

Financial Statements
Years Ended
June 30, 2018 and 2017



Heritage Humane Society, Inc.

Contents

| | Page |
|--|-------------|
| <i>Independent Auditors' Report</i> | 1 |
| <i>Financial Statements</i> | |
| <i>Statements of Financial Position</i> | 2 |
| <i>Statements of Activities and Net Assets</i> | 3 - 4 |
| <i>Statements of Functional Expenses</i> | 5 - 6 |
| <i>Statements of Cash Flows</i> | 7 |
| <i>Notes to Financial Statements</i> | 8 - 15 |



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, 2018 and 2017, 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, 2018 and 2017, 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 Moore & Associates, CPAs

August 9, 2018

Expertise ~ Attention ~ Agility

Heritage Humane Society, Inc.

Statements of Financial Position

| June 30, | 2018 | 2017 |
|-------------------------------------|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 133,156 | \$ 177,824 |
| Investments - endowment | 183,254 | 180,989 |
| Investments - unrestricted | 900,276 | 852,333 |
| Contract receivables | 11,642 | 12,587 |
| Receivable - other | 450 | 175 |
| Prepaid expenses | 6,072 | 5,326 |
| Inventory | 7,833 | 3,758 |
| Total current assets | 1,242,683 | 1,232,992 |
| Property and equipment - net | 2,243,256 | 2,290,953 |
| | \$ 3,485,939 | \$ 3,523,945 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 18,199 | \$ 17,189 |
| Accrued payroll | 11,327 | 10,796 |
| Accrued vacation | 7,532 | 7,554 |
| Total current liabilities | 37,058 | 35,539 |
| Net assets | | |
| Unrestricted | 3,237,397 | 3,278,972 |
| Temporarily restricted | 66,932 | 64,882 |
| Permanently restricted | 144,552 | 144,552 |
| Total net assets | 3,448,881 | 3,488,406 |
| | \$ 3,485,939 | \$ 3,523,945 |

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, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|---------------------|
| Support and revenue | | | | |
| Support | | | | |
| Contributions | \$ 461,283 | \$ - | \$ - | \$ 461,283 |
| Contributions - United Way | 21,925 | - | - | 21,925 |
| Endowments and bequests | 78,778 | - | - | 78,778 |
| Grants | 37,662 | - | - | 37,662 |
| In-kind contributions | 3,153 | - | - | 3,153 |
| Special events - net | 100,179 | - | - | 100,179 |
| Net assets released from restriction | 9,419 | (9,419) | - | - |
| Total support | <u>712,399</u> | <u>(9,419)</u> | <u>-</u> | <u>702,980</u> |
| Revenue | | | | |
| Adoption fees | 118,348 | - | - | 118,348 |
| Government shelter management fees | 120,922 | - | - | 120,922 |
| Return to owner fees | 8,160 | - | - | 8,160 |
| Education and camps | 18,783 | - | - | 18,783 |
| Spay/neuter fees | 25,398 | - | - | 25,398 |
| Shop sales - net | 8,540 | - | - | 8,540 |
| Interest and dividend income - net of fees | 27,052 | 5,042 | - | 32,094 |
| Other income | 12,330 | - | - | 12,330 |
| Loss on sale of property and equipment | (100) | - | - | (100) |
| Net realized and unrealized gains on investments | 10,988 | 6,427 | - | 17,415 |
| Total revenue | <u>350,421</u> | <u>11,469</u> | <u>-</u> | <u>361,890</u> |
| Total support and revenue | <u>1,062,820</u> | <u>2,050</u> | <u>-</u> | <u>1,064,870</u> |
| Expenses | | | | |
| Program services | 946,271 | - | - | 946,271 |
| Management and general | 114,758 | - | - | 114,758 |
| Fundraising | 43,366 | - | - | 43,366 |
| Total expenses | <u>1,104,395</u> | <u>-</u> | <u>-</u> | <u>1,104,395</u> |
| Change in net assets | (41,575) | 2,050 | - | (39,525) |
| Net assets - beginning of year | <u>3,278,972</u> | <u>64,882</u> | <u>144,552</u> | <u>3,488,406</u> |
| Net assets - end of year | <u>\$ 3,237,397</u> | <u>\$ 66,932</u> | <u>\$ 144,552</u> | <u>\$ 3,448,881</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, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|---------------------|
| Support and revenue | | | | |
| Support | | | | |
| Contributions | \$ 365,916 | \$ 2,382 | \$ - | \$ 368,298 |
| Contributions - United Way | 22,192 | - | - | 22,192 |
| Endowments and bequests | 129,081 | - | - | 129,081 |
| Grants | 28,812 | - | - | 28,812 |
| In-kind contributions | 17,850 | - | - | 17,850 |
| Special events - net | 107,223 | - | - | 107,223 |
| Total support | <u>671,074</u> | <u>2,382</u> | <u>-</u> | <u>673,456</u> |
| Revenue | | | | |
| Adoption fees | 102,904 | - | - | 102,904 |
| Government shelter management fees | 93,419 | - | - | 93,419 |
| Return to owner fees | 6,755 | - | - | 6,755 |
| Education and camps | 18,742 | - | - | 18,742 |
| Spay/neuter fees | 7,969 | - | - | 7,969 |
| Shop sales - net | 3,046 | - | - | 3,046 |
| Interest and dividend income - net of fees | 23,684 | 2,223 | - | 25,907 |
| Net realized and unrealized gains on investments | 56,419 | 11,509 | - | 67,928 |
| Total revenue | <u>312,938</u> | <u>13,732</u> | <u>-</u> | <u>326,670</u> |
| Total support and revenue | <u>984,012</u> | <u>16,114</u> | <u>-</u> | <u>1,000,126</u> |
| Expenses | | | | |
| Program services | 822,997 | - | - | 822,997 |
| Management and general | 103,850 | - | - | 103,850 |
| Fundraising | 36,863 | - | - | 36,863 |
| Total expenses | <u>963,710</u> | <u>-</u> | <u>-</u> | <u>963,710</u> |
| Change in net assets | <u>20,302</u> | <u>16,114</u> | <u>-</u> | <u>36,416</u> |
| Net assets - beginning of year | <u>3,258,670</u> | <u>48,768</u> | <u>144,552</u> | <u>3,451,990</u> |
| Net assets - end of year | <u>\$ 3,278,972</u> | <u>\$ 64,882</u> | <u>\$ 144,552</u> | <u>\$ 3,488,406</u> |

