



THE HUMANE SOCIETY OF THE PIKES PEAK REGION

Financial Statements

For the Years Ended December 31, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018 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 2019 The Humane Society of the Pikes Peak Region adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

Stockman Kast Ryan + Co. LLP

April 23, 2020

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 716,283	\$ 1,231,773
Pledges receivable	—	2,200
Bequests receivable	587,245	395,262
Grant receivable	150,000	—
Prepaid expenses and other current assets	<u>301,687</u>	<u>202,297</u>
Total current assets	1,755,215	1,831,532
CASH AND INVESTMENTS, BOARD-DESIGNATED	9,285,920	7,679,314
LAND HELD FOR SALE	—	600,000
PROPERTY AND EQUIPMENT, NET	13,347,903	13,221,135
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>1,099,874</u>	<u>960,040</u>
TOTAL	<u>\$ 25,488,912</u>	<u>\$ 24,292,021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 252,515	\$ 178,517
Accrued expenses	527,564	420,761
Deferred revenue and deposits	<u>1,400</u>	<u>183,723</u>
Total current liabilities	<u>781,479</u>	<u>783,001</u>
NET ASSETS		
Without donor restrictions:		
Invested in property and equipment	13,347,903	13,221,135
Board designated fund for future use	9,285,920	7,679,314
Available for operations	<u>806,646</u>	<u>1,386,176</u>
Total net assets without donor restrictions	23,440,469	22,286,625
With donor restrictions	<u>1,266,964</u>	<u>1,222,395</u>
Total net assets	<u>24,707,433</u>	<u>23,509,020</u>
TOTAL	<u>\$ 25,488,912</u>	<u>\$ 24,292,021</u>

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contract services	\$ 6,078,042	\$ —	\$ 6,078,042
Contributions	3,618,257	150,000	3,768,257
Shelter fees	2,654,762	—	2,654,762
Investment income, net	1,625,709	—	1,625,709
Special events (net of costs of direct benefits to donors of \$45,135)	506,339	—	506,339
Change in value of beneficial interest in perpetual trusts	—	139,834	139,834
Total	14,483,109	289,834	14,772,943
Net assets released from restrictions — satisfaction of purpose restrictions	245,265	(245,265)	—
Total support and revenues	<u>14,728,374</u>	<u>44,569</u>	<u>14,772,943</u>
EXPENSES			
Program services:			
Animal shelter and law enforcement	10,625,565	—	10,625,565
Humane education and community outreach	465,465	—	465,465
Supporting services:			
Fundraising	1,283,855	—	1,283,855
General and administrative	1,199,645	—	1,199,645
Total expenses	<u>13,574,530</u>	<u>—</u>	<u>13,574,530</u>
CHANGE IN NET ASSETS	1,153,844	44,569	1,198,413
NET ASSETS, Beginning of year	<u>22,286,625</u>	<u>1,222,395</u>	<u>23,509,020</u>
NET ASSETS, End of year	<u>\$ 23,440,469</u>	<u>\$ 1,266,964</u>	<u>\$ 24,707,433</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	—	(107,611)	(107,611)
Total	12,001,526	187,928	12,189,454
Net assets released from restrictions — satisfaction of purpose restrictions	377,083	(377,083)	—
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	1,119,281	—	1,119,281
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 FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services			Supporting Services			Total Expenses
	Animal Shelter and Law Enforcement	Humane Education and Community Outreach	Total	Fundraising	General and Administrative	Total	
Salaries and related expenses	\$ 7,019,920	\$ 286,017	\$ 7,305,937	\$ 581,093	\$ 873,007	\$ 1,454,100	\$ 8,760,037
Animal care	1,166,544	6,711	1,173,255	—	—	—	1,173,255
Office, shelter and computer costs	497,587	7,474	505,061	263,331	101,687	365,018	870,079
Depreciation	697,920	37,425	735,345	29,501	44,849	74,350	809,695
Utilities and telephone	317,795	5,659	323,454	6,224	25,093	31,317	354,771
Printing, postage and mailing services	61,652	51,658	113,310	213,549	11,326	224,875	338,185
Insurance	266,659	4,018	270,677	2,753	3,488	6,241	276,918
Facility maintenance	188,651	10,812	199,463	6,469	19,052	25,521	224,984
Vehicle maintenance	167,491	—	167,491	146	10,373	10,519	178,010
Special event expenses	—	—	—	153,175	—	153,175	153,175
Rent	140,175	—	140,175	—	—	—	140,175
Public relations	22,900	30,062	52,962	39,485	11,289	50,774	103,736
Travel	39,703	3,850	43,553	14,831	20,904	35,735	79,288
Professional fees	817	20,451	21,268	11,970	33,130	45,100	66,368
Contract labor	3,270	77	3,347	4,339	30,156	34,495	37,842
Dues and subscriptions	14,688	982	15,670	1,965	15,130	17,095	32,765
Equipment maintenance	19,793	269	20,062	159	161	320	20,382
TOTAL EXPENSES BY FUNCTION	10,625,565	465,465	11,091,030	1,328,990	1,199,645	2,528,635	13,619,665
Less expenses included with revenues on the statement of activities:							
Cost of direct benefit to donors	—	—	—	(45,135)	—	(45,135)	(45,135)
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 10,625,565	\$ 465,465	\$ 11,091,030	\$ 1,283,855	\$ 1,199,645	\$ 2,483,500	\$ 13,574,530
PERCENTAGE	78%	3%	81%	10%	9%	19%	100%

