

**Vancouver Humane Society & SPCA
DBA Humane Society For
Southwest Washington**

Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)



**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington
Vancouver, WA

We have audited the accompanying financial statements of Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 the 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 statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington as of December 31, 2015, were audited by other auditors whose report dated July 14, 2016, expressed an unmodified opinion on those statements. As discussed in Note 12 to the financial statements, Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington has adjusted the 2015 financial statement to record the estimated value of inventory held at year end that was not included in the original financial statements. The other auditors reported on the financial statements before these adjustments.

As part of our audit of the 2016 financial statements, we also audited the adjustment to the 2015 financial statements as described in Note 12. In our opinion, the restatement is appropriate and has been properly applied. We were not engaged to audit, review or apply any procedures to Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington's 2015 financial statements other than with respect to the restatement and, accordingly, we do not express an opinion in any other form of assurance in the 2015 financial statements as a whole.

Aldrich CPAs + Advisors LLP

Lake Oswego, OR
June 15, 2017

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statements of Financial Position

December 31, 2016 and 2015 (Restated)

ASSETS	<u>2016</u>	<u>2015</u>
Cash	\$ 285,430	\$ 400,924
Unconditional promises to give, net	393,312	472,011
Other receivables	67,793	72,631
Investments	374,560	411,988
Inventories	179,826	176,341
Other assets	65,063	27,023
Beneficial interest - Community Foundation for Southwest Washington	535,519	430,960
Land, buildings, and equipment, net of accumulated depreciation	<u>7,691,921</u>	<u>7,647,701</u>
 Total Assets	 <u>\$ 9,593,424</u>	 <u>\$ 9,639,579</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 120,164	\$ 46,648
Accrued expenses	296,847	170,004
Deferred rent	160,971	144,082
Long-term debt	<u>249,415</u>	<u>301,967</u>
Total Liabilities	827,397	662,701
 Net Assets:		
Unrestricted:		
Undesignated	7,583,385	7,798,001
Board designated quasi endowment	167,739	158,573
Temporarily restricted	654,853	740,254
Permanently restricted	<u>360,050</u>	<u>280,050</u>
Total Net Assets	<u>8,766,027</u>	<u>8,976,878</u>
 Total Liabilities and Net Assets	 <u>\$ 9,593,424</u>	 <u>\$ 9,639,579</u>

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support:				
Contributions and grants	\$ 671,012	\$ 403,447	\$ 80,000	\$ 1,154,459
In-kind contributions	106,237	-	-	106,237
Thrift store sales	1,076,174	-	-	1,076,174
Special events:				
Income	744,155	-	-	744,155
Expense	(397,042)	-	-	(397,042)
Special Events, net	347,113	-	-	347,113
Contract services	679,175	-	-	679,175
Adoption services	637,226	-	-	637,226
Other service fees	91,186	-	-	91,186
Investment income	75,225	7,730	-	82,955
Retail	123,511	-	-	123,511
Other income	22,355	-	-	22,355
Net assets released from restrictions	496,578	(496,578)	-	-
Total Revenue, Gains, and Other Support	4,325,792	(85,401)	80,000	4,320,391
Expenses:				
Program:				
Animal Care Shelter	1,634,380	-	-	1,634,380
Clinic	553,672	-	-	553,672
Adoption	589,189	-	-	589,189
Education	52,869	-	-	52,869
Volunteer	56,649	-	-	56,649
Total Program	2,886,759	-	-	2,886,759
Supporting expenses:				
Management and general	144,664	-	-	144,664
Thrift store	969,599	-	-	969,599
Fundraising	530,220	-	-	530,220
Total Expenses	4,531,242	-	-	4,531,242
Change in Net Assets	(205,450)	(85,401)	80,000	(210,851)
Net Assets, beginning of year	7,956,574	740,254	280,050	8,976,878
Net Assets, ending of year	<u>\$ 7,751,124</u>	<u>\$ 654,853</u>	<u>\$ 360,050</u>	<u>\$ 8,766,027</u>

See accompanying notes to financial statements.

