VANDERBURGH HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vanderburgh Humane Society, Inc.

We have audited the accompanying financial statements of Vanderburgh Humane Society, Inc. (an Indiana nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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 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 qualified audit opinion.

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Basis for Qualified Opinion

As more fully described in Note 3 to the financial statements, the Organization has excluded certain beneficial interests in assets held by others in the financial statements due to its inability to obtain fair value information. In our opinion, accounting principles generally accepted in the United States of America require that such beneficial interests in assets held by others be recorded at fair value at the date of notification of existence. Quantification of the effects on the financial statements of the preceding practice is not practicable.

Qualified Opinion

In our opinion, except for the effects of not including certain beneficial interests in assets held by others in the financial statements, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Vanderburgh Humane Society, Inc. as of December 31, 2016 and 2015, 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.

Riney Hancock CPAs PSC

Evansville, Indiana
August 11, 2017

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash	$ 256,528	$ 43,499
Contributions receivable	24,628	205,635
Other current assets	26,617	27,538
Total current assets	307,773	276,672
Property and equipment, net	2,574,774	2,685,622
Other assets:		
Beneficial interests in assets held by others	503,771	482,698
Cash surrender value of life insurance	62,300	59,714
Other	6,956	-
Total other assets	573,027	542,412
Total assets	$ 3,455,574	$ 3,504,706
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	$ 37,560	$ 35,527
Accounts payable	20,671	18,012
Accrued expenses	23,741	17,313
Total current liabilities	81,972	70,852
Long-term debt	619,948	656,579
Other liabilities	10,067	3,514
Total liabilities	711,987	730,945
Net assets:		
Unrestricted	2,236,325	2,286,063
Temporarily restricted	462,745	443,888
Permanently restricted	44,517	43,810
Total net assets	2,743,587	2,773,761
Total liabilities and net assets	$ 3,455,574	$ 3,504,706

See Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted net assets:		
Revenues:		
Adoption and surrender fees	$ 139,661	$ 121,189
Spay/neuter clinic fees	468,576	463,497
Contributions	660,375	721,268
Fundraising and special events	208,484	201,261
Investment income	14,424	13,402
Other	22,965	22,761
Total revenues	1,514,485	1,543,378
Net assets released from restrictions	13,888	23,728
Total revenues and support	1,528,373	1,567,106
Expenses:		
Program service	1,298,359	1,204,671
General and administrative	97,707	96,835
Fundraising	182,045	192,835
Total expenses	1,578,111	1,494,341
Increase (decrease) in unrestricted net assets	(49,738)	72,765
Temporarily restricted net assets:		
Contributions	3,491	5,000
Change in value of beneficial interest in assets held by others	29,254	(28,226)
Net assets released from restrictions	(13,888)	(23,728)
Increase (decrease) in temporarily restricted net assets	18,857	(46,954)
Permanently restricted net assets:		
Change in value of beneficial interest in assets held by others	707	(4,178)
Increase (decrease) in permanently restricted net assets	707	(4,178)
Increase (decrease) in net assets	(30,174)	21,633
Net assets, beginning of year	2,773,761	2,752,128
Net assets, end of year	$ 2,743,587	$ 2,773,761

See Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (30,174)	$ 21,633
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	151,404	139,225
Change in beneficial interests in assets held by others	(29,961)	32,404
Increase in cash surrender value of life insurance	(2,586)	(2,774)
Decrease (increase) in assets:		
Contributions receivable	181,007	(146,467)
Prepaid expenses	921	5,133
Other assets	(6,956)	-
Increase (decrease) in liabilities:		
Accounts payable	2,659	(5,760)
Accrued expenses	6,428	1,956
Other liabilities	6,553	(376)
Net cash provided by operating activites	279,295	44,974
Cash flows from investing activities:		
Principal payments received from remainder trust	8,888	11,740
Purchases of property and equipment	(39,735)	(10,532)
Net cash provided by (used in) investing activities	(30,847)	1,208
Cash flows from financing activities:		
Repayments on long-term debt	(35,419)	(33,608)
Net cash used in financing activities	(35,419)	(33,608)
Net increase in cash	213,029	12,574
Cash, beginning of year	43,499	30,925
Cash, end of year	$ 256,528	$ 43,499
Supplemental disclosure of cash flow information:		
Interest paid	$ 40,855	$ 40,919

See Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2016 and 2015

	2016				2015			
	Program	General & Admin.	Fund-raising	Total	Program	General & Admin.	Fund-raising	Total
Advertising	$ 2,210	$ 737	$ 1,321	$ 4,268	$ 1,612	$ 525	$ 2,002	$ 4,139
Automobile	2,127	-	-	2,127	2,712	-	-	2,712
Bank charges	4,097	530	4,097	8,724	3,680	516	3,680	7,876
Depreciation	143,054	3,012	4,517	150,583	131,341	2,765	4,148	138,254
Direct mail	-	-	41,058	41,058	-	-	42,951	42,951
Dues & subscriptions	871	-	-	871	1,511	-	-	1,511
Employee benefits	50,091	4,125	4,715	58,931	44,591	3,917	5,151	53,659
Food & supplies	68,687	-	-	68,687	60,501	-	-	60,501
Insurance	31,473	828	828	33,129	30,426	801	800	32,027
Interest	39,592	1,042	1,042	41,676	39,796	1,047	1,047	41,890
Maintenance	55,154	1,451	1,452	58,057	45,104	1,187	1,187	47,478
Medical	147,435	-	-	147,435	136,800	-	-	136,800
Miscellaneous	4,013	3,360	6,208	13,581	2,856	3,665	6,644	13,165
Payroll taxes	46,557	3,834	4,382	54,773	44,117	3,875	5,097	53,089
Printing & postage	1,834	1,835	2,861	6,530	2,885	2,886	3,526	9,297
Professional fees	-	16,078	-	16,078	-	16,739	-	16,739
Rent	4,263	4,263	-	8,526	2,945	2,945	-	5,890
Salaries	608,258	50,092	57,248	715,598	565,159	49,647	65,289	680,095
Special events	-	-	43,874	43,874	-	-	47,483	47,483
Supplies	-	3,967	5,843	9,810	-	3,782	1,200	4,982
Telephone	3,935	324	370	4,629	3,333	293	385	4,011
Travel & education	-	-	-	-	-	-	-	-
Utilities	84,708	2,229	2,229	89,166	85,302	2,245	2,245	89,792
	$ 1,298,359	$ 97,707	$ 182,045	$ 1,578,111	$ 1,204,671	$ 96,835	$ 192,835	$ 1,494,341

See Notes to Financial Statements.

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

Vanderburgh Humane Society, Inc. was founded in 1957 as a not-for-profit organization dedicated to the promotion of animal welfare in Vanderburgh County, Indiana, and surrounding areas. The Organization's programs are designed to prevent cruelty to animals, provide care and find homes for homeless animals, educate the public about humane treatment of animals and seek solutions to pet overpopulation. The Organization is supported primarily through donations, program fees, and fundraising events.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of less than 90 days to be cash equivalents. There were no cash equivalents at December 31, 2016 or 2015.

Contributions Receivable

Contributions receivable consist of unconditional promises to give, including bequests, which are recognized as revenues in the period received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Management utilizes the allowance method of accounting for uncollectible accounts. The allowance is based on historical collection experience and changes in current economic conditions in the area. Management believes all contributions receivable will be collected in full, therefore no allowance has been recorded.

Beneficial Interest in Assets Held by Others

Beneficial interests in assets held by others are carried at fair market value, if determinable. Assets donated with explicit restrictions regarding their use are reported as restricted support until such restrictions expire. Absent donor stipulations, contributions of beneficial interests in assets held by others are recorded as unrestricted support. The Organization is the recipient of several bequests that the Organization has not recorded due to the inability to obtain sufficient information to properly value these bequests.

1. Organization and Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Acquisitions of property and equipment in excess of $500 and with estimated useful lives in excess of one year are capitalized.

Donated furniture and equipment are recorded as contributions at their estimated values at the date of receipt. If donors stipulate a time period during which the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the same reporting period. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

A substantial number of volunteers donate significant amounts of their time to benefit the Organization's programs. However, the value of these services is not reflected in the financial statements, as it does not meet the criteria for recognition.

Advertising

Advertising costs are expensed as incurred.

Functional Allocation of Expenses

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

1. Organization and Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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. 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. The amendments of this ASU will be effective for annual reporting periods beginning after December 15, 2018.

In August, 2016, FASB issued ASU 2016-14 —Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). This ASU will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term for all leases with a lease term of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The amendments of this ASU are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

Management is currently assessing the impact the adoption of these ASUs will have on its financial statements.

2. Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Land	$ 315,279	$ 315,279
Buildings and improvements	3,832,219	3,832,219
Equipment	163,979	147,138
Vehicles	75,985	58,985
Total cost	4,387,462	4,353,621
Less accumulated depreciation	(1,812,688)	(1,667,999)
Property and equipment, net	$ 2,574,774	$ 2,685,622

3. Beneficial Interests in Assets Held by Others

Beneficial Interest in Perpetual Trust

The Organization is a beneficiary of a perpetual trust, the assets of which are held by a local bank. The Organization has the irrevocable right to receive one fifty-eighth of the distributable net income in perpetuity, without restrictions. The fair market value of this interest was $44,517 and $43,810 at December 31, 2016 and 2015, respectively. A gain of $707 and a loss of $4,178 were included in the change in permanently restricted net assets for the years ended December 31, 2016 and 2015, respectively.

Beneficial Interest in Remainder Trust

The Organization is a beneficiary of a charitable remainder trust, the assets of which are held by a local bank. The Organization has the irrevocable right to receive one seventh of the distributable net income until termination of the trust in June 2025, at which time the Organization will receive 15% of principal, without restrictions. The fair market value of this interest was $459,254 and $438,888 at December 31, 2016 and 2015, respectively. A gain of $29,254 and a loss of $28,226 were included in the change in temporarily restricted net assets for the years ended December 31, 2016 and 2015, respectively.

