



THE HUMANE SOCIETY OF THE PIKES PEAK REGION

Financial Statements

For The Years Ended December 31, 2018 and 2017

And

Independent Auditors' Report

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Humane Society of The Pikes Peak Region
Colorado Springs, Colorado

We have audited the accompanying financial statements of The Humane Society of the Pikes Peak Region, which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 audit to obtain reasonable assurance about whether the financial statements are free of 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 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 The Humane Society of the Pikes Peak Region as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 The Humane Society of the Pikes Peak Region adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Stockman Kast Ryan + Co, LLP

May 1, 2019

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 1,231,773	\$ 1,237,012
Pledges receivable	2,200	6,350
Bequests receivable	395,262	—
Prepaid expenses and other current assets	<u>202,297</u>	<u>264,706</u>
Total current assets	1,831,532	1,508,068
CASH AND INVESTMENTS, BOARD-DESIGNATED	7,679,314	8,564,257
PLEDGES RECEIVABLE	—	7,000
LAND HELD FOR SALE	600,000	—
PROPERTY AND EQUIPMENT, NET	13,221,135	14,212,797
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>960,040</u>	<u>1,067,651</u>
TOTAL	<u>\$ 24,292,021</u>	<u>\$ 25,359,773</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 178,517	\$ 138,644
Accrued expenses	420,761	490,515
Deferred revenue and deposits	<u>183,723</u>	<u>210,287</u>
Total current liabilities	<u>783,001</u>	<u>839,446</u>
NET ASSETS		
Without donor restrictions:		
Invested in property and equipment	13,221,135	14,212,797
Board designated fund for future use	7,679,314	8,564,257
Available for operations	<u>1,386,176</u>	<u>331,723</u>
Total net assets without donor restrictions	22,286,625	23,108,777
With donor restrictions	<u>1,222,395</u>	<u>1,411,550</u>
Total net assets	<u>23,509,020</u>	<u>24,520,327</u>
TOTAL	<u>\$ 24,292,021</u>	<u>\$ 25,359,773</u>

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contract services	\$ 6,124,574	\$ —	\$ 6,124,574
Contributions	3,333,959	295,539	3,629,498
Shelter fees	2,541,655	—	2,541,655
Investment loss, net	(464,834)	—	(464,834)
Special events (net of costs of direct benefits to donors of \$47,115)	466,172	—	466,172
Change in value of beneficial interest in perpetual trusts	<u>—</u>	<u>(107,611)</u>	<u>(107,611)</u>
Total	12,001,526	187,928	12,189,454
Net assets released from restrictions — satisfaction of purpose restrictions	<u>377,083</u>	<u>(377,083)</u>	<u>—</u>
Total support and revenues	<u>12,378,609</u>	<u>(189,155)</u>	<u>12,189,454</u>
EXPENSES			
Program services:			
Animal shelter and law enforcement	10,519,380	—	10,519,380
Humane education and community outreach	419,772	—	419,772
Supporting services:			
General and administrative	1,142,328	—	1,142,328
Fundraising	<u>1,119,281</u>	<u>—</u>	<u>1,119,281</u>
Total expenses	<u>13,200,761</u>	<u>—</u>	<u>13,200,761</u>
CHANGE IN NET ASSETS	(822,152)	(189,155)	(1,011,307)
NET ASSETS, Beginning of year	<u>23,108,777</u>	<u>1,411,550</u>	<u>24,520,327</u>
NET ASSETS, End of year	<u>\$ 22,286,625</u>	<u>\$ 1,222,395</u>	<u>\$ 23,509,020</u>

