

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

Financial Statements

For The Years Ended December 31, 2017 and 2016

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 statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Prior Period Financial Statements

The financial statements of The Humane Society of the Pikes Peak Region as of December 31, 2016 were audited by other auditors whose report dated May 1, 2017 expressed an unmodified opinion on those financial statements.

Stockman Kast Ryan & Co., LLP

April 17, 2018

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 1,237,012	\$ 2,078,457
Pledges receivable	6,350	100,763
Bequests receivable	—	294,525
Prepaid expenses and other current assets	<u>264,706</u>	<u>240,408</u>
Total current assets	1,508,068	2,714,153
CASH AND INVESTMENTS, BOARD-DESIGNATED	8,564,257	7,129,914
PLEDGES RECEIVABLE	7,000	11,784
PROPERTY AND EQUIPMENT, NET	14,212,797	14,525,295
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>1,067,651</u>	<u>984,403</u>
TOTAL	<u>\$ 25,359,773</u>	<u>\$ 25,365,549</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 138,644	\$ 251,637
Accrued expenses	490,515	1,204,913
Deferred revenue and deposits	<u>210,287</u>	<u>129,567</u>
Total current liabilities	<u>839,446</u>	<u>1,586,117</u>
NET ASSETS		
Unrestricted:		
Invested in property and equipment	14,212,797	14,525,295
Board designated fund for future use	8,564,257	7,129,914
Board designated for innovation fund	94,727	191,011
Available for operations	<u>236,996</u>	<u>82,316</u>
Total unrestricted	23,108,777	21,928,536
Temporarily restricted	343,899	866,493
Permanently restricted	<u>1,067,651</u>	<u>984,403</u>
Total net assets	<u>24,520,327</u>	<u>23,779,432</u>
TOTAL	<u>\$ 25,359,773</u>	<u>\$ 25,365,549</u>

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	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	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	334,815	83,248	12,924,769
Net assets released from restrictions — satisfaction of purpose restrictions	857,409	(857,409)	—	—
Total support and revenues	13,364,115	(522,594)	83,248	12,924,769
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	12,183,874	—	—	12,183,874
CHANGE IN NET ASSETS	1,180,241	(522,594)	83,248	740,895
NET ASSETS, Beginning of year	21,928,536	866,493	984,403	23,779,432
NET ASSETS, End of year	\$ 23,108,777	\$ 343,899	\$ 1,067,651	\$ 24,520,327

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contract services	\$ 5,843,789	\$ —	\$ —	\$ 5,843,789
Contributions	2,637,590	695,596	—	3,333,186
Shelter fees	1,969,779	—	—	1,969,779
Investment income	665,043	—	—	665,043
Special events (net of costs of direct benefits to donors of \$31,590)	335,267	—	—	335,267
Change in value of beneficial interest in perpetual trusts	—	—	(1,853)	(1,853)
Total	11,451,468	695,596	(1,853)	12,145,211
Net assets released from restrictions — satisfaction of purpose restrictions	3,854,789	(3,854,789)	—	—
Total support and revenues	15,306,257	(3,159,193)	(1,853)	12,145,211
EXPENSES				
Program services:				
Animal shelter and law enforcement	9,131,522	—	—	9,131,522
Humane education and community outreach	363,643	—	—	363,643
Supporting services:				
General and administrative	561,001	—	—	561,001
Fundraising	1,002,137	—	—	1,002,137
Total expenses	11,058,303	—	—	11,058,303
CHANGE IN NET ASSETS	4,247,954	(3,159,193)	(1,853)	1,086,908
NET ASSETS, Beginning of year	17,680,582	4,025,686	986,256	22,692,524
NET ASSETS, End of year	\$ 21,928,536	\$ 866,493	\$ 984,403	\$ 23,779,432

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	—	—	—	—	71,849	71,849	71,849
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	\$ 9,671,264	\$ 405,471	\$ 10,076,735	\$ 1,066,266	\$ 1,040,873	\$ 2,107,139	\$ 12,183,874
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, 2016

