



FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018



Leaf & Cole, LLP
Certified Public Accountants

**RANCHO COASTAL HUMANE SOCIETY
FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 19



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, 2019 and 2018, 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.

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

To the Board of Directors
Rancho Coastal Humane Society

Page 2

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, 2019 and 2018, 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
November 15, 2019

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND JUNE 30, 2018**

ASSETS

	<u>2019</u>	<u>2018</u>
<u>Current Assets:</u> (Notes 2, 4 and 5)		
Cash and cash equivalents	\$ 462,340	\$ 179,615
Investments	5,913,362	5,945,760
Accounts receivable	2,537	1,624
Deposits and prepaid expenses	58,842	58,512
Total Current Assets	6,437,081	6,185,511
<u>Noncurrent Assets:</u> (Notes 2, 4, 6 and 7)		
Property and equipment, net	1,053,827	1,063,745
Beneficial interest in endowment funds	581,963	562,234
Total Noncurrent Assets	1,635,790	1,625,979
TOTAL ASSETS	\$ 8,072,871	\$ 7,811,490

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 2)		
Accounts payable	\$ 16,284	\$ 1,911
Compensated absences	60,998	52,423
Total Current Liabilities	77,282	54,334
<u>Commitments</u> (Note 11)		
<u>Net Assets:</u> (Notes 2, 8 and 9)		
Without donor restrictions	7,036,796	6,879,427
With donor restrictions:		
Purpose restrictions	376,830	315,495
Perpetual in nature	581,963	562,234
Total With Donor Restrictions	958,793	877,729
Total Net Assets	7,995,589	7,757,156
TOTAL LIABILITIES AND NET ASSETS	\$ 8,072,871	\$ 7,811,490

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenues:</u>						
Contributions	\$ 1,637,030	\$ 277,768	\$ 1,914,798	\$ 1,073,411	\$ 206,956	\$ 1,280,367
Thrift shop revenue	1,194,616	-	1,194,616	1,089,990	-	1,089,990
Investment income	363,750	19,729	383,479	445,149	33,905	479,054
Special events	185,355	-	185,355	168,847	-	168,847
Adoption, kennel and retail store	159,925	-	159,925	177,576	-	177,576
Rental income	62,434	-	62,434	59,434	-	59,434
Camps	40,683	-	40,683	39,715	-	39,715
Other income	6,619	-	6,619	3,395	-	3,395
Net assets released from restrictions	216,433	(216,433)	-	178,726	(178,726)	-
Total Support and Revenues	<u>3,866,845</u>	<u>81,064</u>	<u>3,947,909</u>	<u>3,236,243</u>	<u>62,135</u>	<u>3,298,378</u>
<u>Expenses:</u>						
Program Services:						
Animal programs	1,827,151	-	1,827,151	1,707,628	-	1,707,628
Thrift store	808,869	-	808,869	724,363	-	724,363
Wildlife Center	418,929	-	418,929	221,627	-	221,627
Education	89,078	-	89,078	83,432	-	83,432
Volunteer	85,828	-	85,828	74,331	-	74,331
Animal Safehouse	61,127	-	61,127	65,264	-	65,264
Total Program Services	<u>3,290,982</u>	<u>-</u>	<u>3,290,982</u>	<u>2,876,645</u>	<u>-</u>	<u>2,876,645</u>
Supporting Services:						
Management and general	226,150	-	226,150	340,343	-	340,343
Fundraising	192,344	-	192,344	99,999	-	99,999
Total Supporting Services	<u>418,494</u>	<u>-</u>	<u>418,494</u>	<u>440,342</u>	<u>-</u>	<u>440,342</u>
Total Expenses	<u>3,709,476</u>	<u>-</u>	<u>3,709,476</u>	<u>3,316,987</u>	<u>-</u>	<u>3,316,987</u>
Change in Net Assets	157,369	81,064	238,433	(80,744)	62,135	(18,609)
Net Assets at Beginning of Year	6,879,427	877,729	7,757,156	6,960,171	815,594	7,775,765
NET ASSETS AT END OF YEAR	<u>\$ 7,036,796</u>	<u>\$ 958,793</u>	<u>\$ 7,995,589</u>	<u>\$ 6,879,427</u>	<u>\$ 877,729</u>	<u>\$ 7,757,156</u>