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contract services	\$ 5,983,122	\$ —	\$ 5,983,122
Contributions	2,618,956	334,815	2,953,771
Shelter fees	2,364,923	—	2,364,923
Investment income, net	1,156,344	—	1,156,344
Special events (net of costs of direct benefits to donors of \$41,040)	383,361	—	383,361
Change in value of beneficial interest in perpetual trusts	—	83,248	83,248
Total	12,506,706	418,063	12,924,769
Net assets released from restrictions — satisfaction of purpose restrictions	857,409	(857,409)	—
Total support and revenues	<u>13,364,115</u>	<u>(439,346)</u>	<u>12,924,769</u>
EXPENSES			
Program services:			
Animal shelter and law enforcement	9,671,264	—	9,671,264
Humane education and community outreach	405,471	—	405,471
Supporting services:			
General and administrative	1,066,266	—	1,066,266
Fundraising	1,040,873	—	1,040,873
Total expenses	<u>12,183,874</u>	<u>—</u>	<u>12,183,874</u>
CHANGE IN NET ASSETS	1,180,241	(439,346)	740,895
NET ASSETS, Beginning of year	<u>21,928,536</u>	<u>1,850,896</u>	<u>23,779,432</u>
NET ASSETS, End of year	<u>\$ 23,108,777</u>	<u>\$ 1,411,550</u>	<u>\$ 24,520,327</u>

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services			Total Expenses
	Animal Shelter and Law Enforcement	Humane Education and Community Outreach	Total	General and Administrative	Fundraising	Total	
Salaries and related expenses	\$ 6,858,843	\$ 271,371	\$ 7,130,214	\$ 813,780	\$ 496,457	\$ 1,310,237	\$ 8,440,451
Animal care	1,146,032	6,190	1,152,222	—	—	—	1,152,222
Depreciation	664,641	35,352	699,993	41,193	27,666	68,859	768,852
Office, shelter, and computer costs	387,060	4,820	391,880	122,608	171,588	294,196	686,076
Utilities and telephone	371,381	6,236	377,617	21,166	6,373	27,539	405,156
Printing, postage, and mailing services	54,525	38,299	92,824	8,318	250,139	258,457	351,281
Insurance	288,712	2,759	291,471	10,192	2,209	12,401	303,872
Vehicle maintenance	207,715	—	207,715	6,716	40	6,756	214,471
Facility maintenance	179,634	5,638	185,272	12,909	2,329	15,238	200,510
Rent	186,900	—	186,900	—	—	—	186,900
Special event expenses	—	—	—	—	156,823	156,823	156,823
Professional fees	46,874	17,406	64,280	52,666	6,736	59,402	123,682
Public relations	22,368	30,081	52,449	10,134	33,430	43,564	96,013
Travel	38,857	1,427	40,284	24,454	9,983	34,437	74,721
Dues and subscriptions	15,373	80	15,453	17,884	2,603	20,487	35,940
Contract labor	34,819	—	34,819	—	—	—	34,819
Equipment maintenance	15,646	113	15,759	308	20	328	16,087
TOTAL EXPENSES BY FUNCTION	10,519,380	419,772	10,939,152	1,142,328	1,166,396	2,308,724	13,247,876
Less expenses included with revenues on the statement of activities:							
Cost of direct benefit to donors	—	—	—	—	(47,115)	(47,115)	(47,115)
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 10,519,380	\$ 419,772	\$ 10,939,152	\$ 1,142,328	\$ 1,119,281	\$ 2,261,609	\$ 13,200,761
PERCENTAGE	80%	3%	83%	9%	8%	17%	100%