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	Fundraising	General and Administrative	Total	
Salaries and related expenses	\$ 6,858,843	\$ 271,371	\$ 7,130,214	\$ 496,457	\$ 813,780	\$ 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	27,666	41,193	68,859	768,852
Office, shelter and computer costs	387,060	4,820	391,880	171,588	122,608	294,196	686,076
Utilities and telephone	371,381	6,236	377,617	6,373	21,166	27,539	405,156
Printing, postage and mailing services	54,525	38,299	92,824	250,139	8,318	258,457	351,281
Insurance	288,712	2,759	291,471	2,209	10,192	12,401	303,872
Vehicle maintenance	207,715	—	207,715	40	6,716	6,756	214,471
Facility maintenance	179,634	5,638	185,272	2,329	12,909	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	6,736	52,666	59,402	123,682
Public relations	22,368	30,081	52,449	33,430	10,134	43,564	96,013
Travel	38,857	1,427	40,284	9,983	24,454	34,437	74,721
Dues and subscriptions	15,373	80	15,453	2,603	17,884	20,487	35,940
Contract labor	34,819	—	34,819	—	—	—	34,819
Equipment maintenance	15,646	113	15,759	20	308	328	16,087
TOTAL EXPENSES BY FUNCTION	10,519,380	419,772	10,939,152	1,166,396	1,142,328	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	\$ 1,119,281	\$ 1,142,328	\$ 2,261,609	\$ 13,200,761
PERCENTAGE	80%	3%	83%	8%	9%	17%	100%

See notes to financial statements

THE HUMANE SOCIETY OF THE PIKES PEAK REGION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ 1,198,413	\$ (1,011,307)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	809,695	768,852
Gain on sale of land and property and equipment	(33,122)	(82,340)
Net realized and unrealized (gains) losses on investments	(1,331,277)	645,487
Change in value of beneficial interest in perpetual trusts	(139,834)	107,611
Changes in operating assets and liabilities:		
Pledges receivable	2,200	11,150
Bequests receivable	(191,983)	(395,262)
Grant receivable	(150,000)	—
Prepaid expenses and other current assets	(99,390)	62,409
Accounts payable	73,998	39,873
Accrued expenses	106,803	(70,254)
Deferred revenue and deposits	(182,323)	(26,064)
Net cash provided by operating activities	<u>63,180</u>	<u>50,155</u>
FINANCING ACTIVITIES		
Purchases of property and equipment	(936,463)	(377,500)
Proceeds from sale of land previously held for sale	633,122	—
Proceeds from sales of property and equipment	—	82,650
Net cash used in financing activities	<u>(303,341)</u>	<u>(294,850)</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	6,403,152	1,127,787
Purchases of investments	(6,678,481)	(888,331)
Net cash provided by (used in) investing activities	<u>(275,329)</u>	<u>239,456</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(515,490)	(5,239)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,231,773</u>	<u>1,237,012</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 716,283</u>	<u>\$ 1,231,773</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 24,000 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, 2019 and 2018, ALE conducted 4,091 and 4,264 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 119,000 and 115,800 volunteer hours for the years ended December 31, 2019 and 2018, 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 \$283,000 and \$231,000 for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the Society received donated rent of approximately \$140,200 and \$186,900, respectively, in connection with the use of the Pueblo facility owned by Pueblo County.

Contract Revenue — Contract revenue is earned from providing animal control, shelter, and licensing services to various counties and cities in the area. These contracts generally extend across one calendar year and are considered to contain one performance obligation. As a result, revenue is recognized evenly across the term of the contract.

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 \$40,008 and \$38,312 for 2019 and 2018, 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 — In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance,

including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principles of the revenue model are that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the year ended December 31, 2019, management adopted ASU 2014-09 using the modified retrospective approach. There was no effect on the recognition of revenue for the year ended December 31, 2019 or on retained earnings as of January 1, 2019 as a result of the change in accounting principle.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies the guidance in ASC 958 on how entities determine whether to account for a transfer of assets as an exchange transaction under other guidance or a contribution. During the year ended December 31, 2019, management adopted ASU 2018-08 prospectively. The impact of adopting ASU 2018-08 had no net impact on income from operations, excess of revenues over expenses or total net assets.

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, 2019 and 2018, 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.

