

**LITTLE TRAVERSE BAY HUMANE SOCIETY
FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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June 1, 2016

Independent Auditors' Report

Board of Directors
Little Traverse Bay Humane Society
Harbor Springs, Michigan

We have audited the accompanying financial statements of Little Traverse Bay Humane Society (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Little Traverse Bay Humane Society as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 1,974,562	\$ 1,997,181
Investments - unrestricted	635,791	601,377
Accounts receivable	15	1,320
Bequest receivable	-	150,000
Staff receivable	3,079	5,803
Pledges receivable	430,867	-
Prepaid expenses	7,152	6,317
Total current assets	<u>3,051,466</u>	<u>2,761,998</u>
Property and equipment, net of accumulated depreciation of \$577,666 and \$532,461 respectively	<u>1,893,342</u>	<u>1,486,396</u>
Other assets:		
Curtis Endowment Fund:		
Cash and cash equivalents	95,805	122,233
Investments	424,144	426,796
Beneficial interest in assets held by Community Foundation	15,552	16,234
Beneficial interest in Clason perpetual trust	154,346	166,654
Total other assets	<u>689,847</u>	<u>731,917</u>
Total assets	<u><u>\$ 5,634,655</u></u>	<u><u>\$ 4,980,311</u></u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 51,991	\$ 23,694
Accrued payroll and related expenses	7,815	6,868
Deferred revenue	-	7,500
Total current liabilities	<u>59,806</u>	<u>38,062</u>
Net assets:		
Unrestricted:		
Designated for endowment	1,083,268	1,135,796
Undesignated	3,080,725	3,035,340
Temporarily restricted	721,009	63,070
Permanently restricted	689,847	708,043
Total net assets	<u>5,574,849</u>	<u>4,942,249</u>
Total liabilities and net assets	<u><u>\$ 5,634,655</u></u>	<u><u>\$ 4,980,311</u></u>

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2015 and 2014

<u>Unrestricted Net Assets</u>	<u>2015</u>	<u>2014</u>
Support and revenue:		
Contributions	\$ 346,428	\$ 912,397
Special events	242,886	269,552
Program service fees	322,157	277,616
Interest and dividends, net of fees	3,900	6,783
Net gains (losses) on investments	<u>(35,376)</u>	<u>26,218</u>
Total unrestricted support and revenue	879,995	1,492,566
Net assets released from restrictions	<u>108,533</u>	<u>137,212</u>
Total unrestricted support, revenue and reclassifications	<u>988,528</u>	<u>1,629,778</u>
Expenses:		
Program services	684,998	649,733
Management and general	151,566	141,524
Fundraising	<u>159,108</u>	<u>158,809</u>
Total expenses	<u>995,672</u>	<u>950,066</u>
Increase (decrease) in unrestricted net assets	<u>(7,144)</u>	<u>679,712</u>
<u>Temporarily Restricted Net Assets</u>		
Contributions	761,267	83,104
Net assets released from restrictions:		
Restrictions satisfied by payments	<u>(103,327)</u>	<u>(88,619)</u>
Increase (decrease) in temporarily restricted net assets	<u>657,940</u>	<u>(5,515)</u>
<u>Permanently Restricted Net Assets</u>		
Change in restrictions Curtis endowment fund	(5,206)	(48,593)
Change in value of Community Foundation endowment fund	(682)	65
Change in value of Clason split-interest agreement	<u>(12,308)</u>	<u>(34)</u>
Increase (decrease) in permanently restricted net assets	<u>(18,196)</u>	<u>(48,562)</u>
Increase (decrease) in net assets	632,600	625,635
Net assets, beginning	<u>4,942,249</u>	<u>4,316,614</u>
Net assets, ending	<u><u>\$ 5,574,849</u></u>	<u><u>\$ 4,942,249</u></u>