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services			Total Expenses
	Animal Shelter and Law Enforcement	Humane Education and Community Outreach	Total	General and Administrative	Fundraising	Total	
Salaries and related expenses	\$ 6,097,753	\$ 257,308	\$ 6,355,061	\$ 745,827	\$ 435,543	\$ 1,181,370	\$ 7,536,431
Animal care	1,087,511	10,464	1,097,975	—	—	—	1,097,975
Depreciation	642,281	34,486	676,767	40,491	27,255	67,746	744,513
Office, shelter, and computer costs	357,594	4,325	361,919	111,717	195,079	306,796	668,715
Utilities and telephone	355,572	4,804	360,376	18,201	4,183	22,384	382,760
Printing, postage, and mailing services	78,249	40,375	118,624	11,702	240,455	252,157	370,781
Insurance	291,484	4,144	295,628	8,597	2,289	10,886	306,514
Facility maintenance	227,946	5,125	233,071	17,291	9,698	26,989	260,060
Rent	186,900	—	186,900	—	—	—	186,900
Vehicle maintenance	176,816	—	176,816	3,336	40	3,376	180,192
Public relations	35,930	26,626	62,556	10,668	34,687	45,355	107,911
Contract labor	74,859	—	74,859	15,204	1,800	17,004	91,863
Special event expenses	—	—	—	—	112,889	112,889	112,889
Professional fees	1,375	13,896	15,271	42,611	10,295	52,906	68,177
Travel	27,636	3,302	30,938	26,893	4,978	31,871	62,809
Dues and subscriptions	13,656	371	14,027	13,617	2,567	16,184	30,211
Equipment maintenance	15,702	245	15,947	111	155	266	16,213
TOTAL EXPENSES BY FUNCTION	9,671,264	405,471	10,076,735	1,066,266	1,081,913	2,148,179	12,224,914
Less expenses included with revenues on the statement of activities:							
Cost of direct benefit to donors	—	—	—	—	(41,040)	(41,040)	(41,040)
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 9,671,264	\$ 405,471	\$ 10,076,735	\$ 1,066,266	\$ 1,040,873	\$ 2,107,139	\$ 12,183,874
PERCENTAGE	79%	3%	82%	9%	9%	18%	100%

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ (1,011,307)	\$ 740,895
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	768,852	744,513
Gain on sale of property and equipment	(82,340)	—
Net realized and unrealized (gains) losses on investments	645,487	(1,010,001)
Change in value of beneficial interest in perpetual trusts	107,611	(83,248)
Changes in operating assets and liabilities:		
Pledges receivable	11,150	99,197
Bequests receivable	(395,262)	294,525
Prepaid expenses and other current assets	62,409	(24,298)
Accounts payable	39,873	(112,993)
Accrued expenses	(70,254)	(714,398)
Deferred revenue and deposits	(26,064)	80,720
Net cash provided by operating activities	<u>50,155</u>	<u>14,912</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(377,500)	(432,015)
Purchases of investments	(888,331)	(1,764,841)
Proceeds from sales of property and equipment	82,650	—
Sale of investments	<u>1,127,787</u>	<u>1,340,499</u>
Net cash used in investing activities	<u>(55,394)</u>	<u>(856,357)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(5,239)	(841,445)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,237,012</u>	<u>2,078,457</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,231,773</u>	<u>\$ 1,237,012</u>

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Humane Society of the Pikes Peak Region (Society) is a local, independent nonprofit organized in 1949 for the protection and care of homeless and abused animals. The Society provides services in Colorado Springs, Pueblo, Douglas County and the City of Centennial, helping 26,000 animals annually.

Shelter services include adoption, reuniting lost pets, medical care for sick and injured animals, spaying and neutering, relinquishment prevention, an extensive volunteer program, foster homes and a transfer program supporting Southeast Colorado and New Mexico shelters in need.

Animal Law Enforcement (ALE) provides contracted services to El Paso County, Colorado Springs, the City and County of Pueblo, Fountain, Monument, Calhan, Manitou, Centennial and Douglas County. These services provide health and public safety protection for the residents and the animals. During the years ended December 31, 2018 and 2017, ALE conducted 4,264 and 4,205 cruelty and other investigations in these areas, respectively.

The surgery center provides subsidized spay or neuter services to the public and vaccinations for pet owners in financial need. The Society's veterinary team also provides extensive medical care to rehabilitate shelter animals to prepare them for adoption.

The Society is not affiliated with national animal welfare groups and depends on donations to achieve its mission: a compassionate community where animals and people are cared for and valued.

