



FINANCIAL STATEMENTS

JUNE 30, 2016



Leaf & Cole, LLP
Certified Public Accountants

**RANCHO COASTAL HUMANE SOCIETY
FINANCIAL STATEMENTS
JUNE 30, 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 statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rancho Coastal Humane Society as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rancho Coastal Humane Society's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
October 13, 2016

**RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)**

ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current Assets:</u> (Notes 1, 2 and 3)		
Cash and cash equivalents	\$ 386,442	\$ 820,267
Investments	4,849,474	4,010,049
Deposits and prepaid expenses	39,969	49,098
Total Current Assets	5,275,885	4,879,414
<u>Noncurrent Assets:</u> (Notes 1, 2, 4 and 5)		
Property and equipment, net	1,046,461	930,216
Beneficial interest in endowment funds	472,015	480,051
Total Noncurrent Assets	1,518,476	1,410,267
TOTAL ASSETS	\$ 6,794,361	\$ 6,289,681

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 1)		
Payroll and related liabilities payable	\$ -	\$ 27,647
Compensated absences	40,198	33,472
Total Current Liabilities	40,198	61,119
<u>Commitments</u> (Note 9)		
<u>Net Assets:</u> (Notes 1, 6 and 7)		
Unrestricted	6,151,737	5,703,969
Temporarily restricted	130,411	44,542
Permanently restricted	472,015	480,051
Total Net Assets	6,754,163	6,228,562
TOTAL LIABILITIES AND NET ASSETS	\$ 6,794,361	\$ 6,289,681

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

**RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total <u>2016</u>	Total <u>2015</u>
<u>Support and Revenues:</u>					
Contributions	\$ 1,317,602	\$ 433,268	\$ 250	\$ 1,751,120	\$ 3,212,484
Thrift shop revenue	825,980	-	-	825,980	731,794
Special events	226,415	-	-	226,415	143,879
Adoption fees, kennel services and retail store	159,875	-	-	159,875	168,821
Investment income	89,540	-	(8,286)	81,254	50,286
Rental income	50,534	-	-	50,534	46,609
Camps	37,855	-	-	37,855	38,310
Other income	9,085	-	-	9,085	3,566
In-kind contributions	3,771	-	-	3,771	2,389
Gain on disposal of property and equipment	-	-	-	-	10,875
Net assets released from restrictions	347,399	(347,399)	-	-	-
Total Support and Revenues	<u>3,068,056</u>	<u>85,869</u>	<u>(8,036)</u>	<u>3,145,889</u>	<u>4,409,013</u>
<u>Expenses:</u>					
Program Services:					
Program services	1,554,254	-	-	1,554,254	1,452,770
Thrift store	591,402	-	-	591,402	518,562
Total Program Services	<u>2,145,656</u>	<u>-</u>	<u>-</u>	<u>2,145,656</u>	<u>1,971,332</u>
Supporting Services:					
Management and general	313,764	-	-	313,764	288,188
Fundraising	109,598	-	-	109,598	36,314
Total Supporting Services	<u>423,362</u>	<u>-</u>	<u>-</u>	<u>423,362</u>	<u>324,502</u>
Total Program and Supporting Services	2,569,018	-	-	2,569,018	2,295,834
Special Events	36,763	-	-	36,763	37,378
Retail Store Cost of Sales	14,507	-	-	14,507	10,812
Total Expenses	<u>2,620,288</u>	<u>-</u>	<u>-</u>	<u>2,620,288</u>	<u>2,344,024</u>
Change in Net Assets	447,768	85,869	(8,036)	525,601	2,064,989
Net Assets at Beginning of Year	5,703,969	44,542	480,051	6,228,562	4,163,573
NET ASSETS AT END OF YEAR	<u>\$ 6,151,737</u>	<u>\$ 130,411</u>	<u>\$ 472,015</u>	<u>\$ 6,754,163</u>	<u>\$ 6,228,562</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, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Program Services			Supporting Services			Total 2016	Total 2015
	Program Services	Thrift Store	Total	Management and General	Fundraising	Total		
<u>Salaries and Related Expenses:</u>								
Salaries and wages	\$ 956,793	\$ 269,297	\$ 1,226,090	\$ 223,007	\$ -	\$ 223,007	\$ 1,449,097	\$ 1,281,867
Payroll taxes and employee benefits	179,500	89,208	268,708	48,703	-	48,703	317,411	260,839
Total Salaries and Related Expenses	<u>1,136,293</u>	<u>358,505</u>	<u>1,494,798</u>	<u>271,710</u>	<u>-</u>	<u>271,710</u>	<u>1,766,508</u>	<u>1,542,706</u>
<u>Operating Expenses:</u>								
Adoption and retail expenses	11,496	-	11,496	-	-	-	11,496	8,072
Advertising	11,209	2,075	13,284	-	28,816	28,816	42,100	23,780
Annual drive/other fundraising	-	-	-	-	9,674	9,674	9,674	8,689
Automobile expense	14,238	8,477	22,715	1,410	315	1,725	24,440	24,095
Bank charges	9,464	16,431	25,895	45	8,046	8,091	33,986	25,668
Community events	2,831	-	2,831	-	-	-	2,831	6,258
Depreciation	90,935	-	90,935	-	-	-	90,935	83,377
Dues and subscriptions	3,329	36	3,365	160	905	1,065	4,430	5,486
Education	3,348	-	3,348	-	-	-	3,348	7,466
Equipment rental	7,169	934	8,103	1,289	-	1,289	9,392	11,689
Improvements	2,950	-	2,950	-	-	-	2,950	2,500
In-kind expenses	-	-	-	-	3,771	3,771	3,771	2,389
Insurance	-	3,401	3,401	11,217	-	11,217	14,618	11,937
Kennel expense	30,135	-	30,135	-	-	-	30,135	47,754
Miscellaneous	390	-	390	1,561	-	1,561	1,951	849
Newsletter	-	-	-	-	-	-	-	324
Office expense	6,707	221	6,928	3,493	1,054	4,547	11,475	16,426
Postage	244	-	244	345	37,452	37,797	38,041	4,836
Printing and publication	-	643	643	-	-	-	643	638
Professional services	-	-	-	13,000	19,565	32,565	32,565	26,950

