

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
FINANCIAL STATEMENTS
December 31, 2018 and 2017
With Independent Auditor's Report

CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Comparative Statements of Financial Position	2
Comparative Statements of Activities	3
Comparative Statements of Functional Expenses	4
Comparative Statements of Cash Flows	5
Notes to Financial Statements	6-18



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 (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 11, 2019

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 868,897	\$ 651,466
Certificates of deposit	200,042	-
Accounts receivable	41,455	21,893
Bequests receivable	53,819	397,708
Inventory	39,506	43,866
Contributions receivable - net of allowance for uncollectible receivables of \$1,493 (\$2,628 for 2017)	28,149	52,299
Prepaid expenses	21,826	30,624
Beneficial interest in charitable remainder trust	61,735	68,072
Beneficial interest in assets held by others	272,011	304,411
Beneficial interest in perpetual trust	188,211	195,454
Mineral rights	33,927	24,495
Investments - other	3,791,688	4,193,160
Property and equipment - net of accumulated depreciation of \$4,987,069 (\$4,485,126 for 2017)	<u>5,105,903</u>	<u>5,418,544</u>
Total assets	<u>10,707,169</u>	<u>11,401,992</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 65,425	\$ 146,557
Salaries payable	87,345	81,174
Accrued vacation payable	<u>43,831</u>	<u>37,932</u>
Total liabilities	<u>196,601</u>	<u>265,663</u>
Net assets		
Without donor restrictions	8,704,652	9,331,776
With donor restrictions	<u>1,805,916</u>	<u>1,804,553</u>
Total net assets	<u>10,510,568</u>	<u>11,136,329</u>
Total liabilities and net assets	<u>10,707,169</u>	<u>11,401,992</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, 2018 and 2017

	2018			2017		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues						
Public support						
Contributions	\$ 1,206,320	\$ 382,745	\$ 1,589,065	\$ 1,283,779	\$ 196,454	\$ 1,480,233
Bequests	315,009	-	315,009	641,664	-	641,664
<i>Woofstock</i> sponsorships	-	96,093	96,093	-	94,150	94,150
Special events	133,330	-	133,330	195,548	-	195,548
Increase (decrease) in value of beneficial interest in perpetual trust	712	(7,243)	(6,531)	2,580	9,635	12,215
Increase in value of mineral rights	9,432	-	9,432	2,556	-	2,556
In-kind donations	188,538	76,997	265,535	343,913	114,337	458,250
Total public support	<u>1,853,341</u>	<u>548,592</u>	<u>2,401,933</u>	<u>2,470,040</u>	<u>414,576</u>	<u>2,884,616</u>
Revenues						
Adoption fees	702,650	-	702,650	538,613	-	538,613
Merchandise sales	246,948	-	246,948	230,360	-	230,360
Other animal charges	618,370	-	618,370	593,784	-	593,784
Oil royalty	11,309	-	11,309	8,165	-	8,165
Investment income (loss)	(234,890)	(78,165)	(313,055)	350,692	113,669	464,361
Loss on disposition of property assets	-	-	-	(5,830)	-	(5,830)
Other	93,094	-	93,094	81,584	-	81,584
Total revenues	<u>1,437,481</u>	<u>(78,165)</u>	<u>1,359,316</u>	<u>1,797,368</u>	<u>113,669</u>	<u>1,911,037</u>
Total public support and revenues	<u>3,290,822</u>	<u>470,427</u>	<u>3,761,249</u>	<u>4,267,408</u>	<u>528,245</u>	<u>4,795,653</u>
Net assets released from restrictions	<u>469,064</u>	<u>(469,064)</u>	<u>-</u>	<u>454,370</u>	<u>(454,370)</u>	<u>-</u>
Expenses						
Functional expenses						
Shelter operations	3,325,967	-	3,325,967	3,505,116	-	3,505,116
Administrative	316,616	-	316,616	367,436	-	367,436
Fundraising	567,416	-	567,416	679,585	-	679,585
Total functional expenses	4,209,999	-	4,209,999	4,552,137	-	4,552,137
Cost of goods sold	127,623	-	127,623	122,755	-	122,755
Cost of direct benefits of special events	49,388	-	49,388	51,379	-	51,379
Total expenses	<u>4,387,010</u>	<u>-</u>	<u>4,387,010</u>	<u>4,726,271</u>	<u>-</u>	<u>4,726,271</u>
Change in net assets	(627,124)	1,363	(625,761)	(4,493)	73,875	69,382
Net assets, beginning of year	<u>9,331,776</u>	<u>1,804,553</u>	<u>11,136,329</u>	<u>9,336,269</u>	<u>1,730,678</u>	<u>11,066,947</u>
Net assets, end of year	<u>8,704,652</u>	<u>1,805,916</u>	<u>10,510,568</u>	<u>9,331,776</u>	<u>1,804,553</u>	<u>11,136,329</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, 2018 and 2017

