

**SANTA BARBARA HUMANE SOCIETY
FOR THE PREVENTION OF
CRUELTY TO ANIMALS
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Humane Society for the Prevention of Cruelty to Animals
Santa Barbara, California

We have audited the accompanying financial statements of the Santa Barbara Humane Society for the Prevention of Cruelty to Animals (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Santa Barbara Humane Society for the Prevention of Cruelty to Animals as of December 31, 2015, and the change 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 the Santa Barbara Humane Society for the Prevention of Cruelty to Animals 2014 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated May 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

August 10, 2016

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With Comparative Totals As Of December 31, 2014)

	ASSETS				(Memo)
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	2015 <u>Total</u>	2014 <u>Total</u>
Current Assets					
Cash and cash equivalents	\$ 78,127	\$ -	\$ -	\$ 78,127	\$ 136,332
Accounts receivable	2,066	-	-	2,066	2,398
Investment income receivable	-	71,459	-	71,459	77,951
Pledges and bequests receivable, current portion	-	376,550	1,100,000	1,476,550	1,860,938
Prepaid expenses	43,329	-	-	43,329	26,908
Total Current Assets	<u>123,522</u>	<u>448,009</u>	<u>1,100,000</u>	<u>1,671,531</u>	<u>2,104,527</u>
Other Assets					
Investments	8,343,043	5,414,998	11,472,000	25,230,041	25,462,203
Perpetual interest trust	-	-	220,887	220,887	240,852
Pledges and bequests receivable, net of current portion	-	791,500	-	791,500	75,500
Other assets	318,500	-	-	318,500	346,966
Property and equipment, net	1,300,844	-	-	1,300,844	1,337,978
Total Other Assets	<u>9,962,387</u>	<u>6,206,498</u>	<u>11,692,887</u>	<u>27,861,772</u>	<u>27,463,499</u>
Total Assets	<u>\$ 10,085,909</u>	<u>\$ 6,654,507</u>	<u>\$ 12,792,887</u>	<u>\$ 29,533,303</u>	<u>\$ 29,568,026</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 47,282	\$ -	\$ -	\$ 47,282	\$ 44,682
Accrued expenses	102,984	-	-	102,984	113,258
Total Current Liabilities	<u>150,266</u>	<u>-</u>	<u>-</u>	<u>150,266</u>	<u>157,940</u>
Net Assets					
Unrestricted	9,935,643	-	-	9,935,643	9,303,382
Temporarily restricted	-	6,654,507	-	6,654,507	7,643,852
Permanently restricted	-	-	12,792,887	12,792,887	12,462,852
Total Net Assets	<u>9,935,643</u>	<u>6,654,507</u>	<u>12,792,887</u>	<u>29,383,037</u>	<u>29,410,086</u>
Total Liabilities and Net Assets	<u>\$ 10,085,909</u>	<u>\$ 6,654,507</u>	<u>\$ 12,792,887</u>	<u>\$ 29,533,303</u>	<u>\$ 29,568,026</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2015

