

Lenawee Humane Society

Financial Statements and
Independent Auditors' Report

Years Ended December 31, 2018 and 2017

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WILLIS & JURASEK

CPAs AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors
Lenawee Humane Society
Adrian, Michigan

We have audited the accompanying financial statements of Lenawee Humane Society (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditors' 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 audits 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 auditors' 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 auditors consider 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 Lenawee Humane Society as of December 31, 2018 and 2017, 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

January 15, 2019

Lenawee Humane Society
 Statements of Financial Position
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets:		
Cash	\$ 246,790	\$ 162,947
Accounts receivable	1,223	-
Bequest receivable	40,000	-
Inventory	2,976	4,496
Prepaid expenses	5,535	-
	296,524	167,443
Property and Equipment, net	198,927	222,659
Other Assets:		
Investments	197,578	-
	\$ 693,029	\$ 390,102
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 5,320	\$ 1,684
Accrued liabilities	21,771	20,090
	27,091	21,774
Net Assets:		
Without donor restrictions	616,637	349,285
With donor restrictions	49,301	19,043
	665,938	368,328
Total liabilities and net assets	\$ 693,029	\$ 390,102

See Notes to Financial Statements.

Lenawee Humane Society

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues:						
Contributions	\$ 448,700	\$ 47,550	\$ 496,250	\$ 236,177	\$ -	\$ 236,177
Membership dues	10,250	-	10,250	9,403	-	9,403
Special events/fundraising	193,717	-	193,717	193,258	-	193,258
Grants	23,920	-	23,920	54,200	5,000	59,200
Shelter services	185,794	-	185,794	116,227	-	116,227
Clinic services	82,906	-	82,906	74,841	-	74,841
Merchandise	16,559	-	16,559	17,149	-	17,149
In-kind contributions	26,364	-	26,364	25,903	-	25,903
Other income	110	-	110	754	-	754
Net assets released from restrictions	17,292	(17,292)	-	28,262	(28,262)	-
Total public support and revenues	<u>1,005,612</u>	<u>30,258</u>	<u>1,035,870</u>	<u>756,174</u>	<u>(23,262)</u>	<u>732,912</u>
Functional Expenses:						
Program services	617,678	-	617,678	554,751	-	554,751
Supporting services:						
General and administrative	17,002	-	17,002	14,214	-	14,214
Fundraising	101,345	-	101,345	90,624	-	90,624
Total supporting services	118,348	-	118,348	104,838	-	104,838
Total functional expenses	<u>736,026</u>	<u>-</u>	<u>736,026</u>	<u>659,589</u>	<u>-</u>	<u>659,589</u>
Changes in Net Assets from Operations	<u>269,586</u>	<u>30,258</u>	<u>299,844</u>	<u>96,585</u>	<u>(23,262)</u>	<u>73,323</u>
Other Income (Expense):						
Dividends and interest	398	-	398	43	-	43
Gain (loss) on sale of equipment	-	-	-	(1,829)	-	(1,829)
Gain (loss) on investments - unrealized	(2,632)	-	(2,632)	-	-	-
Total other income (expense)	<u>(2,234)</u>	<u>-</u>	<u>(2,234)</u>	<u>(1,786)</u>	<u>-</u>	<u>(1,786)</u>
Changes in Net Assets	<u>267,352</u>	<u>30,258</u>	<u>297,610</u>	<u>94,799</u>	<u>(23,262)</u>	<u>71,537</u>
Net Assets - Beginning of Year	<u>349,285</u>	<u>19,043</u>	<u>368,328</u>	<u>254,486</u>	<u>42,305</u>	<u>296,791</u>
Net Assets - End of Year	<u>\$ 616,637</u>	<u>\$ 49,301</u>	<u>\$ 665,938</u>	<u>\$ 349,285</u>	<u>\$ 19,043</u>	<u>\$ 368,328</u>

See Notes to Financial Statements.

Lenawee Humane Society
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Supporting Services			2018 Total Expenses
		General & Administrative	Fundraising	Total Support	
Expenses:					
Salaries	\$ 366,985	\$ 10,024	\$ 42,259	\$ 52,283	\$ 419,268
Payroll taxes and employee benefits	32,250	877	3,695	4,572	36,822
Director's liability insurance	-	698	-	698	698
Insurance	10,683	414	1,765	2,179	12,862
Repairs and maintenance	7,269	282	1,201	1,482	8,751
Advertising	5,693	221	940	1,161	6,854
Dues and subscriptions	965	37	159	197	1,162
Automobile expense	2,091	81	345	426	2,517
Meetings and conferences	8,554	332	1,413	1,744	10,298
Office expense	5,593	217	924	1,141	6,734
Equipment	3,381	131	558	689	4,070
Supplies	32,319	1,253	5,338	6,591	38,910
Postage	3,879	150	641	791	4,670
Professional fees	4,984	193	823	1,016	6,000
Shelter expense	72,292	-	-	-	72,292
Special events/fundraising	-	-	32,375	32,375	32,375
Merchandise expense	-	-	-	-	5,667
Telephone	5,667	-	-	-	5,667
Utilities	2,103	82	347	429	2,532
Depreciation	19,772	766	3,266	4,032	23,804
Bank charges	23,690	918	3,913	4,832	28,522
Payroll fees	5,751	223	950	1,173	6,924
	3,759	103	432	535	4,294
Total expenses	\$ 617,678	\$ 17,002	\$ 101,345	\$ 118,348	\$ 736,026

See Notes to Financial Statements.

