

**BLUE MOUNTAIN  
HUMANE SOCIETY**

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**Financial Statements and  
Independent Accountants'  
Review Report**

**December 31, 2018**

# Blue Mountain Humane Society

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors  
Blue Mountain Humane Society  
Walla Walla, Washington

We have reviewed the accompanying financial statements of Blue Mountain Humane Society (a nonprofit organization) (the Organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### *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.

### *Accountants' Responsibility*

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide reasonable basis for our conclusion.

### *Accountants' Conclusion*

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Northwest CPA Group PLLC

Tri-Cities, Washington  
May 13, 2019

**Blue Mountain Humane Society**  
**Statement of Financial Position**  
**December 31, 2018**

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**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents		\$ 215,365
Pledges receivable, <i>current</i>		4,500
Prepaid expenses		39,076
Other asset		1,705
Total current assets		260,646

**PROPERTY AND EQUIPMENT:**

Buildings and improvements	\$ 2,850,137		
Vehicles and equipment	165,682		
	3,015,819		
Less accumulated depreciation	798,370		
	2,217,449		
Land	145,156		
	2,362,605		

**OTHER ASSETS:**

Investments	2,228,593		
Pledges receivable, <i>noncurrent, net of discount</i>	24,624		
	2,253,217		
			\$ 4,876,468

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable		\$ 3,873
Building construction obligation		46,151
Payroll liabilities		12,713
Accrued vacation		18,344
Prepaid dog licenses		20,069
Total current liabilities		101,150

**NET ASSETS:**

Without donor restrictions			
Board designated	\$ 1,481,515		
Undesignated	2,489,063		
	3,970,578		
With donor restrictions	804,740		
Total net assets		4,775,318	
			\$ 4,876,468

**Blue Mountain Humane Society**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND SUPPORT:</b>			
Public support:			
Contributions	\$ 342,046	\$ -	\$ 342,046
Contributions, <i>in-kind</i>	91,774	-	91,774
Grants	115,740	28,960	144,700
Legacies and bequests	12,623	-	12,623
Fundraising	8,016	-	8,016
Memberships	4,170	-	4,170
Total public support	<u>574,369</u>	<u>28,960</u>	<u>603,329</u>
Special event revenue:			
Special event revenue	228,606	-	228,606
Less costs of direct benefits to donors	27,867	-	27,867
Net special event revenue	<u>200,739</u>	<u>-</u>	<u>200,739</u>
Other revenue:			
Contracts	94,961	-	94,961
Animal operations	204,256	-	204,256
Animal control fees	75,106	-	75,106
Total other revenue	<u>374,323</u>	<u>-</u>	<u>374,323</u>
Total revenues and support	1,149,431	28,960	1,178,391
Net assets released from restrictions	746,802	(746,802)	-
	<u>1,896,233</u>	<u>(717,842)</u>	<u>1,178,391</u>
<b>EXPENSES:</b>			
Program services	1,050,328	-	1,050,328
Management and general	94,714	-	94,714
Fundraising	97,509	-	97,509
Total expenses	<u>1,242,551</u>	<u>-</u>	<u>1,242,551</u>
<b>CHANGES IN NET ASSETS</b>			
<i>BEFORE OTHER INCOME (EXPENSE)</i>	<u>653,682</u>	<u>(717,842)</u>	<u>(64,160)</u>
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	85	-	85
Net investment return	(64,931)	(48,623)	(113,554)
Loss on disposal of equipment	(7,327)	-	(7,327)
Total other expense	<u>(72,173)</u>	<u>(48,623)</u>	<u>(120,796)</u>
<b>CHANGES IN NET ASSETS</b>	581,509	(766,465)	(184,956)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,389,069</u>	<u>1,571,205</u>	<u>4,960,274</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,970,578</u>	<u>\$ 804,740</u>	<u>\$ 4,775,318</u>