(With Comparative Totals For the Year Ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>(Memo) 2014 Total</u>
Support, Revenue, and Other Income					
Support					
Contributions, bequests, and grants	\$ 332,285	\$ 966,050	\$ 350,000	\$ 1,648,335	\$ 2,092,884
Membership	93,450	-	-	93,450	90,077
Other support	9,819	-	-	9,819	7,450
Total Support	<u>435,554</u>	<u>966,050</u>	<u>350,000</u>	<u>1,751,604</u>	<u>2,190,411</u>
Revenue					
Veterinary clinic	231,815	-	-	231,815	246,025
Boarding fees	122,534	-	-	122,534	143,922
Crematory	129,730	-	-	129,730	129,645
Other service revenue	44,724	-	-	44,724	22,963
Total Revenue	<u>528,803</u>	<u>-</u>	<u>-</u>	<u>528,803</u>	<u>542,555</u>
Other Income					
Royalty income	44,094	-	-	44,094	79,285
Change in value of perpetual interest trust	-	-	(19,965)	(19,965)	(4,246)
Interest and dividends	209,451	488,720	-	698,171	820,185
Realized gain on investments	1,157,777	2,701,481	-	3,859,258	621
Unrealized gain (loss) on investments	(1,424,625)	(3,324,126)	-	(4,748,751)	1,224,122
Unrealized loss on other assets	(25,000)	-	-	(25,000)	-
Net assets released from restrictions	1,821,470	(1,821,470)	-	-	-
Total Other Income	<u>1,783,167</u>	<u>(1,955,395)</u>	<u>(19,965)</u>	<u>(192,193)</u>	<u>2,119,967</u>
Total Support, Revenue, and Other Income	<u>2,747,524</u>	<u>(989,345)</u>	<u>330,035</u>	<u>2,088,214</u>	<u>4,852,933</u>
Expenses					
Program Services					
Shelter and kennel	965,171	-	-	965,171	890,492
Veterinary clinic	492,765	-	-	492,765	459,607
Education	180,520	-	-	180,520	156,607
Crematory	46,494	-	-	46,494	51,654
Total Program Services	<u>1,684,950</u>	<u>-</u>	<u>-</u>	<u>1,684,950</u>	<u>1,558,360</u>
Supporting Services					
General	340,950	-	-	340,950	331,663
Fundraising	89,363	-	-	89,363	74,241
Total Supporting Services	<u>430,313</u>	<u>-</u>	<u>-</u>	<u>430,313</u>	<u>405,904</u>
Total Expenses	<u>2,115,263</u>	<u>-</u>	<u>-</u>	<u>2,115,263</u>	<u>1,964,264</u>
Changes in Net Assets	632,261	(989,345)	330,035	(27,049)	2,888,669
Net Assets, Beginning of the Year	<u>9,303,382</u>	<u>7,643,852</u>	<u>12,462,852</u>	<u>29,410,086</u>	<u>26,521,417</u>
Net Assets, End of the Year	<u>\$ 9,935,643</u>	<u>\$ 6,654,507</u>	<u>\$ 12,792,887</u>	<u>\$ 29,383,037</u>	<u>\$ 29,410,086</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

(With Comparative Totals For the Year Ended December 31, 2014)

	Program Services					Supporting Services			2015	(Memo) 2014
	Shelter	Clinic	Education	Crematory	Total Program	Management	Fundraising	Total Supporting	Total	Total
Expenses										
Salaries	\$ 577,212	\$ 201,616	\$ 102,039	\$ -	\$ 880,867	\$ 174,927	\$ 21,454	\$ 196,381	\$ 1,077,248	\$ 1,050,654
Benefits	111,912	35,106	13,023	-	160,041	48,656	2,201	50,857	210,898	173,856
Payroll taxes	51,100	18,112	9,542	-	78,754	15,026	1,728	16,754	95,508	96,749
Clinical professional	23,345	57,030	8,687	-	89,062	-	-	-	89,062	66,729
Supplies	40,464	8,019	6,391	23,199	78,073	11,668	7,677	19,345	97,418	54,490
Legal and professional	-	-	-	-	-	58,678	26,192	84,870	84,870	51,170
Medications	-	75,686	-	-	75,686	-	-	-	75,686	82,149
Utilities	38,445	10,892	6,915	10,408	66,660	7,940	626	8,566	75,226	75,932
Depreciation	19,712	22,997	9,856	6,571	59,136	6,571	-	6,571	65,707	70,220
Insurance	10,852	12,661	1,809	3,617	28,939	3,617	3,617	7,234	36,173	33,392
Animal food	33,813	-	-	-	33,813	-	-	-	33,813	41,438
Auto, travel, and meetings	14,760	885	14,208	-	29,853	2,576	13	2,589	32,442	26,585
Repairs and maintenance	21,694	4,452	425	1,418	27,989	959	849	1,808	29,797	27,527
Printing and postage	4,748	973	1,470	16	7,207	5,482	16,940	22,422	29,629	33,977
Outside spay and neuter	-	27,500	-	-	27,500	-	-	-	27,500	22,000
Items purchased for resale	13,261	12,407	-	-	25,668	-	-	-	25,668	14,009
Bank fees	2,751	3,143	449	898	7,241	898	898	1,796	9,037	9,461
Direct program	-	-	4,722	-	4,722	3,006	-	3,006	7,728	7,369
Advertising	-	-	800	-	800	-	4,981	4,981	5,781	10,141
Property and other taxes	1,102	1,286	184	367	2,939	946	367	1,313	4,252	10,544
Membership	-	-	-	-	-	-	1,820	1,820	1,820	5,872
2015 Total Expenses	\$ 965,171	\$ 492,765	\$ 180,520	\$ 46,494	\$ 1,684,950	\$ 340,950	\$ 89,363	\$ 430,313	\$ 2,115,263	
2014 Total Expenses (Memo)	\$ 890,492	\$ 459,607	\$ 156,607	\$ 51,654	\$ 1,558,360	\$ 331,663	\$ 74,241	\$ 405,904		\$ 1,964,264