Lenawee Humane Society
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	Supporting Services			2017 Total Expenses
		General & Administrative	Fundraising	Total Support	
Expenses:					
Salaries	\$ 309,799	\$ 5,351	\$ 43,836	\$ 49,187	\$ 358,986
Payroll taxes	23,933	3,387	413	3,800	27,733
Director's liability insurance	-	744	-	744	744
Insurance	4,243	164	701	865	5,108
Repairs and maintenance	3,823	148	632	780	4,603
Advertising	2,822	109	466	576	3,398
Dues and subscriptions	521	20	86	106	627
Automobile expense	1,750	68	289	357	2,107
Meetings and conferences	4,582	178	757	934	5,516
Office expense	4,551	176	752	928	5,479
Equipment	2,507	97	414	511	3,018
Supplies	38,457	1,491	6,352	7,843	46,300
Postage	4,232	164	699	863	5,095
Professional fees	4,734	184	782	966	5,700
Shelter expense	91,322	-	-	-	91,322
Special events	-	-	25,952	25,952	25,952
Merchandise expense	5,502	-	-	-	5,502
Telephone	2,072	80	342	422	2,494
Utilities	18,908	733	3,123	3,856	22,764
Depreciation	22,449	870	3,708	4,578	27,027
Bank charges	4,699	182	776	958	5,657
Payroll fees	3,847	66	544	610	4,457
Total expenses	\$ 554,751	\$ 14,214	\$ 90,624	\$ 104,838	\$ 659,589

See Notes to Financial Statements.

Lenawee Humane Society
 Statements of Cash Flows
 Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 297,610	\$ 71,537
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	28,522	27,027
In-kind contributions	26,364	25,903
In-kind expenses	(26,364)	(25,903)
(Gain) loss on investments - unrealized	2,632	-
(Gain) loss on sale of property and equipment	-	1,829
Changes in operating assets and liabilities:		
Accounts receivable	(1,223)	-
Bequest receivable	(40,000)	-
Inventory	1,520	(1,824)
Prepaid expenses	(5,535)	-
Accounts payable	3,636	(4,864)
Accrued liabilities	1,681	11,037
Net cash provided (used) by operating activities	<u>288,843</u>	<u>104,742</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(4,790)	(47,599)
Purchase of investments	(200,210)	-
Net cash provided (used) by investing activities	<u>(205,000)</u>	<u>(47,599)</u>
Increase in Cash	83,843	57,143
Cash - Beginning of Year	<u>162,947</u>	<u>105,804</u>
Cash - End of Year	<u>\$ 246,790</u>	<u>\$ 162,947</u>

See Notes to Financial Statements.

Lenawee Humane Society
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Lenawee Humane Society (the "Society" or "LHS") is a non-profit organization incorporated in the State of Michigan in 1921 serving Lenawee County and the surrounding area.

The Society's mission is to save the lives of animals while enriching the lives of humans. The Society is dedicated to caring for unwanted animals and providing them with necessary medical treatment, food and shelter until permanent homes are found. The Society's major sources of revenue are contributions and program fees from adoptions and clinic services.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Basis of Accounting

The accompanying financial statements and information are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, and expenditures are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the standards set by the Financial Accounting Standards Board (FASB). These standards were updated August, 2016 with an effective date of January 1, 2018. According to these professional standards, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations

The Statements of Activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Society's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Lenawee Humane Society
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis either based on estimates of time and effort or a square footage calculation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax-Exempt Status/Uncertain Tax Positions

Lenawee Humane Society is an organization recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Professional standards require an analysis of uncertain tax positions for the purpose of determining whether benefits associated with those positions may be recognized for financial statement purposes. Based on this analysis, the Society has determined it has no material uncertain tax positions for which the associated benefits may not be recognized nor for which disclosure is required.

Federal tax returns generally remain open for examination by the taxing authorities for a period of three years.

Cash

For purposes of the Statements of Cash Flows, cash includes demand deposits held at banks. As of December 31, 2018 and 2017, the Society held no amounts in excess of FDIC insured limits.

Receivables

The Society's receivables consist primarily of contribution receivables (pledges, i.e. promises to give). Contributions receivable of all types are recorded at fair value when pledged/granted. An allowance for uncollectible receivables, if any, is recorded as estimated based upon management's valuation of related historical data and current economic conditions. Currently, management has determined that no allowance for doubtful accounts is deemed necessary.

Inventory

Inventory consists of Pawpourri Store items available for resale. Inventories are stated at the lower of cost (purchase price) or market, on a first-in, first-out basis.

Property and Equipment

Capital assets are recorded at cost if purchased or if donated, are recorded at their fair market value when received. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The Society has not adopted a policy for implying time restrictions on contributions of long-lived assets or related subsidies.

