

MONADNOCK HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

AND

INDEPENDENT AUDITOR'S REPORT

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**LCR****LYNN C. RUST, CPA PC**
A CERTIFIED PUBLIC ACCOUNTING FIRM

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Monadnock Humane Society, Inc.

We have audited the accompanying financial statements of Monadnock Humane Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 judgement, 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 Monadnock Humane Society, Inc. as of June 30, 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.

A handwritten signature in black ink, appearing to be 'CPA', is written over a horizontal line.

Swanzey, NH

October 25, 2018

MONADNOCK HUMANE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 590,933	\$ 252,489
Accounts receivable, net	5,999	14,313
Securities - available for sale	1,388,971	1,172,060
Prepaid expenses	21,843	26,224
Inventory	4,653	2,667
Construction in progress	<u>1,050</u>	<u>-</u>
Total current assets	2,013,449	1,467,753
Property and equipment, at cost, net of accumulated depreciation	<u>1,220,193</u>	<u>1,295,692</u>
TOTAL ASSETS	<u>\$ 3,233,642</u>	<u>\$ 2,763,445</u>
LIABILITIES		
Accounts payable	\$ 65,477	\$ 20,718
Accrued payroll and related liabilities	27,375	28,568
Deferred revenue	<u>10,038</u>	<u>2,650</u>
TOTAL LIABILITIES	<u>102,890</u>	<u>51,936</u>
NET ASSETS		
Unrestricted	2,954,550	2,546,129
Temporarily restricted	50,958	41,543
Permanently restricted	<u>125,244</u>	<u>123,837</u>
TOTAL NET ASSETS	<u>3,130,752</u>	<u>2,711,509</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,233,642</u>	<u>\$ 2,763,445</u>

See accompanying notes and independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>			<u>2017</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				Total
Program service revenue	\$ 386,339	\$ -	\$ -	\$ 386,339
Boarding and daycare revenue	222,007	-	-	181,743
Retail store revenue	19,351	-	-	22,757
Contributions	886,947	9,415	-	534,771
Fundraising	218,442	-	-	162,422
Rental income	9,255	-	-	9,484
Noncash contributions	8,575	-	-	11,923
Miscellaneous revenue	1,348	-	-	5,624
Interest and dividends	22,374	-	-	20,426
Realized gains on investments	33,909	-	887	21,260
Unrealized gains on investments	19,880	-	520	71,601
TOTAL SUPPORT AND REVENUE	<u>1,828,427</u>	<u>9,415</u>	<u>1,407</u>	<u>1,839,249</u>
EXPENSES				
Program services	1,061,903	-	-	959,494
Management and general	120,239	-	-	106,898
Development/fundraising	237,864	-	-	190,970
Total expenses	<u>1,420,006</u>	<u>-</u>	<u>-</u>	<u>1,257,362</u>
CHANGE IN NET ASSETS	408,421	9,415	1,407	112,216
NET ASSETS, beginning of year	<u>2,546,129</u>	<u>41,543</u>	<u>123,837</u>	<u>2,599,293</u>
NET ASSETS, end of year	<u>\$ 2,954,550</u>	<u>\$ 50,958</u>	<u>\$ 125,244</u>	<u>\$ 3,130,752</u>

See accompanying notes and independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Management and General	Development/ Fundraising	Total
	Services/ Programs	Boarding/ Daycare	Training Center	Programs Total			
Salaries and wages	\$ 333,526	\$ 123,034	\$ 74,117	\$ 530,677	\$ 88,940	\$ 121,552	\$ 741,169
Employee benefits	19,156	7,066	4,257	30,479	5,108	6,981	42,568
Payroll taxes	26,428	9,749	5,873	42,050	7,047	9,632	58,729
Depreciation	79,274	11,194	26,330	116,798	2,637	2,637	122,072
Program supplies and expenses	54,006	13,848	1,385	69,239	-	-	69,239
Utilities	43,520	6,145	14,455	64,120	1,448	1,448	67,016
Cost of retail goods sold	9,153	-	-	9,153	-	-	9,153
Repairs and maintenance	25,280	3,570	8,397	37,247	841	841	38,929
Fundraising	-	-	-	-	-	50,823	50,823
Insurance	11,022	1,556	3,661	16,239	367	367	16,973
Professional fees	52,409	10,482	5,246	68,137	10,482	15,727	94,346
Bank charges	-	-	-	-	-	14,240	14,240
Advertising	3,931	1,450	874	6,255	1,048	1,433	8,736
Telephone	4,099	683	342	5,124	683	1,025	6,832
Office supplies and expense	423	423	423	1,269	423	2,539	4,231
Vehicle expense	6,026	-	-	6,026	-	-	6,026
Veterinary care	45,036	-	-	45,036	-	-	45,036
Fees and licenses	275	-	-	275	-	-	275
Leased equipment	837	837	837	2,511	837	5,024	8,372
Postage	339	339	339	1,017	339	2,034	3,390
Property tax	205	29	68	302	7	7	316
Professional development	9,949	-	-	9,949	-	-	9,949
Membership expense	-	-	-	-	-	1,554	1,554
Miscellaneous	-	-	-	-	32	-	32
	<u>\$ 724,894</u>	<u>\$ 190,405</u>	<u>\$ 146,604</u>	<u>\$ 1,061,903</u>	<u>\$ 120,239</u>	<u>\$ 237,864</u>	<u>\$ 1,420,006</u>

