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Financial Statements
As of and for the Years Ended December 31, 2018 and 2017

Together with Independent Auditors' Report



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TANNER
BUSINESS ADVISORS AND
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Humane Society of Utah

We have audited the accompanying financial statements of The Humane Society of Utah (the Organization) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 the financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditors consider 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 Utah 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.

Adoption of New Accounting Standard

As further described in Note 1 to the financial statements, during the year ended December 31, 2018, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Tanner LLC

June 24, 2019



THE HUMANE SOCIETY OF UTAH
Statements of Financial Position

As of December 31,

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash	\$ 1,044,126	\$ 1,160,521
Investments	259,569	230,699
Receivables	23,300	52,412
Inventory	46,066	66,759
Prepaid expenses	34,875	29,401
Property and equipment, net	5,368,635	5,651,164
Beneficial interests in assets held by third parties	<u>2,063,518</u>	<u>2,303,883</u>
Total assets	<u>\$ 8,840,089</u>	<u>\$ 9,494,839</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 223,202	\$ 150,701
Accrued liabilities	202,068	194,523
Note payable	<u>444,086</u>	<u>572,658</u>
Total liabilities	<u>869,356</u>	<u>917,882</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	5,653,800	5,942,355
With donor restrictions	<u>2,316,933</u>	<u>2,634,602</u>
Total net assets	<u>7,970,733</u>	<u>8,576,957</u>
Total liabilities and net assets	<u>\$ 8,840,089</u>	<u>\$ 9,494,839</u>



THE HUMANE SOCIETY OF UTAH
Statements of Activities

For the years ended December 31,

	<u>2018</u>	<u>2017</u>
Change in net assets without donor restrictions:		
Revenues, gains, and other support:		
Clinic fees	\$ 2,531,198	\$ 2,247,242
Contributions	1,770,882	1,961,574
Adoption fees	1,085,543	1,110,695
Net realized and unrealized gain (loss) on investments	(27,186)	16,344
Interest and dividends	13,921	10,246
Other	533,921	572,421
Total revenues, gains, and other support	<u>5,908,279</u>	<u>5,918,522</u>
Net assets released from restrictions	<u>146,145</u>	<u>14,938</u>
Total revenues, gains, other support and reclassifications	<u>6,054,424</u>	<u>5,933,460</u>
Program expenses:		
Shelter	2,755,596	2,689,995
Clinic	1,967,025	1,793,770
Education	159,155	115,122
Investigations	101,984	90,166
Supporting expenses:		
Management and general	393,847	354,290
Fundraising/special events/volunteer	965,372	873,708
Total expenses	<u>6,342,979</u>	<u>5,917,051</u>
Increase (decrease) in net assets without donor restrictions	<u>(288,555)</u>	<u>16,409</u>
Change in net assets with donor restrictions:		
Contributions	68,840	320,858
Net assets released from restrictions	(146,145)	(14,938)
Net realized and unrealized gain (loss) on investments	(37,623)	29,126
Change in value of beneficial interests	(202,741)	171,265
Increase (decrease) in net assets with donor restrictions	<u>(317,669)</u>	<u>506,311</u>
Increase (decrease) in net assets	<u>(606,224)</u>	<u>522,720</u>
Net assets, beginning of the year	<u>8,576,957</u>	<u>8,054,237</u>
Net assets, end of the year	<u>\$ 7,970,733</u>	<u>\$ 8,576,957</u>

