

**LITTLE TRAVERSE BAY HUMANE SOCIETY  
FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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June 1, 2017

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,369,104	\$ 1,974,562
Investments - unrestricted	660,529	635,791
Accounts receivable	1,069	15
Bequests receivable	1,355,000	-
Staff receivable	272	3,079
Pledges receivable	88,200	430,867
Prepaid expenses	13,099	7,152
Total current assets	<u>3,487,273</u>	<u>3,051,466</u>
Property and equipment, net of accumulated depreciation of \$641,147 and \$577,666 respectively	<u>3,276,199</u>	<u>1,893,342</u>
Other assets:		
Curtis Endowment Fund:		
Cash and cash equivalents	114,510	95,805
Investments	433,413	424,144
Beneficial interest in assets held by Community Foundation	15,828	15,552
Beneficial interest in Clason perpetual trust	159,292	154,346
Total other assets	<u>723,043</u>	<u>689,847</u>
Total assets	<u><u>\$ 7,486,515</u></u>	<u><u>\$ 5,634,655</u></u>
 <b><u>Liabilities and Net Assets</u></b>  		
Current liabilities:		
Accounts payable	\$ 160,465	\$ 51,991
Accrued payroll and related expenses	5,377	7,815
Total current liabilities	<u>165,842</u>	<u>59,806</u>
Net assets:		
Unrestricted:		
Designated for endowment	1,114,998	1,083,268
Undesignated	5,453,335	3,080,725
Temporarily restricted	52,065	721,009
Permanently restricted	700,275	689,847
Total net assets	<u>7,320,673</u>	<u>5,574,849</u>
Total liabilities and net assets	<u><u>\$ 7,486,515</u></u>	<u><u>\$ 5,634,655</u></u>

See accompanying notes to financial statements

**LITTLE TRAVERSE BAY HUMANE SOCIETY**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2016 and 2015**

<u>Unrestricted Net Assets</u>	<u>2016</u>	<u>2015</u>
Support and revenue:		
Contributions	\$ 1,820,594	\$ 346,428
Special events	293,172	242,886
Program service fees	416,813	322,157
Interest and dividends, net of fees	8,663	3,900
Net gains (losses) on investments	53,741	(35,376)
	<u>2,592,983</u>	<u>879,995</u>
Total unrestricted support and revenue		
Net assets released from restrictions	894,866	108,533
	<u>3,487,849</u>	<u>988,528</u>
Expenses:		
Program services	737,486	684,998
Management and general	189,263	151,566
Fundraising	156,760	159,108
	<u>1,083,509</u>	<u>995,672</u>
Total expenses		
Increase (decrease) in unrestricted net assets	<u>2,404,340</u>	<u>(7,144)</u>
<u>Temporarily Restricted Net Assets</u>		
Contributions	231,128	761,267
Net assets released from restrictions:		
Restrictions satisfied by payments	(900,072)	(103,327)
	<u>(668,944)</u>	<u>657,940</u>
Increase (decrease) in temporarily restricted net assets		
<u>Permanently Restricted Net Assets</u>		
Change in restrictions Curtis endowment fund	5,206	(5,206)
Change in value of Community Foundation endowment fund	276	(682)
Change in value of Clason split-interest agreement	4,946	(12,308)
	<u>10,428</u>	<u>(18,196)</u>
Increase (decrease) in permanently restricted net assets		
Increase (decrease) in net assets	1,745,824	632,600
Net assets, beginning	<u>5,574,849</u>	<u>4,942,249</u>
Net assets, ending	<u>\$ 7,320,673</u>	<u>\$ 5,574,849</u>

See accompanying notes to financial statements

**LITTLE TRAVERSE BAY HUMANE SOCIETY**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended December 31, 2016 and 2015**

