



FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



Leaf & Cole, LLP
Certified Public Accountants

**RANCHO COASTAL HUMANE SOCIETY
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Rancho Coastal Humane Society

Report on the Financial Statements

We have audited the accompanying financial statements of Rancho Coastal Humane Society, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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.

To the Board of Directors
Rancho Coastal Humane Society

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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 Rancho Coastal Humane Society as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
October 18, 2017

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND JUNE 30, 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
<u>Current Assets:</u> (Notes 2, 3 and 4)		
Cash and cash equivalents	\$ 591,007	\$ 386,442
Investments	5,573,415	4,849,474
Accounts receivable	1,732	-
Deposits and prepaid expenses	50,990	39,969
Total Current Assets	<u>6,217,144</u>	<u>5,275,885</u>
<u>Noncurrent Assets:</u> (Notes 2, 5 and 6)		
Property and equipment, net	1,085,537	1,046,461
Beneficial interest in endowment funds	528,304	472,015
Total Noncurrent Assets	<u>1,613,841</u>	<u>1,518,476</u>
TOTAL ASSETS	<u>\$ 7,830,985</u>	<u>\$ 6,794,361</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 2)		
Accounts payable	\$ 7,739	\$ -
Compensated absences	47,481	40,198
Total Current Liabilities	<u>55,220</u>	<u>40,198</u>
<u>Commitments</u> (Note 10)		
<u>Net Assets:</u> (Notes 2, 7 and 8)		
Unrestricted	6,960,171	6,151,737
Temporarily restricted	287,290	130,411
Permanently restricted	528,304	472,015
Total Net Assets	<u>7,775,765</u>	<u>6,754,163</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,830,985</u>	<u>\$ 6,794,361</u>

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017				2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
<u>Support and Revenues:</u>								
Contributions	\$ 1,595,475	\$ 411,862	\$ -	\$ 2,007,337	\$ 1,321,373	\$ 433,268	\$ 250	\$ 1,754,891
Thrift shop revenue	988,641	-	-	988,641	825,980	-	-	825,980
Investment income (loss)	547,380	-	56,289	603,669	89,540	-	(8,286)	81,254
Special events	150,414	-	-	150,414	226,415	-	-	226,415
Adoption, kennel and retail store	149,485	-	-	149,485	159,875	-	-	159,875
Rental income	54,784	-	-	54,784	50,534	-	-	50,534
Camps	39,855	-	-	39,855	37,855	-	-	37,855
Other income	(2,240)	-	-	(2,240)	9,085	-	-	9,085
Net assets released from restrictions	254,983	(254,983)	-	-	347,399	(347,399)	-	-
Total Support and Revenues	<u>3,778,777</u>	<u>156,879</u>	<u>56,289</u>	<u>3,991,945</u>	<u>3,068,056</u>	<u>85,869</u>	<u>(8,036)</u>	<u>3,145,889</u>
<u>Expenses:</u>								
<u>Program Services:</u>								
Program services	1,791,095	-	-	1,791,095	1,554,255	-	-	1,554,255
Thrift store	693,031	-	-	693,031	591,402	-	-	591,402
Total Program Services	<u>2,484,126</u>	<u>-</u>	<u>-</u>	<u>2,484,126</u>	<u>2,145,657</u>	<u>-</u>	<u>-</u>	<u>2,145,657</u>
<u>Supporting Services:</u>								
Management and general	299,441	-	-	299,441	313,764	-	-	313,764
Fundraising	121,418	-	-	121,418	109,598	-	-	109,598
Total Supporting Services	<u>420,859</u>	<u>-</u>	<u>-</u>	<u>420,859</u>	<u>423,362</u>	<u>-</u>	<u>-</u>	<u>423,362</u>
Total Program and Supporting Services	<u>2,904,985</u>	<u>-</u>	<u>-</u>	<u>2,904,985</u>	<u>2,569,018</u>	<u>-</u>	<u>-</u>	<u>2,569,018</u>
Special Events	52,874	-	-	52,874	36,763	-	-	36,763
Retail Store Cost of Sales	12,484	-	-	12,484	14,507	-	-	14,507
Total Expenses	<u>2,970,343</u>	<u>-</u>	<u>-</u>	<u>2,970,343</u>	<u>2,620,288</u>	<u>-</u>	<u>-</u>	<u>2,620,288</u>
Change in Net Assets	808,434	156,879	56,289	1,021,602	447,768	85,869	(8,036)	525,601
Net Assets at Beginning of Year	6,151,737	130,411	472,015	6,754,163	5,703,969	44,542	480,051	6,228,562
NET ASSETS AT END OF YEAR	<u>\$ 6,960,171</u>	<u>\$ 287,290</u>	<u>\$ 528,304</u>	<u>\$ 7,775,765</u>	<u>\$ 6,151,737</u>	<u>\$ 130,411</u>	<u>\$ 472,015</u>	<u>\$ 6,754,163</u>

