The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.

anderson
ZURMUEHLEN

FINANCIAL REPORT

December 31, 2018

C O N T E N T S

anderson ZURMUEHLEN

ANDERSON ZURMUEHLEN & CO., P.C. • CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1019 E MAIN ST • SUITE 201 • BOZEMAN, MONTANA 59715
TEL: 406.556.6160 • FAX: 406.586.8719 • WEB: www.azworld.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Heart of the Valley, Inc.
Bozeman, Montana

We have audited the accompanying financial statements of Heart of the Valley, Inc. (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.

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 Heart of the Valley, Inc. as of December 31, 2018, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter
As discussed in Note 1 to the financial statements, Heart of the Valley, Inc. has adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information
We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anderson ZurMuehlen + Co., P.C.

Bozeman, Montana
July 24, 2019

FINANCIAL STATEMENTS

HEART OF THE VALLEY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018
(With Comparative Totals as of December 31, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 162,140	$ 349,563
Accounts receivable	33,441	33,132
Contributions receivable	25,000	-
Prepaid expenses	4,891	6,001
Inventory	3,275	-
Total current assets	228,747	388,696
PROPERTY AND EQUIPMENT		
Building and improvements	4,432,861	4,432,861
Equipment and vehicles	215,023	207,533
Land and improvements	716,456	600,278
Office furniture and equipment	156,788	155,718
	5,521,128	5,396,390
Less accumulated depreciation	(1,614,839)	(1,454,535)
	3,906,289	3,941,855
OTHER ASSETS		
Endowment investments	3,844,206	4,200,937
Total assets	$ 7,979,242	$ 8,531,488
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 12,340	$ 18,126
Accrued liabilities	58,161	63,660
Total current liabilities	70,501	81,786
NET ASSETS		
Without donor restrictions - undesignated	3,973,132	4,170,039
Without donor restrictions - designated	913,136	779,736
With donor restrictions	3,022,473	3,499,927
Total net assets	7,908,741	8,449,702
Total liabilities and net assets	$ 7,979,242	$ 8,531,488

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

HEART OF THE VALLEY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	Without donor restrictions	With donor restrictions	2018 Totals	2017 Totals
REVENUES				
Shelter services	$ 465,655	$ -	$ 465,655	$ 457,213
Investment income (loss)	10,085	(368,132)	(358,047)	633,866
Retail sales income, net	7,395	-	7,395	8,400
Other income	346	-	346	376
Total revenues	483,481	(368,132)	115,349	1,099,855
SUPPORT				
Donations	414,245	92,896	507,141	480,774
Fundraising events	328,467	-	328,467	241,033
Grants	104,370	-	104,370	154,024
In-kind support	99,402	-	99,402	130,768
Total support	946,484	92,896	1,039,380	1,006,599
NET ASSETS RELEASED FROM RESTRICTIONS				
Donor restricted endowment funds appropriated and released for current operations	133,400	(133,400)	-	-
Satisfaction of program restrictions	68,819	(68,819)	-	-
Total net assets released from restrictions	202,219	(202,219)	-	-
Total revenues, support, and satisfaction of restrictions	1,632,184	(477,455)	1,154,729	2,106,454
OPERATING EXPENSES				
Program services:				
Animal welfare	1,241,208	-	1,241,208	1,259,945
Supporting services:				
Fundraising expenses	344,038	-	344,038	286,525
General and administrative expenses	110,445	-	110,445	107,329
Total operating expenses	1,695,691	-	1,695,691	1,653,799
Change in net assets	(63,507)	(477,455)	(540,962)	452,655
Net assets, beginning of year	4,949,775	3,499,927	8,449,702	7,997,047
Net assets, end of year	$ 4,886,268	$ 3,022,472	$ 7,908,740	$ 8,449,702

