

HUMANE SOCIETY OF WASHINGTON COUNTY,
INCORPORATED

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

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CERTIFIED PUBLIC ACCOUNTANT

MEMBER

American Institute of
Certified Public AccountantsMaryland Association of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Humane Society of Washington County, Incorporated
Hagerstown, Maryland

We have audited the accompanying financial statements of the Humane Society of Washington County, Incorporated (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and 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 these financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Washington County, Incorporated as of June 30, 2017, 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.

Cathy M. Vaughn, CPA, LLC

Hagerstown, Maryland
February 6, 2018

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$	157,359
Receivable		1,565
Pledges receivable - current		52,625
Prepaid expenses		33,953
Inventory		8,188
		253,690
<u>PROPERTY AND EQUIPMENT</u>		
Land		487,489
Buildings and improvements		4,108,569
Furniture and fixtures		71,297
Equipment		650,087
Vehicles		311,133
		5,628,575
Less accumulated depreciation		1,662,324
		3,966,251
<u>OTHER ASSETS</u>		
Pledges receivable - long term		50,625
Beneficial interest in perpetual trust		447,808
Investments		1,825,016
		2,323,449
<u>TOTAL ASSETS</u>		\$ 6,543,390
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current Portion of Long-Term Debt	\$	65,444
Line of credit		140,000
Accounts payable		85,708
Accrued expenses		60,727
		351,879
<u>LONG-TERM DEBT, LESS CURRENT PORTION AND UNAMORTIZED MORTGAGE CLOSING COSTS</u>		1,266,754
<u>TOTAL LIABILITIES</u>		1,618,633
<u>NET ASSETS</u>		
Unrestricted - operating	\$	2,427,846
Unrestricted - Board designated	1,916,856	4,344,702
Temporarily restricted		132,247
Permanently restricted		447,808
		4,924,757
<u>TOTAL LIABILITIES AND NET ASSETS</u>		\$ 6,543,390

The Notes to Financial Statements are an integral part of this statement.

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>REVENUES, GAINS, AND OTHER SUPPORT</u>				
Contract services	\$ 1,290,000	\$ -	\$ -	\$ 1,290,000
Program service revenue	187,002	26,033	-	213,035
Contributions and grants	484,274	44,360	-	528,634
Other revenue	29,682	-	-	29,682
Investment income, net	31,826	-	-	31,826
Other income	473	-	-	473
Gain on sale of assets	1,175	-	-	1,175
Realized gain on sale of investments	6,834	-	-	6,834
Unrealized gain on investments	122,058	-	33,047	155,105
Net assets released from restrictions	133,574	(133,574)	-	-
	<u>2,286,898</u>	<u>(63,181)</u>	<u>33,047</u>	<u>2,256,764</u>
<u>EXPENSES</u>				
Program	1,917,765	-	-	1,917,765
Supporting services:				-
Management and general	540,430	-	-	540,430
Fundraising	189,507	-	-	189,507
	<u>2,647,702</u>	<u>-</u>	<u>-</u>	<u>2,647,702</u>
CHANGE IN NET ASSETS	(360,804)	(63,181)	33,047	(390,938)
NET ASSETS - BEGINNING OF YEAR	<u>4,705,506</u>	<u>195,428</u>	<u>414,761</u>	<u>5,315,695</u>
NET ASSETS - END OF YEAR	<u>\$ 4,344,702</u>	<u>\$ 132,247</u>	<u>\$ 447,808</u>	<u>\$ 4,924,757</u>

The Notes to Financial Statements are an integral part of this statement.

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Fundraising	Management and General	Program Service	Total
Advertising	\$ -	\$ 528	\$ 555	\$ 1,083
Bank and Investment Fees	-	6,478	727	7,205
Communications	-	-	28,849	28,849
Dues and subscriptions	-	5,134	440	5,574
Employee/Client Relations	-	616	22	638
Human resources	135,535	283,675	1,168,346	1,587,556
Insurance	510	10,512	6,030	17,052
Interest	-	41,035	-	41,035
Licenses and permits	-	1,741	370	2,111
Meals & Entertainment	-	11	43	54
Postage and delivery	-	2,469	24	2,493
Printing	-	1,535	2,228	3,763
Professional development	-	6,394	4,721	11,115
Professional fees	-	48,885	939	49,824
Programs and services	53,460	65,549	175,775	294,784
Repairs and maintenance	-	26,006	48,761	74,767
Safety program	-	149	-	149
Supplies	-	31,948	166,854	198,802
Taxes - Other	-	300	-	300
Travel	2	7,064	5,404	12,470
Utilities	-	-	72,241	72,241
Vehicle expense	-	401	31,697	32,098
Volunteers	-	-	3,412	3,412
Depreciation	-	-	200,327	200,327
	<u>\$ 189,507</u>	<u>\$ 540,430</u>	<u>\$ 1,917,765</u>	<u>\$ 2,647,702</u>

The Notes to Financial Statements are an integral part of this statement.