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services						Supporting Services				
	Animal Programs	Wildlife Center	Education	Volunteer	Animal Safehouse	Thrift Store	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses:											
Salaries and wages	\$ 1,087,701	\$ 253,842	\$ 59,400	\$ 59,793	\$ 47,090	\$ 420,054	\$ 1,927,880	\$ 129,451	\$ 51,002	\$ 180,453	\$ 2,108,333
Payroll taxes and employee benefits	234,341	62,352	16,056	16,721	5,189	103,075	437,734	35,535	5,432	40,967	478,701
Total Salaries and Related Expenses	<u>1,322,042</u>	<u>316,194</u>	<u>75,456</u>	<u>76,514</u>	<u>52,279</u>	<u>523,129</u>	<u>2,365,614</u>	<u>164,986</u>	<u>56,434</u>	<u>221,420</u>	<u>2,587,034</u>
Operating Expenses:											
Adoption and retail expenses	10,284	-	-	-	-	-	10,284	-	-	-	10,284
Adoption promotion	50,180	-	-	-	-	-	50,180	-	-	-	50,180
Advertising	5,903	-	-	-	-	2,469	8,372	-	31,428	31,428	39,800
Automobile expense	11,989	4,398	-	-	177	7,678	24,242	1,313	-	1,313	25,555
Bank charges	6,725	795	-	-	-	26,334	33,854	33	10,421	10,454	44,308
Community events	6,383	-	-	-	-	-	6,383	-	-	-	6,383
Cost of goods sold	14,220	-	-	-	-	-	14,220	-	-	-	14,220
Depreciation	67,070	22,356	-	-	-	-	89,426	-	-	-	89,426
Dues and subscriptions	1,587	-	-	-	-	24	1,611	204	129	333	1,944
Equipment rental	3,821	-	2,039	847	847	1,447	9,001	846	-	846	9,847
In-kind expenses	2,087	300	-	-	-	-	2,387	-	-	-	2,387
Insurance	-	949	-	600	-	1,937	3,486	9,144	-	9,144	12,630
Kennel expense	43,088	-	-	-	-	-	43,088	-	-	-	43,088
Miscellaneous	202	-	-	-	-	-	202	288	-	288	490
Office expense	6,245	-	-	134	-	-	6,379	5,927	2,410	8,337	14,716
Postage	452	274	-	-	-	-	726	8	2,520	2,528	3,254
Printing and publication	1,749	-	-	-	-	633	2,382	-	-	-	2,382
Professional services	-	-	-	-	-	242	242	37,309	14,367	51,676	51,918
Rent	-	31,632	-	-	-	182,902	214,534	-	-	-	214,534
Repairs and maintenance	2,419	964	-	-	-	2,863	6,246	-	-	-	6,246
Shelter cleaning and maintenance	78,348	2,771	5,230	-	-	3,632	89,981	-	-	-	89,981
Special event expenses	-	-	-	-	-	-	-	-	74,635	74,635	74,635
Staff expense	574	-	-	-	-	-	574	-	-	-	574
Supplies and program costs	-	26,393	4,973	6,749	6,063	36,653	80,831	-	-	-	80,831
Taxes and licenses	-	-	-	-	-	-	-	2,213	-	2,213	2,213
Telephone, web and internet	10,179	3,133	1,380	984	1,761	1,906	19,343	1,483	-	1,483	20,826
Utilities and trash removal	51,202	8,770	-	-	-	17,020	76,992	2,396	-	2,396	79,388
Veterinary care and medicine	130,402	-	-	-	-	-	130,402	-	-	-	130,402
Total Operating Expenses	<u>505,109</u>	<u>102,735</u>	<u>13,622</u>	<u>9,314</u>	<u>8,848</u>	<u>285,740</u>	<u>925,368</u>	<u>61,164</u>	<u>135,910</u>	<u>197,074</u>	<u>1,122,442</u>
Total Expenses	<u>\$ 1,827,151</u>	<u>\$ 418,929</u>	<u>\$ 89,078</u>	<u>\$ 85,828</u>	<u>\$ 61,127</u>	<u>\$ 808,869</u>	<u>\$ 3,290,982</u>	<u>\$ 226,150</u>	<u>\$ 192,344</u>	<u>\$ 418,494</u>	<u>\$ 3,709,476</u>

