo County Sheriff's Department, Animal Services Division. The lease was amended on June 4, 2013 to extend the lease to 40 years from the date of the original lease December 11, 2001, with two five year renewal options. The valuation is based on the estimated fair value of the donated use of facilities for the lease term at the time of the donation. (See Note 9 for prior period adjustment discussion). The original contribution was recorded as donor restricted, due to the time restriction. As the time restrictions are met, an amount is reclassified on the statement of activities and changes in net assets as net assets released from restrictions. The rent expense related to this land lease for the year ended June 30, 2021 was \$18,750. The promise to give land lease receivable balance related to this land lease was \$382,813 as of June 30, 2021, and is expected to be collected through use of the land as follows:

Within one year	\$ 18,750
In one to five years	93,750
Thereafter	270,313
Total land lease receivable	<u>\$ 382,813</u>

Woods Humane Society, Inc.

Notes to Financial Statements

Note 7. Paycheck Protection Program and COVID-19 Impact

On April 30, 2020, the Organization was granted a loan (the Loan) from Mechanics Bank, in the aggregate amount of \$468,590, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan, which was in the form of a note dated April 30, 2020 issued by the Bank, matures on April 30, 2022 and bears interest at a rate of 1.00% per annum. Funds from the Loan could be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, and utilities incurred before November 3, 2020. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. In May 2021, the Organization was given official forgiveness of the loan amount, as the funds were used for qualifying expenses. Since forgiveness was received during the year ended June 30, 2021, the Organization is accounting for the loan as a government grant under the PPP program, under the accounting guidance.

On February 1, 2021, the Organization was granted a second loan from Mechanics Bank, in the aggregate amount of \$437,673, in the form of a note, dated February 1, 2021, bears interest at a rate of 1.00% per annum, and matures on February 1, 2026. Subsequent to year-end in September 2021, the Organization was given official forgiveness of the loan amount, as the funds were used for qualifying expenses. Since not all of the funds were spent and forgiveness was not received before year-end, the loan is initially recorded as a refundable advance. The refundable advance will be reduced and recognized as a government grant under the PPP program in the next fiscal year.

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Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions

As of June 30, 2021, net assets with donor restrictions are restricted for the following purposes or periods:

Restricted in perpetuity - endowments:	
Dog rescue, maintenance, and placement	\$ 1,000,000
North County spay/neuter - cats	332,120
	<u>1,332,120</u>
Subject to expenditure for specified purpose:	
Medical improvements and equipment	14,951
Covid relief	1,714
Website development	10,100
Outdoor area	50,000
New dog yard	7,500
Critter Camp scholarships	3,075
Project Meow	14,076
Fahsing spay/neuter program (non-endowed)	16,139
	<u>117,555</u>
Subject to the passage of time:	
Promise-to-give land lease	382,813
Total net assets with donor restrictions	<u>\$ 1,832,488</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2021:

Expiration of time restrictions - land lease	\$ 18,750
Satisfaction of purpose restrictions:	
Dog yard improvements	7,500
Medical improvements and equipment	2,340
Covid relief	3,286
New dental machine	4,310
Website development	8,700
Project Meow	51,520
North County expansion project	24,983
Fahsing spay/neuter program	4,681
Non spay/neuter surgeries	41,667
	<u>\$ 167,737</u>

Woods Humane Society, Inc.

Notes to Financial Statements

Note 9. Prior Period Adjustment

The statement of financial position and statement of changes in net assets have been restated for the correction of property and equipment, land lease receivable, accrued vacation, and deferred revenue balances for the year ended June 30, 2020. The correction for the year ended June 30, 2020 resulted in the following changes in net assets as of June 30, 2020:

	<u><i>Property and Equipment</i></u>	<u><i>Land Lease Receivable</i></u>	<u><i>Accrued Vacation</i></u>	<u><i>Deferred Revenues</i></u>	<u><i>Net Assets</i></u>
Balance, June 30, 2020, as previously stated	\$ 5,287,572	\$ -	\$ -	\$ (79,553)	\$ 14,048,967
Prior period adjustment:					
Understatement of property and equipment, net of depreciation	185,639	-	-	-	185,639
Understatement of promise-to- give, land lease receivable	-	401,563	-	-	401,563
Understatement of accrued vacation	-	-	(65,683)	-	(65,683)
Overstatement of deferred revenues	-	-	-	79,553	79,553
	<u>185,639</u>	<u>401,563</u>	<u>(65,683)</u>	<u>79,553</u>	<u>601,072</u>
Balance, June 30, 2020, as restated	<u>\$ 5,473,211</u>	<u>\$ 401,563</u>	<u>\$ (65,683)</u>	<u>\$ -</u>	<u>\$ 14,650,039</u>

Woods Humane Society, Inc.

Notes to Financial Statements

Note 10. Functionalized Expenses – Methods Used for Allocations

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include insurance, depreciation, contract services, promotion and publication, salaries, benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Most expenses are directly tracked by program or function.

Note 11. Retirement Savings Plan

The Organization offers a 403(b) plan that covers all eligible employees. To be eligible to participate in the salary deferrals into the plan, employees must complete 1,000 hours of service in a 12 month period. Employees are eligible to participate in the plan on the first day they have met the service requirement. There are no Organization matching or discretionary contributions for the year ended June 30, 2021.

Note 12. Commitments and Contingencies

The Organization receives funds through grants from various agencies. Grants can be subject to audit by the corresponding oversight agency as to allowable costs paid with the funds.

Note 13. Related Party Transactions

The Organization receives donations from board members, who are considered related parties to the Organization.

Note 14. Subsequent Events

The date to which events occurring after June 30, 2021 have been evaluated for possible adjustment to the financial statements or disclosure is March 4, 2022, which is the date on which the financial statements were available to be issued.