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017							2016						
	Program Services			Supporting Services			Total 2017	Program Services			Supporting Services			Total 2016
	Program Services	Thrift Store	Total	Management and General	Fundraising	Total		Program Services	Thrift Store	Total	Management and General	Fundraising	Total	
Salaries and Related Expenses:														
Salaries and wages	\$ 1,055,937	\$ 346,110	\$ 1,402,047	\$ 213,406	\$ -	\$ 213,406	\$ 1,615,453	\$ 956,793	\$ 269,297	\$ 1,226,090	\$ 223,007	\$ -	\$ 223,007	\$ 1,449,097
Payroll taxes and employee benefits	212,758	106,343	319,101	48,899	-	48,899	368,000	179,500	89,208	268,708	48,703	-	48,703	317,411
Total Salaries and Related Expenses	1,268,695	452,453	1,721,148	262,305	-	262,305	1,983,453	1,136,293	358,505	1,494,798	271,710	-	271,710	1,766,508
Operating Expenses:														
Adoption and retail expenses	8,547	-	8,547	-	-	-	8,547	11,496	-	11,496	-	-	-	11,496
Advertising	64,567	2,080	66,647	-	31,698	31,698	98,345	11,209	2,075	13,284	-	28,816	28,816	42,100
Annual drive/other fundraising	-	-	-	-	-	-	-	-	-	-	-	9,674	9,674	9,674
Automobile expense	14,571	7,708	22,279	1,389	513	1,902	24,181	14,238	8,477	22,715	1,410	315	1,725	24,440
Bank charges	5,739	19,896	25,635	141	9,960	10,101	35,736	9,464	16,431	25,895	45	8,046	8,091	33,986
Community events	7,122	-	7,122	-	-	-	7,122	2,831	-	2,831	-	-	-	2,831
Depreciation	90,182	-	90,182	-	-	-	90,182	90,935	-	90,935	-	-	-	90,935
Dues and subscriptions	2,345	21	2,366	579	-	579	2,945	3,329	36	3,365	160	905	1,065	4,430
Education	4,839	-	4,839	-	-	-	4,839	3,348	-	3,348	-	-	-	3,348
Equipment rental	8,369	1,061	9,430	1,429	-	1,429	10,859	7,169	934	8,103	1,289	-	1,289	9,392
Improvements	-	-	-	-	-	-	-	2,950	-	2,950	-	-	-	2,950
In-kind expenses	1,315	-	1,315	-	-	-	1,315	-	-	-	-	3,771	3,771	3,771
Insurance	600	3,392	3,992	7,346	-	7,346	11,338	-	3,401	3,401	11,217	-	11,217	14,618
Kennel expense	39,866	-	39,866	-	-	-	39,866	30,135	-	30,135	-	-	-	30,135
Miscellaneous	210	-	210	969	-	969	1,179	390	-	390	1,561	-	1,561	1,951
Office expense	7,901	-	7,901	2,718	3,346	6,064	13,965	6,707	221	6,928	3,493	1,054	4,547	11,475
Postage	844	98	942	82	47,043	47,125	48,067	244	-	244	345	37,452	37,797	38,041
Printing and publication	-	914	914	-	-	-	914	-	643	643	-	-	-	643
Professional services	-	-	-	12,900	28,858	41,758	41,758	-	-	-	13,000	19,565	32,565	32,565

(Continued)

