

**LITTLE TRAVERSE BAY HUMANE SOCIETY
FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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June 12, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 2,028,051	\$ 1,369,104
Investments - unrestricted	788,734	660,529
Accounts receivable	4,423	1,069
Bequests receivable	150,886	1,355,000
Staff receivable	-	272
Pledges receivable	50,271	88,200
Inventory	53,547	-
Prepaid expenses	24,438	13,099
Total current assets	<u>3,100,350</u>	<u>3,487,273</u>
Property and equipment, net of accumulated depreciation of \$789,471 and \$641,147 respectively	<u>3,567,450</u>	<u>3,276,199</u>
Other assets:		
Curtis Endowment Fund:		
Cash and cash equivalents	93,970	114,510
Investments	529,932	433,413
Beneficial interest in assets held by Community Foundation	18,126	15,828
Beneficial interest in Clason perpetual trust	171,565	159,292
Total other assets	<u>813,593</u>	<u>723,043</u>
Total assets	<u>\$ 7,481,393</u>	<u>\$ 7,486,515</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 79,464	\$ 165,842
Current portion of long-term debt	19,564	-
Total current liabilities	99,028	165,842
Long-term debt, less current portion	<u>67,116</u>	<u>-</u>
Total liabilities	<u>166,144</u>	<u>165,842</u>
Net assets:		
Unrestricted:		
Designated for endowment	1,598,213	1,114,998
Undesignated	4,940,500	5,453,335
Temporarily restricted	61,690	52,065
Permanently restricted	714,846	700,275
Total net assets	<u>7,315,249</u>	<u>7,320,673</u>
Total liabilities and net assets	<u>\$ 7,481,393</u>	<u>\$ 7,486,515</u>

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

<u>Unrestricted Net Assets</u>	<u>2017</u>	<u>2016</u>
Support and revenue:		
Contributions	\$ 464,248	\$ 1,820,594
Special events	281,728	293,172
Program service fees	632,650	416,813
Interest and dividends, net of fees	24,026	8,663
Net gains (losses) on investments	<u>212,189</u>	<u>53,741</u>
Total unrestricted support and revenue	1,614,841	2,592,983
Net assets released from restrictions	<u>81,905</u>	<u>894,866</u>
Total unrestricted support, revenue and reclassifications	<u>1,696,746</u>	<u>3,487,849</u>
Expenses:		
Program services	1,381,544	737,486
Management and general	170,558	189,263
Fundraising	<u>174,264</u>	<u>156,760</u>
Total expenses	<u>1,726,366</u>	<u>1,083,509</u>
Increase (decrease) in unrestricted net assets	<u>(29,620)</u>	<u>2,404,340</u>
 <u>Temporarily Restricted Net Assets</u> 		
Contributions	91,530	231,128
Net assets released from restrictions:		
Restrictions satisfied by payments	<u>(81,905)</u>	<u>(900,072)</u>
Increase (decrease) in temporarily restricted net assets	<u>9,625</u>	<u>(668,944)</u>
 <u>Permanently Restricted Net Assets</u> 		
Change in restrictions Curtis endowment fund	-	5,206
Change in value of Community Foundation endowment fund	2,298	276
Change in value of Clason split-interest agreement	<u>12,273</u>	<u>4,946</u>
Increase (decrease) in permanently restricted net assets	<u>14,571</u>	<u>10,428</u>
Increase (decrease) in net assets	(5,424)	1,745,824
Net assets, beginning	<u>7,320,673</u>	<u>5,574,849</u>
Net assets, ending	<u>\$ 7,315,249</u>	<u>\$ 7,320,673</u>

