

ELMBROOK HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Elmbrook Humane Society, Inc.
Brookfield, Wisconsin

We have audited the accompanying financial statements of Elmbrook Humane Society, Inc., 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 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 Elmbrook Humane Society, Inc. 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.

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ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 250,069	\$ 306,078
Promises to give	91,072	92,131
Accounts receivable	-	21,152
Prepaid expenses	8,272	3,304
	<u>349,413</u>	<u>422,665</u>
PROPERTY AND EQUIPMENT		
Land	210,405	210,405
Building	1,362,786	1,362,786
Equipment	582,626	624,777
Vehicle	44,842	12,891
Less accumulated depreciation	(714,768)	(680,353)
	<u>1,485,891</u>	<u>1,530,506</u>
OTHER ASSETS		
Investments	3,860,641	3,586,215
Beneficial interest in assets held by Waukesha County Community Foundation	1,718,835	1,479,716
	<u>5,579,476</u>	<u>5,065,931</u>
Total assets	<u><u>\$ 7,414,780</u></u>	<u><u>\$ 7,019,102</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 12,504	\$ 12,436
Accrued sales tax	916	1,108
Accrued payroll	30,375	32,394
	<u>43,795</u>	<u>45,938</u>
NET ASSETS		
Unrestricted	7,321,493	6,938,622
Temporarily restricted	49,492	34,542
	<u>7,370,985</u>	<u>6,973,164</u>
Total liabilities and net assets	<u><u>\$ 7,414,780</u></u>	<u><u>\$ 7,019,102</u></u>

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2017 and 2016

UNRESTRICTED NET ASSETS	2017	2016
SUPPORT AND REVENUE		
Fundraising events	\$ 144,441	\$ 133,179
Less costs of direct benefits to donors	<u>(18,805)</u>	<u>(11,608)</u>
Fundraising events - net	125,636	121,571
Contributions	362,766	325,254
Estates and bequests	36,773	148,444
In-kind contributions	56,427	54,402
Adoption fees	172,206	161,502
Municipality contracts	83,125	84,775
Animal medical care and services	17,054	22,569
Surrenders and strays	7,477	9,088
Training classes	21,673	17,161
Retail sales	29,149	24,454
Other income	3,002	-
Investment return	394,883	158,968
Change in value of beneficial interest	<u>239,119</u>	<u>70,765</u>
Total unrestricted support and revenue	1,549,290	1,198,953
EXPENSES AND LOSSES		
Program services	933,388	846,607
Supporting activities		
Management and general	112,839	107,151
Fundraising	<u>149,514</u>	<u>151,957</u>
Total expenses	1,195,741	1,105,715
Loss on disposal of property and equipment	<u>2,268</u>	<u>-</u>
Total expenses and losses	1,198,009	1,105,715
Net assets released from restrictions	<u>31,590</u>	<u>5,600</u>
Change in unrestricted net assets	382,871	98,838
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	46,540	32,590
Net assets released from restrictions	<u>(31,590)</u>	<u>(5,600)</u>
Change in temporarily restricted net assets	<u>14,950</u>	<u>26,990</u>
Change in net assets	397,821	125,828
Net assets - beginning of year	<u>6,973,164</u>	<u>6,847,336</u>
Net assets - end of year	<u><u>\$ 7,370,985</u></u>	<u><u>\$ 6,973,164</u></u>

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2017

	Program Services	Supporting Activities		Costs of Direct Benefits to Donors	Total
		Management and General	Fundraising		
Salaries and wages	\$ 455,109	\$ 31,942	\$ 74,796	\$ -	\$ 561,847
Employee benefits	50,626	3,553	8,320	-	62,499
Payroll taxes	37,252	2,615	6,122	-	45,989
Veterinarian services and medication	135,175	-	-	-	135,175
Supplies	83,386	3,905	4,964	-	92,255
Professional fees and services	1,850	51,686	-	-	53,536
Event fees and supplies	-	-	39,593	18,805	58,398
Advertising	1,844	-	241	-	2,085
Auto expense	2,906	-	-	-	2,906
Bank and credit card fees	-	5,927	-	-	5,927
Education and training classes	6,821	-	-	-	6,821
Licenses and permits	263	16	31	-	310
Insurance	15,701	1,102	2,580	-	19,383
Printing and postage	9,496	2,035	9,135	-	20,666
Occupancy	10,041	749	188	-	10,978
Repairs and maintenance	9,024	673	169	-	9,866
Telephone	6,546	459	1,076	-	8,081
Utilities	36,361	2,712	682	-	39,755
Seminar	563	-	-	-	563
Depreciation	68,909	5,140	1,292	-	75,341
Miscellaneous	1,515	325	325	-	2,165
Total expenses	933,388	112,839	149,514	18,805	1,214,546
Less expenses included with support and revenue on the statements of activities	-	-	-	(18,805)	(18,805)
Total expenses included in the expenses section of the statements of activities	\$ 933,388	\$ 112,839	\$ 149,514	\$ -	\$ 1,195,741