THE HUMANE SOCIETY OF UTAH
Statement of Functional Expenses

For the Year Ended December 31, 2018

	Program Expenses					Supporting Expenses			Overall Total
	Shelter	Clinic	Education	Investi- gations	Total	Management and General	Fundraising/ Special Events/ Volunteer	Total	
Salaries	\$ 1,380,380	\$ 922,839	\$ 98,419	\$ 68,522	\$ 2,470,160	\$ 188,987	\$ 330,334	\$ 519,321	\$ 2,989,481
Benefits	139,817	116,319	15,269	12,056	283,461	15,326	25,387	40,713	324,174
Payroll taxes	104,177	69,767	7,488	5,272	186,704	14,555	24,451	39,006	225,710
Total salaries and related expenses	1,624,374	1,108,925	121,176	85,850	2,940,325	218,868	380,172	599,040	3,539,365
Travel	25,860	3,586	1,428	2,416	33,290	-	1,277	1,277	34,567
Special events	-	-	-	-	-	-	155,572	155,572	155,572
Dues and subscriptions	38,718	5,454	155	1,737	46,064	4,805	52,942	57,747	103,811
Advertising	90,012	3,075	-	-	93,087	3,751	53,795	57,546	150,633
Office	32,175	21,615	95	132	54,017	3,910	278,046	281,956	335,973
Liability insurance	23,971	6,827	163	225	31,186	1,514	1,955	3,469	34,655
Animal waste removal	19,020	14,780	-	-	33,800	-	-	-	33,800
Professional services	18,044	5,149	123	170	23,486	12,172	1,472	13,644	37,130
Surgical	-	48,930	-	-	48,930	-	-	-	48,930
Vaccination	132,268	542,511	-	-	674,779	-	-	-	674,779
Outside services	32,636	7,340	218	17	40,211	30,975	1,682	32,657	72,868
Repairs and maintenance	101,928	25,562	804	2,994	131,288	4,145	4,376	8,521	139,809
Retail store	86,772	-	-	-	86,772	-	-	-	86,772
Supplies	149,490	41,238	1,308	153	192,189	4,897	5,679	10,576	202,765
Telephone	9,019	2,296	51	362	11,728	2,800	1,638	4,438	16,166
Utilities	64,665	18,329	437	605	84,036	4,370	5,247	9,617	93,653
Other expenses	109,079	38,236	11,245	6	158,566	43,102	14,202	57,304	215,870
Depreciation	197,565	73,172	21,952	7,317	300,006	58,538	7,317	65,855	365,861
Total expenses	\$ 2,755,596	\$ 1,967,025	\$ 159,155	\$ 101,984	\$ 4,983,760	\$ 393,847	\$ 965,372	\$ 1,359,219	\$ 6,342,979

See accompanying notes to the financial statements.

THE HUMANE SOCIETY OF UTAH
Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Expenses					Supporting Expenses			Overall Total
	Shelter	Clinic	Education	Investi- gations	Total	Management and General	Fundraising/ Special Events/ Volunteer	Total	
Salaries	\$1,324,424	\$ 817,630	\$ 79,791	\$ 61,225	\$2,283,070	\$ 177,398	\$ 301,414	\$ 478,812	\$2,761,882
Benefits	168,397	81,131	6,310	10,486	266,324	20,950	26,833	47,783	314,107
Payroll taxes	100,325	62,801	6,141	4,732	173,999	13,366	22,937	36,303	210,302
Total salaries and related expenses	1,593,146	961,562	92,242	76,443	2,723,393	211,714	351,184	562,898	3,286,291
Travel	13,363	2,384	1,468	2,227	19,442	22	2,071	2,093	21,535
Special events	-	-	-	-	-	-	156,743	156,743	156,743
Dues and subscriptions	17,149	6,267	74	1,650	25,140	4,875	25,382	30,257	55,397
Advertising	52,390	1,206	1	3	53,600	401	26,740	27,141	80,741
Office	27,175	17,719	1,842	131	46,867	5,999	247,994	253,993	300,860
Liability insurance	19,834	5,649	35	186	25,704	1,253	1,718	2,971	28,675
Animal waste removal	16,900	17,748	-	-	34,648	-	-	-	34,648
Professional services	37,189	10,605	65	350	48,209	2,375	3,222	5,597	53,806
Surgical	1,516	46,412	-	-	47,928	-	-	-	47,928
Vaccination	179,487	518,272	-	-	697,759	-	-	-	697,759
Outside services	24,056	8,411	336	15	32,818	9,178	6,670	15,848	48,666
Repairs and maintenance	99,871	27,046	167	577	127,661	8,967	5,691	14,658	142,319
Retail store	93,803	-	-	-	93,803	-	-	-	93,803
Supplies	196,527	40,430	1,520	435	238,912	5,065	13,845	18,910	257,822
Telephone	7,649	3,475	12	314	11,450	2,680	1,208	3,888	15,338
Utilities	69,332	19,475	111	642	89,560	5,166	5,921	11,087	100,647
Other expenses	35,616	35,182	6,460	-	77,258	39,053	18,127	57,179	134,437
Depreciation	204,992	71,927	10,789	7,193	294,901	57,542	7,193	64,735	359,636
Total expenses	\$2,689,995	\$1,793,770	\$ 115,122	\$ 90,166	\$4,689,053	\$ 354,290	\$ 873,709	\$1,227,998	\$5,917,051