See accompanying notes and independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Management and General	Development/ Fundraising	Total
	Services/ Programs	Boarding/ Daycare	Training Center	Programs Total			
Salaries and wages	\$ 297,694	\$ 109,816	\$ 66,154	\$ 473,664	\$ 79,385	\$ 108,493	\$ 661,542
Employee benefits	17,929	6,614	3,984	28,527	4,782	6,534	39,843
Payroll taxes	25,355	9,353	5,634	40,342	6,762	9,240	56,344
Depreciation	76,012	10,733	25,248	111,993	2,529	2,528	117,050
Program supplies and expenses	48,186	12,355	1,236	61,777	-	-	61,777
Utilities	42,481	5,999	14,110	62,590	1,413	1,413	65,416
Cost of retail goods sold	15,548	-	-	15,548	-	-	15,548
Repairs and maintenance	27,153	3,834	9,019	40,006	903	903	41,812
Fundraising	-	-	-	-	-	29,130	29,130
Insurance	9,759	1,378	3,241	14,378	324	325	15,027
Professional fees	29,566	5,912	2,959	38,437	5,907	8,871	53,215
Bank charges	-	-	-	-	-	10,303	10,303
Interest expense	-	-	-	-	-	126	126
Advertising	3,410	1,258	758	5,426	909	1,243	7,578
Telephone	4,966	828	414	6,208	827	1,242	8,277
Office supplies and expense	441	441	441	1,323	441	2,645	4,409
Vehicle expense	4,714	-	-	4,714	-	-	4,714
Veterinary care	38,418	-	-	38,418	-	-	38,418
Fees and licenses	1,081	-	-	1,081	-	-	1,081
Leased equipment	743	743	743	2,229	743	4,457	7,429
Postage	329	329	329	987	330	1,976	3,293
Property tax	219	31	73	323	7	7	337
Professional development	11,523	-	-	11,523	-	-	11,523
Membership expense	-	-	-	-	-	1,534	1,534
Miscellaneous	-	-	-	-	1,636	-	1,636
	<u>\$ 655,527</u>	<u>\$ 169,624</u>	<u>\$ 134,343</u>	<u>\$ 959,494</u>	<u>\$ 106,898</u>	<u>\$ 190,970</u>	<u>\$ 1,257,362</u>

See accompanying notes and independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 419,243	\$ 112,216
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	122,072	117,050
Realized gains on investments	(34,796)	(21,260)
Unrealized gains on investments	(20,400)	(71,601)
Changes in operating assets and liabilities:		
Accounts receivable, net	8,314	(14,228)
Prepaid expenses	4,381	(24,644)
Inventory	(1,986)	3,758
Construction in progress	(1,050)	-
Accounts payable	44,759	(26,487)
Accrued payroll and related liabilities	(1,193)	(45,905)
Accrued expenses	-	(220)
Deferred revenue	7,388	2,650
	<u>546,732</u>	<u>31,329</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from investments	75,000	300,000
Purchases of investments	(236,715)	(319,905)
Purchase of property and equipment	(46,573)	(44,206)
Net cash used for investing activities	<u>(208,288)</u>	<u>(64,111)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt (principal)	-	(4,772)
Net cash used for financing activities	<u>-</u>	<u>(4,772)</u>
NET INCREASE (DECREASE) IN CASH	338,444	(37,554)
CASH AND CASH EQUIVALENTS, beginning of year	<u>252,489</u>	<u>290,043</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 590,933</u>	<u>\$ 252,489</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid	<u>\$ -</u>	<u>\$ 126</u>

See accompanying notes and independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Monadnock Humane Society, Inc. (the Organization) is a New Hampshire not-for-profit corporation. Its primary purpose is to strengthen the animal human bond by promoting and providing for the well being of animals through humane education, providing shelter, and facilitating adoption for lost, abused or abandoned animals. The Organization operates an animal shelter, retail pet supply store, training programs and boarding and daycare services.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Under this basis, revenues, other than contributions, and expenses are reported when incurred, without regard to the date of receipt or payment of cash. Contributions are reported in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*.