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2016

	Program Services	Supporting Activities		Costs of Direct Benefits to Donors	Total
		Management and General	Fundraising		
Salaries and wages	\$ 411,639	\$ 30,737	\$ 74,675	\$ -	\$ 517,051
Employee benefits	37,896	2,831	6,875	-	47,602
Payroll taxes	38,691	2,889	7,019	-	48,599
Veterinarian services and medication	112,950	-	-	-	112,950
Supplies	74,807	3,151	3,332	-	81,290
Professional fees and services	1,385	50,378	-	-	51,763
Event fees and supplies	-	-	38,211	11,608	49,819
Advertising	2,318	-	4,459	-	6,777
Auto expense	3,444	-	-	-	3,444
Bank and credit card fees	-	4,564	-	-	4,564
Education and training classes	10,252	-	-	-	10,252
Licenses and permits	893	53	105	-	1,051
Insurance	15,108	1,127	2,741	-	18,976
Printing and postage	7,369	1,580	10,738	-	19,687
Occupancy	13,007	970	244	-	14,221
Repairs and maintenance	12,695	947	238	-	13,880
Telephone	6,292	470	1,141	-	7,903
Utilities	37,097	2,767	696	-	40,560
Seminar	1,460	-	-	-	1,460
Depreciation	57,411	4,281	1,077	-	62,769
Miscellaneous	1,893	406	406	-	2,705
Total expenses	846,607	107,151	151,957	11,608	1,117,323
Less expenses included with support and revenue on the statements of activities	-	-	-	(11,608)	(11,608)
Total expenses included in the expenses section of the statements of activities	\$ 846,607	\$ 107,151	\$ 151,957	\$ -	\$ 1,105,715

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 397,821	\$ 125,828
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	75,341	62,769
Loss on disposal of property and equipment	2,268	-
Unrealized and realized gains on investments	(324,680)	(104,541)
Change in value of agency endowment	(239,119)	(70,765)
(Increase) decrease in assets		
Promises to give	1,059	(13,059)
Accounts receivable	21,152	(18,522)
Prepaid expenses	(4,968)	(2,804)
Increase (decrease) in liabilities		
Accounts payable	68	(578)
Accrued sales tax	(192)	297
Accrued payroll	(2,019)	10,579
Net cash flows from operating activities	(73,269)	(10,796)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends retained in investments	(70,159)	(54,273)
Purchases of investments	(4,514)	-
Proceeds from sale of investments	124,927	-
Purchases of property and equipment	(32,994)	(171,255)
Net cash flows from investing activities	17,260	(225,528)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of accounts payable for property and equipment	-	(61,140)
Change in cash	(56,009)	(297,464)
Cash - beginning of year	306,078	603,542
Cash - end of year	\$ 250,069	\$ 306,078
SUPPLEMENTAL DISCLOSURES		
Noncash investing transactions		
Distributions from agency endowment to purchase investments	\$ -	\$ 2,000,000

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Elmbrook Humane Society, Inc. (EBHS) is incorporated as a non-profit organization located in Brookfield, Wisconsin. EBHS seeks to assist in the protection, care, treatment, and temporary shelter of unwanted, stray or abandoned animals. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

EBHS reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by EBHS in perpetuity.

Promises to Give

Promises to give are recognized as support or gains in the period the promise is made and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are written off after management has used reasonable collection efforts and has determined the promises will not be collected. At December 31, 2017 and 2016, all promises to give are receivable in less than one year.

Accounts Receivable

EBHS considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If receivables become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of repairs and maintenance are charged against operations as incurred.

Investments

EBHS carries investments in marketable equity securities with readily determinable fair values at their fair values in the statements of financial position. Unrealized and realized gains and losses are included in the change in net assets in the accompanying statements of activities.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2017 and 2016 were \$2,085 and \$6,777.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Presentation of Sales Tax

The State of Wisconsin and Waukesha County impose a combined sales tax of 5.1% on all of EBHS's sales to nonexempt customers. EBHS collects that sales tax from customers and remits the entire amount to the State. EBHS's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by EBHS. Volunteers also provide various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met.

Income Tax Status

EBHS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, EBHS qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation.

Date of Management's Review

Management has evaluated subsequent events through May 7, 2018, the date which the financial statements were available to be issued.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – INVESTMENTS

Investments at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 129,804	\$ 100,707
Stocks	186,863	124,656
Exchange traded funds	91,665	81,351
Fixed income securities	870,499	991,660
Mutual funds	<u>2,581,810</u>	<u>2,287,841</u>
Investments	<u>\$ 3,860,641</u>	<u>\$ 3,586,215</u>

Investment return for 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 70,203	\$ 54,427
Unrealized and realized gains	<u>324,680</u>	<u>104,541</u>
Investment return	<u>\$ 394,883</u>	<u>\$ 158,968</u>

NOTE 3 – BENEFICIAL INTEREST IN ASSETS HELD BY WAUKESHA COUNTY COMMUNITY FOUNDATION

EBHS's board created a fund at Waukesha County Community Foundation (Foundation), a community foundation, to support the mission of EBHS. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

EBHS's spending policy of appropriating from distributions from the fund shall be determined in accordance with the Foundation's distribution policy. EBHS reserves the right to recommend distributions greater than those set by the Foundation's distribution policy as long as the fund balance is maintained that is consistent with the Foundation's \$10,000 minimum balance requirement in effect at the time.