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(390,937)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Noncash interest expense associated with mortgage closing costs		1,582
Depreciation		200,327
Realized gain on sale of investments		(6,834)
Unrealized (gain) on investments		(155,105)
Decrease (increase) in:		
Receivable		59,856
Prepaid expenses		(21,607)
Inventory		(4,305)
Increase (decrease) in:		
Accounts payable		2,279
Accrued expenses		(1,385)
		<u> </u>
NET CASH (USED) IN OPERATING ACTIVITIES	\$	(316,129)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(10,949)
Purchase of investments	(138,438)
Proceeds from redemption of investments and certificates of deposit	<u>291,089</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>141,702</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from short-term borrowing	520,000
Principal payments on short-term debt	(380,000)
Principal payments on long-term debt	<u>(63,930)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>76,070</u>

NET DECREASE IN CASH (98,357)CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 255,716CASH AND CASH EQUIVALENTS - END OF YEAR \$ 157,359

Supplementary disclosure of cash flow information:

Cash paid for interest \$ 39,454

Supplementary disclosure of non-cash investing and financing activities

Cash paid for purchases of property and equipment \$ 10,949

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Humane Society of Washington County, Inc.** (the Society) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Society's management, who is responsible for their integrity and objectivity.

Principles of consolidation: In conformity with FASB ASC 810, the financial statements include the accounts of Humane Society of Washington County, Inc. and Humane Society of Washington County Holding, LLC, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of operations: The Society was formed in 1921 to improve the quality of life for all animals. Through education, legislation, action and leadership, the Society strives to eliminate overpopulation and to foster an environment of respect, responsibility, and compassion. The Society currently operates a shelter for animals and provides animal control services under a contract with the Board of County Commissioners of Washington County, Maryland.

Humane Society of Washington County Holding, LLC, a wholly owned subsidiary, holds investments and loans for the Society.

Principles of accounting: 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.

Basis of presentation: The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are comprised of funds whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are funds in which the principal is held in perpetuity. In addition to donor-restricted net assets, the Society's Board of Trustees may designate resources for specific purposes, for example, a particular program activity or capital addition. Such amounts are reported as unrestricted board designated net assets.

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 and disclosure of contingent 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. Significant estimates for the Society include fair value determinations provided by the third-party investment companies.

Cash and cash equivalents: The Society considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents.

Contributions and promises to give: Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts on non-current amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Management believes that all unconditional promises to give are fully collectible and no allowance for doubtful collections is required.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

unrestricted net assets.

Investments: The Society's investments are stated at fair value. The fair values of marketable equity and debt securities are based on quoted prices in active markets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by the donor or by law and included in net investment return. Also, included in net investment return is other investment income, such as dividends and interest, which is recognized in the period earned as an increase in unrestricted net assets unless the use is limited by donor-imposed restrictions. Investment income that is restricted by the donor and subsequently used in the same period is reported as an increase in temporarily restricted net assets. Return on investments is shown net of related investment fees.

Fair value measurements: The Society conforms with FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

Level 2: Inputs to the valuation methodology include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Inventory: Inventory is stated at the lower of cost or market, on a first-in, first-out basis and consists of medication.

Beneficial interest in trust: The Society is an irrevocable beneficiary of a split-interest agreement relating to the Margaret E. Stickell Charitable Foundation (the Trust). Under the terms of the agreement, the Society is entitled to an annual distribution of 4% of the fair market value as of December 31. The timing of the distribution is received quarterly, and is to be used for the general welfare of the Society. Accounting principles generally accepted in the United States of America require not-for-profit beneficiaries of such trust to record, as an asset, the present value of the estimated future cash receipts to be received from the Trust, over the life of the Trust. Due to the perpetual nature of this Trust, the future cash flows cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the Society's share of the fair market value of the Trust's assets. Changes in the Trust's fair value are included in the unrealized loss on investments in the statement of activities. The annual distribution of the Society's 4% distributive share of the Trust is recognized as bequest income and are included in contributions and grant income in the accompanying statements of activities.

Property and equipment: Property and equipment is stated at cost, if purchased, or fair market value, if donated.

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Maintenance and repairs are charged to expense as incurred; major improvements over \$1,000 that increase the useful lives of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income in the period realized. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets ranging from three to forty years.