See accompanying notes to the financial statements.



THE HUMANE SOCIETY OF UTAH
Statements of Cash Flows

For the Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (606,224)	\$ 522,720
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	365,861	359,636
(Gain) loss on disposal of property and equipment	(4,767)	875
Net loss (gain) on investments	27,186	(16,344)
Net change in beneficial interest in assets held by third parties	240,365	(200,391)
Decrease (increase) in:		
Receivables	29,112	3,964
Prepaid expenses	(5,474)	(19,991)
Inventories	20,693	(940)
Increase (decrease) in:		
Accounts payable	72,501	(54,351)
Accrued liabilities	7,545	18,585
Net cash provided by operating activities	<u>146,798</u>	<u>613,763</u>
Cash flows from investing activities:		
Net change in investments	(56,056)	(28,279)
Proceeds from sale of property and equipment	5,600	-
Purchases of property and equipment	<u>(84,165)</u>	<u>(104,143)</u>
Net cash used in investing activities	<u>(134,621)</u>	<u>(132,422)</u>
Cash flows from financing activities:		
Payments on note payable	<u>(128,572)</u>	<u>(207,197)</u>
Net change in cash	(116,395)	274,144
Cash at beginning of the year	<u>1,160,521</u>	<u>886,377</u>
Cash at end of the year	<u>\$ 1,044,126</u>	<u>\$ 1,160,521</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 30,551</u>	<u>\$ 30,757</u>



1. Organization and Summary of Significant Accounting Policies

Organization

The Humane Society of Utah (the Organization) is a Utah not-for-profit organization that provides animal adoption services, medical services, cruelty investigation services related to dogs and cats, foster parent programs, and educational programs for children and adults. The Organization is supported primarily through donor contributions and fees for clinic and other services provided.

Adoption of New Accounting Standard

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU primarily 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. The Organization adopted this ASU for the year ended December 31, 2018 and has adjusted the presentation of the accompanying financial statements accordingly, including the presentation of certain information for the year ended December 31, 2017. The adoption of this ASU had the following primary effects on the accompanying financial statements and related notes:

- Changed the net asset classifications to those described in the “Financial Statement Presentation” note below
- Added disclosure about the Organization’s liquidity and availability of financial resources (see Note 2)

Financial Statement Presentation

The Organization reports its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, wherein the donor has stipulated the funds be maintained in perpetuity



1. Organization and Summary of Significant Accounting Policies
Continued

Use of Estimates in Financial Statements

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.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of promises to give. In the normal course of its activities, the Organization receives promises to give which are recorded in receivables. Accordingly, the Organization performs ongoing evaluations of promises to give and maintains allowances for possible losses, which when realized, have been within the range of management's expectations. Credit risk pertaining to promises to give is comprised of numerous factors, including the overall economic conditions in the geographic area in which the Organization's donors are located. As of December 31, 2018, management determined that an allowance for possible losses was not necessary.

The Organization maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. As of December 31, 2018, the Organization had \$491,201 in bank deposit accounts that exceeded federally insured limits. To date, the Organization has not experienced a material loss or lack of access to its cash; however, no assurance can be provided that access to the Organization's cash will not be impacted by adverse conditions in the financial markets.

