

**WHATCOM HUMANE SOCIETY**

**FINANCIAL STATEMENTS**

WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

(With Summarized Comparative Totals  
For the Year Ended December 31, 2016)

# WHATCOM HUMANE SOCIETY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Whatcom Humane Society  
Bellingham, Washington

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Whatcom Humane Society (a nonprofit corporation) which comprise the statement of financial position as of December 31, 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*

These financial statements are the responsibility of the Society's management. Management is responsible for the fair presentation and preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Whatcom Humane Society as of December 31, 2017, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Other Matter*

Report on Summarized Comparative Information

Whatcom Humane Society's financial statements for December 31, 2016 were audited by other auditors, who expressed an unmodified audit opinion on those audited financial statements in their report dated February 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Thumson & Company PLLC*

Bellingham, Washington  
January 3, 2019

WHATCOM HUMANE SOCIETY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017  
(With Summarized Comparative Totals for December 31, 2016)

**ASSETS**

|                             | 2017         | 2016         |
|-----------------------------|--------------|--------------|
| Current assets              |              |              |
| Cash and cash equivalents   | \$ 202,861   | \$ 171,338   |
| Accounts receivable         | 50,344       | 64,040       |
| Inventory                   | 10,431       | 7,660        |
| Prepaid expenses            | 23,531       | 17,572       |
| Total current assets        | 287,167      | 260,610      |
| Property and equipment, net | 4,310,447    | 4,362,943    |
| Investments                 | 514,443      | 472,380      |
| Total assets                | \$ 5,112,057 | \$ 5,095,933 |

**LIABILITIES AND NET ASSETS**

|  |              |              |
|--|--------------|--------------|
| Current liabilities                    |              |              |
| Accrued liabilities                    | \$ 163,689   | \$ 181,845   |
| Current portion of long term debt      | 26,577       | 25,835       |
| Total current liabilities              | 190,266      | 207,680      |
| Long term debt, net of current portion | 380,689      | 407,266      |
| Total liabilities                      | 570,955      | 614,946      |
| NET ASSETS                             |              |              |
| Unrestricted                           | 4,487,410    | 4,427,295    |
| Temporarily restricted                 | 53,692       | 53,692       |
| Total net assets                       | 4,541,102    | 4,480,987    |
| Total liabilities and net assets       | \$ 5,112,057 | \$ 5,095,933 |

The Accompanying Notes are an Integral Part of these Financial Statements

WHATCOM HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

|   | Unrestricted | Temporarily<br>Restricted | Totals       |              |
|---|--------------|---------------------------|--------------|--------------|
|   |              |                           | 2017         | 2016         |
| <b>REVENUE AND SUPPORT</b>                  |              |                           |              |              |
| Contributions                               | \$ 1,268,896 | \$ -                      | \$ 1,268,896 | \$ 1,445,567 |
| Contract income                             | 679,279      | -                         | 679,279      | 647,980      |
| License and impound income                  | 143,802      | -                         | 143,802      | 151,803      |
| Adoption income                             | 99,718       | -                         | 99,718       | 98,496       |
| Clinic income                               | 25,329       | -                         | 25,329       | 29,506       |
| Interest and dividend income                | 3,595        | -                         | 3,595        | 3,515        |
| Realized and unrealized gain on investments | 83,972       | -                         | 83,972       | 5,045        |
| In-kind contributions                       | 6,128        | -                         | 6,128        | 6,203        |
| Other income                                | 17,675       | -                         | 17,675       | 25,689       |
|   | 2,328,394    | -                         | 2,328,394    | 2,413,804    |
| Revenue and support                         |              |                           |              |              |
| Assets released from restriction            | -            | -                         | -            | -            |
|   |              |                           |              |              |
| Total revenue and support                   | 2,328,394    | -                         | 2,328,394    | 2,413,804    |
| <b>EXPENSES</b>                             |              |                           |              |              |
| Program Services                            | 1,616,452    | -                         | 1,616,452    | 1,492,630    |
| Management and general                      | 418,360      | -                         | 418,360      | 401,476      |
| Fundraising                                 | 233,467      | -                         | 233,467      | 233,399      |
| Total functional expenses                   | 2,268,279    | -                         | 2,268,279    | 2,127,505    |
| <b>OTHER EXPENSES</b>                       |              |                           |              |              |
| Loss on sale of Land                        | -            | -                         | -            | 252,141      |
| Total functional and other expenses         | 2,268,279    | -                         | 2,268,279    | 2,379,646    |
| CHANGES IN NET ASSETS                       | 60,115       | -                         | 60,115       | 34,158       |
| NET ASSETS, beginning of year               | 4,427,295    | 53,692                    | 4,480,987    | 4,446,829    |
| NET ASSETS, end of year                     | \$ 4,487,410 | \$ 53,692                 | \$ 4,541,102 | \$ 4,480,987 |

