
Humane Society of Huron Valley

**Financial Report
December 31, 2018**

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Independent Auditor's Report

To the Board of Directors
Humane Society of Huron Valley

We have audited the accompanying financial statements of the Humane Society of Huron Valley (the "Organization"), which comprise the balance sheet as of December 31, 2018 and 2017 and the related statements of activities and changes in net assets, 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 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 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 Humane Society of Huron Valley as of December 31, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of January 1, 2018 and has applied this standard retrospectively to all years presented. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

July 22, 2019

Balance Sheet

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 931,955	\$ 1,064,564
Investments (Note 8)	4,106,203	3,475,230
Receivables:		
Accounts receivable	140,988	73,095
Contributions receivable	109,372	115,769
Capital campaign pledges receivable - Net	-	120,000
Bequests receivable	183,891	70,500
Prepaid expenses and other current assets	<u>195,579</u>	<u>209,532</u>
Total current assets	5,667,988	5,128,690
Property and Equipment - Net (Note 4)	<u>6,391,268</u>	<u>6,598,184</u>
Total assets	<u>\$ 12,059,256</u>	<u>\$ 11,726,874</u>
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 165,982	\$ 172,314
Accrued liabilities and other	237,798	208,218
Deferred revenue	<u>1,815</u>	<u>2,269</u>
Total current liabilities	405,595	382,801
Net Assets		
Without donor restrictions:		
Undesignated	9,356,925	9,141,497
Board designated (Note 2)	2,003,292	1,945,530
With donor restrictions (Note 5)	<u>293,444</u>	<u>257,046</u>
Total net assets	<u>11,653,661</u>	<u>11,344,073</u>
Total liabilities and net assets	<u>\$ 12,059,256</u>	<u>\$ 11,726,874</u>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	\$ 2,663,236	\$ 18,722	\$ 2,681,958	\$ 2,547,642	\$ 166,172	\$ 2,713,814
Bequests	606,419	158,891	765,310	223,304	45,500	268,804
Donated advertising, supplies, and equipment	198,696	-	198,696	128,596	-	128,596
Operations	3,913,352	-	3,913,352	3,628,406	-	3,628,406
Retail sales	287,249	-	287,249	276,113	-	276,113
Special event revenue	412,618	-	412,618	376,732	-	376,732
Investment (loss) income - Net (Note 3)	(110,201)	-	(110,201)	310,988	-	310,988
Gain on sale of property and equipment	-	-	-	1,600	-	1,600
Miscellaneous income	1,000	-	1,000	1,800	-	1,800
Total revenue and support	7,972,369	177,613	8,149,982	7,495,181	211,672	7,706,853
Net Assets Released from Donor Restrictions	141,215	(141,215)	-	294,336	(294,336)	-
Total revenue, support, and net assets released from donor restrictions	8,113,584	36,398	8,149,982	7,789,517	(82,664)	7,706,853
Expenses						
Program expenses:						
Clinic	1,856,723	-	1,856,723	1,655,622	-	1,655,622
Shelter	3,361,867	-	3,361,867	3,108,059	-	3,108,059
Support programs	627,398	-	627,398	568,178	-	568,178
Cruelty/Rescue	388,000	-	388,000	343,419	-	343,419
Total program expenses	6,233,988	-	6,233,988	5,675,278	-	5,675,278
Support services:						
Administration	725,461	-	725,461	683,783	-	683,783
Development	880,945	-	880,945	766,816	-	766,816
Total support services	1,606,406	-	1,606,406	1,450,599	-	1,450,599
Total expenses	7,840,394	-	7,840,394	7,125,877	-	7,125,877
Increase (Decrease) in Net Assets	273,190	36,398	309,588	663,640	(82,664)	580,976
Net Assets - Beginning of year	11,087,027	257,046	11,344,073	10,423,387	339,710	10,763,097
Net Assets - End of year	\$ 11,360,217	\$ 293,444	\$ 11,653,661	\$ 11,087,027	\$ 257,046	\$ 11,344,073