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

(With Comparative Totals For the Year Ended December 31, 2014)

	<u>2015</u>	<u>(Memo) 2014</u>
Cash Flow from Operating Activities		
Change in net assets	\$ (27,049)	\$ 2,888,669
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	65,707	70,220
Contributions restricted for long-term investment	(350,000)	(750,000)
Unrealized loss (gain) on investments	4,748,751	(1,224,122)
Realized gain on investments	(3,859,258)	(621)
Increase in accounts, pledges, and bequests receivable	(331,280)	(130,743)
Decrease in investment income receivable	6,492	19,297
Increase in prepaid expenses	(16,421)	(7,678)
Decrease in value of perpetual interest trust	19,965	4,246
Decrease in value of other assets	28,466	9,794
Decrease in accounts payable and accrued expenses	<u>(7,674)</u>	<u>(16,894)</u>
Net Cash Provided by Operating Activities	<u>277,699</u>	<u>862,168</u>
 Cash Flow from Investing Activities		
Purchase of property and equipment	(28,573)	(22,392)
Proceeds from sale of securities	17,507,072	1,592,259
Purchase of securities	<u>(18,164,403)</u>	<u>(3,141,145)</u>
Net Cash Used by Investing Activities	<u>(685,904)</u>	<u>(1,571,278)</u>
 Cash Flow from Financing Activities		
Contributions restricted for long-term investment	<u>350,000</u>	<u>750,000</u>
Net Cash Provided by Financing Activities	<u>350,000</u>	<u>750,000</u>
 Increase (Decrease) in Cash and Cash Equivalents	(58,205)	40,890
 Cash at Beginning of the Year	<u>136,332</u>	<u>95,442</u>
 Cash at End of the Year	<u>\$ 78,127</u>	<u>\$ 136,332</u>

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

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES

Organization

The Santa Barbara Humane Society for the Prevention of Cruelty to Animals (the Society), a California nonprofit corporation, was founded in 1887 and is dedicated to the welfare of all animals in Santa Barbara, California and the surrounding area. Its services include shelter care of animals, adoption services, spay and neuter clinical services, euthanasia services, investigation services and education. Based on total expenses, the shelter and kennel activity constitutes the major activity of the Society. These activities are funded primarily by public support and investment income.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the obligation is incurred. In accordance with generally accepted accounting principles, the Society is required to report information regarding its financial position and activities into three net asset categories according to the existence of donor imposed restrictions as follows:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of the Society activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets include pledges and bequests receivable, gifts with donor-imposed purpose restrictions, and unappropriated earnings on permanently restricted net assets. When a restriction expires (when a stipulated time restriction ends, purpose restriction is accomplished, or funds are appropriated by the Board for expenditure in accordance with their spending policy), 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

Permanently restricted net assets consist of contributions subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the Endowment fund assets can be used to support the Society’s operations and is reported as an increase in temporarily restricted net assets on the statement of activities until they are appropriated by the Board for expenditure in accordance with their spending policy.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Society classifies unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Property and Equipment

The Society's investment in equipment and leasehold improvements is stated at cost, or fair market value if donated. Depreciation is calculated using the straight-line method over an estimated useful life of three to forty years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant estimates used in the preparation of these financial statements include: allocation of certain expenses by function, fair market value of other assets, and depreciable lives of property and equipment.