The Accompanying Notes are an Integral Part of these Financial Statements

WHATCOM HUMANE SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

|  | Program<br>Services | Management<br>and<br>General | Fundraising       | Total<br>2017       | Total<br>2016       |
|--|---------------------|------------------------------|-------------------|---------------------|---------------------|
| Salaries                                 | \$ 852,264          | \$ 118,785                   | \$ 66,700         | \$ 1,037,749        | \$ 997,567          |
| Payroll taxes                            | 116,978             | 9,401                        | 5,560             | 131,939             | 135,678             |
| Employee benefits                        | 107,034             | 16,652                       | 6,086             | 129,772             | 120,478             |
| Total salaries, payroll taxes and benefi | 1,076,276           | 144,838                      | 78,346            | 1,299,460           | 1,253,723           |
| Medical supplies                         | 102,540             | -                            | -                 | 102,540             | 53,165              |
| Mailings                                 | 18,052              | -                            | 61,177            | 79,229              | 91,599              |
| Other supplies                           | 72,075              | 7,179                        | 2,449             | 81,703              | 123,841             |
| Special Events                           | 5,861               | -                            | 77,408            | 83,269              | 82,807              |
| Outside services                         | -                   | -                            | -                 | -                   | -                   |
| Miscellaneous                            | 2,041               | 276                          | 605               | 2,922               | 9,606               |
| Utilities                                | -                   | -                            | -                 | -                   | -                   |
| Vehicle and patrol                       | 76,609              | 876                          | -                 | 77,485              | 45,866              |
| Occupancy                                | 6,671               | 86,277                       | -                 | 92,948              | 99,534              |
| Interest                                 | -                   | 19,996                       | -                 | 19,996              | 21,520              |
| Animal food                              | 36,329              | -                            | -                 | 36,329              | 29,222              |
| Other animal expense                     | 13,961              | -                            | -                 | 13,961              | 13,295              |
| Insurance                                | 6,754               | 11,461                       | -                 | 18,215              | 18,673              |
| Taxes                                    | 2,643               | 21,265                       | -                 | 23,908              | 23,393              |
| Bad debt                                 | -                   | -                            | -                 | -                   | -                   |
| Bank charges                             | -                   | 15,543                       | -                 | 15,543              | 14,495              |
| Professional fees                        | 65,904              | 19,847                       | 2,217             | 87,968              | 66,535              |
| Office                                   | 29,963              | 17,600                       | 9,945             | 57,508              | 25,890              |
| Repairs and maintenance                  | 10,298              | 8,182                        | -                 | 18,480              | 9,980               |
| Human resources                          | 7,322               | 5,745                        | 641               | 13,708              | 13,646              |
| In-kind                                  | 6,128               | -                            | -                 | 6,128               | 6,203               |
| Dues and subscriptions                   | 2,706               | 885                          | 679               | 4,270               | 5,255               |
| Training and education                   | 6,195               | 110                          | -                 | 6,305               | 1,480               |
| Travel and meals                         | 7,849               | -                            | -                 | 7,849               | 1,236               |
| Advertising                              | 1,995               | -                            | -                 | 1,995               | 4,200               |
|  | 1,558,172           | 360,080                      | 233,467           | 2,151,719           | 2,015,164           |
| Depreciation                             | 58,280              | 58,280                       | -                 | 116,560             | 112,341             |
| Total functional expense                 | <u>\$ 1,616,452</u> | <u>\$ 418,360</u>            | <u>\$ 233,467</u> | <u>\$ 2,268,279</u> | <u>\$ 2,127,505</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