	2018				2017			
	Shelter Operations	Supporting Services		Total	Shelter Operations	Supporting Services		Total
	Administrative	Fundraising		Administrative	Fundraising			
Salaries	\$ 1,647,008	\$ 131,058	\$ 212,149	\$ 1,990,215	\$ 1,598,383	\$ 166,177	\$ 214,409	\$ 1,978,969
Payroll taxes	125,855	9,276	15,808	150,939	116,478	11,686	15,739	143,903
Retirement	14,402	3,678	3,615	21,695	15,369	4,210	3,726	23,305
Employee benefits	98,832	4,124	9,658	112,614	108,977	6,040	7,000	122,017
Total salaries and related expenses	1,886,097	148,136	241,230	2,275,463	1,839,207	188,113	240,874	2,268,194
Shelter and animal supplies	313,344	-	-	313,344	319,842	-	-	319,842
Spay/neuter clinic supplies	199,571	-	-	199,571	390,829	-	-	390,829
Utilities	143,578	27,975	17,484	189,037	150,512	28,922	18,076	197,510
Insurance	44,823	8,848	4,196	57,867	85,969	12,206	6,265	104,440
Supplies, postage, and office expenses	84,685	22,660	64,290	171,635	76,877	21,779	57,655	156,311
Direct mail fees	-	-	108,186	108,186	-	-	183,108	183,108
Advertising	2,967	-	52,284	55,251	1,874	-	86,909	88,783
Repairs and maintenance	57,513	28,838	35,792	122,143	60,507	32,524	48,073	141,104
Professional services	2,877	15,431	5,271	23,579	12,579	14,700	4,013	31,292
Bank and credit card fees	-	38,205	-	38,205	-	35,722	-	35,722
Telephone	31,685	4,751	4,047	40,483	23,969	3,562	3,049	30,580
Contract labor	20,032	2,150	-	22,182	22,922	532	-	23,454
Miscellaneous	13,643	3,172	29,261	46,076	11,577	7,787	12,550	31,914
Recycling fees and repairs	-	-	-	-	-	-	16,133	16,133
Staff training and travel	22,941	4,949	2,942	30,832	14,690	5,635	100	20,425
Dues and subscriptions	5,256	6,560	911	12,727	4,831	4,205	1,195	10,231
Bad debts	-	-	1,474	1,474	-	-	1,537	1,537
Total expenses before depreciation	2,829,012	311,675	567,368	3,708,055	3,016,185	355,687	679,537	4,051,409
Depreciation expense	496,955	4,941	48	501,944	488,931	11,749	48	500,728
Total expenses	<u>3,325,967</u>	<u>316,616</u>	<u>567,416</u>	<u>4,209,999</u>	<u>3,505,116</u>	<u>367,436</u>	<u>679,585</u>	<u>4,552,137</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (625,761)	\$ 69,382
Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities		
Depreciation	501,944	500,728
Donated equipment included in support	(70,890)	-
Loss on disposition of property assets	-	5,830
(Gain) loss on investments	401,023	(395,818)
Decrease in beneficial interest in assets held by others	4,011	4,487
Decrease in value of beneficial interest in split-interest agreement	917	239
(Increase) decrease in beneficial interest in perpetual trust	7,243	(9,635)
Increase in value of mineral rights	(9,432)	(2,556)
Donated securities	-	(22,215)
(Increase) decrease in operating assets		
Inventory	4,360	(7,602)
Accounts receivable	(19,562)	3,160
Bequests receivable	343,889	360,572
Contributions receivable	24,151	52,424
Prepaid expenses	8,798	31,784
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	<u>(69,062)</u>	<u>46,346</u>
Net cash provided by operating activities	<u>501,629</u>	<u>637,126</u>
Cash flows from investing activities		
Purchase of property, equipment, and construction in progress	(118,414)	(60,805)
Proceeds from sale of property assets	-	180,000
Purchase of certificates of deposit	(200,042)	-
Proceeds from sale of investments	781,470	492,622
Purchase of investments	<u>(747,212)</u>	<u>(1,465,900)</u>
Net cash applied to investing activities	<u>(284,198)</u>	<u>(854,083)</u>
Net increase (decrease) in cash and cash equivalents	217,431	(216,957)
Cash and cash equivalents, beginning of year	<u>651,466</u>	<u>868,423</u>
Cash and cash equivalents, end of year	<u>868,897</u>	<u>651,466</u>

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

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of significant accounting policies

Nature of activities

The Kansas Humane Society of Wichita, Kansas (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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Contributions	55%	43%
Adoptions and other charges	35%	21%
Bequests	8%	26%
Merchandise sales	7%	5%
Other sources	3%	1%
Investment income	-8%	4%

Basis of presentation

The financial statements of the Society have been prepared on the accrual basis of accounting. The Society reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net assets without donor restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net assets with donor restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Society has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that the donor restrictions were met in the year the contribution was received.