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services						Supporting Services				
	Animal Programs	Wildlife Center	Education	Volunteer	Animal Safehouse	Thrift Store	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses:											
Salaries and wages	\$ 1,006,873	\$ 111,645	\$ 54,777	\$ 48,115	\$ 45,438	\$ 354,327	\$ 1,621,175	\$ 249,154	\$ 299	\$ 249,453	\$ 1,870,628
Payroll taxes and employee benefits	183,405	22,363	14,759	15,183	5,760	98,979	340,449	54,976	23	54,999	395,448
Total Salaries and Related Expenses	<u>1,190,278</u>	<u>134,008</u>	<u>69,536</u>	<u>63,298</u>	<u>51,198</u>	<u>453,306</u>	<u>1,961,624</u>	<u>304,130</u>	<u>322</u>	<u>304,452</u>	<u>2,266,076</u>
Operating Expenses:											
Adoption and retail expenses	8,203	-	-	-	-	-	8,203	-	-	-	8,203
Adoption promotion	101,760	-	-	-	-	-	101,760	-	-	-	101,760
Advertising	11,619	-	-	-	-	2,782	14,401	-	22,891	22,891	37,292
Automobile expense	12,085	1,359	-	-	1,444	7,881	22,769	1,334	113	1,447	24,216
Bank charges	6,790	-	-	-	-	22,697	29,487	77	10,849	10,926	40,413
Community events	9,003	-	-	-	-	-	9,003	-	-	-	9,003
Cost of goods sold	14,641	-	-	-	-	-	14,641	-	-	-	14,641
Depreciation	85,469	664	-	-	-	-	86,133	-	-	-	86,133
Dues and subscriptions	2,209	-	969	-	-	24	3,202	518	-	518	3,720
Equipment rental	3,113	-	1,823	778	778	778	7,270	1,169	-	1,169	8,439
In-kind expenses	856	50	-	-	-	-	906	-	-	-	906
Insurance	-	928	-	600	-	2,504	4,032	7,595	-	7,595	11,627
Kennel expense	40,218	-	-	-	-	-	40,218	-	-	-	40,218
Miscellaneous	105	-	-	-	-	-	105	1,134	-	1,134	1,239
Office expense	3,960	-	-	-	1,405	-	5,365	2,824	518	3,342	8,707
Postage	634	-	-	-	-	-	634	-	2,446	2,446	3,080
Printing and publication	733	-	-	-	-	826	1,559	-	-	-	1,559
Professional services	-	-	-	-	-	-	-	12,950	21,063	34,013	34,013
Rent	-	29,343	-	-	-	169,993	199,336	-	-	-	199,336
Repairs and maintenance	6,544	401	-	-	-	1,184	8,129	-	-	-	8,129
Shelter cleaning and maintenance	47,879	-	4,700	-	-	6,434	59,013	486	-	486	59,499
Special event expenses	-	-	-	-	-	-	-	-	41,797	41,797	41,797
Staff expense	2,782	-	-	-	-	-	2,782	-	-	-	2,782
Supplies and program costs	-	50,840	5,115	8,708	8,984	38,537	112,184	-	-	-	112,184
Taxes and licenses	-	-	-	-	-	-	-	2,210	-	2,210	2,210
Telephone, web and internet	6,393	1,998	1,289	947	1,455	1,907	13,989	3,039	-	3,039	17,028
Utilities and trash removal	44,322	2,036	-	-	-	15,510	61,868	2,877	-	2,877	64,745
Veterinary care and medicine	108,032	-	-	-	-	-	108,032	-	-	-	108,032
Total Operating Expenses	<u>517,350</u>	<u>87,619</u>	<u>13,896</u>	<u>11,033</u>	<u>14,066</u>	<u>271,057</u>	<u>915,021</u>	<u>36,213</u>	<u>99,677</u>	<u>135,890</u>	<u>1,050,911</u>
Total Expenses	<u>\$ 1,707,628</u>	<u>\$ 221,627</u>	<u>\$ 83,432</u>	<u>\$ 74,331</u>	<u>\$ 65,264</u>	<u>\$ 724,363</u>	<u>\$ 2,876,645</u>	<u>\$ 340,343</u>	<u>\$ 99,999</u>	<u>\$ 440,342</u>	<u>\$ 3,316,987</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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 238,433	\$ (18,609)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	89,426	86,133
Net realized and unrealized gains on investments	(202,579)	(295,224)
Donated vehicle	-	19,927
Endowment contributions	-	(25)
Endowment investment income	(19,729)	(33,905)
(Increase) Decrease in:		
Accounts receivable	(913)	108
Deposits and prepaid expenses	(330)	(7,522)
Increase (Decrease) in:		
Accounts payable	14,373	(5,828)
Compensated absences	8,575	4,942
Net Cash Provided by (Used in) Operating Activities	<u>127,256</u>	<u>(250,003)</u>
<u>Cash Flows From Investing Activities:</u>		
Investment (purchases) and sales, net	234,977	(77,121)
Purchase of property and equipment	(79,508)	(44,414)
Beneficial interest in endowment funds	(19,729)	(33,930)
Net Cash Provided by (Used in) Investing Activities	<u>135,740</u>	<u>(155,465)</u>
<u>Cash Flows From Financing Activities:</u>		
Endowment contributions	-	25
Endowment investment income	19,729	33,905
Net Cash Provided by Financing Activities	<u>19,729</u>	<u>33,930</u>
Net Increase (Decrease) in Cash and Cash Equivalents	282,725	(371,538)
Cash and Cash Equivalents at Beginning of Year	<u>179,615</u>	<u>591,007</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 462,340</u>	<u>\$ 179,615</u>

