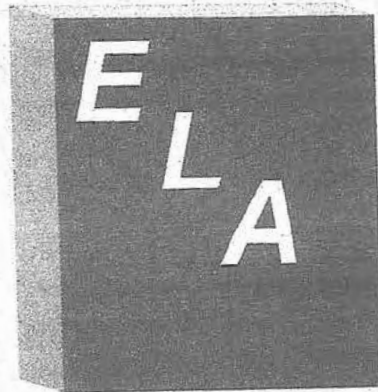


WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

For The Years Ended December 31, 2015 and 2014



**Eric L. Anderson, C.P.A., Inc., P.S.
Certified Public Accountant**

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

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Eric L. Anderson, C.P.A., Inc., P.S.
Certified Public Accountant

Member of:
American Institute of Certified Public Accountants
Washington Society of Certified Public Accountants
Private Companies Practice Section of Firms of AICPA

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Whidbey Animals' Improvement Foundation
Coupeville, WA**

I have audited the accompanying financial statements of Whidbey Animals' Improvement Foundation (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows, and functional expenses for the years 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whidbey Animals' Improvement Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Eric L Anderson, CPA

Eric L Anderson, CPA, Inc., PS

Everett, WA

September 16, 2016

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash	\$ 103,449	\$ 102,625
Restricted cash	183,072	1,969,079
Accounts receivable	8,333	16,667
Promises to give, current portion	10,410	91,391
Inventories	13,870	12,729
Prepaid expenses and deposits	13,160	6,786
Donated land held for sale	10,000	10,000
Total current assets	<u>342,294</u>	<u>2,209,277</u>
Property, plant and equipment		
Building, equipment and fixtures net of accumulated depreciation of \$167,047 and \$121,440, respectively	3,701,551	303,484
Land	82,494	82,494
Construction in progress	-	863,528
Net property, plant and equipment	<u>3,784,045</u>	<u>1,249,506</u>
Other assets		
Promises to give, less current portion	7,358	3,010
Notes receivable	254,769	75,000
Total other assets	<u>262,127</u>	<u>78,010</u>
Total assets	<u>\$ 4,388,466</u>	<u>\$ 3,536,793</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 24,384	\$ 6,992
Line of credit	200,000	-
Current portion, long-term debt	3,026	2,607
Other accrued liabilities	55,071	66,897
Total current liabilities	<u>282,481</u>	<u>76,496</u>
Long-term debt, net of current portion	<u>4,169</u>	<u>8,950</u>
Total liabilities	<u>286,650</u>	<u>85,446</u>
NET ASSETS:		
Unrestricted	3,889,353	1,363,415
Temporarily restricted	212,463	2,087,932
Total net assets	<u>4,101,816</u>	<u>3,451,347</u>
Total liabilities and net assets	<u>\$ 4,388,466</u>	<u>\$ 3,536,793</u>

See accompanying notes to financial statements.

**WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Donations:			
Cash	\$ 520,614	\$ 579,918	\$ 1,100,532
Noncash	47,720	-	47,720
Thrift shop, merchandise sales and other fundraising revenue	691,091	-	691,091
Grants	-	29,300	29,300
Shelter program revenue	177,847	-	177,847
Miscellaneous income	499	-	499
Interest	-	26,661	26,661
Total	<u>1,437,771</u>	<u>635,879</u>	<u>2,073,650</u>
Net assets released from restrictions- Satisfaction of program restrictions	<u>2,511,348</u>	<u>(2,511,348)</u>	<u>-</u>
Total support and revenue	<u>3,949,119</u>	<u>(1,875,469)</u>	<u>2,073,650</u>
Expenses:			
Program services	567,245	-	567,245
Management and general	141,741	-	141,741
Thrift store operations	544,615	-	544,615
Fundraising	169,580	-	169,580
Total expenses	<u>1,423,181</u>	<u>-</u>	<u>1,423,181</u>
Change in net assets	2,525,938	(1,875,469)	650,469
Net assets, beginning of year	<u>1,363,415</u>	<u>2,087,932</u>	<u>3,451,347</u>
Net assets, end of year	<u>\$ 3,889,353</u>	<u>\$ 212,463</u>	<u>\$ 4,101,816</u>

See accompanying notes to financial statements.

