

**LAWRENCE HUMANE SOCIETY, INC.**

**Lawrence, Kansas**

**FINANCIAL STATEMENTS**  
**As of and for the Year Ended**  
**December 31, 2017**

LAWRENCE HUMANE SOCIETY, INC.  
Lawrence, Kansas

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 11



MIZE HOUSER  
COMPANY P.A.

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Lawrence Humane Society, Inc.  
Lawrence, Kansas

We have audited the accompanying financial statements of the Lawrence Humane Society, Inc. (a nonprofit organization), 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 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 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. These 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 the Lawrence Humane Society, Inc. as of December 31, 2017, the changes in net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*Mike Houser: Company PA*

Certified Public Accountants  
Lawrence, Kansas

October 31, 2018

LAWRENCE HUMANE SOCIETY, INC.  
STATEMENT OF FINANCIAL POSITION  
As of December 31, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 577,937
Accounts receivable	83,456
Prepaid expenses	<u>27,332</u>
Total current assets	<u>688,725</u>
Long-term unconditional promises to give	
Capital campaign pledges receivable, less allowance of \$40,850	<u>850,561</u>
Fixed Assets	
Construction in progress	294,106
Property, plant and equipment	2,555,276
Accumulated depreciation	<u>[1,306,772]</u>
Total fixed assets	<u>1,542,610</u>
Other assets	
Beneficiary interest in assets held by others	<u>2,101,049</u>
Total assets	<u>\$ 5,182,945</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 88,653
Payroll liabilities	<u>31,024</u>
Total current liabilities	<u>119,677</u>
Net assets	
Unrestricted	2,026,995
Temporarily restricted	<u>3,036,273</u>
Total net assets	<u>5,063,268</u>
Total liabilities and net assets	<u>\$ 5,182,945</u>

The notes to the financial statements are an integral part of this financial statement.

LAWRENCE HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES  
Year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support			
Contracts	\$ 445,643	\$ -	\$ 445,643
Program fees	413,587	-	413,587
Donations	861,370	953,284	1,814,654
Grants	1,572	151,000	152,572
In-kind donations	120,645	-	120,645
Fundraising events	185,291	-	185,291
Investment income			
Interest income	359	-	359
Investment return on beneficiary interest	-	51,125	51,125
Miscellaneous	459	-	459
Net assets released from restriction	434,518	[434,518]	-
Total revenues, gains, and other support	<u>2,463,444</u>	<u>720,891</u>	<u>3,184,335</u>
Expenses			
Program services	1,256,394	-	1,256,394
Supporting services	446,992	-	446,992
Fundraising	258,405	-	258,405
Total expenses	<u>1,961,791</u>	<u>-</u>	<u>1,961,791</u>
Change in net assets	501,653	720,891	1,222,544
Net assets, beginning of year	<u>1,525,342</u>	<u>2,315,382</u>	<u>3,840,724</u>
Net assets, end of year	<u>\$ 2,026,995</u>	<u>\$ 3,036,273</u>	<u>\$ 5,063,268</u>

The notes to the financial statements are an integral part of this financial statement.

LAWRENCE HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2017

	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 719,119	\$ 137,692	\$ 82,513	\$ 939,324
Payroll taxes and benefits	85,416	45,022	7,576	138,014
Bank fees	7	26,011	7,477	33,495
Computer and technology	171	12,523	-	12,694
Depreciation	72,797	-	-	72,797
Dues and subscriptions	922	4,627	645	6,194
Event expenses	179	-	64,359	64,538
Office expenses	1,479	1,552	10	3,041
Insurance	15,190	1,796	-	16,986
Legal and professional	120	36,394	15,887	52,401
Maintenance and repairs	17,458	32,356	358	50,172
Marketing	14,576	610	60,827	76,013
Miscellaneous	-	3,110	1	3,111
Postage and shipping	168	505	3,465	4,138
Sales and use tax	-	3,008	-	3,008
Supplies: General	1,007	23,374	1,382	25,763
Supplies: Animal care	180,682	383	13,168	194,233
Supplies: Medical program	133,661	128	-	133,789
Travel	2,273	5,621	-	7,894
Utilities	-	111,656	-	111,656
Volunteer & education program	4,463	606	737	5,806
Waste disposal	6,706	18	-	6,724
	<u>\$ 1,256,394</u>	<u>\$ 446,992</u>	<u>\$ 258,405</u>	<u>\$ 1,961,791</u>
Total Expenses				

The notes to the financial statements are an integral part of this financial statement.