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

HEART OF THE VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	Program	Supporting Services			
	Animal Welfare	Fundraising	General and Administrative	2018 Totals	2017 Totals
Advertising	$ -	$ 670	$ -	$ 670	$ -
Animal care	189,982	-	-	189,982	203,845
Depreciation	149,083	6,412	4,810	160,305	166,186
Dues and subscriptions	2,024	289	96	2,409	3,209
Equipment lease and maintenance	12,822	1,832	611	15,265	16,272
Fundraising	-	84,599	-	84,599	91,885
Information technology	4,495	245	153	4,893	6,333
Insurance	29,152	3,377	1,324	33,853	29,214
Occupancy expense	73,306	3,153	2,365	78,824	90,338
Office expense	20,287	20,905	5,943	47,135	48,454
Other	6,421	442	1,697	8,560	3,607
Payroll taxes	51,651	14,745	3,930	70,326	63,984
Professional fees	5,188	9,636	38,186	53,010	49,638
Salaries, wages, and benefits	664,510	189,703	50,558	904,771	843,745
Shelter services	9,389	-	-	9,389	8,911
Staff training and development	15,503	7,851	663	24,017	16,877
Travel	2,764	119	89	2,972	4,426
Volunteer and employee recognition	4,631	60	20	4,711	6,875
	$1,241,208	$ 344,038	$ 110,445	$1,695,691	$1,653,799

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

HEART OF THE VALLEY, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (540,962)	$ 452,655
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	160,305	166,186
Cash contributions restricted to endowment	(11,400)	(5,000)
Reinvested interest and dividends, net of investment fees	(107,958)	(83,422)
Loss on disposal of property and equipment	-	201
Net realized (gain)/loss on sales of investments	(506)	(521,414)
Net unrealized (gain)/loss on investments	466,511	(47,857)
Changes in operating assets and liabilities:		
Accounts receivable	(309)	(7,779)
Contributions receivable	(25,000)	-
Prepaid expenses	1,110	2,114
Inventory	(3,275)	-
Accounts payable and accrued liabilities	(11,285)	17,098
Net cash flows from operating activities	(72,769)	(27,218)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(501,934)	(3,255,693)
Proceeds from sales of investments	500,618	3,221,644
Purchases of property and equipment	(124,738)	(62,477)
Net cash flows from investing activities	(126,054)	(96,526)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions restricted to endowment	11,400	5,000
Net cash flows from financing activities	11,400	5,000
Net change in cash and cash equivalents	(187,423)	(118,744)
Cash and cash equivalents, beginning of year	349,563	468,307
Cash and cash equivalents, end of year	$ 162,140	$ 349,563

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

NOTE 1. ORGANIZATION AND NATURE OF ACTIVITIES

Organization and Nature of Activities

The Heart of the Valley, Inc. (the Organization) is a nonprofit organization that operates an animal shelter in Bozeman, Montana. The Organization's mission is to be a leader in enhancing the human-animal bond by providing pet owner support and homeless animal care for the citizens of Gallatin County and the surrounding region. Funding for the Organization's operations is obtained from public support and service revenues.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Basis of Accounting

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations 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 board of directors.
>
> *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations. 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, where by the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the period in which the restrictions are satisfied.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period pledged. Unrestricted promises to give that are scheduled to be received after one year are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the cash is received and any purpose restrictions are met. Donor restricted contributions whose restrictions are satisfied in the same reporting period are reported as net assets without donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of receipt.

It is the policy of the Organization to report gifts of land, buildings, 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 specifying how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents reported on the statement of financial position and the statement of cash flows include cash on hand and amounts held by financial institutions in checking and savings accounts.

The Organization maintains its cash deposits at various financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to $250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits. As of December 31, 2018 and 2017, the Organization's deposits exceeded the insured limits by $-0- and $29,533, respectively.

Accounts Receivable

Accounts receivable consist of uncollected shelter service revenues due under normal trade terms requiring payment within 30 days from the invoice date. Customer account balances with invoices dated over 30 days old are considered delinquent. These balances are stated at face value. The Organization does not maintain an allowance for doubtful accounts, as management considers all accounts to be fully collectible.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable are recorded and revenue is recognized at the time unconditional promises to give are made. These balances are stated at present value. The Organization does not maintain an allowance for doubtful accounts, as management considers all pledges to be fully collectible.

Inventory

Inventory is stated at the lower of cost or net realizable value, and consists of promotional items held for resale.