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/ Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 863,455	\$ 1,682,555	\$ 286,357	\$ 216,633	\$ 3,049,000	\$ 474,979	\$ 314,282	\$ 789,261	\$ 3,838,261
Employee benefits	169,067	391,371	74,840	54,622	689,900	94,558	74,845	169,403	859,303
Total salaries and related expenses	1,032,522	2,073,926	361,197	271,255	3,738,900	569,537	389,127	958,664	4,697,564
Professional fees	15,658	32,648	4,465	3,987	56,758	78,696	3,645	82,341	139,099
Animal removal, outside vet, and lab	11,767	54,327	-	4,500	70,594	-	-	-	70,594
Medical and animal supplies	466,785	269,718	3,253	6,984	746,740	-	-	-	746,740
Vehicle fuel	136	6,066	27	11,182	17,411	259	5	264	17,675
Contract labor	55,324	20,241	45,540	2,153	123,258	11	7,600	7,611	130,869
Supplies	49,575	190,817	20,753	15,784	276,929	11,734	47,384	59,118	336,047
Microchips/Trap neuter return	1,530	33,132	-	-	34,662	-	-	-	34,662
Postage and shipping	1,472	302	302	17	2,093	674	7,054	7,728	9,821
Insurance	21,797	63,003	12,564	11,202	108,566	10,533	4,761	15,294	123,860
Repair and maintenance	8,986	59,599	6,131	9,556	84,272	1,533	1,533	3,066	87,338
Travel	262	10,065	3,689	2,241	16,257	2,344	760	3,104	19,361
Printing	2,960	6,381	873	779	10,993	-	12,474	12,474	23,467
Utilities	10,803	93,875	9,603	6,002	120,283	2,401	2,401	4,802	125,085
Telephone	2,813	8,153	830	741	12,537	600	676	1,276	13,813
Memberships and subscriptions	8,994	11,951	6,239	2,749	29,933	1,177	57,863	59,040	88,973
Publicity and advertising	16,768	27,067	10,061	6,707	60,603	-	6,707	6,707	67,310
Newsletter	-	24,709	2,744	-	27,453	-	5,493	5,493	32,946
Appeals	-	-	-	-	-	-	268,474	268,474	268,474
Merchandise	40,187	8,765	88,079	-	137,031	-	-	-	137,031
Licenses and permits	1,782	1,206	419	43	3,450	112	16	128	3,578
Miscellaneous	159	20	19	40	238	2,927	-	2,927	3,165
Uncollectible accounts	7,702	576	-	-	8,278	-	-	-	8,278
Donated goods and services	37,372	59,795	22,423	14,949	134,539	29,527	14,950	44,477	179,016
Credit card fees	29,386	16,521	1,236	88	47,231	17	39,562	39,579	86,810
Software and support	2,489	5,367	734	655	9,245	3,132	1,561	4,693	13,938
Land lease/Building rental	-	41,129	-	-	41,129	3,693	2,345	6,038	47,167
Depreciation	29,494	242,508	26,217	16,386	314,605	6,554	6,554	13,108	327,713
Total functional expenses	\$ 1,856,723	\$ 3,361,867	\$ 627,398	\$ 388,000	\$ 6,233,988	\$ 725,461	\$ 880,945	\$ 1,606,406	\$ 7,840,394

Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/ Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 727,846	\$ 1,558,298	\$ 253,242	\$ 194,317	\$ 2,733,703	\$ 449,051	\$ 270,089	\$ 719,140	\$ 3,452,843
Employee benefits	163,162	395,366	77,979	51,083	687,590	88,867	60,583	149,450	837,040
Total salaries and related expenses	891,008	1,953,664	331,221	245,400	3,421,293	537,918	330,672	868,590	4,289,883
Professional fees	14,129	33,067	3,001	4,066	54,263	100,803	3,331	104,134	158,397
Animal removal, outside vet, and lab	10,525	24,713	-	62	35,300	-	-	-	35,300
Medical and animal supplies	403,745	240,754	969	1,022	646,490	-	-	-	646,490
Vehicle fuel	168	5,207	115	7,966	13,456	29	28	57	13,513
Contract labor	40,516	8,830	45,025	2,833	97,204	-	13,324	13,324	110,528
Supplies	51,585	168,684	15,736	11,815	247,820	10,953	28,932	39,885	287,705
Microchips/Trap neuter return	2,705	25,748	-	-	28,453	-	-	-	28,453
Postage and shipping	1,134	129	509	39	1,811	477	10,756	11,233	13,044
Insurance	16,524	51,578	8,203	10,833	87,138	10,747	3,646	14,393	101,531
Repair and maintenance	8,442	47,155	5,006	11,290	71,893	1,251	1,250	2,501	74,394
Travel	593	9,621	4,297	540	15,051	55	96	151	15,202
Printing	3,545	7,695	701	950	12,891	-	13,067	13,067	25,958
Utilities	10,615	91,304	9,436	5,897	117,252	2,359	2,359	4,718	121,970
Telephone	3,299	9,379	701	949	14,328	769	778	1,547	15,875
Memberships and subscriptions	8,329	8,453	5,100	2,026	23,908	1,002	44,219	45,221	69,129
Publicity and advertising	19,816	31,706	11,890	7,927	71,339	-	7,926	7,926	79,265
Newsletter	-	23,812	2,540	-	26,352	-	5,398	5,398	31,750
Appeals	-	-	-	-	-	-	233,839	233,839	233,839
Merchandise	47,639	10,316	83,376	-	141,331	-	-	-	141,331
Licenses and permits	1,358	3,289	415	262	5,324	38	969	1,007	6,331
Miscellaneous	120	768	74	35	997	3,151	-	3,151	4,148
Uncollectible accounts	13,043	2,836	-	70	15,949	-	5,000	5,000	20,949
Donated goods and services	51,276	51,276	12,819	12,820	128,191	405	-	405	128,596
Credit card fees	24,741	15,269	901	2	40,913	-	36,636	36,636	77,549
Software and support	1,781	4,152	378	512	6,823	3,692	930	4,622	11,445
Land lease/Building rental	-	40,326	-	-	40,326	3,693	17,218	20,911	61,237
Depreciation	28,986	238,328	25,765	16,103	309,182	6,441	6,442	12,883	322,065
Total functional expenses	\$ 1,655,622	\$ 3,108,059	\$ 568,178	\$ 343,419	\$ 5,675,278	\$ 683,783	\$ 766,816	\$ 1,450,599	\$ 7,125,877

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	\$ 309,588	\$ 580,976
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	327,713	322,065
Net realized and unrealized loss (gain) on investments	199,098	(246,731)
Bad debt expense	8,278	20,949
Gain on sale of assets	-	(1,600)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(76,171)	(63,211)
Contributions receivable	6,397	(33,094)
Bequests receivable	(113,391)	74,500
Prepaid expenses and other current assets	13,953	(43,698)
Trade accounts payable	(6,332)	2,272
Deferred revenue	(454)	(67,854)
Accrued liabilities and other	29,580	16,052
Net cash and cash equivalents provided by operating activities	698,259	560,626
Cash Flows from Investing Activities		
Change in restricted cash	-	75,120
Purchase of property and equipment	(120,797)	(399,157)
Proceeds from disposition of property and equipment	-	1,600
Purchases of investments	(2,543,547)	(1,036,079)
Proceeds from sales and maturities of investments	1,713,476	600,109
Net cash and cash equivalents used in investing activities	(950,868)	(758,407)
Cash Flows Provided by Financing Activities - Proceeds from capital campaign pledge receivable	120,000	-
Net Decrease in Cash and Cash Equivalents	(132,609)	(197,781)
Cash and Cash Equivalents - Beginning of year	1,064,564	1,262,345
Cash and Cash Equivalents - End of year	\$ 931,955	\$ 1,064,564

December 31, 2018 and 2017

Note 1 - Nature of Business

Humane Society of Huron Valley (the "Organization") is a not-for-profit corporation that operates an animal shelter, a veterinary clinic, emergency animal rescue services, a cruelty investigation division, and a support programs division. The Organization was incorporated in 1896 and primarily serves the Washtenaw County area.

Note 2 - Significant Accounting Policies

Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents except for temporary investment funds considered part of the investment portfolio. The balances in the Organization's deposit accounts may exceed FDIC insurance coverage amounts for those accounts.

Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. Management considers all accounts receivable collectible, and, therefore, an allowance for doubtful accounts has not been recorded at December 31, 2018 and 2017.

Contributions Receivable, Capital Campaign Pledges Receivable, and Bequests Receivable

Contributions receivable, capital campaign pledges, and bequests are considered contributions receivable on the balance sheet. The Organization's contributions receivable are composed primarily of amounts committed from various donors for use in the Organization's activities.

As of December 31, 2017, the Organization's capital campaign pledges receivable are composed of one pledge for use in the construction of the Organization's facility, which was completed in 2009. All receivables have been collected as of December 31, 2018.

Bequests receivable consists of wills and estates for which the will was validated by the probate court or trusts that have become irrevocable.

