

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
FINANCIAL STATEMENTS
December 31, 2015 and 2014
With Independent Auditor's Report

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KIRKPATRICK, SPRECKER & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
Kansas Humane Society of Wichita, Kansas

We have audited the accompanying financial statements of Kansas Humane Society of Wichita, Kansas, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Kansas Humane Society of Wichita, Kansas, 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.

Kirkpatrick, Sprecker & Company, LLP
KIRKPATRICK, SPRECKER & COMPANY, LLP
Wichita, Kansas

July 20, 2016

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash	\$ 849,974	\$ 932,807
Cash - restricted for capital campaign	-	126,186
Total cash	<u>849,974</u>	<u>1,058,993</u>
Accounts receivable	21,801	11,505
Bequests receivable	140,142	30,747
Inventory	36,638	41,994
Contributions receivable - net of allowance for uncollectible receivables of \$133,017 (\$39,173 for 2014)	93,814	146,075
Prepaid expenses	42,462	33,531
Beneficial interest in charitable remainder trust	61,134	64,151
Beneficial interest in assets held by others	283,160	310,366
Beneficial interest in perpetual trust	182,218	189,476
Mineral rights	30,975	71,015
Investments - other	2,697,894	2,490,716
Property and equipment - net of accumulated depreciation of \$3,483,105 (\$3,019,379 for 2014)	<u>6,264,064</u>	<u>6,610,547</u>
Total assets	<u><u>10,704,276</u></u>	<u><u>11,059,116</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 243,086	\$ 93,560
Salaries payable	67,582	67,812
Payroll taxes payable	2,623	2,421
Accrued vacation payable	39,267	36,566
Total liabilities	<u>352,558</u>	<u>200,359</u>
Net assets		
Unrestricted	8,494,773	8,930,240
Unrestricted - board designated	225,160	252,365
Total unrestricted net assets	<u>8,719,933</u>	<u>9,182,605</u>
Temporarily restricted	266,567	303,676
Permanently restricted	1,365,218	1,372,476
Total net assets	<u>10,351,718</u>	<u>10,858,757</u>
Total liabilities and net assets	<u><u>10,704,276</u></u>	<u><u>11,059,116</u></u>

The accompanying notes are an integral part of the financial statements.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
COMPARATIVE STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014