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2015 and 2014

	2015					2014				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Animal Shelter	Boarding & Grooming	Management and General	Fundraising	Total	Animal Shelter	Boarding & Grooming	Management and General	Fundraising	Total
Salaries	\$ 217,732	\$ 136,800	\$ 79,343	\$ 56,800	\$ 490,675	\$ 210,240	\$ 106,943	\$ 68,778	\$ 50,152	\$ 436,113
Payroll taxes	19,434	12,136	6,627	4,802	42,999	19,541	9,812	6,025	4,446	39,824
Employee benefits	16,599	7,197	3,827	6,613	34,236	18,856	2,985	4,133	6,378	32,352
Accounting, auditing and legal fees	-	-	20,549	-	20,549	-	-	21,202	-	21,202
Office supplies	1,895	2,291	7,021	-	11,207	1,787	1,699	5,422	-	8,908
Telephone and internet	3,329	2,392	1,184	-	6,905	1,859	2,256	432	-	4,547
Postage and shipping	468	99	1,420	4,546	6,533	570	-	1,665	4,594	6,829
Bank and credit card charges	-	-	11,844	-	11,844	-	-	10,394	-	10,394
Occupancy	31,446	18,157	5,649	-	55,252	31,832	17,074	6,432	-	55,338
Printing and publications	-	-	-	17,965	17,965	-	-	-	20,058	20,058
Advertising	1,551	1,976	-	-	3,527	379	3,013	2,435	-	5,827
Supplies	-	-	-	4,392	4,392	-	-	-	11,582	11,582
Special event direct expenses	-	-	-	62,221	62,221	-	-	-	59,392	59,392
Vehicle expenses	1,896	-	-	-	1,896	2,840	-	-	-	2,840
Insurance	9,417	2,530	2,908	1,602	16,457	8,414	3,333	2,984	1,851	16,582
Veterinarians	119,722	1,114	-	-	120,836	124,873	-	-	-	124,873
Crematorium	-	-	-	-	-	-	-	-	-	-
Operating supplies	28,463	3,069	1,547	-	33,079	31,657	6,502	2,589	-	40,748
Miscellaneous	698	3,584	3,138	167	7,587	155	708	2,301	356	3,520
Total expenses before depreciation	452,650	191,345	145,057	159,108	948,160	453,003	154,325	134,792	158,809	900,929
Depreciation	27,985	13,018	6,509	-	47,512	28,942	13,463	6,732	-	49,137
Total expenses	\$ 480,635	\$ 204,363	\$ 151,566	\$ 159,108	\$ 995,672	\$ 481,945	\$ 167,788	\$ 141,524	\$ 158,809	\$ 950,066

See accompanying notes to financial statements.

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	2015	2014
Operating activities:		
Increase (decrease) in net assets	\$ 632,600	\$ 625,635
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	47,512	49,137
Loss on disposal of equipment	-	-
(Increase) decrease in value of beneficial interest in assets held by others	12,990	(31)
Net unrealized losses (gains) on investments	49,014	24,541
Net realized losses (gains) on investments	(13,638)	(48,945)
(Increase) decrease in operating assets:		
Accounts receivable	1,305	(1,139)
Bequest receivable	150,000	(150,000)
Staff receivable	2,724	1,832
Pledges receivable	(430,867)	-
Prepaid expenses	(835)	232
Increase (decrease) in operating liabilities:		
Accounts payable	28,297	(2,713)
Payroll taxes and related	947	(242)
Deferred revenue	(7,500)	7,500
	472,549	505,807
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of investments	(560,869)	(910,113)
Proceeds from redemption of investments	493,732	787,138
Acquisition of fixed assets	(454,459)	(43,912)
	(521,596)	(166,887)
Net cash provided by investing activities		
Net increase (decrease) in cash	(49,047)	338,920
Cash and cash equivalents, beginning	2,119,414	1,780,494
Cash and cash equivalents, ending	\$ 2,070,367	\$ 2,119,414

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1: ORGANIZATION AND PURPOSE

Little Traverse Bay Humane Society is a not-for-profit corporation organized on a membership basis. Members are those that contribute \$30 or more during the year, without making a specific designation.