All contributions and bequests receivable at December 31, 2018 are expected to be collected within one year. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All amounts are considered fully collectible at December 31, 2018 and 2017.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices and other inputs, as described in Note 8.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives, ranging from 5 to 30 years. Costs of maintenance and repairs are charged to expense when incurred.

The Organization reports gifts of property and equipment as net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long the property and equipment must be maintained or used, the Organization reports expirations of donor restrictions upon placing the asset in service.

Note 2 - Significant Accounting Policies (Continued)

Revenue and Support Recognition

Revenue from clinic and shelter operations, including a county contract, is recognized as services are performed.

Contributions are recognized upon the receipt of the gift or a written unconditional promise to give. Contributions that include donor restrictions that limit the use of the gift are recorded with donor restrictions. When the donor restrictions are fulfilled, net assets with donor restrictions are reclassified as net assets without donor restrictions. For financial statement presentation purposes, management has elected to report net assets with donor restrictions, whose requirements were fulfilled in the same period that the gift was received, as net assets without donor restrictions.

The Organization raises additional money with direct fundraising events or as a participant at community activities. Special events revenue and revenue from merchandise sales are recorded when events are held and items are sold, respectively.

Donated Services

The Organization receives donations of various services. In accordance with generally accepted accounting principles, these services are recorded in the statement of activities and changes in net assets when they meet certain criteria.

A substantial number of volunteers have donated significant amounts of their time to the Organization's programs and services, which do not meet the requirements to be recorded. Volunteer hours totaled 124,142 and 113,181 during 2018 and 2017, respectively. This information has not been audited.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence for donor-imposed restrictions.

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

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.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable state law.

Board-designated Net Assets

Board-designated net assets are net assets without donor restrictions for facility repairs and maintenance. These designations are based on board actions, which can be altered or revoked at a future time by the board. Board-designated net assets were \$2,003,292 and \$1,945,530 at December 31, 2018 and 2017, respectively. The board has a policy where net earnings on specific invested assets are added to board-designated net assets.

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Community Foundation

Certain funds donated by outside donors for the benefit of the Organization are held and managed by the Ann Arbor Area Community Foundation (AAACF). AAACF maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of the Organization. The fair market value of these funds was \$4,101,377 and \$4,561,708 at December 31, 2018 and 2017, respectively. Earnings, net of AAACF fees, are available for distribution to the Organization at the discretion of AAACF and, therefore, are not reflected as revenue in the financial statements until received by the Organization. Annual distributions from these funds have been shown as contribution revenue in the statement of activities and changes in net assets. These distributions were \$196,598 and \$191,374 for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Depreciation; facility wages; and related benefits, supplies, utilities, repairs, and maintenance; other common facility costs; and certain insurance costs are allocated on the basis of square footage for the appropriate area of usage. IT wages and related benefits, professional fees, other identified IT and support costs, and certain insurance costs are allocated on the basis of employee headcount for the usage. Certain advertising, contract labor, and contributed services are allocated on the basis of time, effort, and materials benefiting each function. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

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. Actual results could differ from those estimates.

Federal Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

As of January 1, 2018 and applied retrospectively to all years presented, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended December 31, 2017 has been restated, as follows: administration expenses have increased \$367,368 and development expenses have increased \$746 from the amounts previously reported, with a corresponding decrease in program expenses in the amount of \$368,114.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization is in the process of determining which application method it will use and believes there may be some impact on the timing of revenue recognition related to the county contract to provide services to Washtenaw County, Michigan.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending December 31, 2019 and will be applied on a modified prospective basis. The Organization has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 22, 2019, which is the date the financial statements were available to be issued.

December 31, 2018 and 2017

Note 3 - Investment Income

Investment (loss) income consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 88,897	\$ 64,257
Realized and unrealized (losses) gains	(199,098)	246,731
Total	<u>\$ (110,201)</u>	<u>\$ 310,988</u>

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 7,951,441	\$ 7,929,952
Equipment	628,278	582,585
Vehicles	184,140	184,140
Computer software	87,239	49,357
Construction in progress	45,843	30,110
Total cost	8,896,941	8,776,144
Accumulated depreciation	<u>2,505,673</u>	<u>2,177,960</u>
Net property and equipment	<u>\$ 6,391,268</u>	<u>\$ 6,598,184</u>

Depreciation expense for 2018 and 2017 was \$327,713 and \$322,065, respectively.