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.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of significant accounting policies (continued)

Revenue 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

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. At December 31, 2018, the Society held a certificate of deposit for \$102,444, with an original maturity date of three months. There were no cash equivalents at December 31, 2017.

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 lower of cost or net realizable value.

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.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of significant accounting policies (continued)

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

Directly identifiable expenses are charged to programs and supporting activities. Expenses related to more than one function are allocated to programs and supporting services based on the ratio of employee time spent in different areas and the ratio of each activity's direct costs to total direct costs for all activities. These are called shared costs and include office supplies, general liability insurance, internet, website access, telephone expense, and building repairs and maintenance.

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.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

New accounting pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Contributions receivable

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Contributions receivable before allowance and unamortized discount	\$ 30,350	\$ 56,648
Less allowance for uncollectible receivables	(1,493)	(2,628)
Less discount for present value	<u>(708)</u>	<u>(1,721)</u>
Net contributions receivable	<u>28,149</u>	<u>52,299</u>
 <u>Amounts due in:</u>		
Receivable in less than one year	\$ 12,850	\$ 11,748
Receivable in one to five years	<u>17,500</u>	<u>44,900</u>
Total contributions receivable	<u>30,350</u>	<u>56,648</u>

Unconditional promises to give due after one year are reflected at present value of estimated future cash flows using a discount rate of 1.52% for 2018 and 2017.

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, 2018:

<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	\$ 1,057,638	\$ 1,057,638	\$ -	\$ -
Domestic exchange traded funds	475,917	475,917	-	-
International equity mutual funds	480,086	480,086	-	-
Fixed income	1,585,140	1,585,140	-	-
Alternatives	192,907	192,907	-	-
Separate account - assets held by others - Note 5	272,011	-	272,011	-
Charitable remainder trust - Note 4	61,735	-	-	61,735
Perpetual trust - Note 6	188,211	-	-	188,211
Mineral rights - Note 7	<u>33,927</u>	-	-	<u>33,927</u>
Total	<u>4,347,572</u>	<u>3,791,688</u>	<u>272,011</u>	<u>283,873</u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018:

	Investment Category			
	Charitable Remainder Trust	Perpetual Trust	Mineral Rights	Total
Balance, December 31, 2017	\$ 68,072	\$ 195,454	\$ 24,495	\$ 288,021
Total gains (losses)	(5,420)	(10,177)	9,432	(6,165)
Interest and dividends earned	413	3,646	-	4,059
Distribution	(1,330)	(712)	-	(2,042)
Balance, December 31, 2018	<u>61,735</u>	<u>188,211</u>	<u>33,927</u>	<u>283,873</u>
Unrealized gains (losses)	<u>\$ (3,953)</u>	<u>\$ (9,506)</u>	<u>\$ 9,432</u>	<u>\$ (4,027)</u>

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis as of December 31, 2017:

<u>Investment Category</u>	Fair Value	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equity mutual funds	\$ 950,899	\$ 950,899	\$ -	\$ -
Domestic exchange traded funds	469,255	469,255	-	-
International equity mutual funds	740,865	740,865	-	-
Fixed income	1,608,150	1,608,150	-	-
Alternatives	423,991	423,991	-	-
Separate account - assets held by others - Note 5	304,411	-	304,411	-
Charitable remainder trust - Note 4	68,072	-	-	68,072
Perpetual trust - Note 6	195,454	-	-	195,454
Mineral rights - Note 7	24,495	-	-	24,495
Total	<u>4,785,592</u>	<u>4,193,160</u>	<u>304,411</u>	<u>288,021</u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2017:

	Investment Category			
	Charitable Remainder Trust	Perpetual Trust	Mineral Rights	Total
Balance, December 31, 2016	\$ 62,649	\$ 185,819	\$ 21,939	\$ 270,407
Total gains	5,796	8,838	2,556	17,190
Interest and dividends earned	499	3,377	-	3,876
Distribution	(872)	(2,580)	-	(3,452)
Balance, December 31, 2017	<u>68,072</u>	<u>195,454</u>	<u>24,495</u>	<u>288,021</u>
Unrealized gains	<u>\$ 5,729</u>	<u>\$ 6,361</u>	<u>\$ 2,556</u>	<u>\$ 14,646</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, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 112,999	\$ 90,092
Gain (loss) on investments	(401,023)	395,818
Less investment fees	<u>(25,031)</u>	<u>(21,549)</u>
Net investment income (loss) per Statement of Activities	<u>(313,055)</u>	<u>464,361</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 \$61,735 and \$68,072 as of December 31, 2018 and 2017, respectively.