Lenawee Humane Society
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation of property and equipment is provided using the straight-line method at rates based on the following estimated useful lives:

	<u>Years</u>
Land improvements	10
Building and improvements	5 - 39
Computers and equipment	5 - 10
Furniture and fixtures	5 - 10
Vehicles	5

Investments and Fair Value Measurements

Investments are stated at fair market value for all debt and equity securities. Net appreciation (Depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is presented in the Statements of Activities in accordance with donor restrictions as investment return. Investment return is presented net of investment fees. Donor-restricted investment income where restrictions are met in the same reporting period are reported as net assets without donor restrictions income.

The Society applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 3).

Donated Goods and Services

During the reported periods, contributed goods and services meeting the requirements for recognition in the financial statements including animal supplies, food assistance, fundraising materials, and professional fees totaled \$26,364 and \$25,903, respectively. Also, volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. These services primarily related to the care of animals and the related programs. Volunteer hours were over 10,000 and 8,500 annually for the years ending December 31, 2018 and 2017, respectively.

Contributions and Other Support

The Society accounts for contributions as required by the Not-For-Profit Topic of the Financial Accounting Standards Board Accounting Standards Codification. In accordance with this guidance, unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support.

Lenawee Humane Society
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Advertising

Lenawee Humane Society uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$6,854 and \$3,398 for the years ended December 31, 2018 and 2017, respectively.

Reclassifications

Certain balances in the prior year financial statements may have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications, if any, do not impact changes in net assets.

Subsequent Events

The Society has evaluated subsequent events through the date of the auditors' report, the date the financial statements were available to be issued.

2. Property and Equipment

Property and equipment at each reported year-end is summarized as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 15,081	\$ 15,081
Land improvements	21,625	21,625
Building and improvements	290,198	290,198
Computers and equipment	105,865	101,074
Furniture and fixtures	10,233	10,233
Vehicles	18,337	18,337
	<u>461,339</u>	<u>456,548</u>
Less: accumulated depreciation	<u>(262,412)</u>	<u>(233,889)</u>
Property and equipment - net	<u>\$ 198,927</u>	<u>\$ 222,659</u>
Depreciation expense	<u>\$ 28,522</u>	<u>\$ 27,027</u>

3. Fair Value Measurement of Investments

FASB Codification Topic, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Fair Value Measurements: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Lenawee Humane Society
Notes to Financial Statements

3. Fair Value Measurement of Investments (Continued)

Level 2 Fair Value Measurements: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. Since this is the first year that the Society has held investments, changes in valuation methodologies from the previous year are non-applicable.

Mutual funds/Exchange traded funds: Valued at the market price as provided by the brokerage.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents Level 1 assets that are measured at fair value on a recurring basis at December 31, 2018 and 2017, respectively:

	2018	2017
Mutual funds/Exchange traded funds	\$ 197,578	\$ -
Total assets at fair value	\$ 197,578	\$ -

4. Line of Credit

The Society maintains a \$25,000 line of credit with TLC Community Credit Union, secured by all assets, maturing on December 9, 2020, and with a variable interest rate calculated at WSJ prime plus 1% which was 6.25% at December 31, 2018. There were no outstanding balances at December 31, 2018 and 2017.

5. Concentrations

For the year ended December 31, 2018, LHS had a major contributor that represented approximately 14% of total revenue. Two other contributors represented another 10% of total revenues. None of these major contributions were included in receivables at the end of the year. There were no major contributors for the 2017 year. The bequest receivable balance at year end is from one estate.

Lenawee Humane Society
Notes to Financial Statements

6. Restrictions on Net Assets

Net assets with donor restrictions at each reported year end are restricted for the following purposes or periods:

	2018	2017
Subject to expenditure for specified purpose:		
Vicki's Fund - life saving treatment for dogs	\$ 1,751	\$ 14,043
Contributions received for cat room renovations	-	5,000
Capital campaign	7,550	-
	9,301	14,043
Subject to the passage of time:		
Pledges receivable	40,000	-
	\$ 49,301	\$ 14,043

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows:

Releases from restrictions subject to expenditure for a specified purpose:

	2018	2017
Vicki's Fund	\$ 12,292	\$ 8,262
Hope Clinic grant	-	20,000
Cat room renovations	5,000	-
	\$ 17,292	\$ 28,262

7. Liquidity

LHS has \$294,773 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$245,039, receivables of \$41,223, inventory of \$2,976, and prepaid expenses of \$5,535. The inventory and prepaid expenses will be expended as used during the upcoming year. The receivables are subject to implied time restrictions but are expected to be collected within one year. None of the remaining current financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date and amounts set aside for long-term investing.

As part of LHS' liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. For increased income from its financial assets, LHS holds investments of \$197,578. Although LHS does not intend to spend from the investments account other than for specific Board approved projects or per planned annual budgeting appropriations, amounts from its investments could be made available for expenditure if necessary. As described more fully in Note 4, LHS also maintains a line of credit in the amount of \$25,000, which it could draw down upon in the event of an unanticipated liquidity need.

