

**Humane Society of Vero Beach and
Indian River County, Inc. and
Affiliate**

Consolidated Financial Report
September 30, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Humane Society of Vero Beach
and Indian River County, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Humane Society of Vero Beach and Indian River County, Inc. and Affiliate, which comprise the consolidated statement of financial position as of September 30, 2016, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 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 auditor's 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 Vero Beach and Indian River County, Inc. and Affiliate as of September 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

The consolidated financial statements of the Humane Society of Vero Beach and Indian River County, Inc. and Affiliate, as of and for the year ended September 30, 2015, were audited by other auditors, whose report, dated August 31, 2016, expressed an unmodified opinion on those consolidated financial statements. The summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

RSM US LLP

West Palm Beach, Florida
October 16, 2017

Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate

Consolidated Statement of Financial Position
September 30, 2016

(With Summarized Comparative Information for September 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	\$ 1,071,205	\$ 993,209
Receivables, net	2,217,256	367,571
Interest in irrevocable residuary trust, net	48,899	85,171
Certificates of deposit	155,367	155,220
Investments	3,833,451	4,366,881
Inventory	43,214	65,905
Prepaid expenses and other assets	79,729	32,829
Cash restricted for investment in property and equipment	361,515	334,670
Property and equipment, net	6,705,264	6,815,957
Total assets	\$ 14,515,900	\$ 13,217,413
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 17,525	\$ 82,477
Accrued expenses	85,793	28,472
Total liabilities	103,318	110,949
Commitments (Note 7)		
Net assets:		
Unrestricted	12,540,290	11,151,039
Temporarily restricted	1,706,292	1,789,425
Permanently restricted	166,000	166,000
Total net assets	14,412,582	13,106,464
Total liabilities and net assets	\$ 14,515,900	\$ 13,217,413

See notes to consolidated financial statements.

Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate

Consolidated Statement of Activities
Year Ended September 30, 2016
(With Summarized Comparative Information for September 30, 2015)

	2016			Total 2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue:					
Indian River County contract	\$ 295,935	\$ -	\$ -	\$ 295,935	\$ 333,585
Public support	597,680	193,726	-	791,406	977,209
Bequests	1,492,017	-	-	1,492,017	708,336
Special events	383,688	-	-	383,688	463,861
Thrift shop sales	1,116,219	-	-	1,116,219	1,067,988
Adoption fees	81,199	-	-	81,199	83,165
Net investment income (loss)	283,956	59,303	-	343,259	(81,972)
Gift shop sales and other revenue	404,750	-	-	404,750	392,337
Net assets released from restrictions	336,162	(336,162)	-	-	-
Total revenue	4,991,606	(83,133)	-	4,908,473	3,944,509
Expenses:					
Program services:					
Animal services	1,387,049	-	-	1,387,049	1,247,715
Clinic	355,885	-	-	355,885	309,776
Adoption program	160,792	-	-	160,792	354,706
Pet behavior	139,453	-	-	139,453	129,031
Cruelty/outreach	113,931	-	-	113,931	110,289
Education program	99,005	-	-	99,005	99,828
Volunteer program	94,281	-	-	94,281	62,484
Total program services	2,350,396	-	-	2,350,396	2,313,829
Supporting services:					
Thrift shops and gift stores	552,725	-	-	552,725	535,105
Management and general	161,476	-	-	161,476	215,836
Fundraising services	537,758	-	-	537,758	435,552
Total supporting services	1,251,959	-	-	1,251,959	1,186,493
Total expenses	3,602,355	-	-	3,602,355	3,500,322
Change in net assets	1,389,251	(83,133)	-	1,306,118	444,187
Net assets:					
Beginning	11,151,039	1,789,425	166,000	13,106,464	12,662,277
Ending	\$ 12,540,290	\$ 1,706,292	\$ 166,000	\$ 14,412,582	\$ 13,106,464

See notes to consolidated financial statements.

Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Year Ended September 30, 2016
(With Summarized Comparative Information for September 30, 2015)

	2016											Total 2015 Expenses
	Animal Services	Program Services					Supporting Services				Total	
		Clinic	Adoption Program	Pet Behavior	Cruelty/ Outreach	Education Program	Volunteer Program	Thrift Shops & Gift Stores	Management and General	Fundraising Services		
Salaries and wages	\$ 542,171	\$ 126,300	\$ 61,857	\$ 84,441	\$ 67,257	\$ 72,917	\$ 210,462	\$ 95,322	\$ 230,343	\$ 1,613,117	\$ 1,544,396	
Payroll taxes and benefits	81,674	15,703	9,666	12,355	8,259	7,432	28,061	15,590	30,434	227,662	189,895	
Total salaries and related benefits	623,845	142,003	71,523	96,796	75,516	80,349	238,523	110,912	260,777	1,840,779	1,734,291	
Depreciation	250,438	5,407	7,129	2,662	9,275	1,036	14,844	8,692	2,325	302,274	291,300	
Animal medicine and drugs	94,072	107,153	-	-	-	-	4,152	-	-	205,377	205,886	
Professional fees	12,863	7,011	56,793	6,943	7,631	7,191	14,730	21,593	29,765	171,715	124,239	
Rent	-	-	-	-	-	-	143,603	-	-	143,603	139,763	
Utilities	85,207	3,209	713	246	273	415	30,417	2,135	787	125,325	152,706	
Repairs and maintenance	77,433	4,089	1,148	518	402	485	22,986	3,142	2,283	114,311	137,983	
Printing and mailing	19,066	1,953	386	292	3,288	301	795	2,244	61,586	91,129	72,460	
Special events costs	-	-	-	-	-	-	-	-	77,567	77,567	83,040	
Insurance	59,575	2,335	532	180	200	286	-	1,504	411	66,427	111,053	
Supplies	46,935	8,726	533	3	365	117	8,882	26	508	66,119	71,312	
Uncollectible pledges	-	-	-	-	-	-	-	-	65,000	65,000	-	
Animal wellness vet services	484	63,454	-	-	-	-	-	-	-	63,938	48,905	
Office expense	3,581	7,372	-	44	86	1,452	19,841	5,023	17,141	58,518	70,881	
Retail merchandise	-	-	-	-	-	-	39,096	-	-	39,096	46,846	
Animal assistance	29,076	943	-	2,163	-	-	-	-	-	32,182	24,750	
Spray/neuter program	29,692	343	-	-	-	-	-	-	-	30,035	32,424	
Telephone	16,890	863	-	-	-	-	-	-	-	17,753	26,200	
Animal maintenance	23,290	-	484	737	363	383	5,779	634	486	27,231	26,765	
Miscellaneous	4,160	352	48	9	784	1,642	581	101	-	23,981	20,798	
Technology	1,855	672	58	37	66	623	4,052	3,797	7,086	22,104	20,798	
Vehicle expense	2,804	-	-	3,133	-	-	79	827	7,164	11,446	14,414	
Advertising	-	-	-	-	-	-	4,040	-	-	9,977	21,263	
Cremation	5,145	-	-	-	-	-	325	150	4,325	6,369	30,210	
Training and education	638	-	70	-	756	-	-	696	547	2,707	6,467	
Total expenses	\$ 1,387,049	\$ 355,885	\$ 139,453	\$ 113,931	\$ 99,005	\$ 94,281	\$ 552,725	\$ 161,476	\$ 537,758	\$ 3,602,355	\$ 3,500,322	

See notes to consolidated financial statements.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

**Consolidated Statement of Cash Flows
Year Ended September 30, 2016
(With Summarized Comparative Information for September 30, 2015)**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 1,306,118	\$ 444,187
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	302,274	291,300
Net realized and unrealized (gains) losses on investments	(273,183)	130,072
Loss on disposal of property and equipment	-	43
Provision for uncollectible pledges	65,000	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Receivables	(776,871)	(87,601)
Interest in irrevocable residuary trust	36,272	26,838
Inventory	22,691	26,779
Prepaid expenses and other assets	(46,900)	14,083
Increase (decrease) in liabilities:		
Accounts payable	(64,952)	(15,880)
Accrued expenses	57,321	4,523
Net cash provided by operating activities	627,770	834,344
Cash flows from investing activities:		
Purchases of property and equipment	(191,581)	(87,068)
Increase in certificates of deposit	(147)	(205)
Purchases of investments	(331,201)	(1,433,839)
Proceeds from sales of investments	-	723,385
Net change in cash restricted for investment in property and equipment	(26,845)	(255,695)
Net cash used in investing activities	(549,774)	(1,053,422)
Net increase (decrease) in cash and cash equivalents	77,996	(219,078)
Cash and cash equivalents:		
Beginning	993,209	1,212,287
Ending	<u>\$ 1,071,205</u>	<u>\$ 993,209</u>
Supplemental schedule of noncash investing activities:		
Proceeds from sale of investment included in receivables	<u>\$ 1,137,814</u>	<u>\$ -</u>

See notes to consolidated financial statements.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Humane Society of Vero Beach and Indian River County, Inc. (the Society) is a not-for-profit corporation primarily concerned with the prevention of cruelty to all living creatures. The Society makes a better community for its people and animals by providing humane care and shelter for homeless animals; placing adoptable pets in permanent, loving homes; promoting spaying and neutering of companion animals and responsible pet ownership by showing respect for all life through humane education. The Society also investigates cruelty to animals.