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017							2016							
	Program Services			Supporting Services				Total 2017	Program Services			Supporting Services			Total 2016
	Program Services	Thrift Store	Total	Management and General	Fundraising	Total	Program Services		Thrift Store	Total	Management and General	Fundraising	Total		
Operating Expenses: (Continued)															
Rent	\$ -	\$ 156,844	\$ 156,844	\$ -	\$ -	\$ -	\$ 156,844	\$ -	\$ 135,233	\$ 135,233	\$ -	\$ -	\$ -	\$ 135,233	
Repairs and maintenance	2,089	1,085	3,174	-	-	-	3,174	2,373	1,899	4,272	-	-	-	4,272	
Safehouse	3,775	-	3,775	-	-	-	3,775	10,351	-	10,351	-	-	-	10,351	
Shelter cleaning and maintenance	45,598	1,171	46,769	947	-	947	47,716	41,020	1,075	42,095	1,290	-	1,290	43,385	
Staff expense	1,099	-	1,099	-	-	-	1,099	7,637	1,150	8,787	700	-	700	9,487	
Supplies	-	29,972	29,972	-	-	-	29,972	-	46,421	46,421	-	-	-	46,421	
Taxes and licenses	-	-	-	2,261	-	2,261	2,261	-	-	-	2,255	-	2,255	2,255	
Telephone, web and internet	12,674	3,074	15,748	3,521	-	3,521	19,269	12,557	2,972	15,529	2,561	-	2,561	18,090	
Utilities and trash removal	40,791	13,262	54,053	2,854	-	2,854	56,907	37,120	11,929	49,049	2,728	-	2,728	51,777	
Veterinary care and medicine	118,677	-	118,677	-	-	-	118,677	105,334	-	105,334	-	-	-	105,334	
Volunteer related	7,906	-	7,906	-	-	-	7,906	7,124	-	7,124	-	-	-	7,124	
Wildlife	32,774	-	32,774	-	-	-	32,774	-	-	-	-	-	-	-	
Total Operating Expenses	<u>522,400</u>	<u>240,578</u>	<u>762,978</u>	<u>37,136</u>	<u>121,418</u>	<u>158,554</u>	<u>921,532</u>	<u>417,961</u>	<u>232,897</u>	<u>650,858</u>	<u>42,054</u>	<u>109,598</u>	<u>151,652</u>	<u>802,510</u>	
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 1,791,095</u>	<u>\$ 693,031</u>	<u>\$ 2,484,126</u>	<u>\$ 299,441</u>	<u>\$ 121,418</u>	<u>\$ 420,859</u>	<u>\$ 2,904,985</u>	<u>\$ 1,554,254</u>	<u>\$ 591,402</u>	<u>\$ 2,145,656</u>	<u>\$ 313,764</u>	<u>\$ 109,598</u>	<u>\$ 423,362</u>	<u>\$ 2,569,018</u>	

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 1,021,602	\$ 525,601
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	90,182	90,935
Realized and unrealized (gains) losses on investments	(410,111)	26,533
Loss on disposition of property and equipment	3,409	-
Permanently restricted contributions	-	(250)
Permanently restricted investment (income) loss	(56,289)	8,286
(Increase) Decrease in:		
Accounts receivable	(1,732)	-
Deposits and prepaid expenses	(11,021)	9,129
Increase (Decrease) in:		
Accounts payable	7,739	-
Payroll and related liabilities payable	-	(27,647)
Compensated absences	7,283	6,726
Net Cash Provided by Operating Activities	<u>651,062</u>	<u>639,313</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases) and sales, net	(313,830)	(865,958)
Purchase of property and equipment	(132,667)	(207,180)
Beneficial interest in endowment funds	(56,289)	8,036
Net Cash Used in Investing Activities	<u>(502,786)</u>	<u>(1,065,102)</u>
<u>Cash Flows From Financing Activities:</u>		
Permanently restricted contributions	-	250
Permanently restricted investment income (loss)	56,289	(8,286)
Net Cash Provided by (Used in) Financing Activities	<u>56,289</u>	<u>(8,036)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	204,565	(433,825)
Cash and Cash Equivalents at Beginning of Year	<u>386,442</u>	<u>820,267</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 591,007</u></u>	<u><u>\$ 386,442</u></u>

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

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 1 - Organization:

Rancho Coastal Humane Society (“Rancho Coastal”) was incorporated in 1960 as a Nonprofit Corporation. The goal of Rancho Coastal is to care for the homeless animal population of San Diego County and to educate the public about pet over-population and responsible companion animal care. Rancho Coastal is dedicated to the rescue and shelter of abandoned companion animals. It encourages adoptions into loving homes and the promotion of humane ideals through education and community outreach. Rancho Coastal primarily serves San Diego County, California. Rancho Coastal’s funding comes primarily from adoptions and relinquishment fees, bequests, contributions, and thrift shop revenues.