Property and Equipment

Asset acquisitions and expenditures for betterments, with a cost of $1,000 or greater and an expected life of at least two years, are recorded at cost, if purchased, and, if contributed, at estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Building and improvements	10 – 40	years
Equipment and vehicles	7 – 20	years
Land improvements	20 – 40	years
Office furniture and equipment	3 – 10	years

Total depreciation expense was $160,305 and $166,186 for the years ended December 31, 2018 and 2017, respectively.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividends and interest are recorded when received. Net appreciation includes gains and losses on investments sold as well as held during the year.

Compensated Absences

Employees must be full-time and pass a six-month probationary period to accrue vacation benefits. All full-time employees accrue a minimum of two weeks of vacation per year. In addition, extra leave days are accrued based on the years of employment up to a maximum of four weeks per year. Accrued compensated absences as of December 31, 2018 and 2017 amounted to $12,485 and $19,671, respectively.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs
The Organization expenses advertising costs as incurred. Advertising expense was $670 and $-0- for the years ended December 31, 2018 and 2017, respectively.

In-Kind Support
The Organization records various types of in-kind support including contributed facilities, professional services, and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by corresponding amounts reflected in expenses or assets.

Additionally, the Organization receives a significant amount of contributed services, which does not meet the recognition criteria described above. Accordingly, the value of these contributed services has not been determined and is not reflected in the accompanying financial statements.

Income Taxes
The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3) and has been ruled not to be a private foundation because it is a publicly supported organization.

Statement of Functional Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited using an appropriate basis consistently applied. These include office expenses, information technology, depreciation, and occupancy expenses. Occupancy and depreciation expense are allocated based on square footage. All other costs are allocated based on the estimates of time and efforts of full-time equivalent employees.

New Accounting Pronouncement
In 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements 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 in these financial statements accordingly. The Organization has elected not to restate 2017 for the liquidity disclosures, which is allowed in the year of implementation. The standard has been applied retrospectively to all periods presented, which had no effect on the change in net assets or total assets previously reported.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events
Management has evaluated subsequent events through July 24, 2019, the date which the financial statements were available to be issued.

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS

The Organization maintains investments with various financial institutions under the management of third-parties in accordance with its investment policy.

In accordance with GAAP, the Organization uses 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).

Basis of Fair Value Measurement
The three levels of the fair value input measurements under these standards are as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets;

Level 2 – Observable inputs for similar assets or liabilities in active markets, identical or similar assets in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived from observable market data by correlation or other means; and

Level 3 – Unobservable inputs for a reporting entity's own assumptions with respect to the assumptions market participants would use, other entity-specific inputs that are not derived from market data, and unobservable inputs that are developed based on the best information available in the circumstances.

A financial instrument's 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.

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 and 2017.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end funds registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Money market funds: Valued using pricing models maximizing the use of observable inputs for similar securities.

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents by level, within the fair value hierarchy, the Organization's investment assets at fair value, as of December 31, 2018 and 2017. As required by GAAP, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement. The Organization's policy for determining the timing of significant transfers between Levels 1, 2, and 3 is at the end of the reporting period.

	2018		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Mutual funds			
Commodities broad basket	$ 170,960	$ 13,758	$ 184,718
Large blend	1,510,781	(48,870)	1,461,911
Foreign large growth	840,289	(167,916)	672,373
Real estate	226,125	(16,773)	209,352
Foreign small/mid growth	362,194	(52,511)	309,683
Multi-sector bond	215,327	(2,656)	212,671
World bond	222,898	(1,860)	221,038
Ultrashort bond	214,625	(1,066)	213,559
Diversified emerging markets	331,526	(4,795)	326,731
Total exchange traded funds	4,094,725	(282,689)	3,812,036
Money market funds	32,170	-	32,170
Totals	$ 4,126,895	$ (282,689)	$ 3,844,206