**Blue Mountain Humane Society**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

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	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 605,100	\$ 70,385	\$ 53,975	\$ 729,460
Animal care	128,045	-	-	128,045
Depreciation	76,995	6,518	1,034	84,547
Veterinary services and supplies	72,903	-	-	72,903
Utilities	36,644	1,929	-	38,573
Fundraising	-	-	34,250	34,250
Staff development and training	19,599	-	-	19,599
Bank charges	11,538	-	2,884	14,422
Supplies	12,971	1,441	-	14,412
Trap, neuter, and release	12,657	-	-	12,657
Repairs and maintenance	11,241	-	-	11,241
Postage	8,043	-	2,928	10,971
Insurance	8,239	2,374	-	10,613
Dues and subscriptions	4,877	2,439	2,438	9,754
Professional fees	-	8,447	-	8,447
Contract labor	7,150	-	-	7,150
Advertising	6,473	-	-	6,473
Rent	6,090	-	-	6,090
Computer maintenance	4,724	1,181	-	5,905
Animal control	5,681	-	-	5,681
Vehicle	4,096	-	-	4,096
Taxes and licenses	2,488	-	-	2,488
Offsite animal training	2,192	-	-	2,192
Miscellaneous	2,582	-	-	2,582
	<u>\$ 1,050,328</u>	<u>\$ 94,714</u>	<u>\$ 97,509</u>	<u>\$ 1,242,551</u>

**Blue Mountain Humane Society**  
**Statement of Cash Flows**  
**Year Ended December 31, 2018**

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***INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS,  
AND RESTRICTED CASH***

***CASH FLOWS FROM OPERATING ACTIVITIES:***

Cash received from operations and donors		\$ 1,131,395
Cash paid to suppliers and employees		(1,097,583)
Interest and dividends received		85
Net cash provided by operating activities		33,897

***CASH FLOWS FROM INVESTING ACTIVITIES:***

Purchase of property and equipment	\$ (1,137,940)	
Proceeds from sales of investments	965,728	
Purchase of investments	(10)	
Net cash used in investing activities		(172,222)

***NET DECREASE IN CASH, CASH EQUIVALENTS,  
AND RESTRICTED CASH***

(138,325)

***CASH, CASH EQUIVALENTS, AND RESTRICTED CASH,  
BEGINNING OF YEAR***

353,690

***CASH, CASH EQUIVALENTS, AND RESTRICTED CASH,  
END OF YEAR***

\$ 215,365

***Reconciliation of Changes in Net Assets to Net Cash  
Provided by Operating Activities:***

Changes in net assets		\$ (184,956)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	\$ 84,547	
Donation of stock	(1,058)	
Realized gain on investments	(60,743)	
Unrealized loss on investments	261,732	
Interest and dividends reinvested	(87,435)	
Loss on disposal of assets	7,327	
Decrease (increase) in assets:		
Accounts receivable	3,557	
Pledges receivable	9,341	
Prepaid expenses	(7,531)	
Increase (decrease) in liabilities:		
Accounts payable	(1,439)	
Payroll liabilities	1,925	
Accrued vacation	4,617	
Prepaid dog licenses	4,013	
Total adjustments	218,853	
Net cash provided by operating activities		\$ 33,897

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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#### ***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

##### *Organization:*

Blue Mountain Humane Society (the Organization) is a not-for-profit charitable organization that provides support services for animals in Walla Walla, Washington, and surrounding areas. The Organization's primary purpose is to prevent cruelty and promote kindness to animals in their community. This is accomplished through the operation of an animal shelter, education programs, and cruelty and neglect investigations. Funding sources include the following:

- Shelter fees
- Municipal contracts for housing animals
- Memberships and donations from caring individuals and businesses

##### *Summary of Significant Accounting Policies:*

*Basis of presentation* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under those principles, the Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Board of Directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

*Contributions* - Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor-restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

**Blue Mountain Humane Society**  
**Notes to Financial Statements**  
**Year Ended December 31, 2018**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued):**

*Summary of Significant Accounting Policies (continued):*

*Cash and cash equivalents* – The Organization considers all highly liquid investments, with an original maturity of three months or less, to be cash equivalents. The Organization maintains its cash in bank deposit accounts with financial institutions. Cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation at various times during the year; management does not consider this to be a significant credit risk.