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statement of Activities

Year Ended December 31, 2015 (Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support:				
Contributions and grants	\$ 1,456,173	\$ 364,152	\$ 30,050	\$ 1,850,375
In-kind contributions	69,821	-	-	69,821
Thrift store sales	1,173,327	-	-	1,173,327
Special events:				
Revenue	731,261	-	50,000	781,261
Expense	(357,432)	-	-	(357,432)
Special Events, net	373,829	-	50,000	423,829
Contract services	669,520	-	-	669,520
Adoption services	523,781	-	-	523,781
Other service fees	104,866	-	-	104,866
Investment loss	(16,545)	-	-	(16,545)
Retail	109,591	-	-	109,591
Other income	2,992	-	-	2,992
Net assets released from restrictions	151,363	(151,363)	-	-
Total Revenue, Gains, and Other Support	4,618,718	212,789	80,050	4,911,557
Expenses:				
Program:				
Animal Care Shelter	1,560,798	-	-	1,560,798
Clinic	477,027	-	-	477,027
Adoption	350,288	-	-	350,288
Education	46,961	-	-	46,961
Volunteer	53,104	-	-	53,104
Total Program	2,488,178	-	-	2,488,178
Supporting expenses:				
Management and general	129,945	-	-	129,945
Thrift store	1,084,902	-	-	1,084,902
Fundraising	509,051	-	-	509,051
Total Expenses	4,212,076	-	-	4,212,076
Change in Net Assets	406,642	212,789	80,050	699,481
Net Assets, beginning of year	7,549,932	527,465	200,000	8,277,397
Net Assets, ending of year	<u>\$ 7,956,574</u>	<u>\$ 740,254</u>	<u>\$ 280,050</u>	<u>\$ 8,976,878</u>

See accompanying notes to financial statements.

**VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST
WASHINGTON**

Statements of Cash Flows

Years Ended December 31, 2016 and 2015 (Restated)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (210,851)	\$ 699,481
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	192,252	188,282
Unrealized (gain) loss on investments	(78,288)	22,991
Donations of equipment	(4,796)	-
Non-cash donation of items for thrift store	(4,000)	(166,000)
Contributions restricted for long-term purposes	(80,000)	(80,050)
Changes in assets and liabilities:		
Unconditional promises to give, net	78,699	(249,491)
Other receivables	4,838	(24,053)
Inventories	515	1
Other assets	(38,040)	20,604
Accounts payable	73,516	7,591
Accrued expense	126,843	52,037
Deferred rent	16,889	144,082
Net Cash Provided by Operating Activities	<u>77,577</u>	<u>615,475</u>
Cash Flows from Investing Activities:		
Purchase of equipment and building improvements	(231,676)	(39,484)
Proceeds from sale of equipment	-	1,000
Proceeds from sale of investments	107,889	-
Purchase of investments	<u>(96,732)</u>	<u>(305,744)</u>
Net Cash Used by Investing Activities	<u>(220,519)</u>	<u>(344,228)</u>
Cash Flows from Financing Activities:		
Contributions restricted for investment in permanent endowment	80,000	80,050
Payments on long-term debt	<u>(52,552)</u>	<u>(47,378)</u>
Net Cash Provided by Financing Activities	<u>27,448</u>	<u>32,672</u>
Net Change in Cash	(115,494)	303,919
Cash, beginning	<u>400,924</u>	<u>97,005</u>
Cash, end	<u>\$ 285,430</u>	<u>\$ 400,924</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 17,074</u>	<u>\$ 15,937</u>

See accompanying notes to financial statements.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 1 – Organization

Nature of Organization

Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (the Organization) is a nonprofit organization founded in 1897 and incorporated in 1965. The Organization enriches the lives of people, pets and our community through adoption and outreach, and serves as a resource for animal services and education.

Program Services

The Organization provides program services in the following major areas:

Shelter Services - The Organization offers shelter to unwanted, abandoned, lost and homeless animals from Clark and Skamania counties as well as other animals in need that are brought to the Organization. The Organization provides food, water, medication, shelter and, if needed, humane euthanasia.

Adoption Services – The Organization provides quality adoption services to the Southwest Washington community. Adopters are screened to ensure that they will provide good care to the animal being adopted. The Organization has a pet-matching program which works to match pets with potential adopters. All animals adopted from the Organization are vaccinated against disease, treated for parasites, licensed or issued an identification tag, and given a certificate for free health exam with the veterinarian of the adopter's choice. All animals are either spayed or neutered prior to adoption. In addition, the Organization offers training and animal behavior information with each adoption.