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

	2017		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Mutual funds			
Commodities broad basket	$ 170,647	$ 38,938	$ 209,585
Large blend	1,519,466	63,182	1,582,648
Foreign large blend	802,451	(6,612)	795,839
World bond	365,756	16,958	382,714
Mid-cap blend	205,762	(716)	205,046
Real estate blend	203,750	(2,973)	200,777
Multi-sector bond	200,107	6,562	206,669
Diversified emerging markets	323,693	62,686	386,379
Corporate bonds	199,040	7,033	206,073
Total exchange traded funds	3,990,672	185,058	4,175,730
Money market funds	25,207	-	25,207
Totals	$ 4,015,879	$ 185,058	$ 4,200,937

NOTE 4. INVESTMENT INCOME

Components of investment and interest income for the years ended December 31, 2018 and 2017, consist of the following:

	2018	2017
Interest and dividend income	$ 121,935	$ 83,422
Unrealized gains (losses), net	(466,511)	47,857
Realized gains, net	506	521,414
Investment management fees	(13,977)	(18,827)
Totals	$ (358,047)	$ 633,866

NOTE 5. CONTRIBUTIONS RECEIVABLE

As of December 31, 2018 and 2017, contributions receivable amounted to $25,000 and $-0-, respectively. The balance as of December 31, 2018, is scheduled to be received in less than one year, therefore contributions receivable have not been discounted to present value.

NOTE 6. NET ASSETS

Net Assets without Donor Restrictions

Net assets without donor restrictions as of December 31, 2018 and 2017 consist of both designated and undesignated balances as follows:

	2018	2017
Undesignated	$ 3,973,132	$ 4,170,039
Board designated endowment funds	913,136	779,736
Total net assets without donor restrictions	$ 4,886,268	$ 4,949,775

Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 and 2017 are as follows:

	2018	2017
Subject to expenditure for specified purpose:		
Animal welfare	$ 91,403	$ 78,726
Perpetual in nature:		
Donor restricted endowment funds	2,557,608	2,546,209
Subject to Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	373,462	874,992
Total net assets with donor restrictions	$ 3,022,473	$ 3,499,927

NOTE 7. ENDOWMENT

In 2008, the Board of Directors determined that the establishment of a $5,000,000 endowment was necessary to fund continued operation and maintenance of the shelter. In accordance with GAAP, net assets associated with endowment funds 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted in the state of Montana, 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 donor restricted endowment funds held in perpetuity as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any 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.

NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated 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; and

(7) The investment policies of the Organization.

Endowment net asset composition by fund type for the years ended December 31, 2018 and 2017, respectively, are as follows:

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated endowment funds	$ 913,136	$ -	$ 913,136
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,557,608	2,557,608
Accumulated investment earnings	-	373,462	373,462
	$ 913,136	$ 2,931,070	$ 3,844,206

NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

	2017		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated endowment funds	$ 779,736	$ -	$ 779,736
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,546,209	2,546,209
Accumulated investment earnings	-	874,992	874,992
	$ 779,736	$ 3,421,201	$ 4,200,937

Changes in endowment net asset composition for the years ended December 31, 2018 and 2017, respectively, are as follows:

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 779,736	$ 3,421,201	$ 4,200,937
Investment return, net	-	(368,131)	(368,131)
Contributions	133,400	11,400	144,800
Appropriation of endowment assets for expenditure	-	(133,400)	(133,400)
	$ 913,136	$ 2,931,070	$ 3,844,206

NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

	2017		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 636,236	$ 2,877,959	$ 3,514,195
Investment return, net	-	631,742	631,742
Contributions	143,500	5,000	148,500
Appropriation of endowment assets for expenditure	-	(93,500)	(93,500)
	$ 779,736	$ 3,421,201	$ 4,200,937

For both of the years ended December 31, 2018 and 2017, the amount of the appropriation of endowment assets for expenditure was reinvested in the board designated endowment fund for long term investment.

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. There were no such deficiencies as of December 31, 2018 and 2017.