WHATCOM HUMANE SOCIETY  
STATEMENT OF CASH FLOWS-ALL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

|   | 2017       | 2016       |
|---|------------|------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |            |            |
| Changes in net assets   | \$ 60,115  | \$ 34,158  |
| <i>Adjustments to reconcile changes in net assets to net cash flows from operating activities</i> |            |            |
| Depreciation  | 116,560    | 112,341    |
| Realized loss on sale of land   | -          | 252,141    |
| Realized and unrealized gain(loss) on investments   | 83,972     | (5,045)    |
| Reinvested dividends and interest   | (3,595)    | (3,515)    |
| Investment fees   | 4,449      | 616        |
| <i>Changes in operating assets and liabilities</i>  |            |            |
| Receivables   | 13,696     | (3,401)    |
| Inventory   | (2,771)    | (2,950)    |
| Prepaid expenses  | (5,959)    | (8,225)    |
| Accrued liabilities   | (18,156)   | 13,093     |
| Net cash flows provided(used) from operating activities   | 248,311    | 389,213    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |            |            |
| Redemptions and purchases of marketable securities  | (123,073)  | (281,428)  |
| Purchase of property and equipment  | (64,064)   | (30,913)   |
| Net cash flows provided(used) from investing activities   | (187,137)  | (312,341)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |            |            |
| Payments on leases  | (3,816)    | (2,258)    |
| Payments on long-term debt  | (25,835)   | (27,252)   |
| Net cash flows provided(used) from financing activities   | (29,651)   | (29,510)   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | 31,523     | 47,362     |
| CASH AND CASH EQUIVALENTS, beginning of year  | 171,338    | 123,976    |
| CASH AND CASH EQUIVALENTS, end of year  | \$ 202,861 | \$ 171,338 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>   |            |            |
| Cash paid during the year for interest  | \$ 19,996  | \$ 21,520  |

The Accompanying Notes are an Integral Part of these Financial Statements



**WHATCOM HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2017  
(With Summarized Comparative Totals for Year Ended December 31, 2016)

**NOTE 1 - ORGANIZATION**

**Organization** - Whatcom Humane Society, (the "Society") is a Washington state not-for-profit corporation founded in 1902. The Society's purpose is to shelter abandoned animals; fight animal cruelty and neglect; and work to build a caring, compassionate, and humane community. The Society operates an animal shelter, provides adoption and animal control services, operates a spay-neuter clinic, and sells pet licenses for Whatcom County and the cities of Bellingham, Blaine, Ferndale, and Everson.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The financial statements are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

**Basis of presentation** – The Society follows the recommendations of the Financial Accounting Standards Board in Accounting Standards Codification (ASC) 958. Under this standard, the Society is required to present its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, depending on the existence and nature of donor restrictions:

*Unrestricted net assets* are not subject to grantor/donor-imposed stipulations and are available for operations. Unrestricted net assets also include those assets that are board-designated for a particular purpose. Since the board has authority to revoke their decision at any time, these assets are not subject to the same restrictions as those from grantors/donors.

*Temporarily restricted net assets* are subject to grantor/donor-imposed stipulations that may be met, either by actions of the Society, the occurrence of certain events, or the passage of time. When a 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. Temporarily restricted net assets at December 31, 2017, and 2016 consisted of \$53,692 and \$53,692, respectively, for acquisition of property.

*Permanently restricted net assets* are subject to donor-imposed stipulations to be maintained permanently by the Society. As of December 31, 2017 and 2016, the Society did not have any Permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor-imposed stipulation or by law. When a restriction expires or the terms of the donation have been satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Society considers all highly liquid investments except marketable securities with an initial maturity of less than three months to be cash equivalents.

**Receivables** – Receivables are recorded in the Society's statement of financial position at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management of the Society bases its estimate of doubtful accounts on several factors. These factors include the Society's prior experience collecting receivables, the aging of the receivables at year-end, the debtor's ability to repay the amount owed, and management's appraisal of current economic conditions. The allowance for doubtful accounts as of December 31, 2017 and 2016 was \$9,288 and \$9,288, respectively. The Society does not accrue finance charges on past due receivables.

