

**BLUE MOUNTAIN
HUMANE SOCIETY**

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

December 31, 2014

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 statement of financial position of Blue Mountain Humane Society (a nonprofit organization) as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization 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 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

Northwest CPA Group PLLC

Tri-Cities, Washington
March 9, 2015

Blue Mountain Humane Society
Statement of Financial Position
December 31, 2014

ASSETS

CURRENT ASSETS:

Cash and cash equivalents		\$ 130,832
Accounts receivable		5,013
Prepaid expenses		23,230
Other assets		2,500
Total current assets		161,575

PROPERTY AND EQUIPMENT:

Buildings and improvements	\$ 1,472,614	
Vehicles and equipment	75,657	
	1,548,271	
Less accumulated depreciation	541,801	
	1,006,470	
Land	145,156	
	1,151,626	

OTHER ASSET:

Investments		2,522,973
		\$ 3,836,174

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable		\$ 5,850
Payroll liabilities		3,816
Accrued vacation		7,908
Prepaid dog licenses		20,706
Total current liabilities		38,280

NET ASSETS:

Unrestricted:		
Board designated	\$ 1,755,649	
Undesignated	1,274,920	
	3,030,569	
Temporarily restricted	152,844	
Permanently restricted	614,481	
Total net assets		3,797,894
		\$ 3,836,174

Blue Mountain Humane Society
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Public support:				
Legacies and bequests	\$ 656,818	\$ -	\$ -	\$ 656,818
Contributions	252,572	-	-	252,572
Contributions, in-kind	83,013	-	-	83,013
Grants	48,113	-	-	48,113
Fundraising	8,928	-	-	8,928
Memberships	7,793	-	-	7,793
Total public support	<u>1,057,237</u>	<u>-</u>	<u>-</u>	<u>1,057,237</u>
Special event revenue:				
Special event revenue	166,622	-	-	166,622
Less costs of direct benefits to donors	<u>24,625</u>	<u>-</u>	<u>-</u>	<u>24,625</u>
Net special event revenue	<u>141,997</u>	<u>-</u>	<u>-</u>	<u>141,997</u>
Other revenue:				
Contracts	85,086	-	-	85,086
Animal operations	79,117	-	-	79,117
Animal control fees	57,764	-	-	57,764
Total other revenue	<u>221,967</u>	<u>-</u>	<u>-</u>	<u>221,967</u>
Net assets released from restrictions	<u>47,172</u>	<u>(47,172)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>1,468,373</u>	<u>(47,172)</u>	<u>-</u>	<u>1,421,201</u>
EXPENSES:				
Program services	721,404	-	-	721,404
Management and general	40,693	-	-	40,693
Fundraising	73,223	-	-	73,223
Total expenses	<u>835,320</u>	<u>-</u>	<u>-</u>	<u>835,320</u>
CHANGES IN NET ASSETS BEFORE OTHER INCOME	<u>633,053</u>	<u>(47,172)</u>	<u>-</u>	<u>585,881</u>
OTHER INCOME:				
Gain on sale of vehicle	1,500	-	-	1,500
Interest income	61	-	-	61
Net investment return	57,192	60,147	-	117,339
Total other income	<u>58,753</u>	<u>60,147</u>	<u>-</u>	<u>118,900</u>
CHANGES IN NET ASSETS	691,806	12,975	-	704,781
NET ASSETS, BEGINNING OF YEAR	<u>2,338,763</u>	<u>139,869</u>	<u>614,481</u>	<u>3,093,113</u>
NET ASSETS, END OF YEAR	<u>\$ 3,030,569</u>	<u>\$ 152,844</u>	<u>\$ 614,481</u>	<u>\$ 3,797,894</u>

