

*Financial Statements*  
*Years Ended*  
*June 30, 2016 and 2015*



***Heritage Humane Society, Inc.***

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# Beth W. Moore, CPA, PLLC

CERTIFIED PUBLIC ACCOUNTANT

## *Independent Auditors' Report*

Board of Directors  
*Heritage Humane Society, Inc.*

We have audited the accompanying financial statements of *Heritage Humane Society, Inc.* (Society), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and net assets, 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.

### **Auditors' 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 audits 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 auditors' 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 auditors consider internal control relevant to the Society'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 Society'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 *Heritage Humane Society, Inc.*, as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

*Beth W. Moore, CPA, PLLC*

August 29, 2016

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***Heritage Humane Society, Inc.***

***Statements of Financial Position***

June 30,	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 308,585	\$ 997,971
Investments - endowment	174,695	174,218
Investments - unrestricted	757,798	206,549
Contract receivables	10,524	-
Receivable - other	550	-
Employee receivable	-	474
Prepaid expenses	10,876	10,336
Inventory	3,196	1,763
<b>Total current assets</b>	<b>1,266,224</b>	<b>1,391,311</b>
<b>Property and equipment - net</b>	<b>2,212,700</b>	<b>2,288,112</b>
	<b>\$ 3,478,924</b>	<b>\$ 3,679,423</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 17,283	\$ 52,042
Accrued payroll	7,111	-
Accrued vacation	2,540	7,654
Payroll liabilities	-	3,047
<b>Total current liabilities</b>	<b>26,934</b>	<b>62,743</b>
<b>Net assets</b>		
Unrestricted	3,258,670	3,433,678
Temporarily restricted	48,768	38,450
Permanently restricted	144,552	144,552
<b>Total net assets</b>	<b>3,451,990</b>	<b>3,616,680</b>
	<b>\$ 3,478,924</b>	<b>\$ 3,679,423</b>

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

*Heritage Humane Society, Inc.*

*Statement of Activities and Net Assets*

**Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Support				
Contributions	\$ 293,494	\$ -	\$ -	\$ 293,494
Contributions - United Way	19,463	-	-	19,463
Endowments and bequests	45,885	-	-	45,885
Grants	23,183	-	-	23,183
In-kind contributions	38,027	-	-	38,027
Special events - net	85,725	-	-	85,725
Net assets released from restriction	68	(68)	-	-
<b>Total support</b>	<u>505,845</u>	<u>(68)</u>	<u>-</u>	<u>505,777</u>
Revenue				
Adoption fees	93,230	-	-	93,230
Government shelter management fees	72,997	-	-	72,997
Return to owner fees	7,041	-	-	7,041
Education and camps	16,442	-	-	16,442
Shop sales - net	5,597	-	-	5,597
Interest and dividend income - net of fees	29,213	5,785	-	34,998
Net loss on disposal of property and equipment	(3,866)	-	-	(3,866)
Net realized and unrealized gains (losses) on investments	(27,026)	4,601	-	(22,425)
<b>Total revenue</b>	<u>193,628</u>	<u>10,386</u>	<u>-</u>	<u>204,014</u>
<b>Total support and revenue</b>	<u>699,473</u>	<u>10,318</u>	<u>-</u>	<u>709,791</u>
Expenses				
Program services	753,517	-	-	753,517
Management and general	84,199	-	-	84,199
Fundraising	36,765	-	-	36,765
<b>Total expenses</b>	<u>874,481</u>	<u>-</u>	<u>-</u>	<u>874,481</u>
<b>Change in net assets</b>	<u>(175,008)</u>	<u>10,318</u>	<u>-</u>	<u>(164,690)</u>
<b>Net assets - beginning of year</b>	<u>3,433,678</u>	<u>38,450</u>	<u>144,552</u>	<u>3,616,680</u>
<b>Net assets - end of year</b>	<u>\$ 3,258,670</u>	<u>\$ 48,768</u>	<u>\$ 144,552</u>	<u>\$ 3,451,990</u>