	2015				2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues								
Public support								
Contributions and bequests	\$ 1,757,735	\$ 232,972	\$ -	\$ 1,990,707	\$ 1,544,165	\$ 55,984	\$ -	\$ 1,600,149
<i>Woofstock</i> sponsorships	-	85,500	-	85,500	-	71,600	-	71,600
Special events	184,862	-	-	184,862	170,760	-	-	170,760
Increase (decrease) in value of beneficial interest in perpetual trust	3,576	-	(7,258)	(3,682)	3,137	-	2,473	5,610
Decrease in value of mineral rights	(40,040)	-	-	(40,040)	(4,855)	-	-	(4,855)
In-kind donations	312,332	114,078	-	426,410	197,868	88,990	-	286,858
Total public support	<u>2,218,465</u>	<u>432,550</u>	<u>(7,258)</u>	<u>2,643,757</u>	<u>1,911,075</u>	<u>216,574</u>	<u>2,473</u>	<u>2,130,122</u>
Revenues								
Adoption fees	570,077	-	-	570,077	570,829	-	-	570,829
Merchandise sales	294,681	-	-	294,681	328,743	-	-	328,743
Other animal charges	572,859	-	-	572,859	473,921	-	-	473,921
Oil royalty	10,325	-	-	10,325	23,672	-	-	23,672
Investment income (loss)	(83,928)	(29,499)	-	(113,427)	54,825	52,457	-	107,282
Other	98,546	-	-	98,546	69,624	-	-	69,624
Total revenues	<u>1,462,560</u>	<u>(29,499)</u>	<u>-</u>	<u>1,433,061</u>	<u>1,521,614</u>	<u>52,457</u>	<u>-</u>	<u>1,574,071</u>
Total public support and revenues	<u>3,681,025</u>	<u>403,051</u>	<u>(7,258)</u>	<u>4,076,818</u>	<u>3,432,689</u>	<u>269,031</u>	<u>2,473</u>	<u>3,704,193</u>
Net assets released from restrictions	<u>440,160</u>	<u>(440,160)</u>	<u>-</u>	<u>-</u>	<u>290,037</u>	<u>(290,037)</u>	<u>-</u>	<u>-</u>
Expenses								
Functional expenses								
Shelter operations	3,305,967	-	-	3,305,967	3,143,729	-	-	3,143,729
Administrative	326,651	-	-	326,651	329,172	-	-	329,172
Fundraising	730,661	-	-	730,661	704,095	-	-	704,095
Total functional expenses	<u>4,363,279</u>	<u>-</u>	<u>-</u>	<u>4,363,279</u>	<u>4,176,996</u>	<u>-</u>	<u>-</u>	<u>4,176,996</u>
Cost of goods sold	167,190	-	-	167,190	190,213	-	-	190,213
Cost of direct benefits of special events	53,388	-	-	53,388	37,624	-	-	37,624
Total expenses	<u>4,583,857</u>	<u>-</u>	<u>-</u>	<u>4,583,857</u>	<u>4,404,833</u>	<u>-</u>	<u>-</u>	<u>4,404,833</u>
Change in net assets	(462,672)	(37,109)	(7,258)	(507,039)	(682,107)	(21,006)	2,473	(700,640)
Net assets, beginning of year	<u>9,182,605</u>	<u>303,676</u>	<u>1,372,476</u>	<u>10,858,757</u>	<u>9,864,712</u>	<u>324,682</u>	<u>1,370,003</u>	<u>11,559,397</u>
Net assets, end of year	<u>8,719,933</u>	<u>266,567</u>	<u>1,365,218</u>	<u>10,351,718</u>	<u>9,182,605</u>	<u>303,676</u>	<u>1,372,476</u>	<u>10,858,757</u>

The accompanying notes are an integral part of the financial statements.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Supporting Services				Supporting Services			
	Shelter Operations	Administrative	Fundraising	Total	Shelter Operations	Administrative	Fundraising	Total
Salaries	\$ 1,459,587	\$ 126,092	\$ 255,690	\$ 1,841,369	\$ 1,455,246	\$ 123,857	\$ 263,769	\$ 1,842,872
Payroll taxes	134,443	10,119	22,377	166,939	124,753	9,320	22,119	156,192
Retirement	18,640	2,231	4,987	25,858	16,719	2,269	4,941	23,929
Employee benefits	77,925	5,320	7,594	90,839	66,778	5,281	4,868	76,927
Total salaries and related expenses	1,690,595	143,762	290,648	2,125,005	1,663,496	140,727	295,697	2,099,920
Shelter and animal supplies	265,257	-	-	265,257	284,094	-	-	284,094
Spay/neuter clinic supplies	424,841	-	-	424,841	251,432	-	-	251,432
Utilities	139,851	29,749	18,593	188,193	148,505	31,321	19,576	199,402
Insurance	108,896	9,345	4,078	122,319	99,790	7,750	3,397	110,937
Supplies, postage, and office expenses	64,376	15,628	46,674	126,678	63,339	31,606	34,841	129,786
Direct mail fees	-	-	189,018	189,018	-	-	174,643	174,643
Advertising	6,273	-	100,593	106,866	774	-	97,401	98,175
Repairs and maintenance	54,934	27,912	35,937	118,783	57,193	28,567	28,186	113,946
Professional services	15,178	17,450	7,677	40,305	16,634	16,732	7,286	40,652
Bank and credit card fees	-	36,286	-	36,286	-	34,351	-	34,351
Telephone	21,414	3,530	2,762	27,706	19,889	4,009	2,651	26,549
Contract labor	20,273	8,050	-	28,323	22,703	-	-	22,703
Miscellaneous	11,551	4,784	12,312	28,647	6,197	4,965	13,774	24,936
Recycling fees and repairs	-	-	20,252	20,252	-	-	22,717	22,717
Staff training and travel	10,903	4,966	1,220	17,089	9,068	2,555	1,558	13,181
Dues and subscriptions	4,563	3,432	697	8,692	7,337	3,554	1,102	11,993
Bad debts	-	-	200	200	-	-	1,184	1,184
Total expenses before depreciation	2,838,905	304,894	730,661	3,874,460	2,650,451	306,137	704,013	3,660,601
Depreciation expense	467,062	21,757	-	488,819	493,278	23,035	82	516,395
Total expenses	3,305,967	326,651	730,661	4,363,279	3,143,729	329,172	704,095	4,176,996