*Accounts receivable* – Receivables are carried at their original amount, less an estimate made for doubtful accounts based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off to the allowance when deemed uncollectible. No allowance was deemed necessary at December 31, 2018. Recoveries of receivables previously written off are recorded when received.

*Pledges receivable* – Unconditional promises to give are included in the accompanying financial statements as pledges receivable and contribution revenue. Promises to give are written off to the allowance when considered uncollectible. No allowance was deemed necessary at December 31, 2018.

*Other assets* – A ring was donated to the Organization during the year ended December 31, 2011. The asset was recorded at its estimated fair value at the date of donation.

*Property and equipment* – Property and equipment are stated at cost or, if donated, at their approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 39 years. The Organization capitalizes all property and equipment acquired in excess of \$1,000.

*Investments* – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position. Investment securities consist of a highly-diversified portfolio of equity securities and mutual funds. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, and investment expenses. The investments in marketable securities are subject to market risk.

*Financial instruments* – At December 31, 2018, the carrying value of the Organization's financial instruments approximated fair value.

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

*Summary of Significant Accounting Policies (continued):*

*Revenue recognition –*

- Gifts and contributions are recorded at fair value at the date of receipt or unconditional promise to give.
- Revenue from operations and grants is recognized when the related services are provided.
- Bequests are recorded when the Organization has established the right to the bequest and the proceeds are measurable.

*In-kind contributions –* Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. Gifts of property and equipment and gifts of cash to be used to acquire property and equipment are reported as restricted support and reclassified to net assets without donor restrictions when placed into service.

*Allocation of expenses –* The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries	Estimated time spent
Depreciation	Estimated usage
Utilities	Square footage
Supplies	Estimated usage
Bank charges	Actual
Insurance	Based on specific policies
Postage	Estimated usage
Dues and subscriptions	Estimated usage
Computer maintenance	Actual usage

*Advertising –* Advertising cost is expensed as incurred. Advertising expense for the year ended December 31, 2018, was \$6,473.

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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#### **NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

##### *Summary of Significant Accounting Policies (continued):*

*Use of estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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* – Under the provisions of Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from federal income taxes, except for net income from unrelated business activities. For the year ended December 31, 2018, the Organization had no unrelated business activities subject to federal income tax. Management has evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustments to the financial statements.

*New Accounting Pronouncements* – In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

In August 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and restricted cash. Therefore, amounts described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective the fiscal years beginning after December 31, 2018. The Organization has chosen to early adopt this standard for the year ended December 31, 2018. The effect of this change is to include restricted cash of \$225,946 in the beginning balance of the cash flows, which was used during the year ended December 31, 2018, on a planned expansion and remodel of the shelter. There was no restricted cash at December 31, 2018.

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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**NOTE 2 – AVAILABILITY AND LIQUIDITY:**

The Organization receives significant unrestricted contributions and shelter program revenues to meet cash needs and to fund general operating expenditures. The Organization manages liquidity and cash reserves following two guiding principles:

1. Operating within a prudent, board-approved budget which maintains adequate liquid assets to meet cash needs for the current year.
2. Building and maintaining reserves and long-term investments to insure the sustainability of the Organization.

The Organization maintains the following policies to facilitate the above guiding principles:

- Investment policy governing the endowment and board restricted savings:  
The Organization partially funds cash needs for operations from draws of endowments and board-designated savings. The finance committee meets quarterly to oversee the cash needs and investments of the organization, and presents a recommendation to the full board regarding the draw rate (spending rate) during the budgeting process. The draw rate ranges from 4% to 6% of the 3-year average balance of the endowments and investment accounts.
- *Sweep savings account policy:* To meet seasonal cash fluctuations the organization also maintains a \$50,000 reserve in a sweep savings account. The reserve is used at the direction of the Treasurer and replenished when possible throughout the year, and always after the fundraising event in October.
- *Building reserve policy:* To meet future capital replacement needs and expenditures, the board maintains a separate Building Reserve account, for use at the direction of the Treasurer and replenished when possible throughout the year.