Contributed services and goods: A substantial number of unpaid volunteers have made significant contributions of time to develop the Society's programs. The Society also receives various donated goods to be used in its operations. No amounts have been reflected in the financial statements for donated goods and services.

Functional allocation of expenses: Certain costs have been allocated among the programs and supporting services benefited. Allocations of costs by function are based principally on specific identification of costs to program, management and general, or fundraising. Non-specifically identified costs are based on management's allocation of time requirements for the various functions based on its analysis of historical activities.

Income tax status: The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore, has made no provision for federal income taxes in the accompanying financial statements. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Society complies with ASC 740-10, which establishes a threshold for determining when an income tax benefit of a tax position can be recognized. Under ASC 740-10, a tax position includes, among other things, (a) a decision not to file a tax return (b) an allocation or a shift of income between jurisdictions (c) the characterization of income or a decision to exclude reporting taxable income in a tax return (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt and (e) an entity's status, including its status as a tax-exempt not-for-profit entity. Based on its interpretation of the requirements of ASC 740-10, management believes that the Society has no uncertain tax positions that qualify for either recognition or disclosure. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Society is no longer subject to income tax examinations for years prior to 2014.

Mortgage closing costs: During the year ended June 30, 2017, the Society adopted the provisions of ASU 2015-03, which presents mortgage closing costs as a direct deduction from the carrying amount of the related obligation on the statement of financial position. Additionally, amortization of mortgage closing costs is reported as a component of interest expense and is computed using the straight line method which is not materially different than the effective interest method.

2. RISKS AND UNCERTAINTIES

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society's management considers those circumstances to be a normal business risk. As of June 30, 2017, the cash balance was covered by FDIC insurance.

3. PLEDGES RECEIVABLE

Pledges receivable consisted of \$103,250 receivable in one to three years as of June 30, 2017 and are measured at net realizable value.

4. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Society is the beneficiary of the Margaret E. Stickell Charitable Trust (the Trust) held and administered by independent trustees. Under the terms of the trust, the Society has the right to receive the income earned on trust assets in perpetuity. The fair value of the beneficial interest in a trust is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The Society's estimate of fair value at each

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

reporting date is based on fair value information received from the trustees. These assets are not subject to control or discretion by the Society. Market values are determined based on quoted market prices.

5. INVESTMENTS

The fair value of investments by major category consisted of the following as of June 30:

	2017
	LEVEL 1
Money market funds	\$ 112,062
Certificates of deposit	169,668
Equity securities	443,867
Corporate bonds	321,595
International equity securities	99,705
Mutual funds	678,119
	\$ 1,825,016

The schedule below summarizes the activity for the year ended June 30, 2017 for the beneficial interest in perpetual trust which has been classified as a level 3 investment:

	2017
	LEVEL 3
Beginning balance	\$ 414,761
Net gain	33,047
	\$ 447,808

Net investment return consisted of the following as of June 30:

	2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	BOARD DESIGNATED	TOTAL
Interest and dividends	\$ 154	\$ -	\$ 46,187	\$ 46,341
Realized gains on investment	-	-	6,834	6,834
Unrealized losses on investment	-	-	122,058	122,058
	154	-	175,079	175,233
Investment expense	-	-	(14,515)	(14,515)
	\$ 154	\$ -	\$ 160,564	\$ 160,718

The Society invests in a portfolio that contains a variety of investment types. Such investments are exposed to various risks, such as market, credit and interest rate risk. Due to the level of risk associated with such investments, it is at least reasonably possible that such risk may change in the near term and that such changes could materially affect the fair values of those investments as reported in the Society's financial statements. In addition, recent economic uncertainty and market events have led to unprecedented volatility in the currency, commodity, debt and equity markets that have resulted in the bankruptcy and/or failure of some financial institutions. Such events have highlighted the level of risk inherent in any investment portfolio. Management

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

believes that there has been no significant reduction of fair value since June 30, 2017.

6. LONG-TERM DEBT

At June 30, 2017, the Society had a note payable to a leasing company totaling \$8,275. The note is payable in monthly installments of \$682 and is secured by equipment purchased. Maturities by year are as follows:

2018	\$	8,184
2019		91
	\$	<u>8,275</u>

At June 30, 2017, the Society had a mortgage payable, collateralized by the building, totaling \$1,353,180 payable in monthly installments of \$7,743 including interest at a rate of 2.65% with final payment due December 2035.