The accompanying notes are an integral part of the financial statements.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (507,039)	\$ (700,640)
Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities		
Depreciation	488,819	516,395
(Gain) loss on investments	208,429	(5,670)
Decrease in beneficial interest in assets held by others	6,561	4,338
Decrease in value of beneficial interest in split-interest agreement	1,114	466
(Increase) decrease in beneficial interest in perpetual trust	7,258	(2,473)
Decrease in value of mineral rights	40,040	4,852
Donated securities	(38,851)	(193,215)
(Increase) decrease in operating assets		
Inventory	5,355	(5,202)
Accounts receivable	(10,296)	(4,000)
Bequests receivable	(109,395)	222,470
Contributions receivable	(84,637)	11,801
Prepaid expenses	(8,929)	(15,435)
Increase in operating liabilities		
Accounts payable and accrued expenses	152,197	21,566
Contributions restricted for capital campaign		
Restricted contributions receivable	96,184	(8,497)
Bad debts	2,000	-
Net cash provided by (applied to) operating activities	<u>248,810</u>	<u>(153,244)</u>
Cash flows from investing activities		
Purchase of property, equipment and construction in progress	(142,335)	(51,024)
Proceeds from sale of investments	292,150	41,626
Purchase of investments	(646,358)	-
Net cash applied to investing activities	<u>(496,543)</u>	<u>(9,398)</u>
Cash flows from financing activities		
Collections of contributions restricted for capital campaign	38,714	65,864
Net cash provided by financing activities	<u>38,714</u>	<u>65,864</u>
Net decrease in cash	(209,019)	(96,778)
Cash, beginning of year	<u>1,058,993</u>	<u>1,155,771</u>
Cash, end of year	<u>849,974</u>	<u>1,058,993</u>

The accompanying notes are an integral part of the financial statements.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

1. Summary of significant accounting policies

Nature of activities

The Kansas Humane Society of Wichita, Kansas (the Society) is a tax-exempt, non-profit organization dedicated to the welfare of animals. The Society was formed in 1888 and serves a five-county area in south-central Kansas. The Society is a community resource for pets and people, providing quality pet adoptions, donor-subsidized spay/neuter services for low-income families, and pet retention programs such as pet training and behavior counseling, as well as youth education, private pet cremation services, and volunteer opportunities.

Sources of revenue were as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Donations	65%	57%
Adoptions and other charges	28%	28%
Merchandise sales	7%	9%
Other sources	3%	3%
Investment income	-3%	3%

Basis of presentation

The Society 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. When donor restrictions expire, that is, when stipulated time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted funds represent operating funds that have been restricted by the donor. Permanently restricted funds represent funds restricted by the donor requiring the perpetuity that the principal be invested and only the income be used for operations.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income recognition

Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Society reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Gifts-in-kind are recorded at fair market value as of the date received.

Sales consist primarily of pet supply sales and are recorded net of sales tax.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

1. Summary of significant accounting policies (continued)

Income recognition (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and all highly liquid debt instruments purchased with an initial maturity of three months or less. There were no cash equivalents at December 31, 2015 and 2014.

Investments

Investments are recorded at fair market value, and realized and unrealized gains and losses are reported in the statement of activities. Funds not needed in current operations are maintained in investment accounts in order to generate interest income to help offset operating expenses.

Inventories

Inventories consist of items for sale through the pet supplies store of the Society and are stated at cost.

Fixed assets and depreciation

Land, buildings and equipment are stated at cost at the date of acquisition, or at fair market value in the case of donated property. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Buildings and improvements are depreciated over 5 to 32 years, and furniture, vehicles, and equipment over 5 to 15 years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments in excess of \$500 are capitalized.