The Organization’s financial assets available for general expenditure within one year of the balance sheet date are as follows:

Cash and cash equivalents	\$	215,365
Pledges receivable		29,124
Investments		<u>2,228,593</u>
Total financial assets		2,473,082
Less amounts not available to be used within one year:		
Donor-imposed restrictions:		
Funds subject to purpose restrictions		28,960
Funds subject to time restrictions		24,624
Endowment investments not available over next 12 months		706,336
Internal designations:		
Board designated investments not available over next 12 months		<u>1,402,497</u>
Financial assets available to meet cash needs for general expenditures within one year		<u><u>\$ 310,665</u></u>

**Blue Mountain Humane Society**  
**Notes to Financial Statements**  
**Year Ended December 31, 2018**

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**NOTE 3 – PLEDGES RECEIVABLE:**

During the year ended December 31, 2016, the Organization entered into a ten-year land lease that has an estimated fair value of \$6,000 per year. The lease requires annual payments of \$1,500. The remaining in-kind donation was recorded as a pledge receivable, using a discount rate of 2%.

The Organization’s pledges receivable consisted of unconditional promises to give and are due as follows as of December 31, 2018:

	In-Kind Rent
Receivable in less than one year	\$ 4,500
Receivable in one to five years	22,500
Receivable in six to ten years	<u>4,500</u>
	31,500
Less:	
Discount to net present value	<u>2,376</u>
	<u>\$ 29,124</u>

**NOTE 4 – SELF INSURANCE:**

The Organization has elected to opt-out of participation in the Washington State Employment Security Program. The Organization is self-insured for unemployment claims through 501(c) Agencies Trust. Contributions to 501(c) Agencies Trust are accumulated and used to pay future claims. The Organization could be required to make additional payments if claims exceed the accumulated contributions. At December 31, 2018, \$14,616 was held on deposit with 501(c) Agencies Trust, and is included in prepaid expenses. The ultimate costs of claims are accrued when incidents occur that give rise to claims.

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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#### **NOTE 5 – FAIR VALUE MEASUREMENTS:**

The Financial Accounting Standards Board has established a fair value measurement standard, which establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. The Organization does not adjust the quoted price for these investments.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the measurement date, but are not the same as those used in Level 1. Fair value is determined through quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire measurement in the hierarchy.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

*Mutual Funds and Exchange Traded Funds:* Valued daily at the closing price as reported by the fund. Mutual funds held by the Organization are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds and exchange traded funds held by the Organization are deemed to be actively traded.

*Common Stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Preferred and fixed rate cap securities:* Valued at the closing price reported on the active market on which the individual preferred trades. Preferred generally pay a fixed rate coupon, but may also have a floating structure. Individual bonds are valued at the last accepted bid for such bond. A current bid should be requested in the event of liquidation and may vary from the last accepted bid.

**Blue Mountain Humane Society**  
**Notes to Financial Statements**  
**Year Ended December 31, 2018**

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**NOTE 5 – FAIR VALUE MEASUREMENTS (continued):**

The following table discloses by level, within the fair value hierarchy, the Organization’s fair value measurements at December 31, 2018:

	Fair Value			Cost
	Level 1	Level 2	Total	
Mutual Funds:				
Growth	\$ 213,214	\$ -	\$ 213,214	\$ 221,488
Aggressive	38,392	-	38,392	45,513
Income	325,032	-	325,032	345,016
Growth and income	234,867	-	234,867	253,460
Common Stocks:				
Growth	310,970	-	310,970	198,678
Value	27,042	-	27,042	18,493
Growth and income	329,147	-	329,147	261,571
Large blend	63,815	-	63,815	52,429
Large core	20,947	-	20,947	17,793
Mid cap growth	345,490	-	345,490	256,572
Exchange traded and closed-end funds:				
Aggressive income	20,700	-	20,700	19,526
Preferred and fixed rate cap securities:				
Bond equivalent	-	77,337	77,337	82,500
Growth and income	-	20,240	20,240	20,018
Income	-	100,569	100,569	115,057
Cash and cash equivalents	-	100,831	100,831	100,831
	<u>\$ 1,929,616</u>	<u>\$ 298,977</u>	<u>\$ 2,228,593</u>	<u>\$ 2,008,945</u>

There were no Level 3 investments at December 31, 2018.