Contributions and Bequests

Contributions received are recorded at their fair value on the date of donation. Contributions receivable are recognized as revenue when committed and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Society accrues bequests when all the events required for the transfer of the assets from the estate of the donor to the Society have occurred and/or the court has issued an order to transfer the assets.

Donated Services

Some individuals and organizations have donated time to the Society, to further its programs and objectives. Volunteers contributed approximately 5,000 hours to the Society in 2015. As this volunteer service does not meet the recognition requirements of generally accepted accounting principles, no amount has been recorded in these financial statements for these services.

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 2 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Functional Expenses

The Society allocates its expenses on a functional basis among its various projects and support services. Expenses that can be identified with a specific project and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Society is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d). The Society is not currently involved in any activity that is subject to unrelated business income tax; therefore, no provision for income taxes is required. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Society evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2015, the Society had no uncertain tax positions requiring accrual. The Society files tax returns in U.S. federal and California jurisdictions. The Society is no longer subject to U.S. federal and state tax examinations by tax authorities for the years ending before 2012 and 2011, respectively.

Subsequent Events

The Society has evaluated subsequent events through August 10, 2016, the date which the financial statements were available to be issued.

Note 3 - **PLEDGES AND BEQUESTS RECEIVABLE**

Pledges and bequests receivable are included in the financial statements as temporarily restricted net assets. The Society is also income beneficiary of a charitable lead annuity trust, and residual beneficiary of a charitable remainder trust, which are included in the amounts reported as pledges and bequests receivable. A discount factor of 2% is applied to amounts receivable in more than one year. These amounts are considered fully collectible and therefore no allowance for uncollectible receivables has been recorded. At December 31, 2015, contributions and bequests receivable are expected to be realized in the following periods:

In one year or less	\$ 1,476,550
In more than one year	863,500
Allowance for discount	<u>(72,000)</u>
Pledges and bequests receivable, net	<u>\$ 2,268,050</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2015:

Land	\$ 117,917
Land improvements	299,936
Buildings and improvements	2,517,065
Furniture and office equipment	168,828
Shelter equipment	207,327
Vehicles	<u>190,102</u>
Total Property and Equipment	3,501,175
Less: Accumulated depreciation	<u>(2,200,331)</u>
Property and equipment, net	<u>\$ 1,300,844</u>

Note 5 - INVESTMENTS

Investments are presented in the financial statements at fair market value. Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the balance sheet date. Realized and unrealized gains and losses on investments are reflected in the Statement of Activities. At December 31, 2015, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gains</u>
Money market funds	\$ 699,809	\$ 699,809	\$ -
Equities and index funds	11,567,526	12,812,941	1,245,415
Bonds and fixed income	<u>11,635,294</u>	<u>11,717,291</u>	<u>81,997</u>
Total	<u>\$ 23,902,629</u>	<u>\$ 25,230,041</u>	<u>\$ 1,327,412</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gains</u>
Balance at end of the year	\$ 23,902,629	\$ 25,230,041	\$ 1,327,412
Balance at beginning of the year	\$ 19,386,040	\$ 25,462,203	\$ 6,076,163
Net change in unrealized gain			<u>\$ (4,748,751)</u>

The following summarizes the investment return included as unrestricted revenue and temporarily restricted revenue on donor-restricted endowment funds in the statement of activities for the year ended December 31, 2015:

Interest and dividend income	\$ 698,171
Realized gain on value of securities	3,859,258
Unrealized loss on value of securities	<u>(4,748,751)</u>
Total Investment Return	<u>\$ (191,322)</u>

SANTA BARBARA HUMANE SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

NOTES TO FINANCIAL STATEMENTS

Note 6 - INTEREST IN TRUSTS

Perpetual Income Trust Interest

The Society is named as an income beneficiary of a perpetual trust, the corpus of which is not controlled by the Society. Under these arrangements, the Society has the irrevocable right to receive income earned on the underlying assets held in perpetuity. Income received from the trust is for support of general operations. Since the Society is a beneficiary of this stream of income in perpetuity, the Society's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of \$220,887 at December 31, 2015. Any change in subsequent fair market value of the Society's share of the investments is recorded in the Statement of Activities as a change in value of perpetual interest in trust. For the year ended December 31, 2015, the Society received \$10,065 in distributions from the trust.