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

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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:

Animal 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.

Kids 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 Kids 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.

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 domestic rabbits from Chula Vista Animal Control, El Centro Humane Society, The San Diego House Rabbit Society, the Department of Animal Services, and from other parts of the country or the world where euthanasia practices continue. Rancho Coastal is a limited admission shelter, which enables it to keep adoptable animals until they can be placed with their new families. Each of the dogs, cats and rabbits is given a “second chance” for adoption, and a new opportunity to find a loving home.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 1 - Organization: (Continued)

Pet Food Bank

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

Animal Safehouse Program

The Animal Safehouse program provides temporary care for 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 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. This program has been expanded to include temporary care for pets of veterans who require hospitalization but decline treatment because they have no one to care for their “companions.” By accepting their pets into the program, Rancho Coastal is helping veterans pursue essential medical care at VA hospitals and treatments centers.

Pet Assisted Therapy

Rancho Coastal’s Pet Assisted Therapy (PAT) Program brings the unconditional love of animals to people in need at special needs and at-risk youth programs, senior centers, skilled nursing and residential facilities, hospice, veteran centers, college campuses, schools and libraries and local businesses.

Thrift Store

Rancho Coastal operates a Thrift Shop located in Cardiff, California. Donations of new or used merchandise are accepted at the shop during regular business hours. The Thrift Shop 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 opened on April 2, 2018. The San Diego Wildlife Center was 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 was the rehabilitation and release of songbirds, shorebirds, and squirrels. Rancho Coastal worked with its partners to ensure that wildlife had a place to heal and a chance to return to the wild. The San Diego Wildlife Center was closed on July 15, 2019.