The endowment fund consists of marketable securities valued at \$746,656 at December 31, 2018. Absent donor stipulations to the contrary, investment return from marketable securities retained in perpetuity are subject to appropriation for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Investment return consisted of the following for the year ended December 31, 2018:

Interest and dividends	\$ 87,435
Realized gain	60,743
Unrealized loss	<u>(261,732)</u>
	<u>\$ (113,554)</u>

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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#### **NOTE 6 – ENDOWMENTS:**

The Organization's endowments consist of donor-restricted funds established to provide continuing resources for the Organization's mission. As required by accounting principles generally accepted in the United States of America, 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.

#### *Interpretation of relevant law:*

The Board of Directors has interpreted the Washington State UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies net assets with donor restrictions as:

- The original value of initial and subsequent gift amounts donated to the endowment; and
- Any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- General economic conditions;
- The possible effect of inflation and deflation;
- The role that each investment or course of action plays within the overall investment portfolio of the fund;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization;
- The needs of the Organization, or a particular fund within the Organization, to make distributions and to preserve capital; and
- An asset's special relationship or special value, if any, to the Organization's purposes.

**Blue Mountain Humane Society**  
**Notes to Financial Statements**  
**Year Ended December 31, 2018**

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**NOTE 6 – ENDOWMENTS (continued):**

Endowment funds as of December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original and donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 614,481	\$ 614,481
Accumulated investment gains	-	132,175	132,175
	<u>\$ -</u>	<u>\$ 746,656</u>	<u>\$ 746,656</u>

Changes in the endowment funds for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, December 31, 2017	\$ -	\$ 833,731	\$ 833,731
Investment return, <i>net</i>	-	(48,675)	(48,675)
Appropriations of endowment assets pursuant to spending-rate policy	-	(38,400)	(38,400)
Endowment funds, December 31, 2018	<u>\$ -</u>	<u>\$ 746,656</u>	<u>\$ 746,656</u>

*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 (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under the laws. There are no funds that have a deficiency as of December 31, 2018.

**Blue Mountain Humane Society**  
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**NOTE 6 – ENDOWMENTS (continued):**

*Return objective and risk parameters:*

The Organization has adopted investment and spending policies for endowment assets with the long-term goal of preserving the asset size and for providing the same level of support in real dollars. The second long-term goal is to modestly grow the asset size of the investment portfolio by realizing a real rate of total return of 10% after administrative and management expenses. Actual results in any given year may vary from this amount.

*Strategies employed for achieving objectives:*

The goals of the Endowment Committee are to realize investment appreciation, consistent with safety of principal. The Organization will use an asset allocation model to define the optimum portfolio mix that relates an expected rate of total return with an expected risk profile of each investment category as well as the overall portfolio. The Organization has adopted the following asset allocation: large cap domestic stocks (25% - 45%), small/mid cap domestic stocks (10% - 30%), international stocks (0% - 20%), domestic fixed income (20% - 40%), alternative investments (0% - 10%), and cash equivalents (0% - 15%).

*Spending policy and how the investment objective relates to spending policy:*

The Organization periodically reviews the appropriate investment goal for the annual total return of assets. This goal is expressed in terms of a five-year rolling average and is net of investment fees paid to investment managers and for custodial services. The appropriate total return goal shall be established to supporting an annual spending rate of 4% to 6%.