Discretionary Income Trust Interest

The Society is named as an income beneficiary of a discretionary trust, the corpus of which is not controlled by the Society. Under these arrangements, the Society has the right to receive income earned on the underlying assets, subject to the discretion of the trustee. Income received from the trust is for support of general operations. Because the trustee retains discretion over distributions of income, the assets are not recorded on the Society's financial statements. For the year ended December 31, 2015, the Society received \$4,050 in distributions from the trust.

Community Foundation Endowment Trust Interest

The Society is the beneficiary of four endowments held by Santa Barbara Foundation. Because the Santa Barbara Foundation has been granted variance power, the endowment assets are not recorded on the Society's financial statements. The income from these endowments is used to support general operations. The Society is entitled to the income produced by the endowment in accordance with the Santa Barbara Foundation's spending policy, but has no control or access to the principal. For the year ended December 31, 2015, the Society received \$76,380 in distributions from these endowment trusts.

Note 7 - OTHER ASSETS

Other assets of the Society totaling \$318,500 for the year ended December 31, 2015, includes oil and gas rights and undeveloped land.

Oil and gas rights are a 50% undivided interest in 130 properties located in Oklahoma, Missouri and Louisiana with an estimated fair value of \$275,000 as of December 31, 2015.

Undeveloped land consists of a 1/8th interest in land in Fresno, California with an estimated fair value of \$3,500, and undeveloped land located in Hornbrook, California with an estimate fair value of \$40,000 as of December 31, 2015.

NOTES TO FINANCIAL STATEMENTS

Note 8 - FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Society to sell an asset or be paid by the Society to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including estimates by management and information valuation methods

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair market valuation of Level 3 securities is based on estimates of management, information valuation methods used within a particular industry, or other market factors to determine if the carrying value of these investments should be adjusted. Because of the inherent uncertainty of valuations, however, the estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material.

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NOTES TO FINANCIAL STATEMENTS

Note 8 - FAIR VALUE MEASUREMENT (continued)

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 699,809	\$ -	\$ -	\$ 699,809
Equities and index funds	12,812,941	-	-	12,812,941
Bonds and fixed income	<u>11,717,291</u>	<u>-</u>	<u>-</u>	<u>11,717,291</u>
Total Investments	<u>25,230,041</u>	<u>-</u>	<u>-</u>	<u>25,230,041</u>
Perpetual interest trust	220,887	-	-	220,887
Oil and gas rights	-	-	275,000	275,000
Undeveloped land	<u>-</u>	<u>-</u>	<u>43,500</u>	<u>43,500</u>
Total assets measured at fair value	<u>\$ 25,450,928</u>	<u>\$ -</u>	<u>\$ 318,500</u>	<u>\$ 25,769,428</u>

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Money market funds – include held for investment purposes includes money market funds and cash equivalent assets, and is valued at face value.

Equities and index funds – include a variety of publically traded stocks and exchange traded index funds from various industries. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Bonds and fixed income –include fixed income mutual funds and corporate bonds to provide a hedge against deflation, provide a stable return, and to minimize the overall volatility. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) during 2015:

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Loss</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Ending Balance</u>
Oil and gas rights	\$ 300,000	\$(25,000)	\$ -	\$ -	\$ 275,000
Literary rights	3,466	-	-	(3,466)	-
Undeveloped land	<u>43,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,500</u>
Total	<u>\$ 346,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,466)</u>	<u>\$ 318,500</u>

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NOTES TO FINANCIAL STATEMENTS

Note 9 - CONCENTRATIONS AND RISKS

Concentrations of Revenue from Contributions, Bequests, and Grants

For the year ended December 31, 2015, approximately 65% of the support from contributions, bequests, and grants was received from two estates. As of December 31, 2015, approximately 80% of the pledges and bequests receivable were due from the same two estates.

Credit Risk

The Society maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, balances may exceed federally insured limits. At December 31, 2015, the Society does not have any cash balances over the FDIC insured amount. The Society maintains a majority of cash balances in money market funds. Such balances may not be fully insured.