Contributed services

The Society receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort have not been satisfied. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the shelter operations programs, administrative supporting services, and fund-raising activities that were benefited.

Advertising costs

The Society expenses advertising costs as they are incurred.

Income taxes

No provision for income taxes is included in the accompanying financial statements. The Society has received a determination letter from the Internal Revenue Service that recognizes it as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The federal exemption from income tax is recognized by state authorities.

The Society's Federal Return of Organization Exempt From Income Tax (Form 990) for 2013, 2014, and 2015, are subject to examination by the IRS, generally for three years after they were filed.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

2. Contributions receivable

Contributions receivable are primarily from the *New Leash on Life Shelter Campaign*, the proceeds from which are being used for the Society's portion of constructing a joint animal services campus with the City of Wichita, Kansas. Following are schedules of anticipated annual collections and the net present value as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Contributions receivable before allowance and unamortized discount	\$ 232,083	\$ 186,064
Less allowance for uncollectible receivables	(133,017)	(39,173)
Less discount for present value	<u>(5,252)</u>	<u>(816)</u>
Net contributions receivable	<u>93,814</u>	<u>146,075</u>
<u>Amounts due in:</u>		
Receivable in less than one year	\$ 159,583	\$ 111,064
Receivable in one to five years	<u>72,500</u>	<u>75,000</u>
Total contributions receivable	<u>232,083</u>	<u>186,064</u>

Unconditional promises to give due after one year are reflected at present value of estimated future cash flows using discount rates of 1.52% to 2.00% for 2015 and 2014.

3. Investments and fair value measurements

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis as of December 31, 2015:

<u>Investment Category</u>	<u>Fair Value</u>	<u>Fair Value Measurements</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Domestic equity mutual funds	\$ 775,862	\$ 775,862	\$ -	\$ -
Domestic exchange traded funds	305,578	305,578	-	-
International equity mutual funds	369,570	369,570	-	-
Fixed income	989,053	989,053	-	-
Alternatives	257,831	257,831	-	-
Separate account - assets held by others - Note 5	283,160	-	283,160	-
Charitable remainder trust - Note 4	61,134	-	-	61,134
Perpetual trust - Note 6	182,218	-	-	182,218
Mineral rights - Note 7	<u>30,975</u>	<u>-</u>	<u>-</u>	<u>30,975</u>
Total	<u>3,255,381</u>	<u>2,697,894</u>	<u>283,160</u>	<u>274,327</u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

3. Investments and fair value measurements (continued)

The following schedule reflects the effect of the Level 3 inputs on the Society's net assets or liabilities for the year ending December 31, 2015:

	Investment Category			
	Charitable Remainder Trust	Perpetual Trust	Mineral Rights	Total
Balance, December 31, 2014	\$ 64,151	\$ 189,476	\$ 71,015	\$ 324,642
Total gains (losses)	(1,904)	268	-	(1,636)
Interest or dividends earned	52	2,330	-	2,382
Distribution	(1,165)	(3,576)	-	(4,741)
Decrease in value	-	(6,280)	(40,040)	(46,320)
Balance, December 31, 2015	<u>61,134</u>	<u>182,218</u>	<u>30,975</u>	<u>274,327</u>
Unrealized losses	<u>\$ (1,860)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,860)</u>

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis as of December 31, 2014:

	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investment Category</u>				
Money market fund	\$ 122,443	\$ 122,443	\$ -	\$ -
Marketable security	154,263	154,263	-	-
Domestic equity mutual funds	700,153	700,153	-	-
Domestic exchange traded funds	299,155	299,155	-	-
International exchange traded funds	41,079	41,079	-	-
International equity mutual funds	325,099	325,099	-	-
Fixed income	622,046	622,046	-	-
Alternatives	226,478	226,478	-	-
Separate account - assets held by others - Note 5	310,366	-	310,366	-
Charitable remainder trust - Note 4	64,151	-	-	64,151
Perpetual trust - Note 6	189,476	-	-	189,476
Mineral rights - Note 7	71,015	-	-	71,015
Total	<u>3,125,724</u>	<u>2,490,716</u>	<u>310,366</u>	<u>324,642</u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