5. Beneficial interest in assets held by others

In 2003, the Society transferred net assets without donor restrictions of \$150,000 to the Wichita Community Foundation (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 net assets without donor restrictions of \$150,000 for endowment and the Foundation has no variance power over those funds. The Foundation restricted their \$50,000 matching grant as net assets with donor restrictions for endowment.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

5. Beneficial interest in assets held by others (continued)

In 1996, the Society transferred net assets without donor restrictions of \$50,000 to the Foundation and received a \$7,500 matching grant. The Society's Board of Directors designated the transferred net assets without donor restrictions of \$50,000 for endowment and the Foundation has no variance power over those funds. The Foundation restricted their \$7,500 matching grant as net assets with donor restrictions for endowment.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 304,411	\$ 283,636
Investment income	9,461	9,152
Gain (loss) on investment	(28,390)	25,261
Less management fees	(1,609)	(1,625)
Less distributions to the Society	<u>(11,862)</u>	<u>(12,013)</u>
Balance, end of year	<u>272,011</u>	<u>304,411</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 \$188,211 and \$195,454 as of December 31, 2018 and 2017, 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 \$33,927 and \$24,495 as of December 31, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 9,313,632	\$ 9,265,315
Furniture, fixtures, and equipment	679,290	571,305
Automobiles	90,367	57,367
Software	<u>9,683</u>	<u>9,683</u>
Total cost of property and equipment	10,092,972	9,903,670
Less accumulated depreciation on property assets	<u>4,987,069</u>	<u>4,485,126</u>
Property and equipment - net of accumulated depreciation	<u>5,105,903</u>	<u>5,418,544</u>

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

9. Net assets and endowments

Net assets without donor restrictions consist of:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 8,490,641	\$ 9,085,365
Board designated - endowment	<u>214,011</u>	<u>246,411</u>
Total net assets without donor restrictions	<u><u>8,704,652</u></u>	<u><u>9,331,776</u></u>

Net assets with donor restrictions consist of:

	<u>2018</u>	<u>2017</u>
Subject to passage of time:		
Contributions receivable in subsequent years (Note 2)	\$ 28,149	\$ 52,299
Beneficial interest in a charitable remainder trust (Note 4)	<u>61,735</u>	<u>68,072</u>
	<u>89,884</u>	<u>120,371</u>
Subject to expenditure for specific purpose:		
Equipment and improvements	116,562	-
Youth education	29,276	45,383
Staff training	22,877	-
Legislation	15,000	-
Let's Stay Together program	9,390	9,915
Supplies and repairs	4,969	4,707
Emergency fund	3,309	3,892
Adoption fees	586	2,076
Spay and neuter clinic	-	18,738
	<u>201,969</u>	<u>84,711</u>
Subject to the Society's spending policy and appropriation:		
Unappropriated endowment earnings	<u>142,852</u>	<u>221,017</u>
Subject to restriction in perpetuity:		
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)	<u>188,211</u>	<u>195,454</u>
	<u>1,371,211</u>	<u>1,378,454</u>
Total net assets with donor restrictions	<u><u>1,805,916</u></u>	<u><u>1,804,553</u></u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

9. Net assets and endowments (continued)

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, 2018 and 2017, included:

	<u>2018</u>	<u>2017</u>
Time restrictions met and purpose restrictions accomplished:		
Fundraising events	\$ 173,090	\$ 208,487
Shelter supplies	288,472	191,693
Appropriated endowment earnings	-	15,375
Other supplies	<u>7,502</u>	<u>38,815</u>
Total purpose restrictions accomplished	<u><u>469,064</u></u>	<u><u>454,370</u></u>

10. 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 donor restricted net assets (a) the original fair value of gifts donated to the permanent endowment and gifts with time or purpose restrictions imposed by donor (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. 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 (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.

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

10. Endowment (continued)

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 net assets with donor restrictions. There were no such deficiencies reported as of December 31, 2018 and 2017. 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.

