Woods Humane Society, Inc.

Financial Statements

June 30, 2023 and 2022

C O N T E N T S

CALIBER
AUDIT & ATTEST, LLP

Independent Auditors' Report on the Financial Statements

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

Opinion

We have audited the accompanying financial statements of the Woods Humane Society, Inc. ("the Organization"), a California non-profit organization, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Independent Auditors' Report on the Financial Statements – Continued

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Caliber Audit & Attest, LLP

San Luis Obispo, California
October 20, 2023

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Woods Humane Society, Inc.

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 768,617	$ 719,321
Investments	9,074,133	9,049,010
Investment held at agency organization	32,295	30,085
Accounts receivable	17,782	36,088
Inventory of supplies, at cost	10,795	31,782
Prepaid expenses	8,495	16,756
Property and equipment, net of accumulated depreciation	4,962,271	5,137,297
Promise-to-give land lease receivable	345,313	364,063
Total assets	$ 15,219,701	$ 15,384,402
LIABILITIES AND NET ASSETS		
Accounts payable	$ 15,972	$ 18,046
Accrued expenses	2,147	3,414
Accrued compensation	106,931	94,429
Accrued vacation	92,521	94,547
Total liabilities	217,571	210,436
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Undesignated	445,238	293,040
Board-designated for operating and capital outlay reserves	7,815,225	7,888,869
Invested in property and equipment	4,962,271	5,137,297
Total without donor restrictions	13,222,734	13,319,206
With donor restrictions		
Purpose restrictions	101,963	158,577
Time-restricted for future periods	345,313	364,063
Restricted in perpetuity - endowment	1,332,120	1,332,120
Total with donor restrictions	1,779,396	1,854,760
Total net assets	15,002,130	15,173,966
Total liabilities and net assets	$ 15,219,701	$ 15,384,402

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Public support:			
Contributions	$ 2,247,688	$ 90,322	$ 2,338,010
In-kind goods	1,171	-	1,171
In-kind services	8,630	-	8,630
Fundraising events, net of direct costs of $80,132	265,473	-	265,473
Total support	2,522,962	90,322	2,613,284
Revenue:			
Program revenue	793,457	-	793,457
Interest and dividend income	253,850	-	253,850
Gain on investments	570,994	-	570,994
Total revenue	1,618,301	-	1,618,301
Net assets released from restrictions	165,686	(165,686)	-
Total public support and revenues	4,306,949	(75,364)	4,231,585
Functional Expenses:			
Program services	3,744,185	-	3,744,185
Management and general	379,992	-	379,992
Fundraising	279,244	-	279,244
Total functional expenses	4,403,421	-	4,403,421
Change in net assets	$ (96,472)	$ (75,364)	$ (171,836)

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Public support:			
Contributions	$ 1,878,597	$ 111,016	$ 1,989,613
Government grant - federal PPP funds	437,673	-	437,673
In-kind services	34,765	-	34,765
Fundraising events, net of direct costs of $59,562	215,184	-	215,184
Total support	2,566,219	111,016	2,677,235
Revenue:			
Program revenue	862,966	-	862,966
Interest and dividend income	171,042	-	171,042
Loss on investments	(1,623,135)	-	(1,623,135)
Total revenue	(589,127)	-	(589,127)
Net assets released from restrictions	88,744	(88,744)	-
Total public support and revenues	2,065,836	22,272	2,088,108
Functional Expenses:			
Program services	3,541,812	-	3,541,812
Management and general	358,613	-	358,613
Fundraising	260,017	-	260,017
Total functional expenses	4,160,442	-	4,160,442
Change in net assets	$ (2,094,606)	$ 22,272	$ (2,072,334)