The following is a brief description of the Rancho Coastal’s programs:

Programs

Rancho Coastal’s adoptions and animal care program finds new homes for cats and dogs surrendered by their owners and received from local county animal shelters, and cares for these animals prior to adoption. During their stay at the shelter, all of Rancho Coastal’s animals receive excellent medical care and staff and volunteers work on improved socialization to ensure successful adoptions. Rancho Coastal offers educational programs regarding humane treatment of animals and responsible care of pets as well as a program for the adoption of animals from overcrowded municipal shelters. Additionally, Rancho Coastal also provides the following program services:

Kid’s Programs/Animal Camps

Animals are a source of great fascination for children of all ages. Rancho Coastal encourages children to share their passion for animals. The Humane Education programs focus on teaching children the importance of proper care and compassion toward the animals that share our world. All of the education programs offered are geared towards embracing children’s natural love and curiosity about animals while fostering a sense of respect and kindness for all life.

Rancho Coastal offers programs for children including the Kid’s Community Service program (KCS) for students in grades 6 through 12, birthday parties, shelter tours, and classroom presentations.

Rancho Coastal has a whole line-up of camps to excite and educate children. Camps are held during spring, summer and fall school breaks and are age appropriate for children 6-14 years old. Camps run in themed, week-long sessions and are conducted by trained Rancho Coastal educators. Using hands-on games, activities, arts and crafts, guest speakers and of course live animals, children are taught about animals and their importance in our world.

Animal Safehouse Program

The Animal Safehouse program provides temporary foster care for innocent pets of domestic violence victims. The program provides a support service to domestic violence shelters which are unable to accept pets. Rancho Coastal actively collaborates with domestic violence shelters, the San Diego Domestic Violence Council, the San Diego County Board of Supervisors, the County of San Diego Department of Animal Services, city and municipal animal shelters, the San Diego Family Justice Center, San Diego Domestic Violence Response Teams, social services, mental health services, law-enforcement, educational facilities, Military and many other agencies and individuals who want to eradicate abuse and help break the cycle of family violence.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 1 - Organization: (Continued)

Programs (Continued)

FOCAS Program

The FOCAS program gives pets from other shelters a second chance to be adopted. This program is the result of the merger of Friends of County Animal Shelters (FOCAS) with Rancho Coastal. Rancho Coastal has continued the partnership started by FOCAS with the three County Animal Shelters and has expanded the FOCAS program by taking dogs, cats and bunnies from Chula Vista Animal Controls, El Centro Humane Society, The San Diego House Rabbit Society, and sometimes from other parts of the country or the world. Rancho Coastal is a limited admission shelter, which enables them to keep adoptable animals until they can be placed with their new families. Each of the dogs, cats and bunnies is given a “second chance” for adoption, and a new opportunity to find a loving home.

Pet Assisted Therapy

Rancho Coastal offers pet assisted therapy with two programs, RCHS PAT Program and Read for Wags. RCHS PAT Program brings the unconditional love of animals to people in need. Read for Wags provides an opportunity for children with reading difficulties to read to dogs to help improve reading skills.

Pet Food Bank

Rancho Coastal provides food and other supplies for people on fixed incomes, the sick and disabled, working families that struggle financially, and the homeless.

Thrift Store

Rancho Coastal operates a thrift store located in Cardiff, California. Donations of new or used merchandise are accepted at the shop during regular business hours. The thrift store offers furniture, antiques and collectibles, clothing, jewelry and fashion accessories. Volunteers and staff sell, sort, stock, intake, price and organize donations.

San Diego Wildlife Center

The San Diego Wildlife Center is expected to be operational in the Fall of 2017. The San Diego Wildlife Center will be a resource in the north coastal region of San Diego County for the care of injured, sick, and orphaned local wildlife. The primary focus of the program will be on songbirds, shorebirds, and squirrels. Rancho Coastal will work with their partners to ensure that all wildlife has a place to heal and a chance to return to the wild.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of Rancho Coastal have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of Rancho Coastal and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by Rancho Coastal. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

Rancho Coastal invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

Rancho Coastal's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual and index funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Beneficial interest in endowment funds held at San Diego Foundation is considered a Level 3 asset which represents the fair value of the underlying assets as reported by San Diego Foundation (Note 6).

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at June 30, 2017 and 2016.