The Society is supported primarily through donor contributions, fundraising events, two thrift shops, service fees and a local government contract.

The Humane Society of Vero Beach and Indian River County, FL Foundation, Inc. (the Foundation) is a separate not-for-profit corporation whose primary purpose is to manage funds transferred by the Society's Board or restricted by donors for long-term investment for the benefit of the Society. Income of the Foundation, unless otherwise restricted, is distributable to the Society.

Principles of consolidation: The consolidated financial statements include the accounts of the Humane Society of Vero Beach and Indian River County, Inc. and its affiliate, the Humane Society of Vero Beach and Indian River County, FL Foundation, Inc. (collectively, the Organization). All significant intercompany transactions have been eliminated in consolidation.

A summary of the Organization's significant accounting policies follows:

Comparative financial statements: The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Basis of presentation: A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization and that only the income earned thereon will be available for operations.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Use of estimates: The presentation 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.

Income taxes: The Society and Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

The Society and Foundation follow accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions, which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. The Society and Foundation files income tax returns in the U.S. federal jurisdiction.

Functional expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Cash and cash equivalents and concentration of credit risk: The Organization considers all liquid investments that are available for current use, with an initial maturity of three months or less, to be cash equivalents. Cash and cash equivalents for purposes of the consolidated statement of cash flows excludes cash restricted for investment in property and equipment.

The Organization maintains cash and deposit accounts in financial institutions which are insured either by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). The FDIC deposit insurance limit is currently \$250,000 per depositor, per insured bank. The SIPC insurance limit is \$100,000 for cash deposit. At September 30, 2016, the Organization does maintain certain deposits in excess of insurance limits, however, the Organization has not experienced any losses on such amounts and does not believe it is exposed to any significant risk with respect to such balances.

Receivables: Receivables are stated at net realizable value. The Organization uses the allowance method to determine uncollectible receivables. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, no allowance for uncollectible receivables was considered necessary at September 30, 2016, except for pledges as discussed below.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in public support revenue in the accompanying consolidated statement of activities. Conditional promises to give are not included as public support until the conditions are substantially met. The allowance for uncollectible pledges of \$65,000 as of September 30, 2016, reflects management's best estimate of future uncollectible pledges.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Revenue recognition: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions at fair value. All donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction unless they are expended in the year of receipt. Such contributions are recorded as unrestricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Revenue from the Indian River County contract is a unit of service contract. Revenue from this unit of service contract is recognized when services are provided. Adoption fees are recognized when services are provided. Thrift and gift shop sales are recognized as revenue at point of sale.

Contributed materials and services: Contributed materials and services are reflected in the consolidated financial statements at the fair value of the property contributed or services received. The Organization has adopted a policy of not implying a time restriction on gifts of long-lived assets and, therefore, records donated assets as increases in unrestricted net assets. The contribution of services are recognized if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization receives donated services from a variety of unpaid volunteers assisting the Organization with the operation of the shelter, adoption program and thrift shops. No associated amounts have been recognized in the accompanying consolidated financial statements because the criteria for recognition of such volunteer efforts has not been satisfied.

Investments and investment income: Investments are reported at fair value. Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds received and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividends income is recognized when earned. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Fair value measurements: Under the Financial Accounting Standards Board's (FASB) authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization often uses certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Organization uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

See Note 11 for further identification of fair value methods and assumptions used by the Organization in estimating fair value measurements.

Inventory: Inventory consists of retail gift shop items purchased and held for resale. Retail inventory is valued at the lower of cost or market. The Organization additionally maintains thrift store inventories which are comprised of donated items that are used or are overstock items. The value of such donations is not readily determinable until the merchandise is sold and, therefore, no inventory value is carried for these items. Sales are recorded at the point of sale.