The Organization is dependent on certain vendors for veterinary supplies. For the years ended December 31, 2018 and 2017, aggregate purchases from these vendors consisted of the following:

	<u>2018</u>	<u>2017</u>
Vendor A	23.1%	12.3%
Vendor B	11.1%	**

** Purchases with this vendor did not meet the threshold for disclosure in this year.



1. Organization and Summary of Significant Accounting Policies
Continued

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets, less external and direct internal investment expenses.

Inventories

Inventories consist primarily of clinic supplies and retail shop goods and are stated at the lower of cost or net realizable value and accounted for on a first-in, first-out basis. The Organization periodically reviews inventories for obsolescence and management determined that an allowance for obsolete inventories was not necessary as of December 31, 2018 and 2017.

Property and Equipment

The Organization capitalizes purchases of property and equipment at cost. The fair value of donated property and equipment is similarly capitalized. The Organization capitalizes such expenditures if the purchases exceed \$1,000. Minor replacements, maintenance and repairs, which do not increase the useful lives of the property and equipment, are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets or lease terms, ranging from three to thirty-nine years.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined an impairment loss has occurred, such loss is recognized in the statement of activities.

Revenue Recognition

The Organization recognizes revenue at the time services are performed or goods are provided, the price is fixed or determinable, and collection is reasonably assured.

Contributions

Contributions received are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions.



1. Organization and Summary of Significant Accounting Policies
Continued

Contributions - Continued

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or 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.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are acquired or placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and assignments; however, those services do not meet the above criteria.

In-Kind Contributions

During the years ended December 31, 2018 and 2017, the Organization received in-kind contributions of certain supplies, such as pet food, newspapers, and other supplies. When documentation supporting an estimated fair value can be obtained, the contributed supplies are recorded. Management has determined that the value of all in-kind contributions of supplies is not material to the overall financial statements. The effect of recording such contributions is generally to increase contribution revenue and supplies expense, which has no effect on the increase or decrease in net assets.



1. Organization and Summary of Significant Accounting Policies
Continued

In-Kind Contributions - Continued

In 2018 and 2017, the Organization received approximately \$0 and \$25,000, respectively, in donated advertising services. The amounts were recorded as in-kind contributions and advertising expense. Additionally, the Organization received \$22,551 in donated lighting and decorations for events that were held during the year ended December 31, 2018 and \$106,191 in donated gift certificates, dog food, and decorations for events that were held during the year ended December 31, 2017.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was approximately \$151,000 and \$81,000 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

The Organization is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under state of Utah regulations, and, as such, is not subject to federal or state income taxes on related purpose income. The Organization is subject to taxation on unrelated business income, if any.

As of December 31, 2018 and 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include the following:

Expense	Allocation Method
Salaries	Time and effort
Benefits	Time and effort
Payroll taxes	Time and effort
Liability insurance	Square footage
Professional services	Square footage
Telephone	Square footage
Utilities	Square footage
Depreciation	Square footage



1. Organization and Summary of Significant Accounting Policies
Continued

Fair Value of Financial Instruments

Fair value is defined as the exit price or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (see Note 7).

Subsequent Events

Management has evaluated subsequent events through June 24, 2019, which is the date the accompanying financial statements were available to be issued.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash	\$	1,044,126
Investments		259,569
Receivables		<u>23,300</u>
		1,326,995
Less amounts not available to be used within one year:		
Board designated funds		224,322
Net assets with donor restrictions		<u>253,415</u>
		<u>477,737</u>
Net amount available	\$	<u>849,258</u>



**2. Liquidity
and
Availability**
Continued

The Organization's operations rely primarily on fees for services rendered, as well as contributions from private sources. These contributions are often to be used directly for the Organization's overall mission, and for this reason, only a portion of the Organization's overall financial assets above are not available for expenditure within one year based upon donor restrictions. The Board of Directors has designated certain net assets for a reserve, but those funds may be spent for other purposes at the discretion of the Board of Directors.