Blue Mountain Humane Society
Statement of Functional Expenses
Year Ended December 31, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	376,925	\$ 22,989	\$ 21,842	\$ 421,756
Animal care	80,881	-	-	80,881
Depreciation	45,699	3,738	300	49,737
Veterinary services and supplies	49,203	-	-	49,203
Fundraising	-	-	41,478	41,478
Trap, neuter, and release	40,942	-	-	40,942
Utilities	34,434	1,812	-	36,246
Repairs and maintenance	13,889	-	-	13,889
Staff development and training	13,299	-	-	13,299
Advertising	12,391	-	-	12,391
Postage	3,272	-	7,551	10,823
Computer maintenance	8,014	2,003	-	10,017
Supplies	7,965	885	-	8,850
Insurance	6,695	1,551	368	8,614
Professional fees	-	6,532	-	6,532
Bank charges	5,222	-	1,306	6,528
Vehicle	5,876	-	-	5,876
Contract labor	5,008	-	-	5,008
Administration	3,219	805	-	4,024
Animal control	3,912	-	-	3,912
Dues and subscriptions	1,761	378	378	2,517
Taxes and licenses	1,693	-	-	1,693
Offsite animal training	1,104	-	-	1,104
	<u>\$ 721,404</u>	<u>\$ 40,693</u>	<u>\$ 73,223</u>	<u>\$ 835,320</u>

Blue Mountain Humane Society
Statement of Cash Flows
Year Ended December 31, 2014

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from operations and donors		\$ 1,358,779
Cash paid to suppliers and employees		(740,329)
Interest and dividends received		61
Net cash provided by operating activities		618,511

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	\$ (39,493)	
Proceeds from sale of investments	67,200	
Purchase of investments	(671,636)	
Proceeds from sale of vehicle	1,500	
Net cash used in investing activities		(642,429)

NET DECREASE IN CASH AND CASH EQUIVALENTS (23,918)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 154,750

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 130,832

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

Changes in net assets		\$ 704,781
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	\$ 49,737	
Gain on sale of vehicle	(1,500)	
Realized gain on investments	(37,460)	
Unrealized loss on investments	23,550	
Interest and dividends reinvested	(103,429)	
Increase in assets:		
Accounts receivable	(4,283)	
Prepaid expenses	(696)	
Increase (decrease) in liabilities:		
Accounts payable	1,271	
Payroll liabilities	(15,276)	
Accrued vacation	1,170	
Prepaid dog licenses	646	
Total adjustments	(86,270)	
Net cash provided by operating activities		\$ 618,511

Blue Mountain Humane Society

Notes to Financial Statements

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents – The Organization considers all highly liquid investments, with an original maturity of 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, 2014. Recoveries of receivables previously written off are recorded when received.

Other assets – Two rings were donated to the Organization during the year ended December 31, 2011, and are being held for sale at a consignment shop. These assets have been recorded at their estimated fair values 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.

Blue Mountain Humane Society

Notes to Financial Statements

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

Summary of Significant Accounting Policies (continued):

Investments – The Organization records investments in marketable securities with readily determinable market values at their fair values in the statement of financial position. Investment securities consist of a highly diversified portfolio of equity securities and mutual funds. Investment income and gains restricted by donors are reported as increases in unrestricted net assets 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. Donated investments are recorded at the fair market value on the date of the gift. The investments in marketable securities are subject to market risk.

Financial instruments – At December 31, 2014, the carrying value of the Organization’s financial instruments approximated fair value.

Classification of contributions and net assets – 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 and changes in net assets as net assets released from restrictions.

Temporarily restricted contributions received in the same period the restrictions are met are recorded as unrestricted contributions.

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. The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets 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 long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Blue Mountain Humane Society

Notes to Financial Statements

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

Summary of Significant Accounting Policies (continued):

Allocation of expenses – The costs of providing program services and other costs are reported on a functional basis in the statement of functional expenses. Accordingly, there are certain costs that are allocated among the programs and supporting service centers that benefit from such costs.

Advertising – Advertising cost is expensed as incurred. Advertising cost for the year ended December 31, 2014, was \$12,391.

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 2014, 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. Management believes that the Organization is no longer subject to federal, state, or local income tax examinations by tax authorities for the tax years before 2011.

NOTE 2 – 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, 2014, \$12,250 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

NOTE 3 – 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.