	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	\$ 5,911,998	\$ 248,223	\$ 6,160,221	\$ 321,669	\$ 349,667	\$ 671,336	\$ 6,831,557
Animal care	1,011,163	7,791	1,018,954	—	—	—	1,018,954
Office, shelter, and computer costs	375,563	4,875	380,438	56,530	247,453	303,983	684,421
Depreciation	486,739	24,406	511,145	29,639	19,606	49,245	560,390
Printing, postage, and mailing services	54,493	36,835	91,328	6,344	236,185	242,529	333,857
Utilities and telephone	296,468	3,534	300,002	14,390	6,783	21,173	321,175
Insurance	284,192	5,874	290,066	13,865	2,281	16,146	306,212
Facility maintenance	223,635	4,108	227,743	11,528	17,601	29,129	256,872
Rent	186,900	—	186,900	—	—	—	186,900
Vehicle maintenance	154,536	56	154,592	5,560	56	5,616	160,208
Public relations	30,801	13,537	44,338	10,238	37,054	47,292	91,630
Professional fees	2,916	11,121	14,037	57,636	4,995	62,631	76,668
Special event expenses	—	—	—	—	68,988	68,988	68,988
Travel	42,093	2,297	44,390	15,856	8,669	24,525	68,915
Contract labor	47,825	-	47,825	-	1,389	1,389	49,214
Dues and subscriptions	11,644	716	12,360	17,655	1,231	18,886	31,246
Equipment maintenance	10,556	270	10,826	91	179	270	11,096
TOTAL EXPENSES	\$ 9,131,522	\$ 363,643	\$ 9,495,165	\$ 561,001	\$ 1,002,137	\$ 1,563,138	\$ 11,058,303
PERCENTAGE	83%	3%	86%	5%	9%	14%	100%

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 740,895	\$ 1,086,908
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	744,513	560,390
Net realized and unrealized gains on investments	(1,010,001)	(525,840)
Change in value of beneficial interest in perpetual trusts	(83,248)	1,853
Changes in operating assets and liabilities:		
Pledges receivable	(334,815)	—
Bequests receivable	294,525	516,001
Prepaid expenses and other current assets	(24,298)	2,307
Accounts payable	(112,993)	(407,476)
Accrued expenses	(714,398)	424,348
Deferred revenue and deposits	80,720	63,508
Net cash provided by (used in) operating activities	<u>(419,100)</u>	<u>1,721,999</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(432,015)	(6,877,611)
Purchases of investments	(1,764,841)	(195,734)
Sale of investments	<u>1,340,499</u>	<u>5,218,650</u>
Net cash used in investing activities	<u>(856,357)</u>	<u>(1,854,695)</u>
FINANCING ACTIVITIES		
Net cash provided by financing activities —		
Collection of pledges restricted for long term purposes	<u>434,012</u>	<u>1,286,937</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(841,445)	1,154,241
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,078,457</u>	<u>924,216</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,237,012</u>	<u>\$ 2,078,457</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, 2017 and 2016, ALE conducted 4,205 and 4,124 cruelty and 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 three classes of net assets: unrestricted net assets, which represent the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represent resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represent 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 interest in a trust held and administered by a financial institution and consists of equity investments and mutual funds. The estimated fair value of the trust assets was recognized as an asset and as contribution revenue when the trust was reported to the Society.

Investments — Investments are reported at fair value. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated investments are recorded at fair market value on the date of donation. See Note 6 for information on fair value measurements.

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 restricted net assets. 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 109,000 and 105,000 volunteer hours for the years ended December 31, 2017 and 2016, 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 \$224,000 and \$231,000 for the years ended December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the Society received donated rent of approximately \$186,860 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 unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses — The cost of providing the various program and supporting activities has been presented on a functional basis in the statement of activities. Certain costs have been allocated among the program and supporting expense categories based on management's estimates.

Advertising Expenses — The Society expenses advertising costs as they are incurred. Total advertising expenses of \$48,444 and \$37,478 for 2017 and 2016, 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. Tax years that remain subject to examination include 2014 through the current period.

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. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31:

	2017	2016
Receivable in less than one year	\$ 6,350	\$ 100,763
Receivable in one to five years	<u>7,000</u>	<u>11,784</u>
Total	<u>\$ 13,350</u>	<u>\$ 112,547</u>

3. 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 unrestricted net assets. The balance can be transferred to the undesignated portion of unrestricted net assets at the Board's discretion. Amounts designated for future use by the Board are \$8,564,257 and \$7,129,914 as of December 31, 2017 and 2016, respectively. The Board has also designated \$94,727 and \$191,011 as of December 31, 2017 and 2016, respectively, for innovations.