	2016					2015				
	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	\$ 228,044	\$ 153,664	\$ 97,756	\$ 54,094	\$ 533,558	\$ 217,732	\$ 136,800	\$ 79,343	\$ 56,800	\$ 490,675
Payroll taxes	19,343	12,752	8,322	4,444	44,861	19,434	12,136	6,627	4,802	42,999
Employee benefits	18,821	7,176	7,153	6,282	39,432	16,599	7,197	3,827	6,613	34,236
Accounting, auditing and legal fees	-	-	23,300	-	23,300	-	-	20,549	-	20,549
Office supplies	2,610	1,870	8,974	-	13,454	1,895	2,291	7,021	-	11,207
Telephone and internet	3,249	1,512	1,026	-	5,787	3,329	2,392	1,184	-	6,905
Postage and shipping	388	-	2,019	4,298	6,705	468	99	1,420	4,546	6,533
Bank and credit card charges	-	-	14,587	-	14,587	-	-	11,844	-	11,844
Occupancy	37,521	16,969	6,062	-	60,552	31,446	18,157	5,649	-	55,252
Printing and publications	-	-	-	16,890	16,890	-	-	-	17,965	17,965
Advertising	859	1,103	-	-	1,962	1,551	1,976	-	-	3,527
Supplies	-	-	-	5,954	5,954	-	-	-	4,392	4,392
Special event direct expenses	-	-	-	62,970	62,970	-	-	-	62,221	62,221
Transportation	12,813	-	-	-	12,813	1,896	-	-	-	1,896
Insurance	10,292	3,006	3,212	1,659	18,169	9,417	2,530	2,908	1,602	16,457
Veterinarians	109,180	317	-	-	109,497	119,722	1,114	-	-	120,836
Operating supplies	32,225	5,117	2,484	-	39,826	28,463	3,069	1,547	-	33,079
Miscellaneous	645	4,045	4,852	169	9,711	698	3,584	3,138	167	7,587
<b>Total expenses before depreciation</b>	<b>475,990</b>	<b>207,531</b>	<b>179,747</b>	<b>156,760</b>	<b>1,020,028</b>	<b>452,650</b>	<b>191,345</b>	<b>145,057</b>	<b>159,108</b>	<b>948,160</b>
Depreciation	39,057	14,908	9,516	-	63,481	27,985	13,018	6,509	-	47,512
<b>Total expenses</b>	<b>\$ 515,047</b>	<b>\$ 222,439</b>	<b>\$ 189,263</b>	<b>\$ 156,760</b>	<b>\$ 1,083,509</b>	<b>\$ 480,635</b>	<b>\$ 204,363</b>	<b>\$ 151,566</b>	<b>\$ 159,108</b>	<b>\$ 995,672</b>

See accompanying notes to financial statements.

**LITTLE TRAVERSE BAY HUMANE SOCIETY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating activities:		
Increase (decrease) in net assets	\$ 1,745,824	\$ 632,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	63,481	47,512
(Increase) decrease in value of beneficial interest in assets held by others	(5,222)	12,990
Net unrealized losses (gains) on investments	(18,989)	49,014
Net realized losses (gains) on investments	(34,752)	(13,638)
(Increase) decrease in operating assets:		
Accounts receivable	(1,054)	1,305
Bequest receivable	(1,355,000)	150,000
Staff receivable	2,807	2,724
Pledges receivable	342,667	(430,867)
Prepaid expenses	(5,947)	(835)
Increase (decrease) in operating liabilities:		
Accounts payable	108,474	28,297
Payroll taxes and related	(2,438)	947
Deferred revenue	-	(7,500)
	<u>839,851</u>	<u>472,549</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of investments	(827,746)	(560,869)
Proceeds from redemption of investments	847,480	493,732
Acquisition of fixed assets	(1,446,338)	(454,459)
	<u>(1,426,604)</u>	<u>(521,596)</u>
Net cash provided by investing activities		
Net increase (decrease) in cash	(586,753)	(49,047)
Cash and cash equivalents, beginning	<u>2,070,367</u>	<u>2,119,414</u>
Cash and cash equivalents, ending	<u>\$ 1,483,614</u>	<u>\$ 2,070,367</u>