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

*Heritage Humane Society, Inc.*

*Statement of Activities and Net Assets*

**Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Support				
Contributions	\$ 1,008,580	\$ 8,798	\$ -	\$ 1,017,378
Contributions - United Way	9,088	-	-	9,088
In-kind contributions	2,125	-	-	2,125
Special events - net	69,217	-	-	69,217
<b>Total support</b>	<u>1,089,010</u>	<u>8,798</u>	<u>-</u>	<u>1,097,808</u>
Revenue				
Adoption fees	80,053	-	-	80,053
Government shelter management fees	54,179	-	-	54,179
Return to owner fees	4,980	-	-	4,980
Shop sales - net	19,252	-	-	19,252
Education and camps	496	-	-	496
Interest and dividend income	374	7,909	-	8,283
Net realized and unrealized losses on investments	(723)	(1,484)	-	(2,207)
<b>Total revenue</b>	<u>158,611</u>	<u>6,425</u>	<u>-</u>	<u>165,036</u>
<b>Total support and revenue</b>	<u>1,247,621</u>	<u>15,223</u>	<u>-</u>	<u>1,262,844</u>
Expenses				
Program services	809,812	-	-	809,812
Management and general	75,795	-	-	75,795
Fundraising	58,864	-	-	58,864
<b>Total expenses</b>	<u>944,471</u>	<u>-</u>	<u>-</u>	<u>944,471</u>
<b>Change in net assets</b>	<u>303,150</u>	<u>15,223</u>	<u>-</u>	<u>318,373</u>
<b>Net assets - beginning of year</b>	<u>3,130,528</u>	<u>23,227</u>	<u>144,552</u>	<u>3,298,307</u>
<b>Net assets - end of year</b>	<u>\$ 3,433,678</u>	<u>\$ 38,450</u>	<u>\$ 144,552</u>	<u>\$ 3,616,680</u>

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

***Heritage Humane Society, Inc.***

***Statement of Functional Expenses***

**Year Ended June 30, 2016**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Accounting	\$ -	\$ 4,760	\$ -	\$ 4,760
Advertising	3,271	363	-	3,634
Bank charges	-	5,471	-	5,471
Conferences and education	5,739	638	-	6,377
Depreciation	84,456	9,384	-	93,840
Dues and subscriptions	1,301	144	-	1,445
Employee benefits	12,430	740	1,628	14,798
Insurance	14,858	1,651	-	16,509
Legal and professional fees	-	9,950	-	9,950
Meals and entertainment	2,830	314	-	3,144
Miscellaneous	2,506	-	-	2,506
Office supplies	2,774	308	-	3,082
Payroll taxes	25,287	2,809	2,497	30,593
Postage	1,886	209	-	2,095
Printing and copying	15,718	1,746	-	17,464
Repairs and maintenance	14,507	1,612	-	16,119
Salaries and wages	338,647	36,721	32,640	408,008
Taxes and licenses	-	1,070	-	1,070
Telephone	12,596	1,400	-	13,996
Uniforms	862	96	-	958
Utilities	33,817	3,757	-	37,574
Vehicles	2,656	-	-	2,656
Veterinarian care and animal supplies	177,376	-	-	177,376
Volunteer and Board expenses	-	1,056	-	1,056
<b>Total functional expenses</b>	<b>\$ 753,517</b>	<b>\$ 84,199</b>	<b>\$ 36,765</b>	<b>\$ 874,481</b>