2014

Unrestricted	Temporarily Restricted	Total
\$ 359,886	\$ 1,681,383	\$ 2,041,269
16,519	-	16,519
555,259	-	555,259
-	179,490	179,490
198,825	-	198,825
635	14,754	15,389
-	1,894	1,894
<u>1,131,124</u>	<u>1,877,521</u>	<u>3,008,645</u>
<u>735,752</u>	<u>(735,752)</u>	-
<u>1,866,876</u>	<u>1,141,769</u>	<u>3,008,645</u>
520,437	-	520,437
106,690	-	106,690
490,873	-	490,873
<u>208,054</u>	-	<u>208,054</u>
<u>1,326,054</u>	-	<u>1,326,054</u>
540,822	1,141,769	1,682,591
<u>822,593</u>	<u>946,163</u>	<u>1,768,756</u>
<u>\$ 1,363,415</u>	<u>\$ 2,087,932</u>	<u>\$ 3,451,347</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 650,469	\$ 1,682,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,171	21,304
Received in-kind donated asset	(2,315)	(2,300)
Net (increase) decrease in accounts receivable	8,334	(4,984)
Net (increase) decrease in pledges receivable	76,633	(62,524)
Net (increase) decrease in inventory and prepaid expenses	(7,515)	(2,088)
Net increase (decrease) in accounts payable	17,392	(31,407)
Net increase (decrease) in accrued liabilities	(11,826)	5,345
Contributions restricted for long-term purposes	(609,329)	(1,684,430)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>174,014</u>	<u>(78,493)</u>
CASH FLOWS (USED) FROM INVESTING ACTIVITIES		
Additions to construction in progress	-	(529,498)
Purchases of property and equipment	(2,568,526)	(9,105)
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,568,526)</u>	<u>(538,603)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowing on line of credit	200,000	-
Principal payments on long-term debt	(4,362)	(2,798)
Contributions restricted for long-term purposes	609,329	1,684,430
NET CASH PROVIDED BY FINANCING	<u>604,967</u>	<u>1,681,632</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>(1,785,183)</u>	<u>1,064,536</u>
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>2,071,704</u>	<u>1,007,168</u>
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 286,521</u>	<u>\$ 2,071,704</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest during the year	<u>\$ 2,220</u>	<u>\$ -</u>
See accompanying notes to financial statements.		

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services				Supporting Services			Total Supporting Services	Total Expenses
	Outreach	Cat Adoption Centers	Animal Shelters	Total Program Services	Management and General	Thrift Store Operations	Fundraising		
Employee Compensation:									
Salaries/labor	\$ 33,099	\$ 54,905	\$ 171,213	\$ 259,217	\$ 84,036	\$ 346,928	\$ 89,885	\$ 520,849	\$ 780,066
Payroll taxes	3,165	8,448	25,791	37,404	6,487	51,668	8,940	67,095	104,499
Total salaries and related expenses	36,264	63,353	197,004	296,621	90,523	398,596	98,825	587,944	884,565
Other Expenses:									
Accounting and legal fees	-	-	-	-	15,605	-	1,895	17,500	17,500
Advertising	7,005	-	188	7,193	-	26	1,766	1,792	8,985
Automobile expenses	-	-	1,464	1,464	-	3,216	80	3,296	4,760
B&O taxes	4	51	2,619	2,674	-	2,983	4	2,987	5,661
Bank charges and bad debts	-	931	1,443	2,374	4,439	12,076	4,913	21,428	23,802
Development and events expenses	5,795	-	-	5,795	-	-	15,942	15,942	21,737
Consultants	-	-	3,040	3,040	-	-	3,381	3,381	6,421
Insurance	-	1,014	8,521	9,535	2,528	8,724	1,875	13,127	22,662
Interest	-	-	-	-	1,742	-	478	2,220	2,220
In-kind expense	196	-	25,171	25,367	-	2,940	7,169	10,109	35,476
License, permits, taxes	-	-	100	100	1,261	-	200	1,461	1,561
Meetings, dues and education	191	15	162	368	1,554	15	375	1,944	2,312
Miscellaneous	-	60	547	607	-	1,148	344	1,492	2,099
Occupancy and storage	-	21,378	13,201	34,579	1,302	101,028	9,717	112,047	146,626
Postage	3,608	-	153	3,761	647	-	6,039	6,688	10,449
Printing and publications	8,572	245	608	9,425	-	-	8,200	8,200	17,625
Small equipment and signage	752	1,713	6,938	9,403	75	1,097	1,468	2,640	12,043
Supplies	501	11,637	50,095	62,233	682	3,560	2,113	6,355	68,588
Telephone, internet and website	571	2,940	7,997	11,508	3,644	5,491	3,224	12,359	23,867
Travel	87	966	1,431	2,484	2,118	-	220	2,338	4,822
Veterinary fees	-	405	46,824	47,229	-	-	-	-	47,229
Total expenses before depreciation	63,546	104,708	367,506	535,760	126,120	540,902	168,228	835,250	1,371,010
Depreciation	528	4,396	26,561	31,485	15,621	3,713	1,352	20,686	52,171
Total expenses	\$ 64,074	\$ 109,104	\$ 394,067	\$ 567,245	\$ 141,741	\$ 544,615	\$ 169,580	\$ 855,936	\$ 1,423,181