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Personnel costs:				
Salaries and wages	$ 1,661,464	$ 195,466	$ 97,733	$ 1,954,663
Employee benefits	137,934	16,228	8,114	162,276
Payroll taxes	123,019	14,473	7,236	144,728
Total personnel costs	1,922,417	226,167	113,083	2,261,667
Advertising and promotion	-	-	33,842	33,842
Bank and credit card fees	29,498	7,375	-	36,873
Computer	45,755	8,074	-	53,829
Conference and staff training	20,766	-	-	20,766
Depreciation	208,735	36,836	-	245,571
Insurance	71,858	12,681	-	84,539
Interest	4	-	-	4
Miscellaneous	44,993	6,697	2,851	54,541
Occupancy	187,205	9,853	-	197,058
Office supplies	8,859	7,087	1,772	17,718
Postage and printing	-	27,413	109,652	137,065
Professional fees	78,156	10,984	6,819	95,959
Repairs and maintenance	37,435	6,606	-	44,041
Retirement plan contributions	32,258	3,795	1,897	37,950
Spay/neuter/rabies	910,241	-	-	910,241
Supplies	133,052	5,177	-	138,229
Telephone	10,882	10,882	9,328	31,092
Travel	2,071	365	-	2,436
Total functional expenses	$ 3,744,185	$ 379,992	$ 279,244	$ 4,403,421

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statement of Functional Expenses
Year Ended June 30, 2022

		Supporting Services		
	Program Services	***Management and General***	***Fundraising***	***Total***
Personnel costs:				
Salaries and wages	$ 1,434,580	$ 168,774	$ 84,387	$ 1,687,741
Employee benefits	138,470	16,291	8,145	162,906
Payroll taxes	106,831	12,568	6,284	125,683
Total personnel costs	1,679,881	197,633	98,816	1,976,330
Advertising and promotion	-	-	26,488	26,488
Bank and credit card fees	31,205	7,801	-	39,006
Computer	35,014	6,179	-	41,193
Conference and staff training	13,184	-	-	13,184
Depreciation	220,291	38,875	-	259,166
Insurance	75,909	13,396	-	89,305
Interest	3	-	-	3
Miscellaneous	59,301	7,507	2,387	69,195
Occupancy	161,390	8,494	-	169,884
Office supplies	11,990	9,592	2,398	23,980
Postage and printing	-	28,009	112,036	140,045
Professional fees	115,742	16,908	8,543	141,193
Repairs and maintenance	50,822	8,969	-	59,791
Spay/neuter/rabies	949,041	-	-	949,041
Supplies	124,708	3,916	-	128,624
Telephone	10,906	10,906	9,349	31,161
Travel	2,425	428	-	2,853
Total functional expenses	$ 3,541,812	$ 358,613	$ 260,017	$ 4,160,442

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Year Ended June 30, 2021	$ 15,413,812	$ 1,832,488	$ 17,246,300
Change in net assets	(2,094,606)	22,272	(2,072,334)
Year Ended June 30, 2022	13,319,206	1,854,760	15,173,966
Change in net assets	(96,472)	(75,364)	(171,836)
Year Ended June 30, 2023	$ 13,222,734	$ 1,779,396	$ 15,002,130

See Notes to Financial Statements.

Woods Humane Society, Inc.

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ (171,836)	$ (2,072,334)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	245,571	259,166
Net (gain) loss on investments	(570,994)	1,623,135
Amortization of promise-to-give receivable, land lease	18,750	18,750
PPP funds - received in prior year	-	(437,673)
Changes in operating assets and liabilities:		
Investment held at agency organization	(2,210)	5,760
Accounts receivable	18,306	2,413
Prepaid expenses	8,261	(12,693)
Inventory of supplies	20,987	142
Accounts payable	(2,074)	(7,841)
Accrued expenses	(1,267)	293
Accrued compensation	12,502	5,858
Accrued vacation	(2,026)	(755)
Net cash used in operating activities	(426,030)	(615,779)
Cash flows from investing activities:		
Purchase of property and equipment	(70,545)	(96,722)
Purchase of investments	(256,533)	(227,471)
Proceeds from sale of investments	802,404	536,078
Net cash provided by investing activities	475,326	211,885
Net increase (decrease) in cash and cash equivalents	49,296	(403,894)
Cash and cash equivalents, beginning of year	719,321	1,123,215
Cash and cash equivalents, end of year	$ 768,617	$ 719,321
Noncash financing activities:		
In-kind donations of goods and services	$ 9,801	$ 34,765
In-kind use of facilities	$ 18,750	$ 18,750

See 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.