Basis of Presentation — The Society reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represent the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by the passage of time and resources for which use by the Society is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Society.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents — The Society considers all liquid investments with an original maturity of three months or less, which are not held for long-term investment purposes, to be cash

equivalents. Cash and liquid financial instruments held for long-term investment purposes, regardless of length to maturity, are reported as investments and excluded from this definition.

Pledges Receivable — Unconditional pledges receivable are recognized in the period received. Pledges receivable are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. The discounts on these amounts are computed using a risk adjusted discount rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met.

The Society uses the allowance method to account for uncollectible pledges receivable. The allowance is based on historical experience and management's analysis of individual pledges. Pledges receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

Bequests Receivable — The Society was the beneficiary of an estate which primarily consists of real estate. The estimated fair value of the trust assets was recognized as an asset and as contribution revenue when the estate was reported to the Society.

Investments — Investments are reported at fair value. Realized and unrealized gains and losses are included as revenue without donor restrictions in the statements of activities. Donated investments are recorded at fair market value on the date of donation. See Note 7 for information on fair value measurements.

Land Held for Sale — Land held for sale is carried at cost and is assessed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable. Revenues from sales of such property are recognized at the time title to the property passes to the purchaser.

Property and Equipment — Property and equipment are recorded at cost, or if donated, at the estimated fair value at the date of donation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building and improvements	15 – 40 years
Equipment	3 – 10 years
Vehicles	5 – 7 years
Computer equipment	3 – 7 years

The Society's policy is to capitalize acquisitions of property and equipment costing in excess of \$1,500 and having a useful life exceeding one year.

Unless explicit donor stipulations specify how donated assets must be used, gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted gifts and contributions. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-

lived assets must be maintained, expirations of donor restrictions are reported when acquired long-lived assets are placed in service.

Contributed Services — Contributed services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Society; however, these services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services. The Society received approximately 115,800 and 109,000 volunteer hours for the years ended December 31, 2018 and 2017, respectively.

Donated Materials and Rent — Donated materials are recorded in the financial statements at their estimated fair value on the date of receipt. The Society received donated materials and animal care supplies of approximately \$231,000 and \$224,000 for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the Society received donated rent of approximately \$186,900 in each year in connection with the use of the Pueblo facility owned by Pueblo County.

Contributions — Contributions are recognized as revenue when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a donor-stipulated time restriction ends or a purpose restriction is accomplished net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Advertising Expenses — The Society expenses advertising costs as they are incurred. Total advertising expenses of \$38,312 and \$48,444 for 2018 and 2017, respectively, are included in the printing, postage and mailing services caption on the statement of functional expenses.

Income Taxes — The Society is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, 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)(2).

The Society believes that it does not have any uncertain tax positions that are material to the financial statements.

Change in Accounting Principle — On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958)- *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. During 2018, management implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassification — Certain prior year amounts have been reclassified to conform with the current year presentation.

Subsequent Events — The Society has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

The following table reflects the Society's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions and board designated funds that are intended to fund special board initiatives not considered in the annual operating budget. While the Society does not intend to spend these for other purposes other than those identified, the amounts could be made available for current operations, if necessary. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

	2018	2017
Cash and cash equivalents	\$ 1,231,773	\$ 1,237,012
Pledges receivable, net	2,200	6,350
Bequests receivables	395,262	—
Cash and investments, board-designated	7,679,314	8,564,257
Beneficial interest in perpetual trusts	<u>960,040</u>	<u>1,067,651</u>
Total financial assets	<u>10,268,589</u>	<u>10,875,270</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(262,355)	(343,899)
Restricted by donors in perpetuity	<u>(960,040)</u>	<u>(1,067,651)</u>
Total amounts unavailable for general expenditures within one year	(1,222,395)	(1,411,550)
Less amounts unavailable to management without Board's approval:		
Board designated for future use	<u>(7,679,314)</u>	<u>(8,564,257)</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 1,366,880</u>	<u>\$ 899,463</u>

As part of the Society’s liquidity management, it has a policy to establish and maintain working capital reserves. Working capital reserves are defined as Current Assets less Current Liabilities. The reserve is intended to secure the future by sustaining the Organization through adverse times or to provide an ability to seize opportunities.