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services				Supporting Services					Total Expenses
	Outreach	Cat Adoption Centers	Animal Shelters	Spay/Neuter Suites	Total Program Services	Management and General	Thrift Store Operations	Fundraising	Total Supporting Services	
Employee Compensation:										
Salaries/labor	\$ 29,050	\$ 66,592	\$ 169,011	\$ 1,854	\$ 266,507	\$ 71,885	\$ 306,950	\$ 93,724	\$ 472,559	\$ 739,066
Payroll taxes	3,606	9,186	2,052	233	34,077	6,046	38,476	9,156	53,678	87,755
Total salaries and related expenses	32,656	75,778	190,063	2,087	300,584	77,931	345,426	102,880	526,237	826,821
Other Expenses:										
Accounting and legal fees	297	595	6,573	-	7,465	5,389	4,239	5,088	14,716	22,181
Advertising	7,701	-	358	-	8,059	-	103	1,937	2,040	10,099
Automobile expenses	-	-	3,004	-	3,004	-	3,575	-	3,575	6,579
B&O taxes	-	110	2,504	116	2,730	732	2,719	7	3,458	6,188
Bank charges and bad debts	2	1,473	1,705	-	3,180	740	12,452	5,447	18,639	21,819
Development and events expenses	3,083	-	22	-	3,105	-	-	-	-	3,105
Consultants	-	-	2,760	-	2,760	-	-	50,900	50,900	53,660
Insurance	-	543	4,561	-	5,104	300	4,670	3,155	8,125	13,229
In-kind expense	-	319	9,386	-	9,705	-	-	-	-	9,705
License and permits	-	-	-	100	100	125	31	192	348	448
Meetings, dues and education	125	-	120	1,510	1,755	1,146	44	881	2,071	3,826
Miscellaneous	-	167	443	-	610	-	267	32	299	909
Occupancy and storage	-	20,189	8,728	-	28,917	1,734	101,002	3,099	105,835	134,752
Postage	4,010	3	12	-	4,025	637	-	9,018	9,655	13,680
Printing and publications	5,199	34	1,527	-	6,760	-	57	16,372	16,429	23,189
Small equipment and signage	426	2,316	2,897	-	5,639	397	2,302	2,397	5,096	10,735
Supplies	546	19,864	40,565	3,010	63,985	925	4,114	1,599	6,638	70,623
Telephone, internet and website	811	2,354	6,079	-	9,244	5,906	5,708	4,259	15,873	25,117
Travel	87	667	1,431	-	2,185	2,154	34	290	2,478	4,663
Veterinary fees	-	2,465	38,138	2,819	43,422	-	-	-	-	43,422
Total expenses before depreciation	54,943	126,877	320,876	9,642	512,338	98,116	486,743	207,553	792,412	1,304,750
Depreciation	240	6,127	1,641	91	8,099	8,574	4,130	501	13,205	21,304
Total expenses	\$ 55,183	\$ 133,004	\$ 322,517	\$ 9,733	\$ 520,437	\$ 106,690	\$ 490,873	\$ 208,054	\$ 805,617	\$ 1,326,054