The Organization monitors its liquidity and cash flow needs through the use of a budget to ensure that cash inflows are sufficient to cover projected cash outflows. The accompanying statement of cash flows identifies the sources and uses of the Organization's cash and the positive cash flows of \$146,798 generated from operating activities during the year ended December 31, 2018.

3. Investments

Investments are stated at fair value and consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 10,735	\$ 10,623
Mutual and exchange traded funds	<u>248,834</u>	<u>220,076</u>
	<u>\$ 259,569</u>	<u>\$ 230,699</u>

Total return on investments, including dividends, interest, and realized and unrealized gains and losses was \$(50,888) and \$55,716 for the years ended December 31, 2018 and 2017, respectively.



4. Property and Equipment

Property and equipment consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Building	\$ 7,156,262	\$ 7,156,262
Improvements and equipment	1,140,418	1,092,991
Land	427,516	427,516
Vehicles	156,452	176,889
Land improvements	172,664	164,764
Office furniture	42,082	42,082
Total cost	9,095,394	9,060,504
Less accumulated depreciation	<u>(3,726,759)</u>	<u>(3,409,340)</u>
	<u>\$ 5,368,635</u>	<u>\$ 5,651,164</u>

Depreciation expense on property and equipment for the years ended December 31, 2018 and 2017 was \$365,861 and \$359,636, respectively.

5. Beneficial Interests in Assets Held By Third Parties

The earnings received in cash from the trust's and the foundation's investments are recognized as net assets with donor restrictions (temporary in nature) until appropriated by the Board of Directors. The Organization's pro-rata interests in the assets held by the trust and the foundation are recorded based upon the fair value of the assets held by these parties, and are permanent in nature. The recorded values of the interests in the trust and the foundation are evaluated annually and the changes in values are recognized in the statements of activities as restricted gains or losses. The total revaluation gain (loss) for the Organization's interests in the trust and foundation was (\$240,365) and \$200,391 for 2018 and 2017, respectively.

The Organization is also named as the beneficiary of an irrevocable trust, which has been valued by a valuation expert. This irrevocable trust represents a remainder interest in a trust that, when distributed, is required to be held in perpetuity and only the earnings thereon will be available to fund the activities of the Organization. However, these funds are not expected to be received in the near future. This trust is recorded at fair value and is restricted in perpetuity. The changes in value are recognized in the statement of activities as restricted gains or losses.



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

6. Note Payable

The note payable consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Note payable to a financial institution, secured by all of the Organization's property, due in monthly installments of \$4,592, including interest at 4.62%, maturing June 2022 with a final balloon payment of approximately \$315,501 (refinanced in 2017).	\$ 444,086	\$ 572,658

Maturities of the note payable are as follows as of December 31, 2018:

Years Ending December 31,

2019	\$ 35,363
2020	37,032
2021	38,779
2022	<u>332,912</u>
	<u>\$ 444,086</u>

7. Fair Value Measurements

Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.



7. Fair Value Measurements
Continued

The following tables summarize the Organization's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2018 and 2017, and the fair value calculation input hierarchy level that the Organization has determined applies to each asset category.

As of December 31, 2018:
Investments

Description	Level 1	Level 2	Level 3	Total
Money market	\$ 10,735	\$ -	\$ -	\$ 10,735
Mutual and exchange traded funds:				
Large cap	88,857	-	-	88,857
Bond	79,788	-	-	79,788
International	23,783	-	-	23,783
Mid cap	11,624	-	-	11,624
Small cap	10,219	-	-	10,219
Other	34,563	-	-	34,563
Total	\$ 259,569	\$ -	\$ -	\$ 259,569

Beneficial Interest in Assets Held by Third Parties

Description	Level 1	Level 2	Level 3	Total
Remainder interest trust	\$ -	\$ -	\$ 1,782,856	\$ 1,782,856
Foundation under agreement	-	208,435	-	208,435
Charitable trust	-	72,227	-	72,227
Total	\$ -	\$ 280,662	\$ 1,782,856	\$ 2,063,518