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

***Heritage Humane Society, Inc.***

***Statement of Functional Expenses***

**Year Ended June 30, 2015**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Accounting	\$ -	\$ 9,902	\$ -	\$ 9,902
Advertising and promotion	7,018	780	-	7,798
Bank charges	-	5,449	-	5,449
Conferences and education	4,661	518	-	5,179
Depreciation	85,572	9,508	-	95,080
Dues and subscriptions	6,777	753	-	7,530
Employee benefits	25,035	1,490	3,278	29,803
Insurance	12,925	1,436	-	14,361
IT services	-	7,300	-	7,300
Legal and professional fees	-	3,289	-	3,289
Meals and entertainment	2,581	287	-	2,868
Office supplies	4,045	444	-	4,489
Payroll taxes	31,923	1,796	3,950	37,669
Postage	1,536	171	-	1,707
Printing and copying	11,629	1,292	-	12,921
Repairs and maintenance	14,200	1,578	-	15,778
Salaries and wages	394,314	23,471	51,636	469,421
Sawyer care fund	10,275	-	-	10,275
Taxes and licenses	-	1,465	-	1,465
Telephone	6,436	715	-	7,151
Uniforms	2,953	328	-	3,281
Utilities	32,096	3,566	-	35,662
Vehicles	3,182	-	-	3,182
Veterinarian care and animal supplies	152,654	-	-	152,654
Volunteer and Board expenses	-	257	-	257
<b>Total functional expenses</b>	<b>\$ 809,812</b>	<b>\$ 75,795</b>	<b>\$ 58,864</b>	<b>\$ 944,471</b>

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



***Heritage Humane Society, Inc.***

***Statements of Cash Flows***

<b>Year Ended June 30,</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (164,690)	\$ 318,373
Adjustments to reconcile to net cash from operating activities:		
Depreciation	93,840	95,080
Net realized and unrealized losses on investments	22,425	2,207
Net loss on disposal of property and equipment	3,866	-
Changes in:		
Contract receivables	(10,524)	-
Receivable - other	(550)	-
Employee receivable	474	1,772
Prepaid expenses	(540)	(1,257)
Inventory	(1,433)	471
Accounts payable	(34,759)	42,928
Accrued payroll	7,111	(21,075)
Accrued vacation	(5,114)	(4,330)
Payroll liabilities	(3,047)	2,719
<b>Net cash from operating activities</b>	<b>(92,941)</b>	<b>436,888</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(22,294)	(45,788)
Purchase of investments - endowment	-	(4,205)
Purchase of investments - unrestricted	(840,481)	(2,198)
Proceeds from sale of investments - unrestricted	266,330	2,417
<b>Net cash from investing activities</b>	<b>(596,445)</b>	<b>(49,774)</b>
<b>Net change in cash and cash equivalents</b>	<b>(689,386)</b>	<b>387,114</b>
<b>Cash and cash equivalents - beginning of the year</b>	<b>997,971</b>	<b>610,857</b>
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 308,585</b>	<b>\$ 997,971</b>
<b>Supplemental noncash disclosures</b>		
Donated stock received	\$ 4,191	\$ 6,794
Donated services	\$ 38,027	\$ 2,125

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

# ***Heritage Humane Society, Inc.***

## ***Notes to Financial Statements***

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**June 30, 2016 and 2015**

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### **1. Organization and Nature of Activities**

***Heritage Humane Society, Inc.*** (Society) is a non-stock, not-for-profit organization that serves as a compassionate haven for stray or unwanted companion animals, educates the public about humane care and treatment, advocates animal welfare, and promotes adoption to measurably reduce overpopulation and homelessness.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the Society have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **Financial Statement Presentation**

The Society reports information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The classes of net assets are described as follows:

- ***Unrestricted*** amounts are those currently available, at the discretion of the Board of Directors, for use in the Society's operations.
- ***Temporarily restricted*** amounts are those that are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and net assets as net assets released from restriction.
- ***Permanently restricted*** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. The Society has two endowment funds, in which all donor contributions are classified as permanently restricted.

#### **Cash and Cash Equivalents**

The Society considers all highly liquid investments including time deposits with an initial maturity of three months or less to be cash equivalents.

## **Credit Risk**

Financial instruments that subject the Society to concentrations of credit risk consist principally of cash and cash equivalents. The Society maintains cash accounts in high credit quality financial institutions. Collected funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to the legal limit. At June 30, 2016 and June 30, 2015, the banks' collected balances did not exceed the FDIC coverage.

## **Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. While not an agency of the United States government, like the FDIC, the Securities Investor Protection Corporation (SIPC) insures accounts (not the underlying investments) with each brokerage firm up to a maximum of \$500,000.

## **Temporarily and Permanently Restricted Net Assets**

Contributions received from the public and not designated for a specific use are recognized as public support when received and are reported as current unrestricted funds.