3. Investments and fair value measurements (continued)

The following schedule reflects the effect of the Level 3 inputs on the Society's net assets or liabilities for the year ending December 31, 2014:

	Investment Category			
	Charitable Remainder Trust	Perpetual Trust	Mineral Rights	Total
Balance, December 31, 2013	\$ 63,770	\$ 187,003	\$ 75,870	\$ 326,643
Total gains	846	4,958	-	5,804
Interest or dividends earned	718	3,781	-	4,499
Distribution	(1,183)	(3,137)	-	(4,320)
Decrease in value	-	(3,129)	(4,855)	(7,984)
Balance, December 31, 2014	<u>64,151</u>	<u>189,476</u>	<u>71,015</u>	<u>324,642</u>
Unrealized losses	<u>\$ (895)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (895)</u>

All Level 1 and Level 2 assets have been valued using a market approach and all Level 3 assets have been valued using an income approach. There have been no changes in valuation techniques and related inputs.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 112,574	\$ 118,020
Gain (loss) on investments	(208,429)	5,670
Less investment fees	<u>(17,572)</u>	<u>(16,408)</u>
Net investment income (loss) per Statement of Activities	<u>(113,427)</u>	<u>107,282</u>

4. Beneficial interest in a charitable remainder trust

The Society is one of seven beneficiaries of a charitable remainder trust established in 2003. Under the terms of the trust, the Society is entitled to receive 5% of the trust's annual income each year for twenty years. In 2023, the remaining trust estate is to be distributed to the beneficiaries according to their respective percentages. Based on 5% of the trust's total reported fair market value on that date, the estimated value of the beneficial interest in the charitable remainder trust was \$61,134 and \$64,151 as of December 31, 2015 and 2014, respectively.

5. Beneficial interest in assets held by others

In 2003, the Society transferred unrestricted net assets of \$150,000 to the Wichita Community Foundation (the Foundation) and, in turn, received a \$50,000 grant from the Foundation as part of a matching grant program. The Society's Board of Directors designated the transferred unrestricted net assets of \$150,000 for endowment and the Foundation has no variance power over those funds. The Foundation restricted their \$50,000 matching grant as permanently restricted net assets for endowment.

In 1996, the Society transferred unrestricted net assets of \$50,000 to the Foundation and received a \$7,500 matching grant. The Society's Board of Directors designated the transferred unrestricted net assets of \$50,000 for endowment and the Foundation has no variance power over those funds. The Foundation restricted their \$7,500 matching grant as permanently restricted net assets for endowment.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
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5. Beneficial interest in assets held by others (continued)

The Society receives annual distributions of four percent of the three year moving average net market value of the assets held at the Foundation.

The following is a summary of the Society's beneficial interest in assets held by the Wichita Community Foundation as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 310,366	\$ 318,986
Investment income	7,794	9,598
Loss on investment	(20,645)	(4,282)
Less management fees	(1,620)	(1,681)
Less distributions to the Society	<u>(12,735)</u>	<u>(12,255)</u>
Balance, end of year	<u>283,160</u>	<u>310,366</u>

6. Beneficial interest in a perpetual trust

The beneficial interest in a perpetual trust was established through a prior year bequest and consists of the present value of the estimated future cash receipts from investments with a brokerage firm generally investing in fixed income funds. Under the terms of the trust, the Society has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in the trust. The estimated value of the beneficial interest in a perpetual trust was \$182,218 and \$189,476 as of December 31, 2015 and 2014, respectively, based on present value calculations applied to the estimated future income from the trust.

7. Mineral rights

The mineral rights were obtained through a bequest in 1990. Their estimated value was \$30,975 and \$71,015 as of December 31, 2015 and 2014, respectively, based on an industry rule-of-thumb formula of three times historical annual income, reduced by lifting costs.