It is the desire that distributions be used for the support of EBHS. If EBHS should cease to exist, it is EBHS's wish that distributions be made to benefit EBHS and help provide program services as determined by the Foundation.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – BENEFICIAL INTEREST IN ASSETS HELD BY WAUKESHA COUNTY COMMUNITY FOUNDATION (continued)

All assets of the fund shall be assets of the Foundation and not a separate trust. The fund shall be held and administered subject to provisions of the Foundation’s articles of incorporation and bylaws as presently in effect or as may time to time be amended, including those provisions which may permit the Foundation to amend, modify or vary any of the purposes, directions, restrictions, or conditions set forth.

EBHS has designated itself as the sole beneficiary of the income from the investment of this fund. The Board of Directors of the Foundation shall have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community serviced.

The change in value of beneficial interest in assets held by the Foundation for 2017 and 2016 consisted of the following:

	2017	2016
Balance - beginning of year	\$ 1,479,716	\$ 3,408,951
Distributions	-	(2,000,000)
Interest and dividends	-	5,093
Net appreciation	254,917	83,983
Fees	(15,798)	(18,311)
	\$ 1,718,835	\$ 1,479,716

NOTE 4 – NET ASSETS

Unrestricted net assets board designated at December 31, 2017 and 2016 consist of \$1,718,835 and \$1,479,716 of the beneficial interest in assets held by the Waukesha County Community Foundation and are to be used to provide support in future operations. Unrestricted net assets that have not been designated for any specific purpose at December 31, 2017 and 2016 were \$5,608,158 and \$5,458,906.

Temporarily restricted net assets at December 31, 2017 and 2016 are available for the following:

	2017	2016
Mill dog fund	\$ 41,040	\$ 14,580
Pitbull enrichment program	1,952	1,952
Staff development	1,000	1,000
Spring Gala	5,500	5,150
Medial care	-	11,860
	\$ 49,492	\$ 34,542

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 – IN-KIND CONTRIBUTIONS

The fair values of donated materials used for EBHS's program service is included as contributions in the statements of activities. In-kind contributions for 2017 and 2016 consisted of the following:

	2017	2016
Veterinarian services and medication	\$ 2,636	\$ 5,992
Supplies	51,529	44,062
Event fees and supplies	2,262	4,275
Printing and postage	-	73
In-kind contributions	\$ 56,427	\$ 54,402

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	\$ 186,863	\$ 186,863	\$ -	\$ -
Exchange traded funds	91,665	91,665	-	-
Fixed income securities	870,499	-	870,499	-
Mutual funds	2,581,810	2,581,810	-	-
Beneficial interest in assets held by Waukesha County Community Foundation	1,718,835	-	-	1,718,835
December 31, 2017	\$ 5,449,672	\$ 2,860,338	\$ 870,499	\$ 1,718,835
Stocks	\$ 124,656	\$ 124,656	\$ -	\$ -
Exchange traded funds	81,351	81,351	-	-
Fixed income securities	991,660	-	991,660	-
Mutual funds	2,287,841	2,287,841	-	-
Beneficial interest in assets held by Waukesha County Community Foundation	1,479,716	-	-	1,479,716
December 31, 2016	\$ 4,965,224	\$ 2,493,848	\$ 991,660	\$ 1,479,716

Fair values for stocks, exchange traded funds, and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 – FAIR VALUE MEASUREMENTS (continued)

EBHS's beneficial interest in assets held by the Foundation represents an agreement between EBHS and the Foundation in which EBHS transfers assets to the Foundation in exchange for future distributions. The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of the beneficial interest is measured at the proportional share of the underlying assets as reported to EBHS by the Foundation.

Little information about those assets is released publicly. The estimated value does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Beneficial interest in assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Beginning balance	\$ 1,479,716	\$ 3,408,951
Distributions	-	(2,000,000)
Change in value of beneficial interest included in change in net assets	239,119	70,765
Ending balance	\$ 1,718,835	\$ 1,479,716

The change in value of beneficial interest included in change in net assets is reported on the statements of activities.

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

EBHS maintains its cash balances at one financial institution located in southeastern Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2017 and 2016, EBHS's uninsured cash balances total approximately \$14,000 and \$67,000.

NOTE 8 – PENSION PLAN

EBHS has a 403(b) retirement savings plan covering all eligible employees. Pension expense for 2017 and 2016 for the plan was \$10,142 and \$9,208.