(Continued)

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

RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Program Services			Supporting Services			Total 2016	Total 2015
	Program Services	Thrift Store	Total	Management and General	Fundraising	Total		
<u>Operating Expenses: (Continued)</u>								
Rent	\$ -	\$ 135,233	\$ 135,233	\$ -	\$ -	\$ -	\$ 135,233	\$ 128,268
Repairs and maintenance	2,373	1,899	4,272	-	-	-	4,272	9,255
Safehouse	10,351	-	10,351	-	-	-	10,351	11,109
Shelter cleaning and maintenance	41,020	1,075	42,095	1,290	-	1,290	43,385	31,606
Staff expense	7,637	1,150	8,787	700	-	700	9,487	5,358
Supplies	-	46,421	46,421	-	-	-	46,421	43,037
Taxes and licenses	-	-	-	2,255	-	2,255	2,255	11,802
Telephone, web and internet	12,557	2,972	15,529	2,561	-	2,561	18,090	18,503
Utilities and trash removal	37,120	11,929	49,049	2,728	-	2,728	51,777	45,393
Veterinary care and medicine	105,334	-	105,334	-	-	-	105,334	118,767
Volunteer related	7,124	-	7,124	-	-	-	7,124	10,847
Total Operating Expenses	<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>	<u>753,128</u>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<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>	<u>\$ 2,295,834</u>