See accompanying notes to financial statements

**LITTLE TRAVERSE BAY HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**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 \$17,448 and \$20,144 for the years ended December 31, 2016 and 2015, 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 \$1,483,614 and the bank balance was \$1,413,365. The difference in amounts is attributable to deposits in transit. At December 31, 2016, 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 was \$88,200 and \$430,867 at December 31, 2016 and 2015. 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:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Unrestricted:				
Equities	\$ 271,262	\$ 273,891	\$ 529,058	\$ 540,606
Mutual Funds	375,168	386,638	113,952	95,185
Curtis Endowment Fund:				
Equities	91,500	122,469	384,673	424,144
Mutual Funds	304,771	310,944	-	-
	<u>\$ 1,042,701</u>	<u>\$ 1,093,942</u>	<u>\$ 1,027,683</u>	<u>1,059,935</u>

**NOTE 6: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2016	2015
Land	\$ 384,823	\$ 384,823
Building	1,634,656	1,633,085
Construction in progress	1,455,618	12,360
Site improvements	232,309	232,309
Furnishings and equipment	183,279	181,770
Vehicles	26,661	26,661
	<u>3,917,346</u>	<u>2,471,008</u>
Less: accumulated depreciation	<u>(641,147)</u>	<u>(577,666)</u>
Total	<u>\$ 3,276,199</u>	<u>\$ 1,893,342</u>

The construction in progress at December 31, 2016 is related to the Vet Clinic. Which was opened in April, 2017. The total estimated cost is expected to be about \$1,800,000. A capital campaign has been conducted to help fund this project. No financing was used.

**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 9), the Board designated a portion of unrestricted net assets as endowment funds. The unrestricted net assets designated for endowments was \$1,114,998 and \$1,083,268 at December 31, 2016 and 2015, 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, 2016	Additions	Reductions	Balance December 31, 2016
Building Fund	\$ 13,642	\$ 3,625	\$ 1,029	\$ 16,238
Michael G. Phillips Fund	10,981	19,233	17,543	12,671
Angel Program	11,326	400	2,238	9,488
Harris Spay/Neuter Fund	1,835	46,663	39,664	8,834
Medical Room	1,305	-	-	1,305
Ruff To Ready	5,856	5,275	8,370	2,761
Pit Stop Fund	42	-	-	42
Mutts with Manners	542	1,241	1,783	-
Dog Tag Training Program	726	-	-	726
Garden Fund	1,469	-	1,469	-
Molly's Transit Fund	203	25	228	-
Vet Clinic				
Capital Campaign-Building	638,540	149,666	788,206	-
Vet Clinic				
Capital Campaign-Equipment	34,542	5,000	39,542	-
	<u>\$ 721,009</u>	<u>\$ 231,128</u>	<u>\$ 900,072</u>	<u>\$ 52,065</u>

**NOTE 9: PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets of \$700,275 and \$689,847 for the years ended December 31, 2016 and 2015, 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 and \$519,949 at December 31, 2016 and 2015 respectively.

The Organization's split-interest share in the Sonja Clason Charitable Trust was valued at \$159,292 and \$154,346 at December 31, 2016 and 2015, 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 \$15,828 and \$15,552 at December 31, 2016 and 2015, 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, 2016				December 31, 2015			
	Howl at the Moon	Cause for Paws	Other Events	Total	Howl at the Moon	Cause for Paws	Other Events	Total
Revenue	\$ 206,538	\$ 39,100	\$ 47,534	\$ 293,172	\$ 185,858	\$ 33,150	\$ 23,878	\$ 242,886
Direct expenses	38,961	15,737	8,272	62,970	46,030	14,909	1,282	62,221
Net	<u>\$ 167,577</u>	<u>\$ 23,363</u>	<u>\$ 39,262</u>	<u>\$ 230,202</u>	<u>\$ 139,828</u>	<u>\$ 18,241</u>	<u>\$ 22,596</u>	<u>\$ 180,665</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**

The Organization paid expenses of \$ 94,198 and \$ 35,762 for excavating and \$40,500 and \$20,000 for architect fees at December 31, 2016 and 2015 from companies related to management. The board was aware of these relationships and approved these transactions.

**NOTE 12: EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through June 1, 2017, the date which the financial statements were available to be issued.