

Vancouver Humane Society & SPCA

DBA Humane Society for Southwest Washington

Financial Statements

Year Ended December 31, 2018



**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Financial Statements

Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington
Vancouver, WA

We have audited the accompanying financial statements of Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (a nonprofit organization), which are comprised of the statements of financial position as of December 31, 2018, the related statements of activities, functional expenses, and cash flows for the year 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 the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding a Change in Accounting Principle

As discussed in Note 2 to the financial statements, Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Aldrich CPAs + Advisors LLP

Lake Oswego, OR
March 19, 2019

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statement of Financial Position

December 31, 2018

ASSETS

Cash	\$	917,892
Unconditional promises to give, net		104,630
Other receivables		110,074
Investments		767,220
Inventories		229,988
Other assets		24,179
Beneficial interest in assets held - Community Foundation for Southwest Washington		555,928
Land, buildings, and equipment, net of accumulated depreciation		<u>7,466,494</u>
Total Assets	\$	<u><u>10,176,405</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$	52,835
Accrued expenses		350,411
Deferred rent		<u>43,437</u>
Total Liabilities		446,683

Net Assets:

Without donor restrictions:

Undesignated	8,797,437
Designated by the Board for endowment	9,287

With donor restrictions:

Purpose and time restricted	263,426
Perpetual in nature	<u>659,572</u>

Total Net Assets 9,729,722

Total Liabilities and Net Assets \$ 10,176,405

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Adoption services	\$ 808,866	\$ -	\$ 808,866
Contract services	796,430	-	796,430
Contributions and grants	1,867,658	363,085	2,230,743
In-kind contributions	73,901	-	73,901
Loss on investments	(38,565)	(44,722)	(83,287)
Other income	21,055	-	21,055
Other service fees	155,250	-	155,250
Retail	148,615	-	148,615
Net assets released from purpose restriction	374,044	(374,044)	-
Net assets released from time restrictions	129,287	(129,287)	-
Total Revenue, Gains, and Other Support	4,336,541	(184,968)	4,151,573
Expenses:			
Program:			
Adoption	636,615	-	636,615
Animal Care Shelter	1,678,938	-	1,678,938
Clinic	645,399	-	645,399
Other	168,272	-	168,272
Total Program	3,129,224	-	3,129,224
Supporting expenses:			
Fundraising	510,941	-	510,941
Management and general	438,439	-	438,439
Total Expenses	4,078,604	-	4,078,604
Other Revenue Generating Activities:			
Thrift store sales	1,301,677	-	1,301,677
Thrift store expenses	(1,157,663)	-	(1,157,663)
Special event revenue	653,842	-	653,842
Special event expenses	(441,671)	-	(441,671)
Total Other Revenue Generating Activities	356,185	-	356,185
Change in Net Assets	614,122	(184,968)	429,154
Net Assets, beginning of year	8,192,602	1,107,966	9,300,568
Net Assets, ending of year	\$ 8,806,724	\$ 922,998	\$ 9,729,722

See accompanying notes to financial statements.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Statement of Functional Expenses

Year Ended December 31, 2018

	Program				Total Program	Supporting Services			Total
	Adoption	Animal Care Shelter	Clinic	Other		Fundraising	Management and General	Thrift Store	
Advertising	\$ -	\$ 380	\$ 198	\$ -	\$ 578	\$ 12,764	\$ 185	\$ 74,070	\$ 87,597
Animal care	20,057	223,639	109,902	-	353,598	-	-	-	353,598
Depreciation	-	204,573	-	-	204,573	-	-	8,599	213,172
Dues and subscriptions	111	2,260	404	40	2,815	4,394	736	555	8,500
Education and volunteer programs	-	-	-	14,928	14,928	-	-	-	14,928
Employee compensation	343,567	732,446	368,263	86,790	1,531,066	244,687	299,196	468,590	2,543,539
Employee taxes and benefits	101,976	189,972	83,586	21,049	396,583	49,906	61,297	104,867	612,653
Facility, auto and maintenance	46,126	112,065	14,737	1,071	173,999	14,596	17,410	102,157	308,162
Fundraising	-	5,204	-	-	5,204	20,798	-	-	26,002
Interest	-	2,360	-	-	2,360	-	-	-	2,360
Meeting, travel and employee education	1,905	7,830	2,402	1,756	13,893	2,906	9,299	2,074	28,172
Office expense	20,026	44,761	26,742	5,665	97,194	23,580	5,568	38,745	165,087
Occupancy	-	-	-	-	-	-	-	285,853	285,853
Professional fees	7,010	51,798	37,308	28,736	124,852	103,139	43,455	15,502	286,948
Resale supplies	95,837	-	-	8,237	104,074	-	-	18,074	122,148
Taxes and fees	-	101,650	1,857	-	103,507	34,171	1,293	38,577	177,548
Total Operating Expenses	636,615	1,678,938	645,399	168,272	3,129,224	510,941	438,439	1,157,663	5,236,267
Special event expenses	-	-	-	-	-	441,671	-	-	441,671
Total Functional Expenses	\$ 636,615	\$ 1,678,938	\$ 645,399	\$ 168,272	\$ 3,129,224	\$ 952,612	\$ 438,439	\$ 1,157,663	\$ 5,677,938