Blue Mountain Humane Society Notes to Financial Statements

NOTE 3 – FAIR VALUE MEASUREMENTS (continued):

The following table discloses by level, within the fair value hierarchy, the Organization’s fair value measurements at December 31, 2014:

	Quoted Prices (Level 1)	Quoted Prices (Level 2)	Cost
Stocks:			
Growth	\$ 112,945	\$ -	\$ 83,956
Mid cap growth	216,595	-	159,882
Growth and income	366,493	-	302,995
Mutual funds:			
Growth	329,190	-	296,717
Aggressive	112,709	-	116,406
Growth and income	377,827	-	357,973
Aggressive income	81,309	-	78,542
Income	447,628	-	465,832
Balanced	97,735	-	101,498
International growth	68,278	-	81,791
Exchange traded and closed-end funds:			
Aggressive income	22,250	-	19,527
Corporate bonds	-	72,729	75,983
Taxable municipal bonds	-	25,587	25,247
Preferred and fixed rate cap securities:			
Bond equivalent	35,970	-	34,812
Growth and income	20,944	-	20,615
Income	18,221	-	17,222
Cash and cash equivalents	116,564	-	116,564
	\$ 2,424,658	\$ 98,316	\$ 2,355,562

There were no Level 3 investments at December 31, 2014.

The endowment fund consists of marketable securities valued at \$767,325 at December 31, 2014. Absent donor stipulations to the contrary, investment return related to permanently restricted net assets is recorded as temporarily restricted until appropriated by the Board of Directors.

Investment return consisted of the following for the year ended December 31, 2014:

Interest and dividends	\$ 103,429
Realized gain	37,460
Unrealized loss	(23,550)
	\$ 117,339

Blue Mountain Humane Society

Notes to Financial Statements

NOTE 4 – 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 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, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment;
- The original value of subsequent gifts to the permanent endowment; and
- 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 not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure by the Board of Directors. 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.

Endowment funds as of December 31, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 152,844	\$ 614,481	\$ 767,325

Blue Mountain Humane Society Notes to Financial Statements

NOTE 4 – ENDOWMENTS (continued):

Changes in the endowment funds for the year ended December 31, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, December 31, 2013	\$ -	\$ 121,497	\$ 614,481	\$ 735,978
Investment return:				
Net investment income	-	33,344	-	33,344
Net appreciation (realized and unrealized)	-	26,803	-	26,803
Total endowment return	-	60,147	-	60,147
Appropriation of endowment for expenditure	-	(28,800)	-	(28,800)
Endowment funds, December 31, 2014	<u>\$ -</u>	<u>\$ 152,844</u>	<u>\$ 614,481</u>	<u>\$ 767,325</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. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There are no funds that have a deficiency as of December 31, 2014.

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%).

Blue Mountain Humane Society

Notes to Financial Statements

NOTE 4 – ENDOWMENTS (continued):

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%.

NOTE 5 – NET ASSET RESTRICTIONS:

A portion of the Organization's unrestricted net assets was designated by the Board of Directors for specific purposes, as follows:

Board restricted reserve	\$ 1,687,514
Building reserve	<u>68,135</u>
	<u>\$ 1,755,649</u>

Temporarily restricted net assets as of December 31, 2014, consisted of the following:

Endowment earnings available for appropriations, timing restriction	<u>\$ 152,844</u>
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NOTE 6 – 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 \$30,724 for the year ended December 31, 2014. In-kind services received during the year include an additional \$163 of professional services.

In-kind contributions consisted of the following during the year ended December 31, 2014:

Animal care supplies	\$ 47,549
Professional services	30,887
Special event supplies	538
Other supplies	<u>4,039</u>
	<u>\$ 83,013</u>

Blue Mountain Humane Society

Notes to Financial Statements

NOTE 7 – 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, 2014:

Sales	\$ 571,042
Purchases	(1,197,897)
Interest and dividends reinvested	103,429

NOTE 8 – CONCENTRATIONS:

During the year ended December 31, 2014, approximately 46% of revenue and support was received from one bequest.

NOTE 9 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated by management through March 9, 2015, which is the date the financial statements were available to be issued.