Capitalization and Depreciation

Rancho Coastal capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained Rancho Coastal reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Rancho Coastal reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Land improvements	5 - 15 years
Buildings and improvements	7 - 39 years
Machinery and equipment	7 - 10 years
Office equipment	5 - 7 years
Vehicles	5 years

Depreciation totaled \$90,182 and \$90,935 for the years ended June 30, 2017 and 2016, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Impairment of Real Estate

Rancho Coastal reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 and 2016.

Compensated Absences

Accumulated unpaid vacation totaling \$47,481 and \$40,198 at June 30, 2017 and 2016, respectively, is accrued when incurred and included in compensated absences.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to Rancho Coastal that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Donated Services and Materials

Rancho Coastal utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2017 and 2016, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

In-kind contributions of materials used for program services with an estimated fair value totaling \$1,315 and \$3,771 for the years ended June 30, 2017 and 2016, respectively, are included in in-kind contributions and program expenses in the statement of activities. In addition, Rancho Coastal has received substantial donations of materials, clothing and household items that are received at its thrift store where they are sorted and sold. These items have not been included as in-kind contributions.

Allocated Expenses

Rancho Coastal allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimated made by Rancho Coastal's management.

Income Taxes

Rancho Coastal is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Rancho Coastal believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Rancho Coastal is not a private foundation.

Rancho Coastal's Return of Organization Exempt from Income Tax for the years ended June 30, 2017, 2016, 2015, and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

Rancho Coastal maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Rancho Coastal has not experienced any losses in such accounts. Rancho Coastal believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Rancho Coastal considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 2 - Significant Accounting Policies: (Continued)

Subsequent Events

In preparing these financial statements, Rancho Coastal has evaluated events and transactions for potential recognition or disclosure through October 18, 2017, the date the financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30:

	2017			Balance at June 30, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds:				
Fixed income funds	\$ 1,539,113	\$ -	\$ -	\$ 1,539,113
Growth funds	989,764	-	-	989,764
Index funds:				
Domestic index	2,336,718	-	-	2,336,718
REIT index	227,666	-	-	227,666
International REIT index	168,036	-	-	168,036
International index	166,412	-	-	166,412
World market index	145,706	-	-	145,706
Beneficial interest in endowment funds(Note 6)	-	-	528,304	528,304
	<u>\$ 5,573,415</u>	<u>\$ -</u>	<u>\$ 528,304</u>	<u>\$ 6,101,719</u>
	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Mutual funds:				
Fixed income funds	\$ 1,497,102	\$ -	\$ -	\$ 1,497,102
Growth funds	833,882	-	-	833,882
Index funds:				
Domestic index	1,993,821	-	-	1,993,821
REIT index	233,746	-	-	233,746
International REIT index	154,199	-	-	154,199
International index	136,724	-	-	136,724
World market index	-	-	-	-
Beneficial interest in endowment funds (Note 6)	-	-	472,015	472,015
	<u>\$ 4,849,474</u>	<u>\$ -</u>	<u>\$ 472,015</u>	<u>\$ 5,321,489</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Note as indicated above.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 3 - Fair Value Measurements: (Continued)

The following table represents Rancho Coastal Humane Society's Level 3 financial instrument, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

		2017		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 528,304	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A

		2016		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 472,015	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A

Note 4 - Investments:

Investments consist of the following at June 30:

	2017	2016
Mutual funds	\$ 2,528,877	\$ 2,330,984
Index funds	3,044,538	2,518,490
Total Investments	<u>\$ 5,573,415</u>	<u>\$ 4,849,474</u>

Investment return is summarized as follows for the years ended June 30:

	2017		
	Unrestricted	Permanently Restricted	Total 2017
Interest and dividends	\$ 137,269	\$ -	\$ 137,269
Realized and unrealized gains	410,111	56,289	466,400
Total Investment Return	<u>\$ 547,380</u>	<u>\$ 56,289</u>	<u>\$ 603,669</u>

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 4 - Investments: (Continued)

	2016		
	Unrestricted	Permanently Restricted	Total 2016
Interest and dividends	\$ 116,073	\$ -	\$ 116,073
Realized and unrealized losses	(26,533)	(8,286)	(34,819)
Total Investment Return	<u>\$ 89,540</u>	<u>\$ (8,286)</u>	<u>\$ 81,254</u>

Note 5 - Property and Equipment:

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 156,058	\$ 156,058
Buildings and improvements	1,915,204	1,915,204
Machinery and equipment	57,828	19,456
Office equipment	49,497	49,497
Vehicles	113,514	113,514
Construction in progress	188,185	102,593
Subtotal	<u>2,480,286</u>	<u>2,356,322</u>
Less: Accumulated depreciation	<u>(1,394,749)</u>	<u>(1,309,861)</u>
Property and Equipment, Net	<u>\$ 1,085,537</u>	<u>\$ 1,046,461</u>

Note 6 - Beneficial Interest in Endowment Funds:

Rancho Coastal has a beneficial interest in two endowment funds held at San Diego Foundation, which are classified as permanently restricted for these investments must be maintained in perpetuity. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 28% international equities, 24% domestic equities, 20% alternative investments, 17% fixed income, 7% real estate and 4% commodities.

The activity in the beneficial interest in endowment funds consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 472,015	\$ 480,051
Contributions	-	250
Investment income (loss)	<u>56,289</u>	<u>(8,286)</u>
Balance, End of Year	<u>\$ 528,304</u>	<u>\$ 472,015</u>

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Shelter Improvements	\$ 262,998	\$ 3,314
Vehicle	24,292	24,292
Veterinary Care	-	61,256
Safehouse	-	41,549
	<u>\$ 287,290</u>	<u>\$ 130,411</u>

Net assets in the amount of \$254,983 and \$347,399 were released from donor restrictions for the years ended June 30, 2017 and 2016, respectively, by incurring expenses and events satisfying the purpose or time restrictions specified by donors.

Note 8 - Endowment Net Assets:

The beneficial interest in endowment funds held by San Diego Foundation (the “Foundation”) are managed in accordance with UPMIFA. The Foundation’s objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require Rancho Coastal to retain as a fund of perpetual duration. Rancho Coastal classifies permanently restricted net assets held by the Foundation as:

- The original value of gifts donated to the fund
- The original value of Organization funds transferred to the fund
- The original value of subsequent gifts donated to the fund
- Investment income and realized and unrealized gains and losses on investments
- Distributions from the fund in accordance with the spending policy

The Foundation has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

The Foundation’s endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total rate. The Foundation’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 8 - Endowment Net Assets: (Continued)

Endowment composition by type of fund and changes in endowment net assets as of and for the years ended June 30:

	Permanently Restricted
Endowment net assets at June 30, 2015	\$ 480,051
Contribution	250
Net realized and unrealized depreciation	(6,004)
Investment fees	(2,282)
Endowment net assets at June 30, 2016	472,015
Net realized and unrealized appreciation	58,795
Investment fees	(2,506)
Endowment net assets at June 30, 2017	\$ 528,304

Note 9 - Leases:

Rancho Coastal leases the Doggie Daycare facility under an operating lease through May 31, 2018. Rental income totaled \$54,784 and \$50,534 for the years ended June 30, 2017 and 2016, respectively. The following is a schedule of future minimum lease income under the lease:

Year Ended June 30	
2018	\$ 54,252
Total	\$ 54,252

Note 10 - Commitments:

Operating Leases

Rancho Coastal leases its thrift shop facility under a lease agreement that expires on October 31, 2022, a thrift shop facility under a lease agreement that expires January 8, 2022, a nail salon facility under a lease that expires on March 31, 2019 and a sorting facility under a lease agreement that expires on December 31, 2018. Rent expense for these facilities totaled \$156,844 and \$135,233 for the years ended June 30, 2017 and 2016, respectively.

Rancho Coastal leases a copier under a five year lease agreement that expires on March 31, 2022.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 10 - Commitments: (Continued)

Operating Leases (Continued)

The following is a schedule of future minimum lease payments under the leases:

<u>Years Ended June 30</u>	
2018	\$ 178,522
2019	152,759
2020	118,480
2021	118,480
2022	103,071
Thereafter	<u>28,104</u>
Total	<u><u>\$ 699,146</u></u>

Retirement Plan

Rancho Coastal has a SIMPLE IRA Retirement Plan for the benefit of eligible employees. The benefit is based on an employee's service and level of compensation and is 100% vested immediately. Rancho Coastal, at its discretion, can elect to make contributions equal to 3% of compensation. Rancho Coastal's contributions totaled \$25,825 and \$23,752 for the years ended June 30, 2017 and 2016, respectively.