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

Heritage Humane Society, Inc.

Statement of Functional Expenses

Year Ended June 30, 2018

| | Program Services | Management and General | Fundraising | Total |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Advertising | \$ 5,297 | \$ - | \$ 589 | \$ 5,886 |
| Bank charges | - | 10,220 | - | 10,220 |
| Conferences and education | 4,166 | 463 | - | 4,629 |
| Depreciation | 108,583 | 12,065 | - | 120,648 |
| Dues and subscriptions | 965 | 107 | - | 1,072 |
| Employee benefits | 45,748 | 6,330 | 3,106 | 55,184 |
| Insurance | 6,755 | 750 | - | 7,505 |
| IT services | - | 313 | - | 313 |
| Legal and professional fees | - | 8,885 | - | 8,885 |
| Meals and entertainment | 2,222 | 247 | - | 2,469 |
| Miscellaneous | 4,335 | - | - | 4,335 |
| Office supplies | 576 | 64 | - | 640 |
| Payroll taxes | 32,459 | 4,326 | 2,753 | 39,538 |
| Postage | 2,013 | 112 | 112 | 2,237 |
| Printing and copying | 14,711 | 817 | 817 | 16,345 |
| Repairs and maintenance | 22,051 | 2,450 | - | 24,501 |
| Salaries and wages | 448,651 | 56,555 | 35,989 | 541,195 |
| Taxes and licenses | - | 1,610 | - | 1,610 |
| Telephone | 17,522 | 1,947 | - | 19,469 |
| Uniforms | 1,733 | 192 | - | 1,925 |
| Utilities | 40,541 | 4,504 | - | 45,045 |
| Vehicles | 7,937 | - | - | 7,937 |
| Veterinarian care and animal supplies | 180,006 | - | - | 180,006 |
| Volunteer and Board expenses | - | 2,801 | - | 2,801 |
| Total functional expenses | \$ 946,271 | \$ 114,758 | \$ 43,366 | \$ 1,104,395 |

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

Heritage Humane Society, Inc.