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

RANCHO COASTAL HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 525,601	\$ 2,064,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	90,935	83,377
Realized and unrealized losses on investments	26,533	41,038
Gain on disposal of property and equipment	-	(10,875)
Permanently restricted contributions	(250)	-
Permanently restricted investment loss (income)	8,286	(914)
(Increase) Decrease in:		
Deposits and prepaid expenses	9,129	(4,617)
Increase (Decrease) in:		
Payroll and related liabilities payable	(27,647)	(17,365)
Compensated absences	6,726	4,905
Net Cash Provided by Operating Activities	<u>639,313</u>	<u>2,160,538</u>
<u>Cash Flows From Investing Activities:</u>		
Investment purchases and sales, net	(865,958)	(1,627,682)
Insurance proceeds from the disposal of property and equipment	-	10,875
Purchase of property and equipment	(207,180)	(92,608)
Beneficial interest in endowment funds	8,036	(914)
Net Cash Used in Investing Activities	<u>(1,065,102)</u>	<u>(1,710,329)</u>
<u>Cash Flows From Financing Activities:</u>		
Permanently restricted contributions	250	-
Permanently restricted investment (loss) income	(8,286)	914
Net Cash (Used in) Provided by Financing Activities	<u>(8,036)</u>	<u>914</u>
Increase (Decrease) in Cash and Cash Equivalents	(433,825)	451,123
Cash and Cash Equivalents at Beginning of Year	<u>820,267</u>	<u>369,144</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 386,442</u>	<u>\$ 820,267</u>

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

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies:

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.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Programs (Continued)

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.

Second Chance Program

The Second Chance 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.

Dog Park

Rancho Coastal operated Cricket’s Corner, a privately-owned, public, off-leash dog park in Encinitas, California until March 2015.

Pet Assisted Therapy

Rancho Coastal offers pet assisted therapy with two programs, Love on a Leash and Read for Wags. Love on a Leash 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.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Programs (Continued)

Pet Alliance Club

Rancho Coastal offers a Pet Alliance Club membership which encourages businesses to become pet friendly by creating business alliances offering members varying benefits depending on membership level.

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.

Significant Accounting Policies

Method of Accounting

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.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

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 statement 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, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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 5).

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.

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 - 7 years

Depreciation totaled \$90,935 and \$83,377 for the years ended June 30, 2016 and 2015, 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.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

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 2016 and 2015.

Compensated Absences

Accumulated unpaid vacation totaling \$40,198 and \$33,472 at June 30, 2016 and 2015, 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.

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, 2016 and 2015, 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 \$3,771 and \$2,389 for the years ended June 30, 2016 and 2015, 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.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

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, 2016, 2015, 2014, and 2013 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 statement 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.

Comparative Totals for June 30, 2015

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Rancho Coastal's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, Rancho Coastal has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were available to be issued.

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 2 - Fair Value Measurements:

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

	2016			Balance at June 30, 2016
	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	\$ 1,497,102	\$ -	\$ -	\$ 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
Beneficial interest in endowment funds(Note 5)	-	-	472,015	472,015
	<u>\$ 4,849,474</u>	<u>\$ -</u>	<u>\$ 472,015</u>	<u>\$ 5,321,489</u>
	2015			Balance at June 30, 2015
	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	\$ 1,193,278	\$ -	\$ -	\$ 1,193,278
Growth funds	788,335	-	-	788,335
Index funds:				
Domestic index	1,612,523	-	-	1,612,523
REIT index	164,447	-	-	164,447
International REIT index	125,756	-	-	125,756
International index	125,710	-	-	125,710
Beneficial interest in endowment funds (Note 5)	-	-	480,051	480,051
	<u>\$ 4,010,049</u>	<u>\$ -</u>	<u>\$ 480,051</u>	<u>\$ 4,490,100</u>

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

RANCHO COASTAL HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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Note 2 - 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:

		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

		2015		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 480,051	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

Note 3 - Investments:

Investments consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Mutual and Index Funds:		
Vanguard Total Stock Market Index Fund	\$ 1,729,768	\$ 1,414,841
Vanguard International Value Fund	702,217	655,386
Vanguard Intermediate-Term Investment - Grade Admiral Fund	698,738	555,411
Vanguard Short-Term Investment - Gidde Admiral Fund	556,687	447,272
Vanguard High Dividend Yield Fund	264,053	197,682
Vanguard Inflation Protected Fund	241,677	190,594
Vanguard REIT Index Fund	233,746	164,447
Vanguard Kayne Anderson Fund	131,664	132,949
Vanguard Global Ex-US REIT Fund	154,199	125,757
Vanguard European Stock Index Admiral Fund	136,725	125,710
Total Investments	<u>\$ 4,849,474</u>	<u>\$ 4,010,049</u>

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Note 3 - Investments: (Continued)

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

	2016			Total 2015
	Unrestricted	Permanently Restricted	Total	
Interest and dividends	\$ 116,073	\$ -	\$ 116,073	\$ 90,410
Realized and unrealized losses	(26,533)	(8,286)	(34,819)	(40,124)
Total Investment Return	<u>\$ 89,540</u>	<u>\$ (8,286)</u>	<u>\$ 81,254</u>	<u>\$ 50,286</u>

Note 4 - Property and Equipment:

Property and equipment consists of the following at June 30:

	2016	2015
Land and land improvements	\$ 156,058	\$ 156,058
Buildings and improvements	1,915,204	1,799,912
Machinery and equipment	19,456	19,456
Office equipment	49,497	49,497
Vehicles	113,514	113,514
Construction in progress	102,593	10,705
Subtotal	<u>2,356,322</u>	<u>2,149,142</u>
Less: Accumulated depreciation	<u>(1,309,861)</u>	<u>(1,218,926)</u>
Property and Equipment, Net	<u>\$ 1,046,461</u>	<u>\$ 930,216</u>

Note 5 - 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 26% domestic equities, 28% international equities, 16% alternative investments, 17% fixed income, 4% commodities and 8% real estate and 1% cash and cash equivalents.

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

	2016	2015
Balance, Beginning of Year	\$ 480,051	\$ 479,137
Contributions	250	-
Investment (loss) income	(8,286)	914
Balance, End of Year	<u>\$ 472,015</u>	<u>\$ 480,051</u>

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Note 6 - Temporarily Restricted Net Assets:

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

	<u>2016</u>	<u>2015</u>
Veterinary Care	\$ 61,256	\$ -
Safehouse	41,549	20,000
Vehicle	24,292	24,292
Shelter Improvements	3,314	-
Other	-	250
	<u>\$ 130,411</u>	<u>\$ 44,542</u>

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

Note 7 - 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.

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Note 7 - 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, 2014	\$ 479,137
Net realized and unrealized appreciation	3,221
Investment fees	(2,307)
Endowment net assets at June 30, 2015	480,051
Contribution	250
Net realized and unrealized appreciation	(6,004)
Investment fees	(2,282)
Endowment net assets at June 30, 2016	\$ 472,015

Note 8 - Leases:

Rancho Coastal leases the Doggie Daycare facility under an operating lease through May 31, 2018. Rental income totaled \$50,534 and \$46,609 for the years ended June 30, 2016 and 2015, respectively. The following is a schedule of future minimum lease income under the lease:

<u>Years Ended</u> <u>June 30</u>	
2017	54,784
2018	54,252
Total	\$ 109,036

Note 9 - Commitments:

Operating Leases

Rancho Coastal leases its thrift shop facility under a lease agreement that expires on October 31, 2017, a sorting facility under a lease agreement that expired on February 2, 2015, a nail salon facility under a lease that expires on March 31, 2019 and a sorting facility under lease agreement that expires December 31, 2016. Rent expense for these facilities totaled \$135,233 and \$128,268 for the years ended June 30, 2016 and 2015, respectively.

Rancho Coastal leases a copier under a five year lease agreement that expires on March 31, 2018.

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Note 9 - Commitments: (Continued)

Operating Leases (Continued)

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

Years Ended <u>June 30</u>	
2017	\$ 120,620
2018	53,192
2019	<u>19,146</u>
Total	<u><u>\$ 192,958</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 \$23,752 and \$16,479 for the years ended June 30, 2016 and 2015, respectively.