This trust is a private foundation under the IRS tax code. As a result, a minimum of 5% of the trust's fair market value is required to be distributed to the charitable beneficiaries annually, and a principal distributions of $8,888 and $11,740 were made to the Organization during the years ended December 31, 2016 and 2015, respectively.

3. Beneficial Interests in Assets Held by Others, Continued

Other Estates and Charitable Remainder Trusts

The Organization is also a beneficiary of various other estates and charitable remainder trusts. Due to the difficulty the Organization has encountered in obtaining current fair value information, the Organization has not been able to reasonably value and record its interest in all of these trusts and estates, as required by U. S. generally accepted accounting principles.

4. Fair Value Measurements

Fair value of assets measured on a recurring basis was as follows:

	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2016:			
Beneficial interests in assets held by others	$ 459,254	$ 44,517	$ 503,771
Cash surrender value of life insurance	62,300	-	62,300
	$ 521,554	$ 44,517	$ 566,071
December 31, 2015:			
Beneficial interests in assets held by others	$ 438,888	$ 43,810	$ 482,698
Cash surrender value of life insurance	59,714	-	59,714
	$ 498,602	$ 43,810	$ 542,412

Fair value for the cash surrender value of life insurance is determined by the amount that could be realized under the insurance contract and is considered a Level 2 input.

Fair value of the beneficial interest in a remainder trust is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2016 and 2015, which approximates the present value of the expected future cash flows, discounted at 2.5%, and is considered a Level 2 input.

Fair value of the beneficial interest in a perpetual trust is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2016 and 2015. The Organization considers the measurement of this trust to be a Level 3 input because even though that measurement is based on unadjusted fair values of the trust assets, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

4. Fair Value Measurements, Continued

The table below presents information about fair value measurements that use significant unobservable inputs (Level 3) for the years ended December 31:

	2016	2015
Beneficial interest in perpetual trust:		
Beginning of year	$ 43,810	$ 47,988
Total gains (losses) recognized in the change in permanently restricted net assets:		
Change in value of perpetual trust	707	(4,178)
End of year	$ 44,517	$ 43,810

The Organization recognizes transfers in and out of levels at the end of the reporting period. There were no transfers between levels in 2016 and 2015.

At least annually, management and the Board of Directors review and approve the Organization's fair value measurement policies and procedures and determine if the valuation techniques used in fair value measurements are still appropriate.

5. Long-Term Debt

Long-term debt consisted of the following at December 31:

	2016	2015
Note payable to bank, 5.5% interest, $6,116 monthly including interest through June 2019, at which time the remaining balance is due if not renewed, secured by all real estate, net of unamortized issuance costs of $2,165 and $2,987	$ 657,508	$ 692,106
Less current maturities	(37,560)	(35,527)
	$ 619,948	$ 656,579

The Organization reports amortization of debt issuance costs as interest expense.

5. Long-Term Debt, Continued

Scheduled long-term debt maturities are as follows for the years ended December 31:

2017	$ 37,560
2018	39,709
2019	582,404
	$ 659,673

6. Leases

The Organization leases equipment under cancelable and noncancelable operating lease agreements, which expire at various dates through December 2020. Total rent expense was $8,526 and $5,890 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

2017	$ 5,238
2018	5,238
2019	1,108
2020	1,108
	$ 12,692

7. Restricted Net Assets

The Board has restricted $4,065 and $5,913 at December 31, 2016 and 2015, respectively, to be used for animal spays and neuters or animal medical emergencies.

Temporarily restricted net assets consisted of the following at December 31:

	2016	2015
Specific program use	$ 3,491	5,000
Beneficial interest in remainder trust	459,254	438,888
	$ 462,745	$ 443,888

7. Restricted Net Assets, Continued

Net assets in the amount of $5,000 and $23,728 were released from restrictions upon satisfaction of program use restrictions during the years ended December 31, 2016 and 2015, respectively. Net assets in the amount of $8,888 and $11,740 were released from restrictions due to IRS required private foundation distribution rules during the year ended December 31, 2016 and 2015, respectively.

Permanently restricted net assets consisted of a beneficial interest in a perpetual trust in the amount of $44,517 and $43,810 at December 31, 2016 and 2015, respectively.

8. Income Taxes

The Organization is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

9. Related Party Transactions

The Organization paid $4,978 for professional services in 2016 to a company owned by a board member. Board members disclose any relationships and abstain from any votes related to services that they may provide.

10. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of cash on deposit at financial institutions and contributions receivable. Cash in banks may, at times, exceed federal deposit insurance limits. The Organization attempts to minimize this risk by using high-credit quality financial institutions. Contributions receivable are periodically reviewed by management for their collectibility and an allowance for doubtful accounts is established, as deemed necessary.

In 2016, the Organization received a contribution of a bequest that represented 11% of total unrestricted revenues.

11. Subsequent Events

The Organization has evaluated subsequent events through August 11, 2017, the date the financial statements were available to be issued.