Property and equipment: Property and equipment are recorded at cost when purchased, or at fair value at the date of gift, if contributed. Depreciation of property and equipment is computed on the straight-line method of accounting over the estimated useful lives of the depreciable assets. The lives of the various assets range from 3 to 39 years. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gains or losses from disposition are credited or charged to income. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of leasehold improvements is capitalized and amortized using the straight-line method of accounting over the term of the lease, or the useful life of the improvement, whichever is shorter.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of the Organization's long-lived assets or asset groups has been recognized during the year ended September 30, 2016.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers – Deferral of the Effective Date*, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods of nonpublic entities beginning after December 15, 2018. The Organization has not yet selected a transition method and has not evaluated the effect that the standard will have on the consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Organization has not evaluated the effect that the standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU No. 2016-14 is effective for annual periods beginning after December 15, 2017. The Organization has not evaluated the effect that the standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU No. 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. ASU No. 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Organization has not evaluated the effect that the standard will have on the consolidated financial statements.

The FASB has issued, certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU's described above. The Organization has considered the new pronouncements and does not believe that any other new or modified principles will have a material impact on the Organization's reported financial position or operations in the near term.

Subsequent events: Management has evaluated subsequent events through October 16, 2017, which is the date the consolidated financial statements were available to be issued.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 2. Receivables

Receivables consisted of the following at September 30, 2016:

Due from New Providence Balanced Portfolio, L.P.*	\$ 1,137,814
Bequest receivable	1,000,000
Pledges receivable	93,885
Accounts receivable	50,870
	<u>2,282,569</u>
Less allowance for uncollectible pledges	(65,000)
Less unamortized discount	(313)
	<u>\$ 2,217,256</u>

* On September 30, 2016, the Organization liquidated its investment in the New Providence Balanced Portfolio, L.P. This amount represents the proceeds from the sale of this investment; which \$1,018,890 was received by the Organization on October 14, 2016 and \$118,924 was received by the Organization on November 8, 2016.

Pledges that are included above are unconditional promises to give at September 30, 2016, and are summarized as follows:

Amounts due:	
Within one year	\$ 88,885
One to five years	5,000
	<u>93,885</u>
Less allowance for uncollectible pledges	(65,000)
Less unamortized discount	(313)
	<u>\$ 28,572</u>

The discount rate used on long-term pledges receivable is 5.5%.

Note 3. Interest in Irrevocable Residuary Trust

The Organization has an interest in the assets held in an irrevocable residuary trust. The trust is governed by an agreement dated November 15, 2007. The terms of the trust are such that, annual distributions are to be received over a ten year period, which started in 2009. Any residual trust assets remaining after the ten year payout period will be distributed to the Organization. The Organization records its interest at a 3.25% discounted value of the underlying trust assets at fair value and amounts to \$48,899 at September 30, 2016.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 4. Certificates of Deposit

The Organization has certificates of deposit with local financial institutions. The terms of the certificates of deposit are twelve months and bear interest below 1%.

Note 5. Investments

Investments are stated at fair value and are summarized as follows as of September 30, 2016:

	Cost	Fair Value
Equity securities	\$ 1,148,742	\$ 1,323,271
Mutual funds	2,355,140	2,510,180
	<u>\$ 3,503,882</u>	<u>\$ 3,833,451</u>

The Organization's investments in equity securities and mutual funds are valued based on level 1 observable inputs as reported by SEC registered brokerage firms.

The following schedule summarizes the total net investment income for the year ended September 30, 2016:

Interest and dividends	\$ 95,094
Net realized and unrealized gains on investments	273,183
Investment expense	(25,018)
	<u>\$ 343,259</u>

Note 6. Property and Equipment

Property and equipment consisted of the following at September 30, 2016:

Land	\$ 780,700
Land improvements	499,143
Buildings and improvements	8,196,298
Furniture and equipment	652,526
Leasehold improvements	62,188
Software	22,185
Construction in progress	151,671
	<u>10,364,711</u>
Less accumulated depreciation	(3,659,447)
	<u>\$ 6,705,264</u>

During the year ended September 30, 2016, depreciation expense was \$302,274.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 7. Commitments

The Organization maintains an operating lease for its Vero Beach Thrift Shop store. A new amendment to the original lease began January 1, 2014, which shifts the location within the shopping center and expanded the occupied space from 11,000 square feet to 15,000 square feet. The noncancellable term was extended through December 2018. The lease remains in effect with a one year cancellation notice through December 2023.

Three options to renew for five year terms are additionally available. The current lease rate is subject to annual increases for the Consumer Price Index (CPI). Lease expense under the operating lease was \$143,603 for the year ended September 30, 2016.