Statement of Functional Expenses

Year Ended June 30, 2017

| | Program Services | Management and General | Fundraising | Total |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------|-------------------|
| Advertising | \$ 2,477 | \$ - | \$ 275 | \$ 2,752 |
| Bank charges | - | 9,492 | - | 9,492 |
| Conferences and education | 2,773 | 308 | - | 3,081 |
| Depreciation | 82,336 | 9,148 | - | 91,484 |
| Dues and subscriptions | 1,120 | 124 | - | 1,244 |
| Employee benefits | 29,453 | 4,117 | 2,326 | 35,896 |
| Insurance | 11,471 | 1,274 | - | 12,745 |
| IT services | - | 631 | - | 631 |
| Legal and professional fees | 10,650 | 7,725 | - | 18,375 |
| Meals and entertainment | 3,115 | 346 | - | 3,461 |
| Miscellaneous | 3,897 | - | - | 3,897 |
| Office supplies | 2,480 | 275 | - | 2,755 |
| Payroll taxes | 28,368 | 4,202 | 2,374 | 34,944 |
| Postage | 1,214 | 68 | 68 | 1,350 |
| Printing and copying | 14,198 | 789 | 789 | 15,776 |
| Repairs and maintenance | 21,728 | 2,414 | - | 24,142 |
| Salaries and wages | 392,915 | 54,927 | 31,031 | 478,873 |
| Taxes and licenses | - | 772 | - | 772 |
| Telephone | 10,994 | 1,222 | - | 12,216 |
| Uniforms | 226 | 25 | - | 251 |
| Utilities | 37,063 | 4,118 | - | 41,181 |
| Vehicles | 1,877 | - | - | 1,877 |
| Veterinarian care and animal supplies | 164,642 | - | - | 164,642 |
| Volunteer and Board expenses | - | 1,873 | - | 1,873 |
| Total functional expenses | \$ 822,997 | \$ 103,850 | \$ 36,863 | \$ 963,710 |

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

Heritage Humane Society, Inc.

Statements of Cash Flows

| Years Ended June 30, | 2018 | 2017 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (39,525) | \$ 36,416 |
| Adjustments to reconcile to net cash from operating activities: | | |
| Depreciation | 120,648 | 91,484 |
| Net loss on disposal of property and equipment | 100 | - |
| Net realized and unrealized gains on investments | (17,415) | (67,928) |
| Changes in: | | |
| Contract receivables | 945 | (2,064) |
| Receivable - other | (275) | 375 |
| Prepaid expenses | (746) | 5,550 |
| Inventory | (4,075) | (562) |
| Accounts payable | 1,010 | (94) |
| Accrued payroll | 531 | 3,685 |
| Accrued vacation | (22) | 5,014 |
| Net cash from operating activities | <u>61,176</u> | <u>71,876</u> |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (73,601) | (169,737) |
| Purchases of investments - unrestricted | (182,877) | (175,513) |
| Proceeds from sale of property and equipment | 550 | - |
| Proceeds from sale of investments - unrestricted | 150,084 | 142,613 |
| Net cash from investing activities | <u>(105,844)</u> | <u>(202,637)</u> |
| Net change in cash and cash equivalents | (44,668) | (130,761) |
| Cash and cash equivalents - beginning of year | <u>177,824</u> | <u>308,585</u> |
| Cash and cash equivalents - end of year | <u>\$ 133,156</u> | <u>\$ 177,824</u> |
| Supplemental noncash disclosures | | |
| Donated services | \$ 3,153 | \$ 17,850 |

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

Heritage Humane Society, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017 relate to donor restrictions on the 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, 2018. Fiscal years ending on or after June 30, 2015, 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 \$5,886 and \$2,752 for 2018 and 2017, 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 \$3,153 and \$17,850 have been reflected in the statements of activities and net assets for 2018 and 2017, 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.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for a not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor

restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While this ASU will change the presentation of the Society's financial statements, it is not expected to alter the Society's reported financial position or activities.

Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through August 9, 2018, the date 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.

4. Property and Equipment

Property and equipment at June 30, 2018 and 2017 consist of the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------------|---------------------|
| Building and improvements | \$ 2,772,800 | \$ 2,772,800 |
| Equipment and vehicles | 429,136 | 360,942 |
| Furniture and fixtures | 45,147 | 42,540 |
| Software | 31,361 | 31,361 |
| | <u>3,278,444</u> | <u>3,207,643</u> |
| Less - accumulated depreciation | (1,035,188) | (916,690) |
| | <u>\$ 2,243,256</u> | <u>\$ 2,290,953</u> |

Depreciation expense for 2018 and 2017 was \$120,648 and \$91,484, 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"> • Quoted prices for similar assets or liabilities in active markets; • Quoted prices for identical or similar assets or liabilities in inactive markets; • Inputs other than quoted prices that are observable for the asset or liability; |
|---------|--|

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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.

| | |
|---------|---|
| 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, 2018 and 2017.