Education Program – The Organization offers education information to both potential adopters and the community. The Organization gives education presentations to schools, civic groups, and other interested parties. The Organization also produces a quarterly newsletter and underwrites education billboards throughout the community. Through the Organization's efforts, the message of the importance of spaying and neutering and proper animal care is made available to the community.

Volunteer Program – The Organization's volunteer program utilizes the talents of many individuals. Volunteers assist by helping with adoptions, filing, answering telephones, walking dogs, feeding animals in the shelter, staffing the Organization's thrift store, socializing with and grooming animals, promoting and staffing special events, and providing foster care for shelter animals.

Note 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, which includes board designated, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Board Designated – Board designated funds are funds that are unrestricted by donors, but have been designated by the Organization's board for specific projects and initiatives.

Temporarily Restricted – Consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 2 – Summary of Significant Accounting Policies, continued

Financial Statement Presentation, continued

Permanently Restricted – Subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 inputs are unobservable inputs for the investment.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Common stock and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial interest in assets held at the Community Foundation for Southwest Washington: Valued based on the fair value of the underlying assets in the funds as reported by the fund manager.

The Organization's financial instruments, none of which are held for trading purposes, include cash, receivables, accounts payable, and notes payable. The Organization estimates that the fair value of all of these non-derivative financial instruments at December 31, 2016 and 2015 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

Cash

The Organization maintains its cash in accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At times, the balances may exceed federally insured limits. At December 31, 2016 and 2015, the Organization had \$9,526 and \$0 uninsured cash balances, respectively.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 2 – Summary of Significant Accounting Policies, continued

Unconditional Promises to Give

When a donor has unconditionally promised to contribute funds to the Organization in future periods, the Organization recognizes an unconditional promise to give. Promises to give expected to be collected within one year are recorded as support and a receivable at net realizable value. Promises to give expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible promises to give, if any, is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

Investments

Realized and unrealized gains and losses are included in the change in net assets in the statements of activities and changes in net assets. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Inventories

Inventories consist of items held for sale in retail operations as well as in the thrift store. The thrift store inventory consists primarily of items that have been donated by individuals in the community. Most of the donations are used items and the value of inventory was based on average sale prices for the past year by category and the estimated number of items on hand at year end based on an analysis of the square footage of the thrift store. Any purchased inventory is recorded at cost and on the first-in, first-out method.

Land, Buildings, and Equipment

Purchased property is stated at cost; donated assets are valued at their estimated fair value on the date donated. Gifts of property 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 property and equipment are reported as temporarily restricted support. Absent explicit donor stipulations about how those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

All assets are depreciated over estimated useful lives on a straight line basis. Repairs and maintenance costs are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property in excess of \$500 that meet the capitalization requirements are capitalized. Upon retirement, sale or other disposition of property, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statements of activities. Estimated useful lives range from 5-50 years.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statements of financial position.

Revenue Recognition

Contributions - Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 2 – Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

Grants and Contracts – Grant and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Unearned revenue is recorded when cash received under a grant or contract exceeds the revenue earned. No allowance for doubtful accounts has been recorded as management believes that all amounts are collectible.

Donated Services – The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Revenue related to sale of goods are reported net of discounts and sales taxes.

Functional Expense Allocations

The costs of providing the Organization's programs and administration have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization has no significant unrelated business income subject to taxation. Consequently, there is no provision for income taxes.

The Organization recognizes a liability for unrecognized tax benefits when facts and circumstances indicate that an uncertain tax position is more likely than not to be overturned by a taxing authority upon examination. The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized tax benefits, accrued or expensed as of and for the years ended December 31, 2016 and 2015.

Advertising

The Organization expenses the cost of advertising as incurred. For years ended December 31, 2016 and 2015 advertising expenses were \$7,718 and \$11,069, respectively.

Reclassification

Certain amounts in the December 31, 2015 financial statements have been reclassified for comparative purposes to conform to the presentation in the December 31, 2016 financial statements. There was no impact on net assets as a result of these reclassifications.

Subsequent Events

The Organization has evaluated subsequent events through June 15, 2017, which is the date on which the financial statements were available to be issued.