The Society had 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 relied on a total return strategy in which investment returns were achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targeted a diversified asset allocation that placed 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.

4. 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 \$1,067,651 and \$984,403 at December 2017 and 2016, 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 \$40,553 and \$41,168 in distributions from the trusts during the years ended December 31, 2017 and 2016, respectively. The change in the beneficial interest in the trusts was \$83,248 and \$(1,853) in 2017 and 2016, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2017	2016
Land	\$ 1,000,178	\$ 1,000,178
Building and improvements	15,685,204	15,566,495
Equipment	1,587,501	1,489,456
Vehicles	1,348,556	1,140,907
Computer equipment	<u>329,111</u>	<u>321,499</u>
Total	19,950,550	19,518,535
Less accumulated depreciation	<u>(5,737,753)</u>	<u>(4,993,240)</u>
Property and equipment, net	<u>\$ 14,212,797</u>	<u>\$ 14,525,295</u>

6. 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, 2017 and 2016.

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 4 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)
2017:				
Cash and money market funds	\$ 350,875	\$ 350,875	\$ —	\$ —
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	—	—
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>
2016:				
Cash and money market funds	\$ 780,710	\$ 780,710	\$ —	\$ —
Exchange traded funds	2,565,094	2,565,094	—	—
Common stock	2,373,515	2,373,515	—	—
Mutual funds - fixed income	908,294	908,294	—	—
Fixed income securities:				
Corporate notes	<u>502,301</u>	<u>—</u>	<u>502,301</u>	<u>—</u>
Total investments	7,129,914	6,627,613	502,301	—
Beneficial interest in perpetual trusts	<u>984,403</u>	<u>—</u>	<u>984,403</u>	<u>—</u>
Total	<u>\$ 8,114,317</u>	<u>\$ 6,627,613</u>	<u>\$ 1,486,704</u>	<u>\$ —</u>

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

	2017	2016
Net realized and unrealized gains	\$ 1,010,001	\$ 525,840
Interest and dividends	160,623	147,494
Distributions from beneficial interest in perpetual trusts	40,553	41,168
Investment management and custodial fees	<u>(54,833)</u>	<u>(49,459)</u>
Investment income, net	<u>\$ 1,156,344</u>	<u>\$ 665,043</u>

7. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	2017	2016
Emergency response	\$ 109,126	\$ 129,397
Behavior modification	101,667	—
Capital campaign	—	694,833
Other	<u>133,106</u>	<u>42,263</u>
Total temporarily restricted net assets	<u>\$ 343,899</u>	<u>\$ 866,493</u>

Permanently restricted net assets consist of endowment funds to be held in perpetuity. The income from the assets can be used for operations.

8. ENDOWMENT FUNDS

The Society's endowment consists of three donor restricted endowment funds established and restricted for the purpose of supporting the operations of the Society. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The act provides statutory guidance for management investment and expenditure of endowment funds held by not-for-profit organizations. The Society has interpreted UPMIFA 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, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 fund
- 2) The purposes of the Society and the donor-restricted endowment fund

- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Society
- 7) The investment policies of the Society

Changes in endowment fund net assets and the endowment net asset composition by type of fund as of December 31, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, January 1, 2016	\$ —	\$ —	\$ 986,256	\$ 986,256
Change in beneficial interest held by the Society	<u>—</u>	<u>—</u>	<u>(1,853)</u>	<u>(1,853)</u>
Endowment balance, December 31, 2016	<u>—</u>	<u>—</u>	<u>984,403</u>	<u>984,403</u>
Change in beneficial interest held by the Society	<u>—</u>	<u>—</u>	<u>83,248</u>	<u>83,248</u>
Endowment balance, December 31, 2017	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,067,651</u>	<u>\$ 1,067,651</u>

The endowment assets are perpetual trusts held by third parties. These trusts are controlled by the third party and the investment policies of the Society do not apply to them.

9. 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, 2017 and 2016 were \$123,760 and \$119,741, respectively.

10. 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, 2017 and 2016 was \$8,463 and \$18,435, respectively. As of December 31, 2017, future minimum payments under the operating leases are as follows:

2018	\$	15,946
2019		14,925
2020		12,763
2021		9,579
2022		<u>4,496</u>
Total	\$	<u>57,709</u>

11. 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 \$231,024 and \$536,605 for the years ended December 31, 2017 and 2016, respectively.