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

7. Fair Value
Measurements
Continued

As of December 31, 2017:
Investments

Description	Level 1	Level 2	Level 3	Total
Money market	\$ 10,623	\$ -	\$ -	\$ 10,623
Mutual and exchange traded funds:				
Bond	78,373	-	-	78,373
Large cap	67,236	-	-	67,236
International	22,318	-	-	22,318
Mid cap	11,007	-	-	11,007
Small cap	8,895	-	-	8,895
Other	32,247	-	-	32,247
Total	\$ 230,699	\$ -	\$ -	\$ 230,699

Beneficial Interest in Assets Held by Third Parties

Description	Level 1	Level 2	Level 3	Total
Remainder interest trust	\$ -	\$ -	\$ 1,985,597	\$ 1,985,597
Foundation under agreement	-	235,997	-	235,997
Charitable trust	-	82,289	-	82,289
Total	\$ -	\$ 318,286	\$ 1,985,597	\$ 2,303,883

The activity of level 3 investments consisted of the following:

Balance, January 1, 2018	\$ 1,985,597
Expenses and unrealized losses	(202,741)
Balance, December 31, 2018	\$ 1,782,856

8. Net Assets
With Donor
Restrictions

Net assets with donor restrictions (excluding endowments) consist of the following as of December 31:

	2018	2017
Funds for care of dogs and cats	\$ 204,298	\$ 257,141
Transportation and rescue	41,522	43,877
Shelter	7,595	20,000
Other	-	9,701
	\$ 253,415	\$ 330,719



9. Endowments Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958 (ASC 958), *Not-for-profit entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Utah has adopted UPMIFA.

Net assets with donor restrictions, perpetual in nature (endowments), included the following as of December 31:

	<u>2018</u>	<u>2017</u>
Beneficial interest in trust (Note 5)	\$ 1,782,856	\$ 1,985,597
Beneficial interest in foundation (Note 5)	208,435	235,997
Beneficial interest in trust (Note 5)	<u>72,227</u>	<u>82,289</u>
	<u>\$ 2,063,518</u>	<u>\$ 2,303,883</u>

Interpretation of Relevant Law

The Organization 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 Organization classifies as restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 as restricted in perpetuity is classified as part of donor restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.



9. Endowments
Continued

Interpretation of Relevant Law - Continued

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the 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 Organization
- (7) The investment policies of the Organization

Spending Policy

The Organization may use, for any purpose deemed appropriate by its Board of Directors in fulfilling the Organization's charitable purpose, the interest payments received from the beneficial interests in assets held by third parties.

Return Objectives and Risk Parameters

Investment decisions for the foundation and trust, which the Organization has a beneficial interest in (Note 5), are made by the donors or their agents. The primary investment objectives of these donors are (1) the long-term preservation of the real (inflation adjusted) purchasing power of portfolio assets and income, after accounting for spending, inflation, and costs of portfolio management, and (2) to earn a total rate of return that exceeds the spending rate, and at the same time to perform well when compared with selected weighted market indices. The portfolio assets are invested in a diversified pool of securities with an overall emphasis on quality, diversification, and potential for earnings growth.



THE HUMANE SOCIETY OF UTAH
Notes to Financial Statements
Continued

9. Endowments
Continued

Return Objectives and Risk Parameters - Continued

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	2018		
	Without donor restriction	With donor restriction	Total
Endowment net assets, beginning of the year	\$ -	\$ 2,303,883	\$ 2,303,883
Decrease in value	-	(240,365)	(240,365)
Endowment net assets, end of year	\$ -	\$ 2,063,518	\$ 2,063,518

	2017		
	Without donor restriction	With donor restriction	Total
Endowment net assets, beginning of the year	\$ -	\$ 2,103,492	\$ 2,103,492
Increase in value	-	200,391	200,391
Endowment net assets, end of year	\$ -	\$ 2,303,883	\$ 2,303,883

10. Commitments
and
Contingencies

Litigation

In the normal course of operations, the Organization may become party to lawsuits or other claims. Management is not aware of any such claims for which the uninsured amount would be material to the Organization's financial position.