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 3 – Unconditional Promises to Give

At December 31, unconditional promises to give consisted of the following:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 172,582	\$ 222,225
Due in one to five years	<u>229,625</u>	<u>266,082</u>
	<u>402,207</u>	<u>488,307</u>
Less:		
Discount to present value (rates ranging from 2.27%-2.45%)	<u>(8,895)</u>	<u>(16,296)</u>
	<u>\$ 393,312</u>	<u>\$ 472,011</u>

Note 4 – Investments and Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Organization's financial instruments at fair value:

	<u>Assets at Fair Value as of December 31, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 42,674	\$ -	\$ -	\$ 42,674
Common Stock:				
Communication services	110,922	-	-	110,922
Consumer defensive	109,054	-	-	109,054
Energy	85,370	-	-	85,370
Technology	15,437	-	-	15,437
Consumer cyclical	6,128	-	-	6,128
Mutual Funds	4,975	-	-	4,975
Investments held in beneficial interest	<u>-</u>	<u>535,519</u>	<u>-</u>	<u>535,519</u>
	<u>\$ 374,560</u>	<u>\$ 535,519</u>	<u>\$ -</u>	<u>\$ 910,079</u>

	<u>Assets at Fair Value as of December 31, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 125,974	\$ -	\$ -	\$ 125,974
Common Stock:				
Communication services	89,805	-	-	89,805
Consumer defensive	109,688	-	-	109,688
Energy	67,300	-	-	67,300
Technology	12,914	-	-	12,914
Consumer cyclical	6,307	-	-	6,307
Investments held in beneficial interest	<u>-</u>	<u>430,960</u>	<u>-</u>	<u>430,960</u>
	<u>\$ 411,988</u>	<u>\$ 430,960</u>	<u>\$ -</u>	<u>\$ 842,948</u>

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 4 – Investments and Fair Value Measurements, continued

Investment income (loss) consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 12,299	\$ 6,718
Unrealized gain (loss)	78,288	(24,329)
Realized gain	663	9,147
Expenses	<u>(8,295)</u>	<u>(8,081)</u>
	<u>\$ 82,955</u>	<u>\$ (16,545)</u>

Note 5 – Land, Buildings, and Equipment

At December 31, land, buildings, and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 687,500	\$ 687,500
Buildings and related improvements	7,803,778	7,690,769
New development in progress	30,265	30,265
Furniture and equipment	514,702	394,936
Vehicles	<u>28,175</u>	<u>24,477</u>
	9,064,420	8,827,947
Less accumulated depreciation	<u>1,372,499</u>	<u>1,180,246</u>
	<u>\$ 7,691,921</u>	<u>\$ 7,647,701</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$192,252 and \$188,282, respectively.

Note 6 – Long-Term Debt

At December 31, long-term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
Note payable to Umpqua Bank due in montly installments of \$3,601, including interest at 5.45%, due November 2021, secured by property and equipment and receivables.	\$ 185,686	\$ 217,643
Note payable to Columbia Credit Union due in monthly installments of \$1,839, including interest at 5%, due October 2019 and secured by all business assets.	58,256	76,998
Capital lease agreement with NEC Financial Services for phone system with monthly payments of \$195, including interest at 7.2%, due August 2019, secured by the phone system.	<u>5,473</u>	<u>7,326</u>
	<u>\$ 249,415</u>	<u>\$ 301,967</u>

VANCOUVER HUMANE SOCIETY & SPCA DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 6 – Long-Term Debt, continued

Annual maturities of long-term debt are as follows as of December 31, 2016:

Years ending December 31,	
2017	\$ 55,403
2018	58,577
2019	57,262
2020	39,972
2021	38,201
	<u>38,201</u>
	\$ <u>249,415</u>

Note 7 – Net Assets

Temporarily restricted net assets at December 31 consisted of the following:

	2016	2015
Time Restricted	\$ 346,054	\$ 472,011
Capital Improvements	138,927	138,927
Animal Care	70,081	60,181
Unleashed	70,458	28,617
Endowment Earnings	7,730	-
Other	21,603	40,518
	<u>\$ 654,853</u>	<u>\$ 740,254</u>

Permanently restricted net assets as of December 31, 2016 and 2015 consisted funds restricted for building repairs.