3. FUNCTIONAL EXPENSES ALLOCATION METHOD

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Society. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages and related benefits which are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services.

4. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31:

	2018	2017
Receivable in less than one year	\$ 2,200	\$ 6,350
Receivable in one to five years	<u>—</u>	<u>7,000</u>
Total	<u>\$ 2,200</u>	<u>\$ 13,350</u>

5. CASH AND INVESTMENTS, BOARD DESIGNATED

It is the policy of the Board of Directors of the Society to review its plans for future needs and to designate appropriate sums to assure adequate financing for the needs identified. Amounts designated by the Board of Directors for specific future needs are treated as board designated net assets without donor restrictions. The balance can be transferred to the portion of net assets without donor restrictions available for operations at the Board's discretion. Amounts designated for future use by the Board are \$7,679,314 and \$8,564,257 as of December 31, 2018 and 2017, respectively.

The Society has adopted investment and spending policies for the board designated fund that are attempting to provide a predictable stream of funding while seeking to maintain the purchasing power of the assets. Specifically, the primary investment management objectives of the fund are to emphasize long-term growth of principal while avoiding excessive risk and ensuring the ability to meet all expected cash flow needs by investing in securities which could be sold readily and efficiently. Short-term volatility is tolerated in as much as it has been consistent with the volatility of a comparable market index.

To satisfy its long-term investment objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Society's expected distributions from the board designated fund are approximately 4% of assets annually, although this percentage may vary.

6. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Society is an income beneficiary of three separate trusts whose principal is held at various financial institutions in perpetuity. The Society's share of the fair value of the trusts totaled \$960,040 and \$1,067,651 at December 31, 2018 and 2017, respectively. The fair value of the Society's interest in the trusts is determined primarily based on the Society's proportionate share of the fair value of the underlying assets of the trusts. Fair value of the underlying assets is determined using quoted market prices and pricing services. The Society received \$28,865 and \$40,553 in distributions from the trusts during the years ended December 31, 2018 and 2017, respectively. The change in the beneficial interest in the trusts was \$(107,611) and \$83,248 in 2018 and 2017, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Land	\$ 400,178	\$ 1,000,178
Building and improvements	15,815,209	15,685,204
Equipment	1,410,239	1,587,501
Vehicles	1,130,785	1,348,556
Computer equipment	<u>309,824</u>	<u>329,111</u>
Total	19,066,235	19,950,550
Less accumulated depreciation	<u>(5,845,100)</u>	<u>(5,737,753)</u>
Property and equipment, net	<u>\$ 13,221,135</u>	<u>\$ 14,212,797</u>

8. FAIR VALUE DISCLOSURES

The Society is required to use 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 inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- 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: Prices determined using significant unobservable inputs.

The 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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for the Society's assets measured at fair value. There have been no changes in the methodologies used for the years ended December 31, 2018 and 2017.

Common stock, mutual funds and exchange-traded funds — Valued at quoted prices in active markets.

Fixed income securities — Valued at quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active, particularly dealer market prices for comparable investments as of the valuation date.

See Note 6 regarding the fair value methodology of beneficial interest in perpetual trusts held by the Society.