Market Risk

The Society holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Note 10 - COMMITMENTS

The Society has entered into a consulting agreement with a former executive requiring monthly payments of \$2,500 (\$30,000 per year) for a period of ten years ending April 2017. The total commitment for the consulting agreement as of December 31, 2015, was \$40,000.

Note 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the passage of time or by satisfying the restricted purposes specified by donors. For the year ended December 31, 2015, net assets released from restriction totaled \$1,821,470.

Note 12 - RECLASSIFICATIONS

Certain amounts from the December 31, 2014 financial statements have been reclassified to conform with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

Note 13 - ENDOWMENT FUNDS

The Board of Directors has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, the Foundation has classified with the explicit prohibition by the donor as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard for prudence prescribed by UPMIFA. In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Society and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Society.
- (7) The investment policies of the Society.

Endowment Investment and Spending Policies

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity for donor-specified periods. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Society's long-term endowment is invested in a diversified portfolio of equities, index funds, and fixed income. The portfolio employs both passive index funds and actively managed funds. The portfolio's objective is to achieve a total return equivalent to or greater than the Society's financial requirements over the long-term time horizon. Long-term investment strategies are used to manage risk with the goal to grow charitable dollars over time.

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NOTES TO FINANCIAL STATEMENTS

Note 13 - ENDOWMENT FUNDS (continued)

Endowment Investment and Spending Policies (continued)

The Society uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Board of Directors calculates the amount of money annually distributed from the Society's various discretionary funds and other endowed funds for general operations. The percentage is based upon the decision of the Board and is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. For the year ended December 31, 2015, the overall spending policy was approximately 4% of the fair market value of investments, while the spending policy related specifically to permanently restricted endowments was 7%.

Changes in endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 5,546,870	\$ 12,222,000	\$ 17,768,870
Net investment return (investment income, realized and unrealized gains and losses)	-	(133,925)	-	(133,925)
Contributions	-	-	350,000	350,000
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(803,040)</u>	<u>-</u>	<u>(803,040)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,609,905</u>	<u>\$ 12,572,000</u>	<u>\$ 17,181,905</u>

The Foundation did not classify any assets as board-restricted endowment funds as of December 31, 2015.

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NOTES TO FINANCIAL STATEMENTS

Note 14 - EMPLOYEE BENEFIT PLANS

Pension Plan

The Society maintains a defined contribution pension plan for full-time employees. Upon employment, employees are eligible for participation in the pension plan. No elective employee deferrals are allowed under the Plan. Employees are eligible for employer contributions if they are 21 years of age or greater, have completed one year of employment, and 1,000 hours of work. For eligible employees, the Society makes an annual contribution of 5% of the employees' gross wages. Participants are fully vested after six years. Net contributions to the plan by the Society totaled \$48,845 for the year ended December 31, 2015.

Tax Deferred Annuity

The Society has available to its employees a tax deferred investment plan. All full-time employees are eligible to participate. The Society does not contribute to this plan.

Deferred Compensation

The Society has in place a deferred compensation plan whereby employees can elect to receive salary upon separation from service. At December 31, 2015, there were no active participants in this plan.

Note 15 - NET ASSETS

Unrestricted Net Assets

As of December 31, 2015, unrestricted net assets consist of the following:

Operating net assets	\$ 8,316,299
Property and equipment	1,300,844
Other assets	<u>318,500</u>
Total Unrestricted Net Assets	<u>\$ 9,935,643</u>

Temporarily Restricted Net Assets

As of December 31, 2015, temporarily restricted net assets consist of the following:

Pledges, bequests, and interest receivable	\$ 1,239,509
Donations subject to program restrictions	805,093
Unappropriated earnings on endowments	<u>4,609,905</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,654,507</u>

Permanently Restricted Net Assets

As of December 31, 2015, permanently restricted net assets consist of the following:

Donor-restricted endowments	\$ 11,472,000
Donor-restricted endowment receivables	1,100,000
Perpetual interest trust	<u>220,887</u>
Total Permanently Restricted Net Assets	<u>\$ 12,792,887</u>