Note 8 – Endowment

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds while supporting the operations of the Organization through a set spending rate. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization 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 Organization 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 Organization
- 7) The investment policies of the Organization

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Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 8 – Endowment, continued

Investment and Spending Policies

The Organization's endowment funds investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to achieve a balance return of income consistent with principal growth and to achieve a rate of return, net of fees, to exceed a return of relevant indices or other benchmarks as determined by the Organization's Investment Committee. The approved spending rate was 3% for the years ended December 31, 2016 and 2015.

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate capital appreciation, in an attempt to provide a predictable stream of funding for grant making while seeking to maintain the purchasing power of the endowment assets.

Within that framework, the investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual return adequate to cover the yearly spending rate, management fees and annual inflation. Actual returns in any given year may vary from this amount.

At December 31, 2016 the Endowment Funds consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 15,394	\$ 360,050	\$ 375,444
Board designated quasi-endowment funds	<u>167,739</u>	<u>-</u>	<u>-</u>	<u>167,739</u>
	<u>\$ 167,739</u>	<u>\$ 15,394</u>	<u>\$ 360,050</u>	<u>\$ 543,183</u>

At December 31, 2015 the Endowment Funds consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ -	\$ 280,050	\$ 280,050
Board designated quasi-endowment funds	<u>158,573</u>	<u>-</u>	<u>-</u>	<u>158,573</u>
	<u>\$ 158,573</u>	<u>\$ -</u>	<u>\$ 280,050</u>	<u>\$ 438,623</u>

The changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets December 31, 2015	\$ 158,573	\$ -	\$ 280,050	\$ 438,623
Contributions	-	-	80,000	80,000
Appropriated expenditures	-	-	-	-
Investment return	<u>9,166</u>	<u>15,394</u>	<u>-</u>	<u>24,560</u>
Endowment net assets, December 31, 2016	<u>\$ 167,739</u>	<u>\$ 15,394</u>	<u>\$ 360,050</u>	<u>\$ 543,183</u>

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Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 8 – Endowment, continued

The changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets December 31, 2014	\$ 315,423	\$ 18,242	\$ 200,000	\$ 533,665
Contributions	-	-	80,050	80,050
Appropriated expenditures	(160,539)	(6,580)	-	(167,119)
Investment return	3,689	(11,662)	-	(7,973)
Endowment net assets, December 31, 2015	<u>\$ 158,573</u>	<u>\$ -</u>	<u>\$ 280,050</u>	<u>\$ 438,623</u>

Note 9 – Concentrations

At December 31, 2016 and 2015 83% and 91% of unconditional promises to give were from three donors, respectively.

The Organization invests in various types of marketable securities and money market funds. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified. The Organization also invests in various investment securities. Investment securities in general are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Note 10 – Operating Leases

The Organization leases space for the thrift store under non-cancellable operating leases expiring April 2020 as well as month to month lease agreements for small equipment. Total rental expense under these leases was \$260,398 and \$346,943 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments as of December 31, 2016 under this non-cancellable agreement are as follows:

Years Ending December 31,	
2017	\$ 233,750
2018	255,000
2019	255,000
2020	53,125
	<u>\$ 796,875</u>

Note 11 – Retirement Plan

The Organization has a 401(k) retirement plan. Employees are automatically enrolled in the plan after 90 days of service unless they opt out. Participating employees may elect to contribute, on a tax-deferred basis, a portion of their compensation. The Organization contributes a match of 50% of the first 6% contributed by the employee. The Organization's contribution expense for the years ended December 31, 2016 and 2015 were \$32,450 and \$26,856, respectively.

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Notes to Financial Statements

Years Ended December 31, 2016 and 2015 (Restated)

Note 12 – Restatement

During the year ended December 31, 2016 it was identified that inventory for the ReTails thrift store had not been recorded as of December 31, 2015. Generally accepted accounting principles require an estimate be recorded for the value of donated items. The adjustment as of and for the year ended December 31, 2015 was an increase in the value of inventory by \$166,000 and an increase in thrift store revenue for the same amount.

For the year ended December 31, 2015 the Organization had previously reported an increase in net assets of \$533,481 and net assets of \$8,810,878. After the restatement, the increase in net assets is revised to \$699,481 and net assets are \$8,976,878 at December 31, 2015.