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2017 and 2016

	2017						2016					
	Program Services			Supporting Services			Program Services			Supporting Services		
	Animal Shelter	Veterinary Clinic	Boarding & Grooming	Management and General	Fundraising	Total	Animal Shelter	Veterinary Clinic	Boarding & Grooming	Management and General	Fundraising	Total
Salaries	\$ 226,143	\$ 328,646	\$ 178,276	\$ 80,571	\$ 59,200	\$ 872,836	\$ 228,044	\$ -	\$ 153,664	\$ 97,756	\$ 54,094	\$ 533,558
Payroll taxes	19,553	25,690	14,964	7,686	4,917	72,810	19,343	-	12,752	8,322	4,444	44,861
Employee benefits	32,141	21,389	10,971	5,402	9,850	79,753	18,821	-	7,176	7,153	6,282	39,432
Professional services	109	-	250	29,124	-	29,483	-	-	-	23,300	-	23,300
Office supplies	3,605	9,598	1,551	3,175	-	17,929	2,610	-	1,870	6,537	-	11,017
Computer and software	2,834	9,006	1,223	3,382	-	16,445	-	-	2,437	-	-	2,437
Telephone and internet	3,427	3,971	1,550	1,865	-	10,813	3,249	-	1,512	1,026	-	5,787
Postage and shipping	675	789	8	2,117	7,442	11,031	388	-	-	2,019	4,298	6,705
Bank and credit card charges	3,126	4,224	6,426	7,111	-	20,887	-	-	-	14,587	-	14,587
Occupancy	27,560	24,471	16,264	5,431	-	73,726	37,521	-	16,969	6,062	-	60,552
Printing and publications	-	1,984	-	-	18,176	20,160	-	-	-	-	16,890	16,890
Advertising	1,058	1,204	548	62	-	2,872	859	-	1,103	-	-	1,962
Operating supplies	28,513	107,313	6,541	4,497	12,850	159,714	32,225	-	5,117	2,484	5,954	45,780
Education, dues & licenses	233	13,554	732	6,189	-	20,708	-	-	4,483	-	-	4,483
Transportation	15,210	-	-	-	-	15,210	12,813	-	-	-	-	12,813
Insurance	12,654	8,277	3,642	3,829	1,783	30,185	10,292	-	3,006	3,212	1,659	18,169
Veterinarians	35,183	-	297	-	-	35,480	109,180	-	317	-	-	109,497
Sales & income taxes	-	3,392	8,408	-	-	11,800	-	-	-	-	-	-
Special event direct expenses	-	-	-	-	60,021	60,021	-	-	-	-	62,970	62,970
Miscellaneous	2,206	3,693	3,355	-	25	9,279	645	-	4,045	369	169	5,228
Total expenses before depreciation	414,230	567,201	255,006	160,441	174,264	1,571,142	475,990	-	207,531	179,747	156,760	1,020,028
Depreciation	30,913	99,018	15,176	10,117	-	155,224	39,057	-	14,908	9,516	-	63,481
Total expenses	\$ 445,143	\$ 666,219	\$ 270,182	\$ 170,558	\$ 174,264	\$ 1,726,366	\$ 515,047	\$ -	\$ 222,439	\$ 189,263	\$ 156,760	\$ 1,083,509

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Operating activities:		
Increase (decrease) in net assets	\$ (5,424)	\$ 1,745,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	155,224	63,481
(Increase) decrease in value of beneficial interest in assets held by others	(14,571)	(5,222)
Net unrealized losses (gains) on investments	(182,117)	(18,989)
Net realized losses (gains) on investments	(30,425)	(34,752)
(Increase) decrease in operating assets:		
Accounts receivable	(3,354)	(1,054)
Bequest receivable	1,204,114	(1,355,000)
Staff receivable	272	2,807
Pledges receivable	37,929	342,667
Inventory	(53,547)	-
Prepaid expenses	(11,339)	(5,947)
Increase (decrease) in operating liabilities:		
Accounts payable	(86,378)	106,036
Deferred revenue	-	-
	<u>1,010,384</u>	<u>839,851</u>
Cash flows from investing activities:		
Purchase of investments	(485,357)	(827,746)
Proceeds from redemption of investments	473,177	847,480
Acquisition of fixed assets	(346,910)	(1,446,338)
	<u>(359,090)</u>	<u>(1,426,604)</u>
Cash flows from financing activities:		
Principal payments made on long-term debt	(12,887)	-
	<u>638,407</u>	<u>(586,753)</u>
Net increase (decrease) in cash	638,407	(586,753)
Cash and cash equivalents, beginning	<u>1,483,614</u>	<u>2,070,367</u>
Cash and cash equivalents, ending	<u>\$ 2,122,021</u>	<u>\$ 1,483,614</u>
Supplementary Cash Flow Information		
Cash paid for income taxes	\$ 7,339	\$ -
Cash paid for interest	\$ 846	\$ -
Supplementary Noncash Investing and Financing Transactions		
Equipment purchased with long-term debt	\$ 99,565	\$ -

See accompanying notes to financial statements

LITTLE TRAVERSE BAY HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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. However, income from boarding and grooming, not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled \$7,339 and \$0 in 2017 and 2016 respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 ETFs which are carried at fair value.

Inventories: Inventories consist primarily of veterinary items which are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Interest and Dividends: Interest and dividends are reported net of investment advisor fees of \$8,807 and \$17,448 for the years ended December 31, 2017 and 2016, 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 matter, 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 \$2,122,021 and the bank balance was \$2,115,051. The difference in amounts is attributable to deposits in transit. At December 31, 2017, Little Traverse Bay Humane Society's uninsured cash balances totaled \$2,140.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 4: PLEDGES RECEIVABLE

The Organization conducted a "Vet Clinic" Capital campaign to obtain funds for the construction of a Veterinary Clinic including the related equipment. Capital campaign pledges receivable were \$50,271 and \$88,200 at December 31, 2017 and 2016. 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.