	2019	2018
Cash and cash equivalents	\$ 716,283	\$ 1,231,773
Pledges receivable, net	—	2,200
Bequests receivable	587,245	395,262
Grants receivable	150,000	—
Cash and investments, board-designated	9,285,920	7,679,314
Beneficial interest in perpetual trusts	<u>1,099,874</u>	<u>960,040</u>
Total financial assets	<u>11,839,322</u>	<u>10,268,589</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(17,090)	(262,355)
Restricted by donors with time restrictions	(150,000)	—
Restricted by donors in perpetuity	<u>(1,099,874)</u>	<u>(960,040)</u>
Total amounts unavailable for general expenditures within one year	(1,266,964)	(1,222,395)
Less amounts unavailable to management without Board's approval:		
Board designated for future use	<u>(9,285,920)</u>	<u>(7,679,314)</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 1,286,438</u>	<u>\$ 1,366,880</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 Society 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. 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 \$9,285,920 and \$7,679,314 as of December 31, 2019 and 2018, 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.

5. 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 \$1,099,874 and \$960,040 at December 31, 2019 and 2018, 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 \$42,175 and \$28,865 in distributions from the trusts during the years ended December 31, 2019 and 2018, respectively. The change in the beneficial interest in the trusts was \$139,834 and \$(107,611) in 2019 and 2018, respectively.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2019	2018
Land	\$ 400,178	\$ 400,178
Building and improvements	16,005,380	15,815,209
Equipment	1,607,236	1,410,239
Vehicles	1,609,170	1,130,785
Computer equipment	<u>380,733</u>	<u>309,824</u>
Total	20,002,697	19,066,235
Less accumulated depreciation	<u>(6,654,794)</u>	<u>(5,845,100)</u>
Property and equipment, net	<u>\$ 13,347,903</u>	<u>\$ 13,221,135</u>

7. 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, 2019 and 2018.

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 5 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)
2019:				
Cash and money market funds	\$ 430,625	\$ 430,625	\$ —	\$ —
Common stock:				
Domestic	4,194,164	4,194,164	—	—
International	289,438	289,438	—	—
Mutual funds - equity:				
Domestic	1,204,033	1,204,033	—	—
International	888,075	888,075	—	—
Mutual funds - fixed income:				
Domestic	702,200	702,200	—	—
International	49,483	49,483	—	—
Fixed income securities:				
U.S. treasury notes	793,582	—	793,582	—
Corporate notes	681,151	—	681,151	—
Foreign notes	53,169	—	53,169	—
Total investments	9,285,920	7,758,018	1,527,902	—
Beneficial interest in perpetual trusts	1,099,874	—	1,099,874	—
Total	<u>\$ 10,385,794</u>	<u>\$ 7,758,018</u>	<u>\$ 2,627,776</u>	<u>\$ —</u>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018:				
Cash and money market funds	\$ 370,487	\$ 370,487	\$ —	\$ —
Common stock:				
Domestic	2,079,761	2,079,761	—	—
International	463,643	463,643	—	—
Exchange traded funds:				
Domestic	2,034,529	2,034,529	—	—
International	498,256	498,256	—	—
Mutual funds - fixed income:				
Domestic	247,504	247,504	—	—
International	571,359	571,359	—	—
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>

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

	2019	2018
Net realized and unrealized gains (losses)	\$ 1,331,277	\$ (645,487)
Interest and dividends	308,245	211,571
Distributions from beneficial interest in perpetual trusts	42,175	28,865
Investment management and custodial fees	<u>(55,988)</u>	<u>(59,783)</u>
Investment income (loss), net	<u>\$ 1,625,709</u>	<u>\$ (464,834)</u>

8. NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Restricted for purpose:		
Outreach	\$ —	\$ 83,334
Behavior modification	—	98,000
Emergency response	—	60,192
Other	<u>17,090</u>	<u>20,829</u>
Total restricted for purpose	17,090	262,355
Total restricted for passage of time	150,000	—
Beneficial interest in perpetual trusts not subject to the Society's spending policy and appropriation	<u>1,099,874</u>	<u>960,040</u>
Total net assets with donor restrictions	<u>\$ 1,266,964</u>	<u>\$ 1,222,395</u>

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, 2019 and 2018 were \$146,855 and \$135,529, respectively.

10. LEASES

The Society leases office equipment under non-cancellable operating leases expiring on various dates through June 2023. Lease expense under these non-cancellable leases for the years ended December 31, 2019 and 2018 was \$16,296 and \$16,324, respectively. As of December 31, 2019, future minimum payments under the operating leases are as follows:

2020	\$ 15,125
2021	11,941
2022	6,794
2023	<u>992</u>
Total	<u>\$ 34,852</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 \$421,103 and \$639,584 for the years ended December 31, 2019 and 2018, respectively.

12. SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Society's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global response to curb its spread, the Society is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.