**NOTE 7 – NET ASSET DESIGNATIONS AND RESTRICTIONS:**

At December 31, 2018, a portion of the Organization's net assets without donor restrictions was designated by the Board of Directors for specific purposes, as follows:

Board restricted reserve	\$ 1,431,529
Building maintenance reserve	<u>49,986</u>
	<u>\$ 1,481,515</u>

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**NOTE 7 – NET ASSET DESIGNATIONS AND RESTRICTIONS (continued):**

Net assets with donor restrictions as of December 31, 2018, consisted of the following:

Subject to expenditure for specified purpose:		
Shelter improvements	\$	28,960
Subject to passage of time:		
Pledges receivable		29,124
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Available for general use	\$	132,175
Subject to Organization endowment spending policy and appropriation:		
Available for general use		614,481
Total endowments		746,656
	\$	804,740

See Note 6 for further details on the endowment account.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of purpose restriction:		
Capital campaign	\$	699,061
Expiration of time restrictions		
Pledges receivable		9,341
Restricted-purpose spending-rate distributions and appropriation:		
General use		38,400
	\$	746,802

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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**NOTE 8 – DONOR-DESIGNATED FUNDS:**

The Organization has been named a beneficiary of donor-designated funds maintained by the Blue Mountain Community Foundation (the Foundation). The designated funds are subject to the Foundation's variance power, which allows their Board of Directors to modify any restriction or condition placed on the gifts to the Foundation. Due to this variance power, the Organization does not record an asset or recognize revenue related to these funds until received. During the year ended December 31, 2018, the Organization received \$77,423 from the donor-designated funds that is included in contributions in the statement of activities. As of December 31, 2018, balances in donor-designated funds for the Organization that are maintained by the Foundation were \$1,653,257.

**NOTE 9 – IN-KIND CONTRIBUTIONS:**

The Organization receives a significant amount of donated goods and services from volunteers. Contributions of services are recognized if the services received create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. Veterinarians have donated their time to assist in altering cats for the Cat Management Coalition program. The fair value of these services was estimated to be \$8,089 for the year ended December 31, 2018.

In-kind contributions consisted of the following during the year ended December 31, 2018:

Animal care supplies	\$ 75,406
Professional services	8,788
Office supplies	7,580
	<u>\$ 91,774</u>

**NOTE 10 – SIMPLE IRA RETIREMENT PLAN:**

The Organization sponsors a Simple IRA retirement plan covering qualified employees, as defined. Employees who receive salary of at least \$5,000 are eligible to participate in the plan. The Organization matches the employee's contribution up to a maximum of three percent of the eligible employee's compensation. The Organization contributed \$14,154 in matching Simple IRA contributions for the year ended December 31, 2018.

# Blue Mountain Humane Society

## Notes to Financial Statements

### Year Ended December 31, 2018

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**NOTE 11 – NONCASH INVESTING ACTIVITIES:**

Each year, the Organization purchases and sells within its investment account, with no resulting cash activity. In addition, income is also automatically reinvested. The following summarizes the noncash investing transactions for the year ended December 31, 2018:

Sales	\$	196,055
Purchases		(52,229)
Interest and dividends reinvested		87,435

**NOTE 12 – CONCENTRATIONS:**

During the year ended December 31, 2018, approximately 11% of revenue and support was received from two donors.

**NOTE 13 – OPERATING LEASE COMMITMENTS:**

In 2016, the Organization entered into an operating lease for land. The lease requires annual payments of \$1,500 through December 2025. The annual fair value of the lease is \$6,000. The difference between the fair value and required lease payments has been recorded as an in-kind contribution during the year ended December 31, 2016. Also, see Note 3. Rent expense for the year ended December 31, 2018, was \$6,090.

Future minimum lease payments (excluding in-kind rent) are as follows:

Years Ending December 31,	Amount
2019	\$ 1,500
2020	1,500
2021	1,500
2022	1,500
2023	1,500

**NOTE 14 – SUBSEQUENT EVENTS:**

Subsequent events have been evaluated by management through May 13, 2019, which is the date the financial statements were available to be issued.