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:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Unrestricted:				
Equities	\$ 97,702	\$ 110,259	\$ 271,262	\$ 273,891
ETFs	576,873	678,475	375,168	386,638
Curtis Endowment Fund:				
Equities	182,730	252,426	91,500	122,469
ETFs	228,001	277,506	304,771	310,944
	<u>\$ 1,085,306</u>	<u>\$ 1,318,666</u>	<u>\$ 1,042,701</u>	<u>1,093,942</u>

The Organization has adopted an endowment investment policy to achieve an annualized total return (net of fees and expenses) through appreciation and income, greater than the rate of inflation plus 5%, thus protecting the assets against inflation. The asset allocation policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment strategy.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Land	\$ 463,013	\$ 463,013
Buildings	3,050,216	1,634,656
Construction in progress	-	1,455,618
Site improvements	212,903	154,119
Furnishings and equipment	607,028	183,279
Vehicles	23,761	26,661
	<u>4,356,921</u>	<u>3,917,346</u>
Less: accumulated depreciation	<u>(789,471)</u>	<u>(641,147)</u>
Total	<u>\$ 3,567,450</u>	<u>\$ 3,276,199</u>

The construction in progress at December 31, 2016 was related to the Vet Clinic, which was opened in April, 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 7: LONG-TERM DEBT

During the year ended December 31, 2017, two equipment financing leases were entered into. One was for the purchase of an ultrasound in the amount of \$70,065, payable over 60 months at \$1,225 per month including interest at 1.89%. The other was for an x-ray machine in the amount of \$29,500, payable over 60 months at \$492 per month with no interest.

Minimum maturities on both of these for the next five years are as follows:

2018	\$19,564
2019	19,822
2020	20,086
2021	20,360
2022	<u>6,848</u>
	<u>\$86,680</u>

NOTE 8: 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 10), the Board designated a portion of unrestricted net assets as endowment funds. The unrestricted net assets designated for endowments were \$1,598,213 and \$1,114,998 at December 31, 2017 and 2016, respectively.

Composition of and changes in designated endowment net assets for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Board-designated endowment net assets, beginning of year	\$ 1,114,998	1,083,268
Investment income, net of fees	14,722	4,420
Net appreciation	119,341	27,310
Additional amounts designated	<u>349,152</u>	<u>-</u>
Board-designated endowment net assets, end of year	<u>\$ 1,598,213</u>	<u>\$ 1,114,998</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

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

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Building Fund	\$ 16,238	\$ 3,105	\$ 1,582	\$ 17,761
Michael G. Phillips Fund	12,671	21,935	21,363	13,243
Angel Program	9,488	5,200	3,194	11,494
Harris Spay/Neuter Fund	8,834	52,225	46,229	14,830
Medical Room	1,305	-	1,305	-
Ruff To Ready	2,761	175	2,936	-
Pit Stop Fund	42	250	-	292
Mutts with Manners	-	3,100	3,100	-
Dog Tag Training Program	726	-	-	726
Molly's Transit Fund	-	4,940	2,196	2,744
Furry F.A.C.E.S.	-	600	-	600
	<u>\$ 52,065</u>	<u>\$ 91,530</u>	<u>\$ 81,905</u>	<u>\$ 61,690</u>

NOTE 10: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$714,846 and \$700,275 for the years ended December 31, 2017 and 2016, 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 \$ 525,155 at both December 31, 2017 and 2016.

The Organization's split-interest share in the Sonja Clason Charitable Trust which is held and managed by a bank trust department was valued at \$171,565 and \$159,292 at December 31, 2017 and 2016, 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 \$18,126 and \$15,828 at December 31, 2017 and 2016, respectively in the Animal Security fund held and managed 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 11: SPECIAL EVENTS

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

	December 31, 2017				December 31, 2016			
	Howl at the Moon	Cause for Paws	Other Events	Total	Howl at the Moon	Cause for Paws	Other Events	Total
Revenue	\$ 186,437	\$ 27,900	\$ 67,391	\$ 281,728	\$ 206,538	\$ 39,100	\$ 47,534	\$ 293,172
Direct expenses	43,228	2,283	14,510	60,021	38,961	15,737	8,272	62,970
Net	<u>\$ 143,209</u>	<u>\$ 25,617</u>	<u>\$ 52,881</u>	<u>\$ 221,707</u>	<u>\$ 167,577</u>	<u>\$ 23,363</u>	<u>\$ 39,262</u>	<u>\$ 230,202</u>

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

NOTE 12: RELATED PARTY TRANSACTIONS

The Organization paid expenses of \$46,967 and \$ 94,198 for excavating and \$0 and \$40,500 for architect fees for the years ended December 31, 2017 and 2016 respectively, from companies related to management. The board was aware of these relationships and approved these transactions.

NOTE 13: RETIREMENT PLAN

The Organization adopted a Simple-IRA retirement plan during 2017 covering all employees who meet the eligibility requirements. Eligible employees are those who earned at least \$5,000 during the previous year and are reasonable expected to earn at least \$5,000 during the current year. The Organization matches employee contributions up to 3%. The Organizations contribution was \$13,231 and \$0 for 2017 and 2016 respectively.

NOTE 14: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 12, 2018, the date which the financial statements were available to be issued.