Basis of Presentation

The accompanying financial statements have been prepared under the guidance of the Financial Accounting Standards Board *Accounting Standards Codification ("FASB ASC")*.

FASB ASC 958-605 requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of contributed services that meet certain criteria at fair values. Additionally, under the guidance of FASB ASC 958-905, unconditional promises to give that are expected to be paid in less than one year are measured at net realizable value (settlement value). Conditional promises to give, which depend on the occurrence of a specific future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met.

FASB ASC 958-205 establishes standards for general purpose external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, and a statement of cash flows.

The three classes of net assets, based on the absence or existence of donor-imposed restrictions, are defined as follows:

Unrestricted net assets - not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired.

Temporarily restricted net assets - subject to donor-imposed stipulations that may be fulfilled by actions of the Organization or become unrestricted by the passage of time.

Permanently restricted net assets - subject to donor-imposed stipulations that must be retained and invested permanently by the Organization.

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The costs of providing direct services, management and fundraising activities have been summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Accordingly, certain costs have been allocated among direct service and management.

Income Tax Status

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no income tax liability has been recorded in the financial statements. All information returns of the Organization are open to examination by taxing authorities, subject to the statute of limitations rules. Management does not believe the results of examinations, if any, will significantly affect the amounts previously reported.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, unless the investments are held for meeting restrictions for purchase of property and equipment, payment of long-term debt, or endowment. The Organization's cash and cash equivalents were \$590,933 and \$252,489 for the years ended June 30, 2018 and 2017, respectively.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Interest is not accrued on past due accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debts and a credit to accounts receivable. At June 30, 2018 and 2017, management did not feel that an allowance for doubtful accounts was required.

Inventory

Inventory consists of retail pet supplies and is stated at the lower of cost or market, using the first-in, first-out costing flow.

Property and Equipment

Expenditures for acquisitions, renewals and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. It is the Organization's policy to capitalize property and equipment over \$1,000 with an estimated useful life of at least one year. Lesser amounts are expensed. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resulting gain or loss is recognized. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost. The Organization charges to expenses annual amounts of depreciation which allocate the cost of fixed assets over their estimated useful lives using the straight-line method.

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Organization accounts for investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Deferred Revenue

Deferred revenue consists of payments received in the fiscal year for programs to be held in the following year.

Contributions

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. 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 statement of activities as net assets released from restrictions.

Donated Services

Contributed assets for use by the Organization are recorded at their estimated fair value at the date of the contribution. Contributed services are reflected in the financial statements if and when they create or enhance non-financial assets or require specialized skills, which if not provided by donation, would have to be purchased by the Organization. Contributed services and goods were \$8,575 and \$11,923 for the years ended June 30, 2018 and 2017, respectively.

Development/Fundraising Expenses

Total fundraising expenses were \$237,864 and \$190,970 for the years ended June 30, 2018 and 2017, respectively.

Advertising Expenses

The Organization's policy is to expense advertising in the period incurred. Total advertising expense was \$8,736 and \$7,578 for the years ended June 30, 2018 and 2017, respectively.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Bank demand deposits	\$ 512,907	\$ 106,034
Money market funds	<u>78,026</u>	<u>146,455</u>
Total cash and cash equivalents	<u>\$ 590,933</u>	<u>\$ 252,489</u>

The money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other U.S. government agency.

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

3. INVESTMENTS

Investments consist of the following at June 30:

	2018	2017
Certificate of deposit	\$ 124,857	\$ -
Mutual funds	1,264,114	1,172,060
	\$ 1,388,971	\$ 1,172,060

Investment return is summarized as follows:

Interest and dividends	\$ 22,374	\$ 20,426
Realized gains	34,796	21,260
Unrealized gains	20,400	71,601
Net investment return	\$ 77,570	\$ 113,287

4. FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements*, provides guidance for using fair value to measure assets and liabilities. FASB ASC 820 applies whenever other standards require or permit assets or liabilities to be measured at their fair market value. The standard does not expand the use of fair value in any new circumstances. Under FASB ASC 820, fair value refers to the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. FASB ASC 820 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

Under FASB ASC 820, the Organization categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in Level 1 are highly liquid instruments with quoted prices;

Level 2 - Inputs from active markets, other than quoted prices for identical instruments, are used to model fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued; and

Level 3 - Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

The following table sets forth, by level, the fair value hierarchy of the Organization's financial assets as of June 30:

	2018		2017	
	Fair Value	Level 1 inputs	Fair Value	Level 1 inputs
Investments	\$ 1,388,971	\$ 1,388,971	\$ 1,172,060	\$ 1,172,060
Total	\$ 1,388,971	\$ 1,388,971	\$ 1,172,060	\$ 1,172,060

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

5. ENDOWMENT FUND

Donor-Designated Endowments

The Organization's endowment consists of various individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Actual returns in any given year may vary from this amount.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature are required to be restored from either temporarily restricted or unrestricted net assets, depending on donor stipulations. These deficiencies result from unfavorable market fluctuations that occur causing the original donor restricted contributions, plus accumulated investment earnings that, in accordance with donor stipulations, are required to be added to the original contribution, to fall below the accumulated balances. Donor stipulations for permanently restricted funds require the reclassification of realized and unrealized earnings to temporarily restricted net assets. Based on donor stipulations, there are no permanently restricted funds in deficit.

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

5. ENDOWMENT FUND (continued)

Spending Policy

The Organization has a policy of appropriating for distribution each year 5% or less, at the board's discretion, of its endowment fund's average fair value of the prior 12 quarters though the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The Organization has six different funds established for a variety of purposes. These funds are temporarily restricted and permanently restricted, depending on the explicit direction of the donor. The funds include donor-restricted funds, specified in Notes 7 and 8 below.

All investment funds are held in a brokerage account.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ 50,958	\$ 125,244	\$ 176,202
	<u>\$ 50,958</u>	<u>\$ 125,244</u>	<u>\$ 176,202</u>

Changes in endowment net assets as of June 30, 2018 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 41,543	\$ 123,837	\$ 165,380
Support and revenue	9,415	-	9,415
Investment return:			
Interest income	-	-	-
Dividend income	-	-	-
Realized gains	-	887	887
Unrealized gains	-	520	520
Assets released from restrictions	-	-	-
Expenditures	-	-	-
Endowment net assets, end of year	<u>\$ 50,958</u>	<u>\$ 125,244</u>	<u>\$ 176,202</u>

See independent auditor's report.

MONADNOCK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

6. PROPERTY AND EQUIPMENT

The cost and accumulated depreciation of property and equipment at June 30:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 95,632	\$ 95,632
Building and improvements	3,039,117	3,039,117
Furniture and equipment	560,806	514,233
	<u>3,695,555</u>	<u>3,648,982</u>
Less: accumulated depreciation	<u>(2,475,362)</u>	<u>(2,353,290)</u>
	<u>\$ 1,220,193</u>	<u>\$ 1,295,692</u>

Depreciation expense was \$122,072 and \$117,050 for the years ended June 30, 2018 and 2017, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Animal safety net	\$ 9,804	\$ 9,804
ATV	5,000	-
Bell scholarship for qualified veterinary student tuition	36,154	31,739
	<u>\$ 50,958</u>	<u>\$ 41,543</u>

The temporarily restricted funds are recorded in cash and cash equivalents and investments for sale at June 30, 2018 and 2017.

8. PERMANENTLY RESTRICTED NET ASSETS

The Organization has donor-restricted endowment funds to support its operations, which are maintained in accordance with explicit donor stipulations. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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. Interest and dividends generated by the investments can be used for operating expenses. Capital gains and losses generated by the underlying investments must be added or subtracted to the permanently restricted net assets according to New Hampshire state law. However, losses will never reduce the fund below its original fair value at the date of the gift. Management allocates gains and losses using a formula based on original cost basis of the investments permanently restricted compared to all investments. Permanently restricted net assets consisted of the following at June:

	<u>2018</u>	<u>2017</u>
Fitch Fund	\$ 29,378	\$ 29,048
Belcher Conway Fund	28,163	27,847
O. Miriam Bednar Fund	67,703	66,942
	<u>\$ 125,244</u>	<u>\$ 123,837</u>

The realized and unrealized capital gain added to the permanently restricted net assets was \$1,407 and \$2,298 in 2018 and 2017, respectively. The permanently restricted net assets are held in the account securities available for sale.

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9. INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. There were no unrecognized tax benefits identified or recorded as liabilities for 2018 and 2017. The Organization files its forms 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

10. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalent balances in two financial institutions. At June 30, 2018 and 2017, the Organization's cash and cash equivalents exceeded federally insured limits by \$262,908 and \$0, respectively.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 25, 2018, which is the date the financial statements were available to be issued. On July 10, 2018, fifty-three animals were seized by the State of New Hampshire for suspected neglect and were brought to the Organization for care and boarding. This event has caused an increase in expenses including food, medical care, and wages in the subsequent period. The event has also had a significant effect on the community awareness and as a result the Organization has experienced an increase in contributions from community members.

See independent auditor's report.