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Whidbey Animals' Improvement Foundation (the Foundation), a nonprofit Washington corporation, is dedicated to provide support for interim care given by animal shelters and foster care personnel to stray, lost, abandoned, free roaming or surrendered companion animals on Whidbey Island, Washington.

The Foundation has four major programs:

Animal Shelter -The Foundation works to improve the quality of lives of animals at the shelter by providing food, heat, medication, veterinary services and general animal care. They maintain a minimum kill facility in Coupeville, Island County by facilitating adoptions of shelter animals by advertising the availability of animals in publications; placing posters in local businesses, posting information on the WAIF website and using various social media posts.

Cat Adoption Center -The Foundation maintains locations at Oak Harbor and Freeland, Island County for the adoption of cats. These locations provide adoption opportunities for cats.

Community Outreach -The Foundation provides educational materials to be distributed to the public on the benefits of spaying and neutering and responsible pet care. They also distribute coupons to needy pet owners to defray the cost of spaying and neutering their pets.

Spay/Neuter Suite -The Foundation provides spay and neuter services to the homeless animals in the shelter in their own surgery suite. Local veterinarians provide these services through contracts and donations of their time. The goal of this program is that all animals adopted through the Foundation will be altered.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Foundation's management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE A - (Continued)

Basis of Presentation

Financial presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of December 31, 2015 and 2014 the Foundation held no permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in various types of bank accounts including checking and money market accounts. The Foundation maintains cash balances with various financial institutions that may at times exceed insured limits.

Restricted cash consists of cash in various types of bank accounts, including checking and savings accounts, where the Foundation keeps restricted cash donations, including those designated for the New Shelter campaign.

Accounts Receivable

The Foundation extends credit to its customers in the normal course of business and performs ongoing credit evaluations of its customers. Accounts 30 days or more past due are not assessed finance charges. Management considers accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts at December 31, 2015 and 2014, which does not materially differ from the allowance method.

Inventories

The Foundation records inventories at the lower of donated value or market. The Foundation records other inventory at the lower of cost or market on a first-in, first-out basis (FIFO).

Contributions Received and Made

Under FASB ASC 958-605, *Revenue Recognition - Contributions Received*, contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions in the period that the promise is made.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE A - (Continued)

Depreciation and Capitalization Policy

The cost of purchased fixtures and equipment or fair market values of donated assets are being depreciated using the straight-line method over a period of five to thirty-nine years. The Foundation capitalizes fixtures and equipment with an aggregate cost greater than \$500 and a useful life of one year or greater. Depreciation expense totaled \$52,171 and \$21,304 for 2015 and 2014, respectively.

Sales Tax

The state of Washington imposes a sales tax on all of the Foundation's non-exempt sales. The Foundation collects sales tax from customers and remits the entire amount to the state. The Foundation's accounting policy is to exclude the tax collected and remitted to the state from non-exempt sales.

Joint Fundraising Costs

The Foundation sends out newsletters that contain donation requests. A portion of the costs of these newsletters has been allocated to fundraising. The functional expense categories that include allocated costs to fundraising are printing and publications, supplies and postage.

Advertising

The Foundation uses advertising to promote its programs among the audiences it services. The costs of advertising are expensed as incurred.

Allocation of Functional Expenses

The Foundation allocates all functional expenses to each program based on management's best estimates of program utilization after analysis of the current year budget and prior year's history. Where no prior information is available, expenses are allocated on a consistent basis which appears most reasonable to management.