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 on which the security trades.

Exchange-Traded Products: These are investment products that are listed on the national stock exchange and can be bought and sold in the equity trading markets. These investments encompass a number of structures that track an underlying benchmark, index or portfolio of securities. Prices for each security are taken from the principal exchange or market on which the security trades.

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

The preceding methods 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 the fair value hierarchy, the investment assets at fair value:

| Assets at Fair Value as of June 30, 2018 | | | | |
|---|---------------------|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds | \$ 781,114 | \$ - | \$ - | \$ 781,114 |
| Exchange-Traded Products | 299,331 | - | - | 299,331 |
| Stocks | 3,085 | - | - | 3,085 |
| | \$ 1,083,530 | \$ - | \$ - | \$ 1,083,530 |

| Assets at Fair Value as of June 30, 2017 | | | | |
|---|---------------------|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds | \$ 787,752 | \$ - | \$ - | \$ 787,752 |
| Exchange-Traded Products | 242,501 | - | - | 242,501 |
| Stocks | 3,069 | - | - | 3,069 |
| | \$ 1,033,322 | \$ - | \$ - | \$ 1,033,322 |

The cost and estimated fair value of investment securities at June 30, 2018 are as follows:

| | Cost | Fair Value | Net Unrealized Gains/ (Losses) |
|--------------------------|-------------------|---------------------|---|
| Mutual Funds | \$ 675,921 | \$ 781,114 | \$ 105,193 |
| Exchange-Traded Products | 252,071 | 299,331 | 47,260 |
| Stocks | 3,847 | 3,085 | (762) |
| | <u>\$ 931,839</u> | <u>\$ 1,083,530</u> | <u>\$ 151,691</u> |

The cost and estimated fair value of investment securities at June 30, 2017 are as follows:

| | Cost | Fair Value | Net Unrealized Gains/ (Losses) |
|--------------------------|-------------------|---------------------|---|
| Mutual Funds | \$ 693,661 | \$ 787,752 | \$ 94,091 |
| Exchange-Traded Products | 223,920 | 242,501 | 18,581 |
| Stocks | 3,847 | 3,069 | (778) |
| | <u>\$ 921,428</u> | <u>\$ 1,033,322</u> | <u>\$ 111,894</u> |

At June 30, 2018 and 2017, cash of \$35,766 and \$46,494, 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 2018 and 2017. Revenues and expenses related to such special events are as follows:

| | 2018 | 2017 |
|--------------------------------------|-------------------|-------------------|
| Special events revenue | \$ 124,656 | \$ 122,327 |
| Less - direct cost of special events | (24,477) | (15,104) |
| | <u>\$ 100,179</u> | <u>\$ 107,223</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 funds 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, 2018 and 2017:

| | Temporarily Restricted | Permanently Restricted | Total Endowment Net Assets |
|---|-----------------------------------|-----------------------------------|---|
| Endowment net assets - June 30, 2018 | \$ 55,765 | \$ 144,552 | \$ 200,317 |
| | Temporarily Restricted | Permanently Restricted | Total Endowment Net Assets |
| Endowment net assets - June 30, 2017 | \$ 55,461 | \$ 144,552 | \$ 200,013 |

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 2018 and 2017, the Society received \$15,583 and \$14,667 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 2018 and 2017, the Society received \$20,016 and \$20,217 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 2017, the Society received \$45,947 for these services. In addition, JCC reimburses the Society for a portion of utilities. For 2017, the Society received \$12,588 in reimbursements from JCC. Contract receivables from the JCC at June 30, 2017 were \$12,588.

In February 2017, the Society entered into a revised contract with JCC which began July 1, 2017. The contract has an initial term of five years, and is renewable every five years for eight additional terms, for a total contract term of 45 years. The Society agreed to act as JCC's animal pound. JCC agreed to pay the Society a fixed firm price for providing these services. For 2018, the Society received \$73,681 for these services. In addition, JCC shall reimburse the Society for a portion of its utilities. For 2018, the Society received \$11,642 in reimbursements from JCC. Contract receivables from JCC at June 30, 2018 were \$11,642.

9. Retirement Plan

In 2018, the Society has established a SIMPLE IRA plan for the benefit of eligible employees. Retirement plan expense for 2018 was \$8,655 and is included in employee benefits on the statement of functional expenses.

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