Our mission is to offer a warm shelter, veterinary care, and personal attention to all the animals while they are in our care and proactive methods in controlling pet overpopulation. Little Traverse Bay Humane Society has committed ourselves to educate the public on the humane treatment of companion animals.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the Little Traverse Bay Humane Society are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, whether by actions of the Little Traverse Bay Humane Society and/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.

Permanently restricted net assets – Net assets required by donor-imposed stipulations to be maintained in perpetuity.

Contributions: Contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions of non-cash assets are recorded at their fair values on the day received.

Donated Services: A substantial number of volunteers including board members have donated significant amounts of their time in the Organization's behalf. The donated services have not been reflected in the accompanying financial statements since no objective basis is available to measure the value of such services.

Federal Income Taxes: Little Traverse Bay Humane Society is exempt from federal income taxes under Code Section 501(c)(3). It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50 percent charitable contributions deduction for individual donors. No provisions for income taxes have been provided in these financial statements.

Cash and Cash Equivalents: For purposes of the statements of cash flows, Little Traverse Bay Humane Society considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments: Investments are composed of equity securities and are carried at fair value.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interest and Dividends: Interest and dividends are reported net of investment advisor fees of \$20,144 and \$14,490 for the years ended December 31, 2015 and 2014, respectively.

Equipment: Fixed assets acquired by purchase or construction are recorded at acquisition cost. Donated assets are recorded at their estimated market value on date of donation. All assets are depreciated over their estimated useful life using the straight-line method. Asset groups and their estimated useful lives are as follows:

Furnishings and equipment	5 -15 years
Building	40 years
Site improvements	20 years
Vehicles	5 years

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. Accordingly, actual results could differ from those estimates.

Functional Expenses: Functional expenses have been allocated based on estimates made by the Organization's management. Included in the allocation are joint costs allocated to fundraising and membership development.

Fair Value of Financial Instruments: Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, accounts receivable, marketable equity securities, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Generally, for all securities, loans, hybrid financial instruments, private equity investments, and long-term debt, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. When the fair value of assets and liabilities cannot be determined in this manner, fair value is estimated using the present value of expected cash flows.

NOTE 3: CASH

At year-end, the carrying amount of Little Traverse Bay Humane Society's deposits was \$2,070,367 and the bank balance was \$2,129,230. The difference in amounts is attributable to deposits in transit. At December 31, 2015, Little Traverse Bay Humane Society's uninsured cash balances totaled \$550.

NOTE 4: PLEDGES RECEIVABLE

The Organization is conducting a "Vet Clinic" Capital campaign to obtain funds for the construction of a Veterinary Clinic including the related equipment. Capital campaign pledges receivable at December 31, 2015 were \$430,867. These represent unconditional promises to give and are expected to be collected primarily in less than one year. Therefore, the pledges have not been discounted.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5: INVESTMENTS

Investments are stated at fair value based on quoted prices in active markets (all level 1 measurements) and are summarized as follows as of December 31:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Unrestricted:				
Equities	\$ 529,058	\$ 540,606	\$ 487,333	\$ 511,706
Mutual Funds	113,952	95,185	98,054	89,671
Curtis Endowment Fund:				
Equities	384,673	424,144	361,520	426,796
	<u>\$ 1,027,683</u>	<u>\$ 1,059,935</u>	<u>\$ 946,907</u>	<u>1,028,173</u>

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2015	2014
Land	\$ 384,823	\$ 384,823
Building	1,633,085	1,267,457
Construction in progress	12,360	13,276
Site improvements	232,309	181,332
Furnishings and equipment	181,770	145,308
Vehicles	26,661	26,661
	<u>2,471,008</u>	<u>2,018,857</u>
Less: accumulated depreciation	<u>(577,666)</u>	<u>(532,461)</u>
Total	<u>\$ 1,893,342</u>	<u>\$ 1,486,396</u>

The construction in progress at December 31, 2015 is related to the planned Vet Clinic. There are no construction commitments at this time. However, construction bids have now been requested. The total estimated cost is expected to be about \$1,500,000. A capital campaign has been conducted to fund this project. No financing is expected.