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosure of an estimate of fair value for certain financial instruments. The Foundation's significant financial instruments are cash, accounts/grants receivable, promises to give and other short-term assets and liabilities. For these financial instruments, carrying value approximates fair value.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE B - PROMISES TO GIVE-CAPITAL CAMPAIGN

In 2010, the Foundation began a capital campaign for the construction of a new shelter. The following is included in pledges receivable and restricted contributions as of December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Promises to give in less than one year	\$ 10,410	\$ 91,391
Promises to give over one year	<u>7,358</u>	<u>3,010</u>
Total	<u>\$ 17,768</u>	<u>\$ 94,401</u>

NOTE C - NOTES RECEIVABLE

Note receivable is a \$75,000 promissory note received as part of a bequest and two judgements in favor of the Foundation, part of the same bequest, totaling \$155,646. The note is secured by a deed of trust and bears interest at 4% per annum with payments of \$360 per month commencing the first day of October 2014 and continuing until September 2018 at which time the entire balance of principal and accrued interest shall be due. The judgements bear interest at the rate of 12% per annum. Payments on the judgements began in December 2015 and have been averaging \$1,000 per month. The total amount receivable at December 31, 2015, including accrued interest, is \$80,947 for the note and \$173,822 for the judgements.

NOTE D - INVENTORY

People in the community donate used clothing and household items to the Foundation and these items are sold in the thrift shops, located in Freeland, Coupeville and in Oak Harbor as part of the Foundation's fundraising efforts. Fair market value of the donated items is equal to what the Foundation can sell them for. The value of the items donated for the year ended December 31, 2015 was \$627,055. The used inventory held for resale has been consistently valued at approximately 1.5 % of sales.

The Foundation also purchases sweatshirts and other small items with the Foundation's logo and sells them at the Animal Shelter. In addition to inventory for resale, the Foundation maintains an inventory of supplies and medications for use at the shelter. The inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventory at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Used inventory held for resale	\$ 13,795	\$ 12,654
Purchased inventory for resale	<u>75</u>	<u>75</u>
Total inventory	<u>\$ 13,870</u>	<u>\$ 12,729</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE E – IN-KIND CONTRIBUTIONS

The Foundation recognizes contributed property, facilities and services in accordance with Financial Accounting Standards Board ASC 958-605-25-16, *Contributed Services*, the Foundation recognizes contributions of services only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals that possess those skills, and would need to be purchased if not provided by donation. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily or permanently restricted contributions depending on the restriction. The Foundation reports expirations of donor temporarily restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation also recognizes the donation of other noncash items of expense that the Foundation would have to purchase in the open market. Donated services and facilities are reflected in the financial statements at the amount that the Foundation would have had to purchase them on the open market.

During the years ended December 31, 2015 and 2014, in-kind contributions consisted of the following:

	<u>2015</u>	<u>2014</u>
Rent, Animal Shelter	\$ 13,674	\$ 13,674
Property, stock and vehicles	65,339	909,325
Shelter food, supplies and materials	<u>38,956</u>	<u>16,519</u>
Total	<u>\$ 117,969</u>	<u>\$ 939,518</u>

In addition, the Foundation received donations of used clothing and household goods valued at \$627,055 and \$575,174 for the years ended December 31, 2015 and 2014, respectively.

The Foundation also had a substantial number of unpaid volunteers who donated significant amounts of time. The value of this contributed time is not reflected in the accompanying financial statements since there is no objective basis available to measure the value of such time and it does not meet the criteria for recognition under FASB ASC 958-605-25-16, *Contributed Services*.

NOTE F – BANK LINE OF CREDIT

Short-term borrowings are made under a Revolving Credit Agreement with a local bank, under which the Foundation may borrow, with certain restrictions, up to \$750,000 at an interest rate equal to prime rate of 3.5% as of December 31, 2015. As of December 31, 2015 there was an outstanding balance of \$200,000 to finance the completion of the new shelter due. As of December 31, 2015 and for the year then ended the Foundation was in compliance with loan covenants. The agreement expires July 20, 2016.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

NOTE G – LONG-TERM DEBT

The Foundation entered into a capital lease to purchase a telephone system. Payments are \$363 per month with maturity in December 2018. The lease is secured with the equipment acquired.