The following table sets forth by level, within the fair value hierarchy, the Society's assets stated at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018:				
Common stock	\$ 2,543,404	\$ 2,543,404	\$ —	\$ —
Exchange traded funds	2,532,785	2,532,785	—	—
Mutual funds - fixed income	818,863	818,863	—	—
Cash and money market funds	370,487	370,487	—	—
Fixed income securities:				
U.S. treasury notes	716,774	—	716,774	—
Corporate notes	<u>697,001</u>	<u>—</u>	<u>697,001</u>	<u>—</u>
Total investments	7,679,314	6,265,539	1,413,775	—
Beneficial interest in perpetual trusts	<u>960,040</u>	<u>—</u>	<u>960,040</u>	<u>—</u>
Total	<u>\$ 8,639,354</u>	<u>\$ 6,265,539</u>	<u>\$ 2,373,815</u>	<u>\$ —</u>
2017:				
Exchange traded funds	\$ 3,094,466	\$ 3,094,466	\$ —	\$ —
Common stock	2,965,187	2,965,187	—	—
Mutual funds - fixed income	688,199	688,199	—	—
Cash and money market funds	350,875	350,875	—	—
Fixed income securities:				
U.S. treasury notes	724,137	—	724,137	—
Corporate notes	<u>741,393</u>	<u>—</u>	<u>741,393</u>	<u>—</u>
Total investments	8,564,257	7,098,727	1,465,530	—
Beneficial interest in perpetual trusts	<u>1,067,651</u>	<u>—</u>	<u>1,067,651</u>	<u>—</u>
Total	<u>\$ 9,631,908</u>	<u>\$ 7,098,727</u>	<u>\$ 2,533,181</u>	<u>\$ —</u>

Net investment income (loss) was composed of the following for the years ended December 31:

	2018	2017
Net realized and unrealized gains (losses)	\$ (645,487)	\$ 1,010,001
Interest and dividends	211,571	160,623
Distributions from beneficial interest in perpetual trusts	28,865	40,553
Investment management and custodial fees	<u>(59,783)</u>	<u>(54,833)</u>
Investment income (losses), net	<u>\$ (464,834)</u>	<u>\$ 1,156,344</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets that are restricted for a purpose consist of the following as of December 31:

	2018	2017
Behavior modification	\$ 98,000	\$ 101,667
Outreach	83,334	35,000
Emergency response	60,192	109,126
Other	<u>20,829</u>	<u>98,106</u>
Total	262,355	343,899
Beneficial interest in perpetual trusts not subject to the Society's spending policy and appropriation	<u>960,040</u>	<u>1,067,651</u>
Total net assets with donor restrictions	<u>\$ 1,222,395</u>	<u>\$ 1,411,550</u>

10. RETIREMENT PLAN

The Society maintains The Humane Society of the Pikes Peak Region Profit Sharing 401(k) plan (the Plan). The Plan allows eligible employees to make elective salary reduction contributions. On January 1, 2013 the Society adopted a Safe Harbor Plan. The Society contributes a matching contribution in an amount equal to 100% of an employee's contribution of 3%, plus 50% of an employee's contribution that exceeds 3% but does not exceed 5%. In addition, the Plan allows for an annual profit sharing contribution at the discretion of the Society. To be eligible for the Society's discretionary matching and non-matching contributions, employees must have completed one year of service, must have attained the age of 21 and be employed on the last day of the Plan year. The Society's contributions for the years ended December 31, 2018 and 2017 were \$135,529 and \$123,760, respectively.

11. LEASES

The Society leases office equipment under non-cancellable operating leases expiring on various dates through May 2022. Lease expense under these non-cancellable leases for the years ended December 31, 2018 and 2017 was \$16,324 and \$8,463, respectively. As of December 31, 2018, future minimum payments under the operating leases are as follows:

2019	\$ 15,304
2020	13,142
2021	9,958
2022	<u>4,811</u>
Total	<u>\$ 43,215</u>

12. CONCENTRATIONS

The Society maintains its cash in various bank deposit accounts which at times, may exceed federally insured limits. Management does not believe that the Society is exposed to any significant risk related to cash and equivalents.

The Society's investments are exposed to various risks, such as interest rate, market, and credit risks. Investments are made by investment managers engaged by the Society and the investments are monitored by the Society. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Society.

The Society receives contributions from a diverse number of organizations and individuals located predominantly in the Pikes Peak Region of Colorado. The Society receives a significant portion of total revenues from contract services and fees from ten governmental entities.

The Society received bequests of \$639,584 and \$231,024 for the years ended December 31, 2018 and 2017, respectively.