Endowment net asset composition by type of fund as of December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 214,011	\$ -	\$ 214,011
Donor-restricted endowment funds:			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,283,000	1,283,000
Accumulated investments gains	-	231,062	231,062
Total endowment net assets	<u>214,011</u>	<u>1,514,062</u>	<u>1,728,073</u>

Endowment net asset composition by type of fund as of December 31, 2017:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	\$ 246,411	\$ -	\$ 246,411
Donor-restricted endowment funds:			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,283,000	1,283,000
Accumulated investments gains	-	316,471	316,471
Total endowment net assets	<u>246,411</u>	<u>1,599,471</u>	<u>1,845,882</u>

(continued)

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

10. Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2018:

	Board designated endowment funds	Donor restricted endowment funds	Total
Endowment net assets, as of December 31, 2017	\$ 246,411	\$ 1,599,471	\$ 1,845,882
Investment income	7,234	35,851	43,085
Net appreciation (depreciation):			
Realized	557	14,605	15,162
Unrealized	(29,890)	(126,240)	(156,130)
Investment fees	(1,231)	(8,912)	(10,143)
Distributions	(9,070)	(713)	(9,783)
Amount appropriated for expenditures	-	-	-
Endowment net assets, as of December 31, 2018	<u>214,011</u>	<u>1,514,062</u>	<u>1,728,073</u>

Changes in endowment net assets for the year ended December 31, 2017:

	Board designated endowment funds	Donor restricted endowment funds	Total
Endowment net assets, as of December 31, 2016	\$ 225,636	\$ 1,491,552	\$ 1,717,188
Investment income	6,799	28,781	35,580
Net appreciation:			
Realized	2,071	24,320	26,391
Unrealized	22,038	80,375	102,413
Investment fees	(1,208)	(7,602)	(8,810)
Distributions	(24,300)	(2,580)	(26,880)
Amount appropriated for expenditures	15,375	(15,375)	-
Endowment net assets, as of December 31, 2017	<u>246,411</u>	<u>1,599,471</u>	<u>1,845,882</u>

11. 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, 2018:

2019	\$ 40,533
2020	27,314
2021	24,984
2022	24,984
2023	24,984
Thereafter	<u>6,246</u>
Total	<u>149,045</u>

Rent expense was \$15,177 and \$17,828 for the years ended December 31, 2018 and 2017, respectively.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

12. In-kind donations

In-kind donations reflected in the accounts and financial statements of the Society for the years ended December 31, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Supplies and advertising for <i>Woofstock</i> special event	\$ 76,997	\$ 114,337
Supplies and services	117,648	343,913
Equipment	<u>70,890</u>	<u>-</u>
Total	<u>265,535</u>	<u>458,250</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 63,446 and 71,320 for the years ended December 31, 2018 and 2017, 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.

13. 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 \$21,695 and \$23,305 for the years ended December 31, 2018 and 2017, respectively.

14. Concentration of credit risk

The Society 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, stocks, fixed income, alternatives and cash and cash equivalents. Management continues to monitor the accounts to minimize the risk.

KANSAS HUMANE SOCIETY OF WICHITA, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

15. Availability and liquidity of financial assets

The following reflects the Society's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of December 31, 2018, because of contractual of donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriations from the endowment fund for the following year, as well as donor-restricted amounts that are available for expenditures in the following years. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Society approves that action.

	<u>2018</u>
Cash and cash equivalents	\$ 868,897
Certificates of deposit	200,042
Accounts receivable, net, collected in less than one year	41,455
Bequests receivable, net, collected in less than one year	53,819
Contributions receivable, net, collected in less than one year	12,850
Investments	<u>4,313,646</u>
Total financial assets, excluding noncurrent receivables	5,490,709
Contractual or donor-imposed restrictions:	
Cash restricted by others to specific uses	(193,297)
Other donor restrictions	(1,514,063)
Board designations	<u>(214,011)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>3,569,338</u></u>

The Society's goal is to maintain financial assets to meet 45 days of operating expenses (approximately \$500,000). As part of its liquidity plan, excess cash is invested in certificates of deposit and money market accounts.

16. Contractual commitments

In February of 2018, the Society entered into a three year contractual commitment with Blackbaud, an online fundraising and consulting service provider in the amount of \$62,614.

In September of 2018, the Society entered into a six year contractual commitment with IDEXX Technologies to purchase supplies. The Society is obligated to purchase a minimum of \$36,000 of supplies from IDEXX each year, beginning January 1, 2019 through December 31, 2024. In exchange for signing the contract, IDEXX gave the Society an X-ray machine, valued at \$70,890.

17. Subsequent events

The Society has evaluated subsequent events through July 11, 2019, the date which the financial statements were available to be issued, and no events requiring disclosure were identified.

