BENTON FRANKLIN HUMANE SOCIETY

Financial Statements and Independent Auditors' Report

December 31, 2018

CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Benton Franklin Humane Society
Kennewick, Washington

We have audited the accompanying financial statements of Benton Franklin 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.

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.

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 auditors' 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 auditors consider 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 Benton Franklin Humane Society 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.

Northwest CPA Group PLLC

Tri-Cities, Washington
September 30, 2019

Benton Franklin Humane Society
Statement of Financial Position
December 31, 2018

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents		$ 74,946
Prepaid expenses		3,734
Investments		515,260
Beneficial interest in assets held by a foundation, *current*		100,000
Total current assets		693,940
PROPERTY AND EQUIPMENT:		
Buildings and improvements	$ 1,658,716	
Vehicles and equipment	303,638	
	1,962,354	
Less accumulated depreciation	571,158	
	1,391,196	
Land	159,718	
		1,550,914
OTHER ASSETS:		
Beneficial interest in assets held by a foundation, *noncurrent*		2,489,277
		$ 4,734,131

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable		$ 54,341
Payroll liabilities		14,896
Total current liabilities		69,237
NET ASSETS:		
Without donor restrictions	$ 2,075,617	
With donor restrictions	2,589,277	
Total net assets		4,664,894
		$ 4,734,131

Benton Franklin Humane Society
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Donations and grants	$ 488,599	$ 99,588	$ 588,187
Fundraising event revenue	23,790	-	23,790
Animal adoptions	159,930	-	159,930
Other revenue	31,727	-	31,727
	704,046	99,588	803,634
Net assets released from restrictions	100,000	(100,000)	-
	804,046	(412)	803,634
EXPENSES:			
Program services	691,341	-	691,341
Management and general	90,794	-	90,794
Fundraising	191,666	-	191,666
	973,801	-	973,801
CHANGES IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	(169,755)	(412)	(170,167)
OTHER INCOME (EXPENSE):			
Realized/unrealized loss on investments	(43,094)	-	(43,094)
Dividend income	15,769	-	15,769
Interest income	50	-	50
Investment fees	(3,763)	-	(3,763)
	(31,038)	-	(31,038)
CHANGES IN NET ASSETS	(200,793)	(412)	(201,205)
NET ASSETS, BEGINNING OF YEAR	2,276,410	2,589,689	4,866,099
NET ASSETS, END OF YEAR	$ 2,075,617	$ 2,589,277	$ 4,664,894

See accompanying notes to financial statements.

Benton Franklin Humane Society
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 358,408	$ 31,636	$ 61,739	$ 451,783
Animal care	145,154	-	-	145,154
Professional fundraising services	-	-	91,601	91,601
Depreciation expense	72,854	10,408	3,469	86,731
Payroll taxes	45,771	3,918	7,847	57,536
Occupancy	30,170	5,250	1,383	36,803
Fundraiser expenses	-	-	16,820	16,820
Office expenses	5,952	9,446	300	15,698
Repairs and maintenance	9,525	4,171	-	13,696
Professional fees	1,210	10,854	-	12,064
Postage, delivery and printing	4,330	2,962	3,869	11,161
Employee benefits	6,561	780	1,163	8,504
Insurance	6,168	1,165	583	7,916
Bank fees	1,439	4,091	-	5,530
Dues and subscriptions	-	3,627	-	3,627
Advertising and promotion	133	-	2,709	2,842
Taxes, licenses and permits	1,604	189	94	1,887
Miscellaneous expense	2,062	2,297	89	4,448
	$ 691,341	$ 90,794	$ 191,666	$ 973,801

Benton Franklin Humane Society
Statement of Cash Flows
Year Ended December 31, 2018

INCREASE IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from operations and donors		$ 704,046
Cash paid to suppliers and employees		(859,477)
Interest and dividends received		18
Net cash used in operating activities		(155,413)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	$ 80,000	
Receipts from beneficial interest in assets held by a foundation	100,000	
Net cash provided by investing activities		180,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		24,587
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		50,359
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 74,946

Reconciliation of Changes in Net Assets Without Donor Restrictions to Net Cash Used in Operating Activities:		
Changes in net assets without donor restrictions		$ (201,205)
Adjustments to reconcile changes in net assets without donor restrictions to net cash used in operating activities:		
Depreciation	$ 86,731	
Realized gain on investments	(1,172)	
Unrealized loss on investments	44,266	
Interest, dividends and fees reinvested	(15,801)	
Investment fees paid from investment funds	3,763	
Realized discount on beneficial interest in assets held by foundation	(99,588)	
Increase in assets:		
Prepaid expenses	(3,734)	
Increase in liabilities:		
Accounts payable	22,620	
Payroll liabilities	8,707	
Total adjustments		45,792
Net cash used in operating activities		$ (155,413)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Benton Franklin Humane Society (the Organization) is a not-for-profit charitable organization that provides support services for animals in Benton and Franklin Counties of Washington state, and surrounding areas. The Organization advocates for the humane treatment of animals through adoption counseling, educational outreach, and community services. Funding sources include shelter fees 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.

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.

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 mutual funds and exchange-traded products. 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.

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.

Beneficial interest in assets held by a foundation – The Organization is a beneficiary of a private foundation created in November 2007 to provide annual distributions over 150 years to five non-profit organizations. Annual distributions are received based on 5% of the foundation's assets, split equally with the four other nonprofit organizations. The Organization has valued the beneficial interest in assets held by a foundation at fair value based on future expected cash receipts from the foundation, discounted at 4%. The amounts ultimately realized could differ materially, and significant fluctuations in fair value could occur from year to year.