8. Property and equipment

Property and equipment in service consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 9,162,045	\$ 9,035,372
Furniture, fixtures and equipment	519,499	517,929
Automobiles	57,367	57,367
Software	<u>8,258</u>	<u>19,258</u>
Total cost of property and equipment	9,747,169	9,629,926
Less accumulated depreciation on property assets	<u>3,483,105</u>	<u>3,019,379</u>
Property and equipment - net of accumulated depreciation	<u>6,264,064</u>	<u>6,610,547</u>

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9. Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2015 and 2014, were restricted for the following:

	<u>2015</u>	<u>2014</u>
Time restrictions (which include purpose restrictions):		
Contributions receivable in subsequent years (Note 2)	\$ 93,814	\$ 146,075
Beneficial interest in a charitable remainder trust (Note 4)	61,134	64,151
Unappropriated endowment earnings	60,380	89,879
Let's Stay Together program	28,140	3,571
Youth education	22,263	-
Tablets	464	-
VA project	372	-
Total temporarily restricted net assets	<u>266,567</u>	<u>303,676</u>

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of specified time. Releases during the year ended December 31, 2015 and 2014, included:

	<u>2015</u>	<u>2014</u>
Time restrictions met and purpose restrictions accomplished:		
Fundraising events	\$ 199,578	\$ 160,590
Improvements and other building costs	138,995	57,366
Shelter supplies	101,587	63,832
Appropriated endowment earnings	-	8,249
Total purpose restrictions accomplished	<u>440,160</u>	<u>290,037</u>

10. Permanently restricted net assets

Permanently restricted net assets are restricted for endowment and as of December 31, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Wichita Community Foundation Endowment (Note 5)	\$ 57,500	\$ 57,500
Payne Endowment	1,000,000	1,000,000
Other endowment	125,500	125,500
Beneficial interest in perpetual trust (Note 6)	182,218	189,476
Total permanently restricted net assets	<u>1,365,218</u>	<u>1,372,476</u>

11. Board designated unrestricted net assets

Board designated unrestricted net assets as of December 31, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Endowment	\$ 225,160	\$ 252,365

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12. Endowment

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of gifting of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original fair value of gifts donated to the permanent endowment, (b) the original fair value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the instructions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Society 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 Society
7. The investment policies of the Society

Investment strategies

For the investments which are held by the Wichita Community Foundation (the Foundation), all investment decisions are made by the Foundation. The Society has no input in investment decisions held at the Foundation.

The Society has adopted an investment policy to preserve long-term, real purchasing power of assets, while providing a relatively predictable and growing stream of income. To accomplish this strategy, the Society requires that total equity investments never exceed 80% of the asset holdings. Investment performance will be monitored against the stated investment objectives no less than semiannually.

Spending policies and the relationship with investment policies

The Foundation makes the decision as to how much is distributed to the Society (Notes 5 and 6). The Society has no input on how much they are to receive from the endowments held at the Foundation.

The Society allows for an annual distribution, calculated using a three-year moving average of portfolio balances on September 30 each year. The distribution is distributed in the following year, in not more frequently than quarterly installments. If a donor specifies a different distribution percentage in writing, the donor's wishes will be honored. This is consistent with the Society's investment policy and will provide a sustainable level of distributions to the Society.

Funds with deficiencies

From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature are reported as unrestricted net assets. There were no such deficiencies reported as of December 31, 2015 and 2014. A portion of the Society's endowment funds are in a trust. According the trust documents, these funds do not have to maintain the original cost basis.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

12. Endowment (continued)

Endowment net asset composition by type of fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 60,380	\$ 1,365,218	\$ 1,425,598
Board designated endowment funds	<u>225,160</u>	<u>-</u>	<u>-</u>	<u>225,160</u>
Total endowment net assets	<u><u>225,160</u></u>	<u><u>60,380</u></u>	<u><u>1,365,218</u></u>	<u><u>1,650,758</u></u>

Endowment net asset composition by type of fund as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 89,879	\$ 1,372,476	\$ 1,462,355
Board designated endowment funds	<u>252,365</u>	<u>-</u>	<u>-</u>	<u>252,365</u>
Total endowment net assets	<u><u>252,365</u></u>	<u><u>89,879</u></u>	<u><u>1,372,476</u></u>	<u><u>1,714,720</u></u>