Maturities by year are as follows:

2018	\$	57,260
2019		59,330
2020		60,921
2021		62,555
2022		64,233
Thereafter		1,019,624
	\$	<u>1,323,923</u>

7. LINE OF CREDIT

The Society has available a \$200,000 line of credit, secured by the Society's building, that automatically renews on a year by year basis in November. Interest is payable at a variable rate equal to the Prime Rate plus 50 basis points (4.75% at June 30, 2017). The line provides operating cash when needed during slower cash flow periods. As of June 30, 2017, \$140,000 was outstanding.

8. RETIREMENT PLAN

The Society sponsors a Saving Incentive Match Plan Individual Retirement Account (Simple IRA) covering all eligible full-time personnel. At the discretion of the Board of Trustees, the Society contributed three percent of each eligible participant's salary to the plan. Total contributions to the plan were \$22,337 for the year ended June 30, 2017, and are included in human resource benefits in the statement of functional expenses.

9. RESTRICTION ON NET ASSETS

Permanently restricted net assets are not available for use by the Society, but income derived from the investment is expendable for general support. Permanently restricted net assets total \$447,808 as of June 30, 2017.

Temporarily restricted net assets consist of the following as of June 30, 2017, and were available for the following purposes:

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

	2017			
	BALANCE	SATISFACTION		BALANCE
	June 30, 2016	ADDITIONS	OF RESTRICTIONS	June 30, 2017
ASPCA Programs	\$ 3,463	\$ 1,715	\$ (2,239)	\$ 2,939
Catsnip/ Dogsnip Programs	9,689	7,000	(16,226)	463
Community Outreach Adoption	2,925	-	-	2,925
Help Program	264	5,500	(5,501)	263
Mark A. Intino Scholarship Fund	3,265	-	(3,265)	-
SNAP Program	5,035	26,033	(25,657)	5,411
Spay/ Neuter Clinic	-	1,560	(1,560)	-
TNR Program	2,202	3,130	(3,459)	1,873
Promises to give receivable	155,875	-	(52,625)	103,250
Various	12,710	25,455	(23,042)	15,123
	\$ 195,428	\$ 70,393	\$ (133,574)	\$ 132,247

10. BOARD DESIGNATED NET ASSETS

As of June 30, board designated net assets consisted of the following:

	2017
Cash	\$ 91,840
Endowment fund	1,577,932
Capital investment fund	247,084
	\$ 1,916,856

The Board of Trustees of the Society has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) 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 Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gifts instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds; (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Activity in the Society's endowment fund consisted of the following for the year ended June 30:

	2017
	BOARD DESIGNATED
Endowment net assets, beginning of the year	\$ 1,972,629
Bequests and contributions	59,709
Investment return:	
Interest and dividends	47,675
Net appreciation (realized and unrealized)	127,567
Release of endowment assets:	
Approved expenditures	(276,209)
Investment expenses	(14,515)
Change in net assets	(55,773)
Endowment net assets, end of year	\$ 1,916,856

The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as the capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix.

The Society's spending policy will be the previous year's spending for operations plus a 6.5% increase annually (or \$127,800 for fiscal year ending June 30, 2017). Distributions from the endowment to the Society will be made quarterly.

The asset allocation target guideline is as follows:

Type of Investment	Range	Target
Large Cap Equities - Growth	7.5-12.5%	10.0%
Large Cap Equities - Value	7.5-12.5%	10.0%
Large Cap Equities - Blend	10-20%	15.0%
Mid Cap Equities - Blend	7.5-12.5%	8.0%
Small Cap Equities - Blend	7.5-12.5%	8.0%
Fixed Income	25-35%	30.0%
International Blend	10-15%	12.5%
Real Assets	2-6%	4.0%
Cash	0-5%	2.5%

HUMANE SOCIETY OF WASHINGTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

11. COMMITMENTS

In March 2013, the Society entered into a lease for 12 Kyocera FS1370DN Monochrome Printers. The lease requires 60 monthly payments of \$892 which includes the maintenance agreement, supplies, and fees for copies included in the agreed upon allowance. There will be additional charges for copies over the allowance. This lease also includes service for two additional multifunction machines and several printers not purchased through this agreement. Lease payments totaled \$10,704, and are included with supplies in the statement of functional expenses. The lease expires March 2018 and the Kyocera printers can be purchased at that time for \$1. Future minimum lease payments under the agreement will be \$8,028 for the year ended June 30, 2018.

The Society receives a substantial portion of its support from the Washington County government. In June 1999, the Society entered into a twenty-one-year agreement with the County to provide enforcement of the County's animal control ordinance. As of June 30, 2017, support from Washington County represented 57% of total revenue.

12. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 6, 2018, the date the financial statements were available to be issued.