Total outstanding as of December 31, 2015	\$ 7,195
Less current portion	<u>3,026</u>
Net long term portion	<u>\$ 4,169</u>

Annual maturities of the capital lease is as follows for the years ending December 31:

2016	\$ 3,026
2017	3,513
2018	<u>656</u>
	<u>\$ 7,195</u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
New shelter capital campaign	\$ 191,398	\$ 2,063,480
Fund-A-Need	<u>21,066</u>	<u>24,452</u>
Total	<u>\$ 212,464</u>	<u>\$ 2,087,932</u>

NOTE I - SHELTER PROGRAM REVENUE

The Foundation manages the Whidbey Island Animal Shelter under a contract with Island County for a minimum monthly fee of \$4,365. The Foundation also manages an animal shelter for the City of Oak Harbor under a contract for a minimum monthly fee of \$8,333. The loss of these funding sources would have a negative effect on the operations of the Foundation, and could put the future of the Foundation in jeopardy. In addition, medical and other fees are charged to individuals who use the shelter facilities to adopt or surrender animals. Program revenue is summarized as follows:

	<u>2015</u>	<u>2014</u>
City of Oak Harbor management contract	\$ 100,000	\$ 115,000
Island County management contract	52,373	52,373
Medical and miscellaneous fees	<u>25,473</u>	<u>31,452</u>
Total program revenue	<u>\$ 177,846</u>	<u>\$ 198,825</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
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NOTE J - OPERATING LEASES

The Foundation leases three buildings and one parking lot on Whidbey Island, Washington. The first building, which serves as a thrift shop and cat adoption center, is located in Oak Harbor. This lease terminates July 15, 2020, with one successive extension remaining on this lease to be exercised for a period of five years. The lease for the parking lot adjacent to the Oak Harbor thrift shop and cat adoption center, which began July 16, 2015, also expires July 15, 2020. The second building, which serves as a thrift shop, is located in Freeland. The Freeland thrift shop lease expires July 31, 2017, with one 5 year option to renew. The third building, which serves as a cat adoption center, is also located in Freeland, and expired August 31, 2014 and is now month to month. In the normal course of business, operating leases are generally renewed or replaced by other operating leases. All of these leases require the lessee to pay all utility costs. Minimum future payments under these operating lease agreements for the remaining terms of the leases are as follows:

For the years ending December 31,	
2016	\$ 92,802
2017	80,448
2018	62,706
2019	63,890
2020	29,940
Total minimum lease rental	<u>\$ 329,786</u>

Rental expenses under operating leases were \$100,005 and \$99,480 for 2015 and 2014, respectively.

NOTE K - NEW SHELTER CAPITAL CAMPAIGN

The Foundation brought together a team to commence a capital campaign to raise the funds necessary to construct a new shelter on the land owned by the Foundation in Coupeville. Temporary restrictions on net assets at the end of 2015 and 2014 are related in part to funds raised through the capital campaign. Funds are restricted for the acquisition and construction, plus other direct costs and expenses related to the new shelter. Construction of the Annex was completed in October of 2014 and the Shelter was completed in September of 2015. The Capital Campaign is expected to conclude in September 2016.

NOTE L - INCOME TAXES

The Foundation is a not-for-profit organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation does not conduct any activities that would result in unrelated business income and therefore is not required to file Form 990T, Exempt Organization Business Tax Return. Therefore, no provision for income tax is included in these financial statements.

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NOTE L – (Continued)

The Foundation's tax filings are subject to audit by various taxing authorities. The Foundation's open audit periods are 2011-2015, generally for three years after they were filed. At December 31, 2015 and 2014, and for the years then ended the Foundation recognized \$0 in interest and penalties in relation to income taxes in the accompanying financial statements.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 16, 2016, the date the financial statements were available to be issued. In June 2016, the Organization paid the outstanding balance on the Line of Credit.