**Inventory** – Inventory consists of items for resale and is stated at the lower of cost or market value. Cost is determined by the first-in, first-out method.

**Property and Equipment** – The Society capitalizes all property and equipment acquisitions in excess of \$1,500. Property and equipment are carried at cost, or if donated, at the estimated fair value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful life of the asset and can range from 5 to 39 years. Depreciation expense totaled \$116,560 and \$112,341 for the years ended December 31, 2017 and 2016, respectively.

**WHATCOM HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2017  
(With Summarized Comparative Totals for Year Ended December 31, 2016)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Donated assets and services** – Noncash donations and donated marketable securities are recorded at their estimated fair values at the date of donation. Donated services are recorded in compliance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605, at their estimated fair market value at the date of receipt. Many volunteers have donated significant amounts of time to the Society’s activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition. For the years ending December 31, 2017 and 2016, In-kind donations of \$6,128 and \$6,203 were expensed.

**Functional expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Leases** – Leases meeting certain criteria are considered capital leases and the related assets and lease obligations are recorded at their present value in the financial statements. Other leases not meeting such criteria are operating leases and the related rentals are charged to expense as incurred.

**Investment valuation and income recognition** – Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Society’s investment committee determines the Society’s valuation policies utilizing information provided by the Investment custodian. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gain on investments includes the Society’s gains and losses on investments bought and sold as well as held during the year.

**Federal income tax** – The Society is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax on earnings associated with its exempt purpose. Unrelated business income is taxed at regular corporate rates. The Society had no unrelated business income. For the year ended December 31, 2017, the Society followed guidance in FASB ASC 740-10, regarding the reporting of uncertainty in income taxes. The implementation of FASB ASC 740-10 had no impact on the Society’s statement of financial position or statement of activities. The Society does not believe its financial statements reflect any uncertain tax positions. The Society continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings in determining transactions to be recognized in the financial statements. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

**Sales tax** – Taxes collected from customers for amounts assessed by governmental authorities on revenue producing transactions are recorded on a net basis and are not included in the amounts on the accompanying statement of activities.

**Statement of Functional Expenses** – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated to each function based on the estimate of management.

ASC 958 identifies certain criteria related to the purpose, audience, and content of a Society’s activities. If the criteria are met, costs of an activity should be allocated between program, fundraising and management and general functions. If the criteria are not met, all costs of an activity should be reported as fundraising costs, including costs that might otherwise be considered program costs or management and general costs had they been incurred in a different activity.

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

**Reclassifications** – Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation.

**WHATCOM HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2017  
(With Summarized Comparative Totals for Year Ended December 31, 2016)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Prior year comparative information** – These financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation’s financial statements, from which the summarized information was derived.

**Subsequent events** – The Society has evaluated subsequent events through January 3, 2019, the date the financial statements were available to be issued.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

|                               | <u>2017</u>         | <u>2016</u>         |
|-------------------------------|---------------------|---------------------|
| Land                          | \$ 2,079,245        | \$ 2,079,245        |
| Buildings                     | 2,321,631           | 2,287,151           |
| Equipment                     | 310,947             | 310,947             |
| Vehicles                      | 146,278             | 123,678             |
| Signage                       | 29,938              | 29,938              |
| Leasehold Improvements        | 22,713              | 22,713              |
| Office Equipment              | 10,606              | 10,606              |
| Office Furniture              | 17,344              | 10,359              |
| Computers                     | <u>3,677</u>        | <u>3,677</u>        |
|                               | 4,942,379           | 4,878,314           |
| Less accumulated depreciation | <u>631,932</u>      | <u>515,371</u>      |
|                               | <u>\$ 4,310,447</u> | <u>\$ 4,362,943</u> |

**NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The following tables set forth by level, within the fair value hierarchy, the Society’s investments at fair value as of:

| December 31, 2017       | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>      |
|-------------------------|-------------------|----------------|----------------|-------------------|
| Equity                  | \$ 370,109        | -              | -              | \$ 370,109        |
| Fixed income portfolios | 143,669           | -              | -              | 143,669           |
| Money market accounts   | -                 | -              | -              | -                 |
| Mutual funds            | <u>665</u>        | -              | -              | <u>665</u>        |
|                         | <u>\$ 514,443</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 514,443</u> |
| December 31, 2016       | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>      |
| Equity                  | \$ 43,570         | \$ -           | -              | \$ 43,570         |
| Fixed income portfolios | 27,725            | -              | -              | 27,725            |
| Money market accounts   | 400,255           | -              | -              | 400,255           |
| Mutual funds            | <u>830</u>        | -              | -              | <u>830</u>        |
|                         | <u>\$ 472,380</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 472,380</u> |

**WHATCOM HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2017  
(With Summarized Comparative Totals for Year Ended December 31, 2016)

**NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)**

Investment gains reported as unrestricted activity during the years ended December 31 consist of the following:

|                               | 2017             | 2016            |
|-------------------------------|------------------|-----------------|
| Realized and unrealized gains | \$ 83,972        | \$ 5,045        |
| Interest and dividends        | <u>3,595</u>     | <u>3,515</u>    |
|                               | <u>\$ 87,567</u> | <u>\$ 8,560</u> |

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable for the asset or liability. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. At December 31, 2016 and 2015, all investments are measured at quoted prices in active markets for identical assets and gifts-in-kind were measured at quoted prices for similar assets and liabilities in active markets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used during the years ended December 31, 2017 and 2016.

To assess the appropriate classification of investments with the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Society evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits.

**NOTE 5 – PENSION EXPENSE**

The Society sponsors a thrift plan, a tax deferred annuity under Internal Revenue Code Section 403(b), for the benefit of its employees. Employees are eligible to participate immediately and receive employer match contributions after six months of service. The Society contributes 2% of eligible employees' salary to the plan. Employees are 100% vested in employee and employer contributions immediately. Employer match contributions totaled \$14,728 and \$12,883 during the years ended December 31, 2017 and 2016, respectively.

**WHATCOM HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2017  
(With Summarized Comparative Totals for Year Ended December 31, 2016)

**NOTE 6 – OPERATING LEASES**

The Society leases two copy machines under operating lease agreements effective April and July, 2013 which expire in April and July, 2018, respectively. The agreements require minimum monthly payments totaling \$124 and \$111, respectively.

The Society leases property for their farm animal operation under an operating lease agreement on a month to month basis. The agreement required minimum monthly payments totaling \$2,233. See Note 8.

The Society leases property and a building for their wildlife center operation under an operating lease agreement effective March 2014 which expires February 2019. The agreement requires minimum monthly payments totaling \$83.

Future minimum annual lease payments for the years ending December 31 are as follows:

|      |                 |
|------|-----------------|
| 2018 | \$ 2,166        |
| 2019 | <u>167</u>      |
|      | <u>\$ 2,333</u> |

**NOTE 7 – LONG-TERM DEBT**

Investments consists of the following at December 31:

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Note payable to Whidbey Island Bank, due in monthly installments of \$3,779, including interest at 4.75%, outstanding principal due in 2023, secured by building | \$ 407,266        | \$ 432,612        |
| Note payable to Ford Credit, due in monthly installments of \$490, non interest bearing, outstanding principal due 2016, secured by vehicle                      | <u>-</u>          | <u>489</u>        |
| Less current portion of note payable   | <u>26,577</u>     | <u>25,835</u>     |
|  | <u>\$ 380,689</u> | <u>\$ 407,266</u> |

Aggregate future annual principal payments on notes payable for the years ending December 31 are as follows:

|            |                   |
|------------|-------------------|
| 2018       | \$ 26,577         |
| 2019       | 27,867            |
| 2020       | 29,220            |
| 2021       | 30,638            |
| Thereafter | <u>292,964</u>    |
|            | <u>\$ 407,266</u> |

**NOTE 8– SUBSEQUENT EVENTS AND CONTINGENT LIABILITY**

During 2017, there was a legal action filed against the Society. This legal action is still pending a decision. The effect on the financial statements is unknown at this time.

On January 3, 2019, The Society received a donation of the property they were leasing for farm animal operations. The value of this donation was \$390,000.