LAWRENCE HUMANE SOCIETY, INC.

STATEMENT OF CASH FLOWS  
Year ended December 31, 2017

Cash flows from operating activities	
Change in net assets	\$ 1,222,544
Adjustments to reconcile change in net assets to net cash provided [used] by operating activities:	
Depreciation	72,797
Changes in current assets and liabilities	
[Increase] decrease in receivables	[75,188]
[Increase] decrease in prepaid expenses	[20,456]
[Increase] decrease in capital campaign pledges receivable	52,309
Increase [decrease] in accounts payable	50,517
Increase [decrease] in payroll liabilities	<u>3,685</u>
Net cash provided [used] by operating activities	<u>1,306,208</u>
Cash flows from investing activities	
Change in beneficiary interest	[863,333]
Purchase of property and equipment	<u>[202,810]</u>
Net cash provided [used] by investing activities	<u>[1,066,143]</u>
Net increase [decrease] in cash	240,065
Cash as of beginning of period	<u>337,872</u>
Cash as of end of period	<u>\$ 577,937</u>
<u>Supplemental Information</u>	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

The notes to the financial statements are an integral part of this financial statement.

LAWRENCE HUMANE SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Lawrence Humane Society, Inc. (the Organization) was incorporated as a 501(c)(3) organization under the laws of the State of Kansas on March 22, 1951. The Organization provides shelter, care, and advocacy to stray, homeless, and abused animals and nurtures the human-animal bond.

Definition of the Entity

Lawrence Humane Society, Inc. is a nonprofit corporation governed by a board, which shall consist of up to 15 members. Lawrence Humane Society, Inc. as an entity has been defined to include on a combined basis (a) Lawrence Humane Society, Inc. (b) organizations for which Lawrence Humane Society, Inc. is financially accountable, and (c) other organizations for which the nature and significance of their relationship with Lawrence Humane Society, Inc. are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in Lawrence Humane Society Inc.'s report.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets and revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generation investment income to fund the donor intentions.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains or losses on assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (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.

LAWRENCE HUMANE SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, money market accounts and certificates of deposit. The Organization considers all cash to be cash equivalents.

Transfer of Assets to a Not-for-Profit that holds Contributions for Others

The Organization has adopted the provisions of FASB ASC 958-605 with respect to the monies transferred into a fund at Douglas County Community Foundation. The Organization provided the Foundation the power to modify the distribution of funds. The distribution of funds is limited to the income of the fund, net of the fees and expenses for purposes described in Code Section 170(c)(1) or (2)(B) that are consistent with the exempt status and purposes of the Foundation. The transferring of assets is presumed reciprocal in nature even if the transferring entity explicitly grants the recipient entity variance power when the transferring entity specifies itself as the beneficiary. As a result, the Organization recognized in the Statement of Financial Position \$2,101,049 as an asset. The asset is considered a beneficiary interest in assets held by others.

Support and revenues

The Organization receives funding from donations, operational programming and governmental contracts. Revenues from donations are recognized when earned.

Pledges receivable and allowance for doubtful accounts

Pledges receivable are valued at their estimated collectible amounts. The Organization uses estimates in computing the allowance for doubtful accounts. No interest accrues on past due receivables. Accounts are written off when deemed uncollectible. As of December 31, 2017, the amount of pledges receivables considered doubtful was \$40,850.

Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (five to thirty-nine years). Expenditures for routine maintenance and repairs are charged to expense as incurred.

Statement of Functional Expenses

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

LAWRENCE HUMANE SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Organization follows the accounting standards for uncertain tax positions. The Organization's policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the Organization's financial statements.

The Organization files as a tax-exempt organization. As of December 31, 2017, its 2014 through 2016 fiscal year tax returns are open for examination by the IRS.

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest input that is significant to the fair value measurement. Assets and liabilities value at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level I* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

*Level II* – Inputs that include quoted prices for similar assets and liabilities in not active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level III* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumption, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised value.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis.

