

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

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

For The Years Ended December 31, 2016 and 2015



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

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION

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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, 2016 and 2015, 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, 2016 and 2015, 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

October 31, 2017

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash	\$ 890,206	\$ 103,449
Restricted cash	119,220	183,072
Accounts receivable	8,500	8,333
Promises to give, current portion	3,950	10,410
Inventories	14,075	13,870
Prepaid expenses and deposits	10,205	13,160
Donated land held for sale	10,000	10,000
Total current assets	<u>1,056,156</u>	<u>342,294</u>
Property, plant and equipment		
Building, equipment and fixtures net of accumulated depreciation of \$280,946 and \$167,047, respectively	3,595,079	3,702,253
Land	81,792	81,792
Net property, plant and equipment	<u>3,676,871</u>	<u>3,784,045</u>
Other assets		
Promises to give, less current portion	2,608	7,358
Notes receivable	268,240	254,769
Total other assets	<u>270,848</u>	<u>262,127</u>
Total assets	<u>\$ 5,003,875</u>	<u>\$ 4,388,466</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 21,579	\$ 24,384
Line of credit	-	200,000
Current portion, long-term debt	2,834	3,026
Other accrued liabilities	66,608	55,071
Total current liabilities	<u>91,021</u>	<u>282,481</u>
Long-term debt, net of current portion	<u>-</u>	<u>4,169</u>
Total liabilities	<u>91,021</u>	<u>286,650</u>
NET ASSETS:		
Unrestricted	4,793,634	3,889,353
Temporarily restricted	119,220	212,463
Total net assets	<u>4,912,854</u>	<u>4,101,816</u>
Total liabilities and net assets	<u>\$ 5,003,875</u>	<u>\$ 4,388,466</u>

See accompanying notes to financial statements.

**WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Donations:			
Cash	\$ 810,527	\$ 147,601	\$ 958,128
Noncash	263,253	156,973	420,226
Thrift shop, merchandise sales and other fundraising revenue	777,548	-	777,548
Grants	-	-	-
Shelter program revenue	195,308	-	195,308
Miscellaneous income	(11,681)	-	(11,681)
Interest & dividends	-	24,899	24,899
Total	<u>2,034,955</u>	<u>329,473</u>	<u>2,364,428</u>
Net assets released from restrictions- Satisfaction of program restrictions	<u>422,716</u>	<u>(422,716)</u>	<u>-</u>
Total support and revenue	<u>2,457,671</u>	<u>(93,243)</u>	<u>2,364,428</u>
Expenses:			
Program services	709,689	-	709,689
Management and general	135,253	-	135,253
Thrift store operations	581,819	-	581,819
Fundraising	126,629	-	126,629
Total expenses	<u>1,553,390</u>	<u>-</u>	<u>1,553,390</u>
Change in net assets	904,281	(93,243)	811,038
Net assets, beginning of year	<u>3,889,353</u>	<u>212,463</u>	<u>4,101,816</u>
Net assets, end of year	<u>\$ 4,793,634</u>	<u>\$ 119,220</u>	<u>\$ 4,912,854</u>

See accompanying notes to financial statements.

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 507,040	\$ 523,243	\$ 1,030,283
61,294	56,675	117,969
691,091	-	691,091
-	29,300	29,300
177,847	-	177,847
499	-	499
-	26,661	26,661
<u>1,437,771</u>	<u>635,879</u>	<u>2,073,650</u>
<u>2,511,348</u>	<u>(2,511,348)</u>	<u>-</u>
<u>3,949,119</u>	<u>(1,875,469)</u>	<u>2,073,650</u>
567,245	-	567,245
141,741	-	141,741
544,615	-	544,615
169,580	-	169,580
<u>1,423,181</u>	<u>-</u>	<u>1,423,181</u>
2,525,938	(1,875,469)	650,469
<u>1,363,415</u>	<u>2,087,932</u>	<u>3,451,347</u>
<u>\$ 3,889,353</u>	<u>\$ 212,463</u>	<u>\$ 4,101,816</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 811,038	\$ 650,469
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	113,899	52,171
Received in-kind donated asset	-	(2,315)
Accrued interest on notes receivable	(14,640)	-
Net (increase) decrease in accounts receivable	(167)	8,334
Net (increase) decrease in pledges receivable	11,210	76,633
Net (increase) decrease in inventory and prepaid expenses	2,750	(7,515)
Net increase (decrease) in accounts payable	(2,805)	17,392
Net increase (decrease) in accrued liabilities	11,537	(11,826)
Contributions restricted for long-term purposes	(93,243)	(409,329)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>839,579</u>	<u>374,014</u>
CASH FLOWS (USED) FROM INVESTING ACTIVITIES		
Payments received from note receivable	1,169	-
Purchases of property and equipment	(6,725)	(2,568,526)
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,556)</u>	<u>(2,568,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) or borrowing on line of credit	(200,000)	200,000
Principal payments on long-term debt	(4,361)	(4,362)
Contributions restricted for long-term purposes	93,243	409,329
NET CASH PROVIDED (USED) BY FINANCING	<u>(111,118)</u>	<u>604,967</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	722,905	(1,785,183)
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>286,521</u>	<u>2,071,704</u>
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 1,009,426</u>	<u>\$ 286,521</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest during the year	<u>\$ 3,737</u>	<u>\$ 2,220</u>
See accompanying notes to financial statements.		

**WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services				Supporting Services				Total Expenses
	Outreach	Cat Adoption Centers	Animal Shelters	Total Program Services	Management and General	Thrift Store Operations	Fundraising	Total Supporting Services	
Employee Compensation:									
Salaries/labor	\$ 34,277	\$ 47,416	\$ 194,896	\$ 276,589	\$ 85,372	\$ 375,825	\$ 90,172	\$ 551,369	\$ 827,958
Payroll taxes	3,149	6,841	26,489	36,479	6,586	56,227	8,470	71,283	107,762
Total salaries and related expenses	37,426	54,257	221,385	313,068	91,958	432,052	98,642	622,652	935,720
Other Expenses:									
Accounting and legal fees	138	275	4,948	5,361	14,738	4,673	6,956	26,367	31,728
Advertising	8,740	-	2,420	11,160	100	-	74	174	11,334
Automobile expenses	-	-	1,889	1,889	261	4,935	-	5,196	7,085
B&O taxes	6	45	2,890	2,941	-	3,112	4	3,116	6,057
Bank charges and bad debts	-	1,037	1,712	2,749	6,442	12,084	4,573	23,099	25,848
Development and events expenses	2,330	-	155	2,485	-	-	1,025	1,025	3,510
Consultants	-	-	6,640	6,640	-	-	-	-	6,640
Insurance	830	638	5,549	7,017	3,534	5,486	210	9,230	16,247
Interest	-	-	-	-	3,737	-	-	3,737	3,737
In-kind expense	-	-	-	-	-	1,777	-	1,777	1,777
License, permits, taxes	-	113	854	967	50	138	95	283	1,250
Meetings, dues and education	198	844	1,320	2,362	1,005	99	870	1,974	4,336
Miscellaneous	716	225	1,256	2,197	1,535	657	86	2,278	4,475
Occupancy and storage	41	20,811	28,868	49,720	-	101,900	104	102,004	151,724
Postage	3,560	-	140	3,700	401	-	3,523	3,924	7,624
Printing and publications	9,021	49	2,434	11,504	24	-	4,779	4,803	16,307
Small equipment and signage	907	441	1,691	3,039	19	1,056	1,058	2,133	5,172
Supplies	426	9,974	84,426	94,826	611	3,423	2,472	6,506	101,332
Telephone, internet and website	9,519	3,016	12,228	24,763	-	7,346	-	7,346	32,109
Travel	-	-	32	32	-	-	29	29	61
Veterinary fees	-	129	65,289	65,418	-	-	-	-	65,418
Total expenses before depreciation	73,858	91,854	446,126	611,838	124,415	578,738	124,500	827,653	1,439,491
Depreciation	4,925	7,681	85,245	97,851	10,838	3,081	2,129	16,048	113,899
Total expenses	\$ 78,783	\$ 99,535	\$ 531,371	\$ 709,689	\$ 135,253	\$ 581,819	\$ 126,629	\$ 843,701	\$ 1,553,390