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, as of December 31, 2014	\$ 252,365	\$ 89,879	\$ 1,372,476	\$ 1,714,720
Investment income	6,003	23,313	4,829	34,145
Net appreciation (depreciation):				
Realized	(6,094)	18,666	269	12,841
Unrealized	(16,059)	(64,645)	(6,280)	(86,984)
Investment fees	(1,247)	(6,833)	(2,500)	(10,580)
Distributions	(9,808)	-	(3,576)	(13,384)
Amount appropriated for expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, as of December 31, 2015	<u><u>225,160</u></u>	<u><u>60,380</u></u>	<u><u>1,365,218</u></u>	<u><u>1,650,758</u></u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
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12. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, as of				
December 31, 2013	\$ 260,986	\$ 45,671	\$ 1,370,003	\$ 1,676,660
Investment income	7,465	25,097	5,280	37,842
Net appreciation (depreciation):				
Realized	6,696	30,649	4,959	42,304
Unrealized	(11,942)	4,214	(3,129)	(10,857)
Investment fees	(1,307)	(7,503)	(1,500)	(10,310)
Distributions	(17,782)	-	(3,137)	(20,919)
Amount appropriated for expenditures	<u>8,249</u>	<u>(8,249)</u>	<u>-</u>	<u>-</u>
Endowment net assets, as of				
December 31, 2014	<u>252,365</u>	<u>89,879</u>	<u>1,372,476</u>	<u>1,714,720</u>

13. Operating lease obligations

The following is a schedule by years of future minimum rental payments required under operating leases for equipment with noncancellable terms in excess of one year as of December 31, 2015:

2016	\$ 15,549
2017	15,549
2018	15,549
2019	15,549
2020	<u>2,330</u>
Total	<u>64,526</u>

Rent expense was \$33,509 and \$31,916 for the years ended December 31, 2015 and 2014, respectively.

14. In-kind donations

In-kind donations reflected in the accounts and financial statements of the Society for the years ended December 31, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Supplies and advertising for <i>Woofstock</i> special event	\$ 114,078	\$ 88,900
Supplies and services	<u>312,332</u>	<u>197,608</u>
Total	<u>426,410</u>	<u>286,508</u>

In addition, a substantial number of volunteers have made significant contributions of their time to various functions of the Society. The number of volunteer hours was approximately 81,531 and 85,300 for the years ended December 31, 2015 and 2014, respectively. The value of these services do not meet the requirements for recognition in the financial statements and has not been recorded.

Board members also contribute a significant amount of time in financial, fundraising, and other activities. The value of these services has not been determined and has not been recorded in the financial statements.

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15. Retirement plan

The Society offers a Savings Incentive Match Plan for Employees (SIMPLE) under Section 408(p) of the Internal Revenue Code. The SIMPLE plan covers all employees who are currently receiving compensation and have completed their probationary period of employment. The plan requires the Society to match the employees' elective contribution in an amount not to exceed 3% of the employees' compensation. The Society's contributions were \$25,857 and \$23,929 for the years ended December 31, 2015 and 2014, respectively.

16. Concentration of credit risk

The Organization maintains cash accounts at a local bank, which retain balances that total more than the maximum federally insured amount of \$250,000. The Society has not experienced any losses in the accounts and management believes it is not exposed to any significant risk on the cash accounts.

The Society maintains its investments with a local brokerage firm. Management has elected to have the funds invested in various individual funds that invest in equity funds, exchange traded funds, fixed income, alternatives and cash and cash equivalents. Management continues to monitor the accounts to minimize the risk.

17. Contractual commitments

As of December 31, 2015, the Society is committed to the remaining balance of a contract with an information technology provider in the amount of \$28,725 for the year ended December 31, 2015. The contract is expected to be fulfilled as of August 31, 2017.

In September of 2014, the Society entered into a three year contractual commitment with Blackbaud, an online fundraising and consulting service provider in the amount of \$90,000. In 2015, a program error was discovered. As a result, the Society was released from this obligation. A new contract will be proposed when the program has been fixed.

18. Subsequent events

The Society has evaluated subsequent events through July 20, 2016, the date which the financial statements were available to be issued, and no events requiring disclosure were identified.

19. Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