Fair values are measured using independent pricing models or other model-based valuation techniques such as appraised values, adjusted for security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. The Organization does not have any assets or liabilities that are valued using Level I, Level II or Level III inputs as of December 31, 2017. The Organization considers beneficial interest in assets held by others to be classified at Level 3 within the fair value hierarchy. The beginning fair value of the beneficial interest was \$1,237,716 with \$803,370 in contributions made to the beneficial interest asset and \$59,963 recorded as a change in the value of the beneficial interest. The value of the beneficial interest as of December 31, 2017 was \$2,101,049.

LAWRENCE HUMANE SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions are recognized when the donor makes a promise to give to Lawrence Humane Society, Inc. 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. Contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization are recorded as permanently restricted net assets. For the year ended December 31, 2017, the Organization did not have any permanently restricted net assets. For the year ended December 31, 2017 the Organization had temporarily restricted net assets which totaled \$3,036,273. Temporarily restricted net assets consisted of contributions received with a grantor imposed use restriction.

2. CASH AND CREDIT RISK

At year end, the Organization's carrying amount of deposits and cash on hand was \$577,937 and the bank balance was \$528,982. The Federal Deposit Insurance Corporation (FDIC) insures demand and interest bearing accounts up to \$250,000 per bank. The deposits were covered by the FDIC in the amount of \$294,897. The remaining \$234,085 was unsecured as of December 31, 2017. The board has determined to accept the risk involved for under secured deposits.

3. ACCOUNTS RECEIVABLE

Accounts receivable occur due to the performance of services near the end of the year that have been billed but amounts have not been collected. The Organization considers all accounts to be collectible; accordingly, there is no provision for doubtful accounts in these financial statements. If amounts become uncollectible, the amount is charged to operations at that time.

4. PREPAID EXPENSES

Prepaid expenses consist of the following:

Prepaid Dues	\$	1,120
Prepaid Insurance		23,204
Other Prepaid Expenses		<u>3,008</u>
	\$	<u>27,332</u>

5. FIXED ASSETS

Property and equipment are summarized by major classifications at December 31, 2017 as follows:

Nondepreciable fixed assets:	
Construction in progress	<u>\$ 294,106</u>
Depreciable fixed assets:	
Building and equipment	2,553,246
Improvements	<u>2,030</u>
Total depreciable fixed assets	2,555,276
Accumulated depreciation	<u>[1,306,772]</u>
Total depreciable fixed assets net of accumulated depreciation	<u>1,248,504</u>
Total fixed assets	<u>\$ 1,542,610</u>

Depreciation expense for the year ended December 31, 2017 was \$72,797.

LAWRENCE HUMANE SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

6. COMPENSATED ABSENCES

The Organization provides for sick and vacation leave. Full time employees are entitled to five days of vacation leave during the first year of employment. In the second to fourth year of employment, full time employees are entitled to ten vacation days each year, with a maximum accrual of 21 days. On the fifth to ninth year, full time employees are entitled to 15 days each year, with a maximum accrual of 25 days. After the ninth year, full time employees are entitled to 25 vacation days each year, with a maximum accrual of 31 days. All accrued and unused vacation time is paid at the end of employment.

Sick leave is accrued at ten days per year for the regular full-time staff, with a maximum of 260 hours. All accrued and unused sick leave is not paid at the end of employment.

No provision for accrued compensated absences is made in these financial statements.

7. OPERATING LEASES

The Organization leases office equipment from unrelated parties under operating leases expiring in February 2021. Rental payments associated with operating leases are charged to expenses as incurred. Rental payments made under these operating leases were \$7,188. Minimum future lease payments under non-cancelable operating leases with terms in excess of one year are as follows:

Year Ended	
<u>December 31,</u>	
2018	\$ 7,188
2019	7,188
2020	7,188
2021	<u>1,198</u>
Total	<u>\$ 22,762</u>

8. ECONOMIC DEPENDENCE

The Organization receives a substantial amount of its support from local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities.

9. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to limited torts; thefts of, damage to and destruction of assets; errors and omissions and natural disasters. The Organization carries commercial insurance and has not incurred any losses in the past three years.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2018, the date in which the financial statements were available to be issued.