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:

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. The Organization was provided audit and tax, executive training, and utility services at no cost. Based on current market rates for these services, the Organization would have paid $8,630 and $34,765 for the years ended June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, there were also amounts that did not meet the criteria for recognition as described above, despite the considerable value of donated time by volunteers and board members to the mission of the Organization.

In-kind donations of facilities and goods used directly by the Organization are valued at their estimated fair values at the time of the donation. The fair value of donated facilities is determined based on the amount of rent charged for comparative facilities in the area. The amortization of the amount totaled $18,750 for both years ended June 30, 2023 and 2022.

Donated supplies for the year ended June 30, 2023 were $1,171, which were provided at no cost to the Organization and valued based on the estimated market value of the goods. There were no donated supplies for the year ended June 30, 2022.

All gifts-in-kind received by the Organization for the years ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

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, 2023 and 2022, 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. 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.

Estimated useful lives are as follows:

	Years
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 years ended June 30, 2023 and 2022, 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 $33,842 and $26,488 for the years ended June 30, 2023 and 2022, respectively.

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. The new standard is required to be adopted using a modified retrospective approach. The pronouncement had no impact on the financial statements.

Reclassifications:

Certain amounts in the 2022 financial statements have been reclassified for comparative purposes to conform with presentation in the 2023 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	$ 768,617
Investments - board-designated reserves	7,815,225
Investment held at agency organization	32,295
Accounts receivable	17,782
	$ 8,633,919

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, 2023 and 2022:

	2023	2022
Land	$ 52,425	$ 52,425
Vehicles	110,924	110,924
Equipment	489,730	483,388
Facilities	6,955,893	6,898,537
Construction in progress	112,756	105,909
	7,721,728	7,651,183
Less accumulated depreciation	(2,759,457)	(2,513,886)
Total property and equipment	$ 4,962,271	$ 5,137,297

Depreciation expense for the years ended June 30, 2023 and 2022 was $245,571 and $259,166, respectively.

Note 4. Investments and Fair Value Measurements

Investments consist of the following at June 30, 2023 and 2022:

	2023	2022
Cash equivalents	$ 79,996	$ 380,322
Bond funds	3,320,935	3,516,781
Equity funds	5,378,371	5,072,483
Exchange traded funds	294,831	79,424
Total investments	$ 9,074,133	$ 9,049,010

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 Organization 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 following is a description of the valuation methodologies used for assets measured at fair value, on a recurring basis. There have been no changes to the methodologies used at June 30, 2023 and 2022.

Cash equivalents: Fair values of money market funds are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable.

Bond funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Equity funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange traded funds (ETFs): Valued at the last sales price or official closing price on the exchange or primary market on which they trade. ETFs hold assets such as stock, commodities, or bonds and are designed to trade close to their net asset value. The fair values of exchange-traded funds are determined by obtaining quoted prices on nationally recognized securities exchanges.

The preceding method 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 services, assets and use of facilities could result in a different fair value measurement at the reporting date.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2023 and 2022:

	2023 Level 1	2022 Level 1
Cash equivalents	$ 79,996	$ 380,322
Bond funds	3,320,935	3,516,781
Equity funds	5,378,371	5,072,483
Exchange traded funds	294,831	79,424
Total investments	$ 9,074,133	$ 9,049,010

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 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 at 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.

At June 30, 2023 and 2022, the Organization's endowment net asset composition by type of fund is as follows:

Endowment Net Assets as of June 30, 2023

	Original Gift	Available, Subject to Spending Policy	Total Endowment
Endowment for spay/neuter - cats	$ 332,120	$ (5,639)	$ 326,481
Endowment for dogs	1,000,000	(67,572)	932,428
Total	$ 1,332,120	$ (73,211)	$ 1,258,909

Endowment Net Assets as of June 30, 2022

	Original Gift	Available, Subject to Spending Policy	Total Endowment
Endowment for spay/neuter - cats	$ 332,120	$ (32,494)	$ 299,626
Endowment for dogs	1,000,000	(139,485)	860,515
Total	$ 1,332,120	$ (171,979)	$ 1,160,141

The changes in endowment net assets for the years ended June 30, 2023 and 2022, are as follows:

Endowment net assets, June 30, 2021	$ 1,351,010
Investment return, net	(184,235)
Appropriation of endowment for expenditure	(6,634)
Endowment net assets, June 30, 2022	1,160,141
Investment return, net	104,320
Appropriation of endowment for expenditure	(5,552)
Endowment net assets, June 30, 2023	$ 1,258,909

From time to time, certain donor-restricted endowment funds may have fair market values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. This excess amount totaled $73,211 and $171,979 as of June 30, 2023 and 2022, respectively, and related to both endowment funds. The underwater portion is a reduction of undesignated net assets without donor restrictions. As such, there is an aggregate deficiency when adding both endowment funds with donor restrictions as of June 30, 2023 and 2022.

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 Sherriff'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. 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 both years ended June 30, 2023 and 2022 was $18,750. The promise to give land lease receivable balance related to this land lease was $345,313 and $364,063 as of June 30, 2023 and 2022, and is expected to be collected through use of the land as follows:

	2023	***2022***
Within one year	$ 18,750	$ 18,750
In one to five years	93,750	93,750
Thereafter	232,813	251,563
Total land lease receivable	$ 345,313	$ 364,063

Note 7. Paycheck Protection Program

On February 1, 2021, the Organization was granted a Paycheck Protection Program (PPP) 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. In September 2021, the Organization was given official forgiveness of the PPP loan amount, as the funds were used for qualifying expenses. Since forgiveness was received during the year ended June 30, 2022, the Organization accounted for the loan as a government grant under the PPP program, under the accounting guidance.

Note 8. Net Assets With Donor Restrictions

As of June 30, 2023 and 2022, net assets with donor restrictions are restricted for the following purposes or periods:

	2023	*2022*
Restricted in perpetuity - endowments:		
Dog rescue, maintenance, and placement	$ 1,000,000	$ 1,000,000
North County spay/neuter - cats	332,120	332,120
	1,332,120	1,332,120
Subject to expenditure for specified purpose:		
Medical improvements and equipment	8,820	14,951
Covid relief	-	1,233
Outdoor area	-	50,000
New dog yard	-	5,470
Critter Camp scholarships	3,075	3,075
Project Meow	32,307	35,830
Fahsing spay/neuter program (non-endowed)	11,962	14,337
Spay/neuter surgeries	3,438	2,674
Non spay/neuter surgeries	42,361	31,007
	101,963	158,577
Subject to the passage of time:		
Promise-to-give land lease	345,313	364,063
Total net assets with donor restrictions	$ 1,779,396	$ 1,854,760

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 years ended June 30, 2023 and 2022:

	2023	2022
Expiration of time restrictions - land lease	$ 18,750	$ 18,750
Satisfaction of purpose restrictions:		
Medical improvements and equipment	6,130	-
Covid relief	1,233	481
Website development	-	10,100
Outdoor area	50,000	-
New dog yard	5,470	2,030
Project Meow	44,125	43,400
Fahsing spay/neuter program (non-endowed)	2,375	1,802
Spay/neuter surgeries	13,478	9,426
Non spay/neuter surgeries	14,054	2,755
General operations	10,071	-
	$ 165,686	$ 88,744

Note 9. 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 10. Retirement Savings Plan

The Organization offers a 403(b) plan that covers all eligible employees. Employees are eligible to participate in the salary deferrals into the plan upon hire. The Organization implemented a 3% match effective July 1, 2022. Employees are eligible to receive the match if they work 1,000 hours during the year. Matching contributions totaled $37,950 for the year ended June 30, 2023. There were no Organization matching or discretionary contributions for the year ended June 30, 2022.

Note 11. 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 12. Related Party Transactions

As of June 30, 2023, the Organization held funds in accounts at a bank where an audit committee member during the year was an executive. For the years ended June 30, 2023 and 2022, the Organization received donations from board of director members, who are considered related parties, totaling $17,253 and $29,402, respectively.

Note 13. Subsequent Events

The date to which events occurring after June 30, 2023 have been evaluated for possible adjustment to the financial statements or disclosure is October 20, 2023, which is the date on which the financial statements were available to be issued.