NOTE 7: DESIGNATED FOR ENDOWMENT NET ASSETS

The Board of Directors established an "Endowment Fund" to provide financial support for operating and capital improvement purposes. In addition to the Martha Curtis bequest, which is permanently restricted (See Note 8), the Board designated a portion of unrestricted net assets as endowment funds. The unrestricted net assets designated for endowments was \$1,083,268 and \$1,135,796 at December 31, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions restricted for the following purposes:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Building Fund	\$ 10,517	\$ 3,125	\$ -	\$ 13,642
Michael G. Phillips Fund	17,650	20,288	26,957	10,981
Angel Program	14,986	400	4,060	11,326
Harris Spay/Neuter Fund	865	41,108	40,138	1,835
Medical Room	1,305	-	-	1,305
Ruff To Ready	9,771	375	4,290	5,856
Pet Smart Pit Stop	1,655	-	1,655	-
Pit Stop Fund	457	-	415	42
Mutts with Manners	1,680	2,515	3,653	542
Dog Tag Training Program	-	1,000	274	726
Garden Fund	3,010	-	1,541	1,469
Molly's Transit Fund	173	402	372	203
Vet Clinic				
Capital Campaign-Building	1,000	637,540	-	638,540
Vet Clinic				
Capital Campaign-Equipment	-	54,514	19,972	34,542
	<u>\$ 63,069</u>	<u>\$ 761,267</u>	<u>\$ 103,327</u>	<u>\$ 721,009</u>

NOTE 9: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$689,847 and \$708,043 for the years ended December 31, 2015 and 2014, respectively consist of amounts held in perpetuity.

The Organization was the beneficiary of a bequest of \$525,155 from the Martha A. Curtis Trust. The income from this endowment as determined by the Little Traverse Bay Humane Society's governing body, consists of interest, dividends, realized and unrealized capital gains, is to be available for any purpose deemed appropriate by the governing body thereof. The amounts in the investment accounts restricted for this purpose were \$ 519,949 and \$525,155 at December 31, 2015 and 2014 respectively.

The Organization's split-interest share in the Sonja Clason Charitable Trust was valued at \$154,346 and \$166,654 at December 31, 2015 and 2014, respectively. The greater of the net trust income or an amount equal to five percent of the net fair market value of the trust assets to be paid annually to the qualified tax-exempt charitable beneficiaries.

Additionally, there was \$15,552 and \$16,234 at December 31, 2015 and 2014, respectively in the Animal Security fund held by Petoskey-Harbor Springs Community Foundation. The principal of the fund shall remain intact and is not subject to distribution. The investment income can be distributed annually. Undistributed income is reinvested in the Fund.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 10: SPECIAL EVENTS

Special events revenue and expense consisted of the following for the years ended:

	December 31, 2015				December 31, 2014			
	Howl at the Moon	Cause for Paws	Other Events	Total	Howl at the Moon	Cause for Paws	Other Events	Total
Revenue	\$ 185,858	\$ 33,150	\$ 23,878	\$ 242,886	\$ 171,707	\$ 47,350	\$ 50,495	\$ 269,552
Direct expenses	46,030	14,909	1,282	62,221	41,497	16,840	1,055	59,392
Net	<u>\$ 139,828</u>	<u>\$ 18,241</u>	<u>\$ 22,596</u>	<u>\$ 180,665</u>	<u>\$ 130,210</u>	<u>\$ 30,510</u>	<u>\$ 49,440</u>	<u>\$ 210,160</u>

The net revenue from the various special events is unrestricted and can be used for the various programs and operating expenses.

NOTE 11: RELATED PARTY TRANSACTIONS

In 2015, the Organization paid expenses of \$ 35,762 for excavating and \$ 20,000 for architect fees from companies related to management. The board was aware of these relationships and approved these transactions.

NOTE 12: UNCERTAINTIES, CONTINGENCIES, AND RISKS

The Organization was recently made aware of a bequest of an unknown amount which is expected to be material. No amounts have been recorded as a receivable as of December 31, 2015.

NOTE 13: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 1, 2016, the date which the financial statements were available to be issued.