In April 2015, the Society entered into a 63 month operating lease for 4 copiers, with a monthly payment of \$1,699. Lease expense under the operating lease was \$20,388 for the year ended September 30, 2016.

The estimated future minimum lease payments for years ending September 30, are as follows:

	<u>Amount</u>
Years ending September 30:	
2017	\$ 154,344
2018	154,344
2019	53,877
2020	15,291
	<u>\$ 377,856</u>

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2016, are available for the following:

Purpose restriction:	
Animal assistance	\$ 129,492
Property and equipment additions	361,515
	<u>491,007</u>
Time restriction:	
Pledges receivable, net	28,572
Interest in irrevocable residuary trust, net	48,899
Foundation investment fund	1,137,814
	<u>1,215,285</u>
	<u>\$ 1,706,292</u>

**Humane Society of Vero Beach and
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Notes to Consolidated Financial Statements

Note 8. Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restrictions specified by donors and by the passing of time restrictions, as follows:

Use restriction:

Program-specific expenses incurred	\$ 46,692
Property and equipment additions	<u>150,381</u>
	197,073
Passage of time (time restriction)	<u>139,089</u>
	<u>\$ 336,162</u>

Note 9. Employee Benefit Plan

The Organization has a 403(b) defined contribution salary deferral plan covering all employees who have met certain length of service requirements. Employees may make voluntary contributions up to federal limits. Under the plan, the Organization makes matching contributions at a rate established or approved by the Board of Directors each year. Matching contributions for the year ended September 30, 2016 amount to \$17,062.

Note 10. Thrift Shops

Thrift shop activity includes the operations of two locations in Indian River County. For the year ended September 30, 2016, the operations are summarized as follows:

	<u>Vero Beach</u>	<u>Sebastian</u>
Revenues	\$ 793,918	\$ 322,301
Expenses	<u>372,471</u>	<u>136,399</u>
	<u>\$ 421,447</u>	<u>\$ 185,902</u>

Note 11. Fair Value Measurement

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

- Investments: The fair values of investments in equity securities and mutual funds are based on quoted market prices for these or similar investments.
- Interest in irrevocable residuary trust: The fair value is based on the Organization's interest in the current market value of the trust's underlying assets, discounted at 3.25% over the remaining term of the trust.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 11. Fair Value Measurement (Continued)

The following table summarizes fair value measurements by level at September 30, 2016, for financial assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
Equity securities	\$ 1,323,271	\$ -	\$ -
Mutual funds	2,510,180	-	-
Interest in irrevocable residuary trust	-	-	48,899
	<u>\$ 3,833,451</u>	<u>\$ -</u>	<u>\$ 48,899</u>

The table below sets forth a summary of the changes in the fair value of the Organization's Level 3 financial assets during the year ended September 30, 2016:

	Interest in Irrevocable Residuary Trust
Balance, beginning of year	\$ 85,171
Distribution to the Organization	(25,775)
Trustee fees	(10,497)
Balance, end of year	<u>\$ 48,899</u>

Note 12. Endowment

Interpretation of Relevant Law – The Foundation has received several donor contributions which are permanently restricted to investment in perpetuity. These were established for the purpose of providing income to support the general operations of the Society. As required by U.S. GAAP, net assets of an endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted relevant state law under the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

Return Objectives and Risk Parameters – The Foundation has adopted investment objectives and spending policies for endowment assets that attempt to provide a predictable stream of funding to support the Society's mission, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that meet or exceed certain relevant market benchmark indexes while assuming a moderated level of investment risk. The Foundation understands that actual returns in any given year may vary and that adoption of the investment objective does not assure achievement of any specific investment results.

**Humane Society of Vero Beach and
Indian River County, Inc. and Affiliate**

Notes to Consolidated Financial Statements

Note 12. Endowment (Continued)

Spending Policy – The spending policy calculates the amount of money annually distributed from the endowed funds to support the charitable mission of the Society. The current spending policy is to distribute an amount based on the total investment return from the preceding twelve months. The sources of the payout are earned income on the endowment assets (interest and dividends) and capital appreciation on the endowment assets.

Endowment funds by net asset classification as of September 30, 2016, are as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 166,000	\$ 166,000

Changes in endowment net assets for the year ended September 30, 2016, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	\$ -	\$ 166,000	\$ 166,000
Investment income	15,948	-	15,948
Appropriation of endowment assets for expenditure	(15,948)	-	(15,948)
Endowment net assets at September 30, 2016	\$ -	\$ 166,000	\$ 166,000