The Organization owns approximately six acres of land on which part of the operating facility is located. The land was contributed to the Organization in 1951. The land is permanently restricted by deed for use only as an animal shelter and any other use of the land may result in reversion of ownership to the former owner of the land. There is no value assigned to the land in these financial statements.

In 2008, the Organization entered into a 65-year operating land lease with the Regents of the University of Michigan for an additional 4.82 acres of vacant land, adjacent to the owned land, on which to construct the new facility. The lease rent is \$8,000 annually for the first 30 years and \$1 annually for the remainder of the lease for total rent payments of \$240,035. The Organization recognizes rent expense on a straight-line basis over the life of the lease.

Note 5 - Net Assets with Donor Restrictions

The Organization receives contributions whereon the donor places certain restrictions on the use of the funds. In addition, bequests receivable are considered time restricted until they are collected by the Organization and available to use for operations. Below is a summary of the amounts with donor restrictions as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditures for a specified purpose:		
Transportation	\$ 109,553	\$ 170,282
Intake prevention	-	13,512
Food	-	2,752
Subject to the passage of time - Bequest receivable	<u>183,891</u>	<u>70,500</u>
Total	<u>\$ 293,444</u>	<u>\$ 257,046</u>

December 31, 2018 and 2017

Note 6 - Release of Restrictions

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:

	2018	2017
Purpose restrictions accomplished:		
Transportation	\$ 79,451	\$ 134,909
Intake prevention	13,512	-
Food	2,752	9,427
Cat cafe	-	30,000
	95,715	174,336
Time restrictions expired - Passage of specified time	45,500	120,000
Total restrictions released	\$ 141,215	\$ 294,336

Note 7 - Employee Benefit Plan

The Organization has an employee 401(k) salary deferral plan. All employees who have reached the age of 18, with at least 1,000 hours and one year of service, are eligible to participate in the plan. The Organization matches 100 percent of a participant's elective deferral up to a maximum of 2 percent of gross pay, as limited by the Internal Revenue Service. The Organization made contributions of \$54,339 and \$41,390 to the plan for the years ended December 31, 2018 and 2017, respectively.

In December 2018, the Organization adopted a 457(b) plan effective January 1, 2019. The deferred compensation plan is maintained for the purpose of providing deferred compensation to a select group of management or highly compensated employees.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2018 and 2017 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

December 31, 2018 and 2017

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Investments -				
Exchange traded funds:				
Equity securities	\$ 1,510,598	\$ -	\$ -	\$ 1,510,598
Debt securities	2,025,226	-	-	2,025,226
Total investments	\$ 3,535,824	\$ -	\$ -	\$ 3,535,824
Assets Measured at Fair Value on a Recurring Basis at December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Investments -				
Exchange traded funds:				
Equity securities	\$ 1,402,906	\$ -	\$ -	\$ 1,402,906
Debt securities	1,714,186	-	-	1,714,186
Total investments	\$ 3,117,092	\$ -	\$ -	\$ 3,117,092

Not included in the tables above are cash equivalents totaling \$570,379 and \$358,138 at December 31, 2018 and 2017, respectively.

Note 9 - Operating Leases

During 2016, the Organization entered into an operating lease agreement for land and a building that serves as Tiny Lions Cat Cafe. The original lease agreement expired in January 2019; however, a new lease agreement was signed in December 2018 renewing the lease for an additional three-year period. The lease renewal expires in January 2022.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	\$ 41,933
2020	42,770
2021	43,610
2022	3,640
Total	\$ 131,953

Total rent expense for this lease was approximately \$41,000 for the years ended December 31, 2018 and 2017.

Notes to Financial Statements

December 31, 2018 and 2017

Note 10 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 931,955	\$ 1,064,564
Accounts receivable	383,759	379,364
Liquid investments	4,106,203	3,475,230
Less those unavailable for general expenditures within one year due to:		
Donor-imposed restrictions	293,444	257,046
Board designations - Facility repairs and maintenance	<u>2,003,292</u>	<u>1,945,530</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,125,181</u>	<u>\$ 2,716,582</u>

The Organization has a goal to maintain financial assets, which consist of cash, short-term investments, and receivables on hand to meet normal operating expenses and planned capital expenditures. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests in equity and debt securities that are easily converted into cash. The Organization also realizes there could be unanticipated liquidity needs; if necessary, the board-designated net assets could be undesignated or redesignated for a specific purpose through an action of the board.