See accompanying notes to financial statements.

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statement of Cash Flows

Year Ended December 31, 2018

Cash Flows from Operating Activities:

Change in net assets	\$ 429,154
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	213,172
Unrealized loss on investments	95,643
Change in assets held - Community Foundation for Southwest Washington	39,783
Loss on sale of equipment	1,039
Changes in assets and liabilities:	
Unconditional promises to give, net	113,796
Other receivables	(22,772)
Inventories	14,192
Other assets	12,529
Accounts payable	(7,081)
Accrued expense	40,975
Deferred rent	<u>(87,925)</u>
Net Cash Provided by Operating Activities	842,505

Cash Flows from Investing Activities:

Purchase of buildings and equipment	(139,117)
Proceeds from sale of equipment	560
Proceeds from sale of investments	211,333
Purchase of investments	<u>(593,725)</u>
Net Cash Used by Investing Activities	<u>(520,949)</u>

Cash Flows Used by Financing Activities:

Payments on long-term debt	<u>(190,538)</u>
Net Change in Cash	131,018

Cash, beginning	<u>786,874</u>
Cash, end	\$ <u><u>917,892</u></u>

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$ <u><u>2,360</u></u>
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VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 1 - Organization

Nature of Organization

Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (the Organization) is a nonprofit organization founded in 1897 and incorporated in 1965. The Organization enriches the lives of people, pets and our community through adoption and outreach, and serves as a resource for animal services and education.

Program Services

The Organization provides program services in the following major areas:

Adoption – The Organization provides quality adoption services to the Southwest Washington community. Adopters are screened to ensure that they will provide good care to the animal being adopted. The Organization has a pet-matching program which works to match pets with potential adopters. All animals adopted from the Organization are vaccinated against disease, treated for parasites, licensed or issued an identification tag, and given a certificate for free health exam with the veterinarian of the adopter's choice. All animals are either spayed or neutered prior to adoption. In addition, the Organization offers training and animal behavior information with each adoption.

Animal Care Shelter - The Organization offers shelter to unwanted, abandoned, lost and homeless animals from Clark and Skamania counties as well as other animals in need that are brought to the Organization. The Organization provides food, water, medication, shelter and, if needed, humane euthanasia.

Clinic - The Organization's veterinary clinic provides vital care to shelter animals including spay and neuter surgeries and minor and major medical services. The clinic is staffed by professional veterinarians, technicians, and assistants and is equipped to facilitate surgeries, x-rays, and dental procedures.

Other – The Organization offers education information to potential adopters and other animal owners in the community and provides opportunities for community members to participate in a variety of volunteer activities. The Organization provides education information programs via presentations for children, schools, civic groups, and other interested parties as well as periodic newsletters. Volunteers assist by helping with adoptions, filing, answering telephones, walking dogs, feeding animals in the shelter, staffing the Organization's thrift store, socializing with and grooming animals, promoting and staffing special events, and providing foster care for shelter animals.

Note 2 - Summary of Significant Accounting Policies

New Accounting Pronouncement

The Organization adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designation amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The Organization has adjusted the presentation of these statements accordingly.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies, continued

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization 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 Organization's management and the board of directors.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 inputs are unobservable inputs for the investment.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of a pool investment at the end of the period.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments, continued

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.