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.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

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

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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 HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements (Continued)

Rancho Coastal's statements 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 by 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 7).

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, 2019 and 2018.

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 support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how 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 net assets with donor restrictions to net assets without donor restrictions at that time

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 \$89,426 and \$86,133 for the years ended June 30, 2019 and 2018, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

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 2019 and 2018.

Compensated Absences

Accumulated unpaid vacation totaling \$60,998 and \$52,423 at June 30, 2019 and 2018, 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. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

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, 2019 and 2018, 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 \$2,387 and \$906 for the years ended June 30, 2019 and 2018, 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.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. 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 estimates made by Rancho Coastal's management.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

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, 2019, 2018, 2017, and 2016 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.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes that affected Rancho Coastal's financial statements include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. Rancho Coastal has adopted this ASU as of and for the year ended June 30, 2019.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2018. There was no effect of adopting the new accounting principles on contributions in 2019.

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 November 15, 2019, 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 - Liquidity and Availability

Rancho Coastal regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Rancho Coastal considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Rancho Coastal considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures. The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 462,340
Investments	5,913,362
Accounts receivable	2,537
Financial assets available to meet general expenditures within one year	\$ 6,378,239

In addition to financial assets available to meet general expenditures over the next 12 months Rancho Coastal operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

Endowment funds consist of a beneficial interest in endowment funds. Appropriations of endowment funds are made in accordance with the spending policy as described in Note 9.

Note 4 - Fair Value Measurements:

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

	2019			Balance at June 30, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual and index funds:				
Fixed income funds	\$ 1,823,092	\$ -	\$ -	\$ 1,823,092
Growth funds	1,073,859	-	-	1,073,859
Domestic index	2,388,479	-	-	2,388,479
REIT index	257,240	-	-	257,240
International REIT index	191,358	-	-	191,358
International index	179,334	-	-	179,334
Beneficial interest in endowment funds (Note 7)	-	-	581,963	581,963
	\$ 5,913,362	\$ -	\$ 581,963	\$ 6,495,325

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 4 - Fair Value Measurements: (Continued)

	2018			Balance at June 30, 2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds and index funds:				
Fixed income funds	\$ 1,543,766	\$ -	\$ -	\$ 1,543,766
Growth funds	1,069,859	-	-	1,069,859
Domestic index	2,726,681	-	-	2,726,681
REIT index	239,148	-	-	239,148
International REIT index	186,268	-	-	186,268
International index	180,038	-	-	180,038
Beneficial interest in endowment funds (Note 7)	-	-	562,234	562,234
	<u>\$ 5,945,760</u>	<u>\$ -</u>	<u>\$ 562,234</u>	<u>\$ 6,507,994</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in Note 7 as indicated above.

The following table represents Rancho Coastal'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:

2019				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 581,963	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A

2018				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 562,234	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 5 - Investments:

Investments consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 2,896,951	\$ 2,613,625
Index funds	<u>3,016,411</u>	<u>3,332,135</u>
Total Investments	<u>\$ 5,913,362</u>	<u>\$ 5,945,760</u>

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

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 161,171	\$ -	\$ 161,171
Realized and unrealized gains	<u>202,579</u>	<u>19,729</u>	<u>222,308</u>
Total Investment Income	<u>\$ 363,750</u>	<u>\$ 19,729</u>	<u>\$ 383,479</u>
	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 149,925	\$ -	\$ 149,925
Realized and unrealized gains	<u>295,224</u>	<u>33,905</u>	<u>329,129</u>
Total Investment Income	<u>\$ 445,149</u>	<u>\$ 33,905</u>	<u>\$ 479,054</u>

Note 6 - Property and Equipment:

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 156,058	\$ 156,058
Buildings and improvements	1,938,262	1,932,288
Machinery and equipment	76,242	57,828
Office equipment	46,990	49,497
Vehicles	175,532	133,441
Construction in progress	<u>228,544</u>	<u>215,515</u>
Subtotal	2,621,628	2,544,627
Less: Accumulated depreciation	<u>(1,567,801)</u>	<u>(1,480,882)</u>
Property and Equipment, Net	<u>\$ 1,053,827</u>	<u>\$ 1,063,745</u>

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 7 - Beneficial Interest in Endowment Funds:

Rancho Coastal has a beneficial interest in three endowment funds held by San Diego Foundation, which is classified as with donor restrictions and must be maintained in perpetuity. The beneficial interest in endowment funds held by San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 27% international equities, 28% domestic equities, 20% alternative investments, 17% fixed income, 6% real estate and 2% commodities. The activity in the beneficial interest in endowment funds consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance, Beginning of Year	\$ 562,234	\$ 528,304
Contributions	-	25
Investment income	19,729	33,905
Balance, End of Year	<u>\$ 581,963</u>	<u>\$ 562,234</u>

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by Rancho Coastal, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Shelter improvements	\$ 305,123	\$ 291,203
Vehicle	37,849	24,292
Animal safehouse	33,858	-
Total Subject to Expenditure for Specified Purpose	<u>376,830</u>	<u>315,495</u>
Perpetual in Nature:		
Beneficial interest in endowment funds	581,963	562,234
Total Net Assets with Donor Restrictions	<u>\$ 958,793</u>	<u>\$ 877,729</u>

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

	<u>2019</u>	<u>2018</u>
Purpose Restrictions Fulfilled:		
Wildlife Center	\$ 81,297	\$ 89,068
Vehicle	60,444	-
Animal Safehouse	49,841	35,752
Shelter improvements	13,030	27,330
Animal programs	9,981	20,241
Pet food	1,790	-
Education	50	235
Thrift store	-	6,000
Volunteer	-	100
Total Net Assets Released from Restrictions	<u>\$ 216,433</u>	<u>\$ 178,726</u>

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 9 - Endowment Net Assets:

The beneficial interest in endowment funds held by San Diego Foundation (the “Foundation”) is managed in accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (“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 donor-restricted net assets of a perpetual nature held by the Foundation as:

- The original value of gifts donated to the fund
- The original value of Rancho Coastal 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.

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

	<u>2019</u>	<u>2018</u>
Endowment Net Assets at Beginning of Year	\$ 562,234	\$ 528,304
Contributions	-	25
Investment income	19,729	33,905
Endowment Net Assets at End of Year	<u>\$ 581,963</u>	<u>\$ 562,234</u>

**RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 10 - Lease:

Rancho Coastal leases the Doggie Daycare facility under an operating lease through May 31, 2023. Rental income totaled \$62,434 and \$59,434 for the years ended June 30, 2019 and 2018, respectively. The following is a schedule of future minimum lease payments to be received under the lease:

<u>Years Ended June 30</u>	
2020	\$ 65,434
2021	68,434
2022	71,434
2023	68,002
Total	<u>\$ 273,304</u>

Note 11 - Commitments:

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 \$29,212 and \$25,424 for the years ended June 30, 2019 and 2018, respectively.

Operating Leases

Rancho Coastal operates its thrift shop facility under a series of three lease agreements, the first of which expires on October 31, 2022, the second on January 8, 2022, and the third on March 31, 2024. Rancho Coastal also holds a lease to a storage facility which supports its thrift shop under a lease agreement that expires on June 30, 2021. Rancho Coastal operates the San Diego Wildlife Center under a lease agreement that expires on December 31, 2020. Rent expense for these facilities totaled \$214,534 and \$199,336 for the years ended June 30, 2019 and 2018, respectively.

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

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

<u>Years Ended June 30</u>	
2020	\$ 131,422
2021	120,362
2022	74,551
2023	43,744
2024	26,325
Total	<u>\$ 396,404</u>