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that temporarily limit the use of the donated assets or are for future periods. When a donor restriction is satisfied, by either passage of time or action, temporarily restricted net assets are reclassified to unrestricted net assets. When restrictions are met in the same fiscal year restricted support is received, the gift is classified as unrestricted support. The temporary and permanently restricted net assets as of June 30, 2016 and 2015 relate to donor restriction of use of funds.

## **Property and Equipment**

Property and equipment are stated at cost. Donated property is recorded at fair market value at the date of receipt. The Society follows the practice of capitalizing all expenditures for property and equipment in excess of \$500. When an asset is sold, retired, or otherwise disposed and the cost and related accumulated depreciation are eliminated from the accounts, any resulting gain or loss is included in the statements of activities and net assets.

	<u>Years</u>
Buildings and improvements	15 - 39
Equipment and vehicles	5 - 7
Furniture and fixtures	3 - 39
Software	3

## **Functional Expenses**

The Society allocates its expenses, on a functional basis, among its various programs and supporting services. Expenses that relate to a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated based on personnel time and space utilization, as well as identification of direct costs for each activity.

## **Income Taxes**

The Society has been recognized by the Internal Revenue Service as a qualified charitable organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Society has determined that it does not have any material unrecognized income tax benefits or obligations as of June 30, 2016. Fiscal years ending on or after June 30, 2013, remain subject to examination by federal and state tax authorities.

## **Inventory**

The Society values its inventory, which consists of animal products, at the lower of cost, determined on a first-in, first-out basis, or market.

## **Advertising Costs**

Advertising costs are expensed as incurred and were \$3,634 and \$7,798, for 2016 and 2015, respectively.

## **Donated Materials and Services**

The Society records the value of donated materials or services when there is an objective basis available to measure their value. The Society recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance nonfinancial assets.
- The services received require special skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Donated services of \$38,027 and \$2,125 have been reflected in the statements of activities and net assets for 2016 and 2015, respectively. In addition, a substantial number of volunteers donated significant amounts of time in the Society's program services, which do not meet the criteria above.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

## **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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

## **Subsequent Events**

Management has evaluated subsequent events through August 29, 2016, the date which the financial statements were available to be issued.

### 3. Receivable - Other

Accounts receivable are stated as unpaid balances, less an allowance for doubtful accounts. It is the policy of management to review outstanding accounts receivable at year-end, as well as any bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. In management's opinion, accounts receivable are fully collectible, accordingly an allowance for doubtful accounts is not required. At June 30, 2016 and 2015, the Organization had \$550 and \$-0-, respectively, due from matching gift programs.

### 4. Property and Equipment

Property and equipment at June 30, 2016 and 2015 consist of the following:

	2016	2015
Building and improvements	\$ 2,772,800	\$ 2,769,355
Equipment and vehicles	206,175	192,297
Furniture and fixtures	27,570	27,570
Software	31,361	31,361
	<u>3,037,906</u>	<u>3,020,583</u>
Less - accumulated depreciation	(825,206)	(732,471)
	<u>\$ 2,212,700</u>	<u>\$ 2,288,112</u>

Depreciation expense for 2016 and 2015 was \$93,840 and \$95,080, respectively.

### 5. Investments

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable assets (level 3 measurements). The three levels of the fair value hierarchy under applicable accounting standards are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Society has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

*Mutual Funds:* Valued at the official closing price of, or the last reported sale price on, the exchange or market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Prices for each security are taken from the principal exchange or market in which the security trades.

*Stocks:* Valued at the closing price reported in the active market in which the securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within fair value hierarchy, the investment assets at fair value:

<b>Assets at Fair Value as of June 30, 2016</b>				
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 922,778	\$ -	\$ -	\$ 922,778
Stocks	9,715	-	-	9,715
	<u>\$ 932,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 932,493</u>

<b>Assets at Fair Value as of June 30, 2015</b>				
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 376,108	\$ -	\$ -	\$ 376,108
Stocks	4,659	-	-	4,659
	<u>\$ 380,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380,767</u>

The cost and estimated fair value of investment securities at June 30, 2016 are as follows:

	Cost	Fair Value	Net Unrealized Gains/ (Losses)
Mutual Funds	\$ 891,528	\$ 922,778	\$ 31,250
Stocks	7,040	9,715	2,675
	<u>\$ 898,568</u>	<u>\$ 932,493</u>	<u>\$ 33,925</u>

The cost and estimated fair value of investment securities at June 30, 2015 are as follows:

	<b>Cost</b>	<b>Fair Value</b>	<b>Net Unrealized Gains/ (Losses)</b>
Mutual Funds	\$ 349,775	\$ 376,108	\$ 26,333
Stocks	4,964	4,659	(305)
	<u>\$ 354,739</u>	<u>\$ 380,767</u>	<u>\$ 26,028</u>

At June 30, 2016 and 2015, cash of \$126,026 and \$371,055 respectively, was held in money market accounts and is included in cash and cash equivalents on the statements of financial position.

## 6. Special Events

The Society hosted fundraising events during 2016 and 2015. Revenues and expenses related to such special events are as follows:

	<b>2016</b>	<b>2015</b>
Special events revenue	\$ 106,863	\$ 87,678
Less - direct cost of special events	(21,138)	(18,461)
	<u>\$ 85,725</u>	<u>\$ 69,217</u>

## 7. Endowment Funds

In October 2010, the Society created the Winnie's Way Endowment Fund, and in January 2011, created the McDuff Endowment Fund to provide the Society with a reliable and consistent, long-term source of funding.

The investment objective of the endowment funds is to earn the highest possible return over the long-term. The Society uses a moderate risk investment strategy with a target asset allocation of 35% equities, 35% fixed income, and 30% alternative strategies to achieve this objective. The endowment fund's spending policy allows the Society to disburse 1.25% of the fund's market value per calendar quarter. If the market value of the fund drops below the principal amount donated at the end of any quarter, then the Society may only disburse the interest and dividends earned for that quarter, instead of 1.25% of the fund's market value. Any other distributions must be authorized by the Society's Board of Directors.

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies 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 of the accumulation is added to the fund. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds,



(2) the purposes of the donor-restricted endowment funds, (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, and (7) the Society's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Society has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide the maximum return within certain constraints. The assets must be invested with the care, skill and diligence that a prudent man acting in this capacity would undertake. All investments will be made within quality, marketability and diversification guidelines. The greatest focus is on long-term appreciation of the assets and consistency of total portfolio returns.

*Spending Policy.* The Society's Board of Directors governs the use of the endowment fund and identifies the mission-related programs and services for which the funds will be used.

Endowment net asset composition is as follows at June 30, 2016 and 2015:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets	
Endowment net assets - June 30, 2016	\$ 40,231	\$ 144,552	\$ 184,783	
	Unrestricted - Board Designated	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets - June 30, 2015	\$ 10,559	\$ 29,846	\$ 144,552	\$ 184,957

## 8. Commitments and Contract Receivables

The Society provides animal management services for the Bruton District of York County (County), James City County (JCC) and the City of Williamsburg (City).

Under a contract dated July 1, 2000, the Society agreed to provide animal management services for the County for an agreed-upon amount. The contract is renewed annually. For 2016 and 2015, the Society received \$14,000 and \$10,000 from the County for these services, respectively.

The Society entered into a contract with the City on January 1, 2005. The term of the contract is for 40 years. The contract requires the Society to pay the City \$1 per year for the lease of the land on which the Society's shelter sits. Also, the Society is required to act as the City's animal pound for the duration of the contract. For 2016 and 2015, the Society received \$16,248 and \$14,847 for these services, respectively.

On July 1, 2009, the Society entered into a contract with JCC. The contract has an initial term of five years, and is renewable every five years for seven additional terms, for a total contract term of 40 years. The Society agrees to act as the JCC's animal pound. JCC agrees to pay the Society a fixed annual amount, adjusted annually for inflation, for providing these services. For 2016 and 2015, the Society received \$32,225 and \$29,333 for these services, respectively.

Contract receivables at June 30, 2016 and 2015 were \$10,524 and \$-0- respectively.

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