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

	Program Services				Supporting Services				Total Expenses
	Outreach	Cat Adoption Centers	Animal Shelters	Total Program Services	Management and General	Thrift Store Operations	Fundraising	Total Supporting Services	
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
In-kind expense	-	-	-	-	1,742	-	478	2,220	2,220
License and permits	196	-	25,171	25,367	-	2,940	7,169	10,109	35,476
Meetings, dues and education	-	-	100	100	1,261	-	200	1,461	1,561
Miscellaneous	191	15	162	368	1,554	15	375	1,944	2,312
Occupancy and storage	-	60	547	607	-	1,148	344	1,492	2,099
Postage	-	21,378	13,201	34,579	1,302	101,028	9,717	112,047	146,626
Printing and publications	3,608	-	153	3,761	647	2	6,039	6,688	10,449
Small equipment and signage	8,572	245	608	9,425	-	-	8,200	8,200	17,625
Supplies	752	1,713	6,938	9,403	75	1,097	1,468	2,640	12,043
Telephone, internet and website	501	11,637	50,095	62,233	682	3,560	2,113	6,355	68,588
Travel	571	2,940	7,997	11,508	3,644	5,491	3,224	12,359	23,867
Veterinary fees	87	966	1,431	2,484	2,118	-	220	2,338	4,822
Total expenses before depreciation	-	405	46,824	47,229	-	-	-	-	47,229
Depreciation	63,546	104,708	367,506	535,760	126,120	540,902	168,228	835,250	1,371,010
Total expenses	\$ 64,074	\$ 109,104	\$ 394,067	\$ 567,245	\$ 141,741	\$ 544,615	\$ 169,580	\$ 855,936	\$ 1,423,181

See accompanying notes to financial statements.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015, 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, 2016 and 2015**

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 \$133,899 and \$52,171 for 2016 and 2015, 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, 2016 and 2015

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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Promises to give in less than one year	\$ 3,950	\$ 10,410
Promises to give over one year	<u>2,608</u>	<u>7,358</u>
Total	<u>\$ 6,558</u>	<u>\$ 17,768</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, 2016, including accrued interest, is \$79,778 for the note and \$188,461 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, 2016 was \$650,949. 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, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Used inventory held for resale	\$ 14,000	\$ 13,795
Purchased inventory for resale	<u>75</u>	<u>75</u>
Total inventory	<u>\$ 14,075</u>	<u>\$ 13,870</u>

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2016 and 2015

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, 2016 and 2015, in-kind contributions consisted of the following:

	<u>2016</u>	<u>2015</u>
Property and stock	\$ 394,473	\$ 65,339
Shelter food, supplies and materials	25,753	38,956
Rent, Animal Shelter	<u>0</u>	<u>13,674</u>
Total	<u>\$ 420,226</u>	<u>\$ 117,969</u>

In addition, the Foundation received donations of used clothing and household goods valued at \$650,949 and \$627,055 for the years ended December 31, 2016 and 2015, 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 – 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, 2016	\$ 2,834
Less current portion	<u>2,834</u>
Net long term portion	<u>\$ 0</u>

The remaining liability under this capital lease matures in 2017. There are no other long term debts.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2016 and 2015

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Shelter sustaining fund	\$ 100,253	\$ 0
Commercial washer & dryer	16,000	0
Fund-A-Need	2,967	21,066
New shelter capital campaign	<u>0</u>	<u>191,398</u>
Total	<u>\$ 119,220</u>	<u>\$ 212,464</u>

NOTE H - SHELTER PROGRAM REVENUE

The Foundation manages the Whidbey Island Animal Shelter under a contract with Island County for a minimum monthly fee of \$5,406. The Foundation also manages an animal shelter for the City of Oak Harbor under a contract for a minimum monthly fee of \$8,500. 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>2016</u>	<u>2015</u>
City of Oak Harbor management contract	\$ 102,000	\$ 100,000
Island County management contract	58,629	52,373
Medical and miscellaneous fees	<u>34,679</u>	<u>25,473</u>
Total program revenue	<u>\$ 195,308</u>	<u>\$ 177,846</u>

NOTE I - 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.

WHIDBEY ANIMALS' IMPROVEMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2016 and 2015

NOTE I - (Continued)

Minimum future payments under these operating lease agreements for the remaining terms of the leases are as follows:

For the years ending December 31,	
2017	\$ 86,848
2018	62,706
2019	63,890
2020	<u>29,940</u>
Total minimum lease rental	<u>\$ 243,384</u>

Rental expenses under operating leases were \$101,554 and \$100,005 for 2016 and 2015, respectively.

NOTE J – 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. The Foundation's tax filings are subject to audit by various taxing authorities. The Foundation's open audit periods are 2012-2016, generally for three years after they were filed. At December 31, 2016 and 2015, 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 K - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2017, the date the financial statements were available to be issued.