Return Objectives and Risk Parameters
The Organization has adopted investment and spending policies for endowment assets intended to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

NOTE 7. ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Organization has a spending policy of appropriating for distribution 4% of the average three years, December 31st ending endowment balances. Distributions from the endowment shall be limited to investment earnings as defined in the investment policy guidelines. The distribution will take place on March 1 of the calendar year and the distribution will be as follows:

- Zero if earnings are $-0-
- The earnings balance, if earnings are less than the eligible amount but greater than $-0-
- The eligible amount if earnings are greater than the eligible amount

In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to preserve the fair value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8. LIQUIDITY AND AVAILABILITY

The Organization receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Organization considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended December 31, 2018, restricted contributions of $91,403 were included in financial assets available to meet cash needs for general expenditures within one year.

In addition, the Organization receives support without donor restrictions and endowment investment income available for appropriation. The Organization also generates significant revenues from program activities, such as adoptions and animal control. These amounts are without restrictions, and available to meet cash needs for general expenditures.

Financial assets available for general expenditure include only those without donor or other restrictions limiting their use within one year of the balance sheet date.

NOTE 8. LIQUIDITY AND AVAILABILITY (CONTINUED)

Financial assets available for general expenditures within one year at December 31, 2018 are as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 162,140
Accounts receivable	33,441
Contributions receivable	25,000
Endowment investments	3,844,206
Total financial assets	4,064,787
Less amounts not available to use within one year:	
Endowment investments held in perpetuity	(2,557,608)
Unappropriated endowment earnings	(219,352)
Board designated endowment funds held for long-term investment	(913,136)
Total financial assets not available to use within one year	(3,690,096)
Total financial assets available to meet general expenditures within one year	$ 374,691

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization's annual operating budget anticipates receiving funds throughout the year from the following sources in order to operate on a "break-even" basis: Program service fees defray the cost of routine operations, annual fundraising events to support program activities, and grant sources sought.

Investments hold donor restricted endowment funds and board-designated endowment funds. These investments are intended to be held for long-term purposes. Per the Organization's endowment policy, the Organization has the option to withdraw up to 4% of the average year-end endowment balance from the prior three calendar years in order to meet general expenditures. As of December 31, 2018, the Board has approved $154,110 of earnings from the endowment to be appropriated and released for current operations in 2019. Therefore, this amount was included in financial assets available to meet cash needs for general expenditures within one year.

The board designated endowment funds are intended to be held for long-term investment, and therefore were not included in financial assets available to meet cash needs for general expenditures within one year. However, should these funds be needed due to unforeseen circumstances, they can be undesignated and used for general operations by approval of the Board of Directors.

NOTE 9. IN-KIND SUPPORT

The Organization received donated materials and professional services in 2018 and 2017 amounting to $99,402 and $130,768, respectively. Contributed services assisted the Organization with the operation of the shelter, fostering of animals, and office duties. Accordingly, donated materials and professional services are reflected in the financial statements as both revenues and expenses or revenues and fixed assets. The Organization also received benefit of approximately 21,904 and 20,170 hours of volunteer services in 2018 and 2017, respectively. In accordance with GAAP, the nature of these volunteer services does not meet the requirements of possessing specialized skills. Consequently, these donated services are not reflected in the financial statements.

NOTE 10. RETIREMENT PLAN

The Organization has adopted a SIMPLE IRA retirement plan (the Plan). Any employee (full-time or part-time) who has received at least $5,000 in compensation during any two calendar years and is reasonably expected to receive at least $5,000 in compensation in the next calendar year is eligible to participate in the Plan beginning on the first day of the next calendar year. The Organization offers a match amounting to 100% of each participant's voluntary contribution up to 3% of the participant's annual wages. Plan expenses and matching contributions for the years ended December 31, 2018 and 2017, amounted to $15,877 and $15,042, respectively.

NOTE 11. RELATED PARTY TRANSACTIONS

The Organization receives donations from multiple board members and the Executive Director, as well as donations from organizations where a board member has significant influence. Related party contributions for the years ended December 31, 2018 and 2017, were $97,795 and $71,600, respectively.

NOTE 12. CONCENTRATIONS

The Organization has a concentration of risk related to sources of support. During the year ended December 31, 2018, the Organization received 10% of its revenue from one donor. This donation was restricted for land improvements and was not received for general operations. There were no concentrations of risk related to sources of support for the year ended December 31, 2017.