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

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.

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

Summary of Significant Accounting Policies (continued):

Allocation of expenses – The costs of program and supporting service activities have been reported on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail by function. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Costs have been allocated between the various programs and support services on several bases and estimates. Occupancy costs have been allocated based on square footage. Salaries, wages, payroll taxes, and employee benefits have been allocated based on estimated time spent on specific job duties. Depreciation expense is based on the estimated usage of the underlying property and equipment. Office expense, repairs and maintenance, professional fees, postage, delivery and printing, insurance, bank fees, advertising and promotion, taxes, licenses and permits, and miscellaneous expense is based on estimated usage benefited by program services or supporting services.

Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Advertising – Advertising cost is expensed as incurred. Advertising expense for the year ended December 31, 2018, was $2,842.

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.

Change in accounting principle – 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.

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

Summary of Significant Accounting Policies (continued):

New accounting pronouncement effective in future accounting periods –
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The amended guidance clarifies the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgements, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Organization for annual reporting periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for reporting periods beginning after December 15, 2018, and for contributions made for reporting periods beginning after December 31, 2019.

The Organization's management is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

NOTE 2 – AVAILABILITY AND LIQUIDITY:

The Organization receives significant unrestricted contributions and program revenues to meet cash needs and fund general operating expenditures.

The Board of Directors continually assesses the Organization's ability to meet general expenditure needs. The Organization makes every effort to maintain sufficient cash in its operating accounts to satisfy needs and draws from its investment account only when necessary. Draws from the investment account require Board approval.

NOTE 2 – AVAILABILITY AND LIQUIDITY (continued):

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

Cash and cash equivalents	$	74,946
Investments		515,260
Beneficial interest in assets held by a foundation		100,000
Total financial assets, available to meet cash needs for general expenditures within one year	$	690,206

NOTE 3 – INVESTMENTS:

Investments consisted of the following at December 31, 2018:

	Fair Value	Cost
Mutual funds	$ 499,631	$ 511,267
Exchange traded funds	3,014	3,009
Money market	12,615	12,615
	$ 515,260	$ 526,891

NOTE 4 – 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.

NOTE 4 – FAIR VALUE MEASUREMENTS (continued):

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 (Level 1): 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.

Beneficial interest in assets held by foundation (Level 3): Valued using an income approach by estimating annual distributions of $100,000 through November 2156 and presented at net present value, at a discount rate of 4%. Any difference between annual estimated distributions of $100,000 and actual amounts received is recorded as contributions in the Statement of Activities in the year received. During the year ended December 31, 2018, the actual amount received from the Foundation was $112,608.

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

	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Valued on a recurring basis:				
Investments:				
Money market	$ 12,615	$ -	$ -	$ 12,615
Mutual funds	499,631			499,631
Exchange traded funds	3,014	-	-	3,014
Total investments	$ 515,260	$ -	$ -	$ 515,260
Valued on a nonrecurring basis:				
Beneficial interest in assets held by a foundation	$ -	$ -	$ 2,589,277	$ 2,589,277

NOTE 4 – FAIR VALUE MEASUREMENTS (continued):

Beneficial interest in assets held by a foundation – The Organization has been named as a beneficiary of a charitable private foundation. Under conditions of the trust, the Organization, along with 4 other charitable organizations, will receive annual distributions based on 5% of the value of the foundation's assets through November 2156. The discounted value of the total estimated annual distributions is included in the statement of financial position as beneficial interest in assets held by a foundation.

A roll forward of the fair value measurements using unobservable inputs (Level 3) as of December 31, 2018, is as follows:

	Beneficial Interest in Assets Held by Foundation
Balance, December 31, 2017	$ 2,589,689
Estimated annual distribution	(100,000)
Present value discount	99,588
Balance, December 31, 2018	$ 2,589,277

NOTE 5 – 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 and investment fees are paid. The following summarizes the noncash investing transactions for the year ended December 31, 2018:

Sales	$ 357,391
Purchases	(280,786)
Interest and dividends reinvested	15,801
Investment fees	3,763

NOTE 6 – NET ASSET RESTRICTIONS:

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

Subject to passage of time:	
Beneficial interest in assets held by a foundation	$ 2,589,277

Net assets were released from donor restrictions through the passage of time as follows for the year ended December 31, 2018:

Expiration of time restriction:	
Receipt from beneficial interest in assets held by a foundation	$ 100,000
Realized discount on beneficial interest in assets held by a foundation	(99,588)
	$ 412

NOTE 7 – CONCENTRATIONS:

During the year ended December 31, 2018, approximately 23% of revenue and support was received from two donors. This support was distributed from a trust and a charitable private foundation, each of which name the Organization as a qualified beneficiary.

Charitable Remainder Annuity Trust – The Organization has received contributions from a charitable remainder annuity trust. The trust provides for the payment of distributions to a designated beneficiary and five nonprofit organizations for the life of the beneficiary. Distributions of 5% of the total trust assets are made annually, with $24,000 paid to the designated beneficiary and the remaining amount paid equally to the five nonprofit beneficiaries. At the end of the trust's terms, the remaining assets will be distributed as stipulated by the trust agreement. Information necessary to accurately measure the Organization's interest in the trust is not available, therefore, no related asset has been recorded in the financial statements.

Charitable Private Foundation – The Organization has also received contributions from a private foundation. Five percent of the assets of the foundation are distributed annually to the beneficiaries through November 2156. See also Note 1 and Note 4.

NOTE 8 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated by management through September 30, 2019, which is the date the financial statements were available to be issued.