Common stock and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial interest in assets held at the Community Foundation for Southwest Washington: Valued based on the fair value of the underlying assets in the funds as reported by the fund manager.

The Organization's financial instruments, none of which are held for trading purposes, include cash, receivables, accounts payable, and notes payable. The Organization estimates that the fair value of all of these non-derivative financial instruments at December 31, 2018 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

Cash

The Organization maintains its cash in accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At times, the balances may exceed federally insured limits. At December 31, 2018, the Organization had \$537,719 in uninsured cash balances.

Unconditional Promises to Give

When a donor has unconditionally promised to contribute funds to the Organization in future periods, the Organization recognizes an unconditional promise to give. Promises to give expected to be collected within one year are recorded as support and a receivable at net realizable value. Promises to give expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible promises to give, if any, is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

Investments

Realized and unrealized gains and losses are included in the change in net assets in the statements of activities and changes in net assets. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Inventories

Inventories consist of items held for sale in retail operations as well as in the thrift store. The thrift store inventory consists primarily of items that have been donated by individuals in the community. Most of the donations are used items and the value of inventory was based on average sale prices for the past year by category and the estimated number of items on hand at year end based on an analysis of the square footage of the thrift store. Any purchased inventory is recorded at cost and on the first-in, first-out method.

Land, Buildings, and Equipment

Purchased property is stated at cost; donated assets are valued at their estimated fair value on the date donated. Gifts of property with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as an increase to net assets with donor restrictions. Absent explicit donor stipulations about how those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies, continued

Land, Buildings, and Equipment, continued

All assets are depreciated over estimated useful lives on a straight line basis. Repairs and maintenance costs are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property in excess of \$500 that meet the capitalization requirements are capitalized. Upon retirement, sale or other disposition of property, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statements of activities. Estimated useful lives range from 5-50 years.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statements of financial position.

Revenue Recognition

Contributions - Contributions received are 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. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grants and Contracts – Grant and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Unearned revenue is recorded when cash received under a grant or contract exceeds the revenue earned. No allowance for doubtful accounts has been recorded as management believes that all amounts are collectible.

Donated Services – The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Revenue related to sale of goods are reported net of discounts and sales taxes.

Functional Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among animal services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of allocation</u>
Salaries and benefits	Time and Effort
Occupancy	Square footage
Depreciation	Square footage
Other	Headcount

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies, continued

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization has no significant unrelated business income subject to taxation. Consequently, there is no provision for income taxes.

The Organization recognizes a liability for unrecognized tax benefits when facts and circumstances indicate that an uncertain tax position is more likely than not to be overturned by a taxing authority upon examination. The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized tax benefits, accrued or expensed as of and for the year ended December 31, 2018.

Advertising

The Organization expenses the cost of advertising as incurred. For year ended December 31, 2018 advertising expenses were \$87,597.

Subsequent Events

The Organization has evaluated subsequent events through March 19, 2019, which is the date on which the financial statements were available to be issued.

Note 3 - Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:

Cash	\$ 917,892
Unconditional promises to give, net	104,630
Other receivables	110,074
Investments	767,220
Total financial assets	<u>1,899,816</u>

Less amounts not available to be used within one year:

Donor restricted funds held in perpetuity	(105,700)
Purpose restricted funds	(175,838)
Time restricted funds	(20,958)
Board designated quasi endowment	(9,287)
Total amounts unavailable for use	<u>(311,783)</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 1,588,033

The Organization receives significant contributions and promises to give from its donors. Contributions restricted for programs which are ongoing, major, and central to its operations are considered to be available to meet cash needs for general expenditures.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 3 - Availability and Liquidity, continued

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a board approved liquidity policy to maintain a reserve of available operating current financial assets of \$1 million, or approximately 60 days of operating expenses, at all times. To achieve these targets, the entity forecasts its future cash flows and continually monitors its liquidity and reserves. During the year ended December 31, 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 4 - Unconditional Promises to Give

Unconditional promises to give consisted of the following:

Due within one year	\$	64,630
Due in one to five years		<u>40,000</u>
	\$	<u><u>104,630</u></u>

Note 5 - Investments and Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Organization's financial instruments at fair value:

	Assets at Fair Value				
	Level 1	Level 2	Level 3	NAV	Total
Money Market	\$ 474,761	\$ -	\$ -	\$ -	\$ 474,761
Common Stock:					
Energy	79,784	-	-	-	79,784
Communication services	76,742	-	-	-	76,742
Consumer defensive	69,884	-	-	-	69,884
Consumer cyclical	30,056	-	-	-	30,056
Finance	21,026	-	-	-	21,026
Technology	10,571	-	-	-	10,571
Mutual Funds	4,396	-	-	-	4,396
Investments held in beneficial interest	-	-	-	555,928	555,928
	<u>\$ 767,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555,928</u>	<u>\$ 1,323,148</u>

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 6 - Land, Buildings, and Equipment

At December 31, land, buildings, and equipment consisted of the following:

Land	\$	687,500
Buildings and related improvements		7,854,072
Furniture and equipment		605,314
Vehicles		87,729
		<u>9,234,615</u>
Less accumulated depreciation		(1,768,121)
	\$	<u><u>7,466,494</u></u>

Depreciation expense was \$213,172.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows for the year ended December 31, 2018:

Purpose Restrictions:		
Capital improvements	\$	143,838
Endowment earnings		433
Animal care		85,944
Other		8,581
		<u>238,796</u>
Time Restricted		24,630
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
General use		299,522
Building		360,050
		<u>659,572</u>
Total Assets with Donor Restrictions	\$	<u><u>922,998</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2018

Note 7 - Net Assets with Donor Restrictions, continued

Satisfaction of purpose restrictions:

Animal care	\$ 309,238
Capital improvements	38,524
Other	13,950
Unleashed!	12,332
	<hr/>
	374,044

Satisfaction of time restrictions	<hr/>
	129,287

Total assets released from restriction	503,331
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Endowment loss	<hr/>
	44,722
	<hr/>
	\$ 548,053

Note 8 - Endowment

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds while supporting the operations of the Organization through a set spending rate. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulation to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by the Organization 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:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

Investment and Spending Policies

The Organization's endowment funds investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to achieve a balance return of income consistent with principal growth and to achieve a rate of return, net of fees, to exceed a return of relevant indices or other benchmarks as determined by the Organization's Investment Committee. The approved spending rate is determined by the board of directors for the Community Foundation for Southwest Washington.

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Notes to Financial Statements

Year Ended December 31, 2018

Note 8 - Endowment, continued

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate capital appreciation, in an attempt to provide a predictable stream of funding for grant making while seeking to maintain the purchasing power of the endowment assets.

Within that framework, the investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual return adequate to cover the yearly spending rate, management fees and annual inflation. Actual returns in any given year may vary from this amount.

The endowment funds consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Board designated quasi-endowment funds	\$ 9,287	\$ -	\$ 9,287
Donor restricted funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	-	659,572	659,572
Accumulated investment gains	-	433	433
	<u>\$ 9,287</u>	<u>\$ 660,005</u>	<u>\$ 669,292</u>

The changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, December 31, 2017	\$ 181,928	\$ 585,205	\$ 767,133
Contributions	-	119,522	119,522
Appropriated expenditures	(170,120)	-	(170,120)
Investment loss, net	(2,521)	(44,722)	(47,243)
Endowment net assets, December 31, 2018	<u>\$ 9,287</u>	<u>\$ 660,005</u>	<u>\$ 669,292</u>

Note 9 - Concentrations

76% of unconditional promises to give were from one donor and 41% of contributions were from two donors.

The Organization invests in various types of marketable securities and money market funds. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified. The Organization also invests in various investment securities. Investment securities in general are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Notes to Financial Statements

Year Ended December 31, 2018

Note 10 - Operating Leases

The Organization leases space for the thrift store under non-cancellable operating leases expiring April 2020 as well as month-to-month lease agreements for small equipment. Total rental expense under these leases was \$280,521.

Future minimum lease payments under this non-cancellable agreement are as follows:

Years Ending December 31,	
2019	\$ 259,296
2020	68,046
2021	4,296
2022	2,148
	<u>\$ 333,786</u>

Note 11 - Retirement Plan

The Organization has a 401(k) retirement plan. Employees are automatically enrolled in the plan after 90 days of service unless they opt out. Participating employees may elect to contribute, on a tax-deferred basis, a portion of their compensation. The Organization contributes a match of 50% of the first 6% contributed by the employee. The Organization's contribution expense was \$37,844.