

Cherryland Humane Society

**FINANCIAL STATEMENTS AND  
INDEPENDENT ACCOUNTANT'S  
REVIEW REPORT**

December 31, 2016 and 2015



Cherryland Humane Society

**C O N T E N T S**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

April 20, 2017

Board of Directors  
Cherryland Humane Society  
Traverse City, Michigan

We have reviewed the accompanying financial statements of Cherryland Humane Society (a Michigan nonprofit corporation), 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**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 misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



Muskegon, Michigan

Cherryland Humane Society  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2016 and 2015

**ASSETS**

|                               | <b>2016</b>         | <b>2015</b>         |
|-------------------------------|---------------------|---------------------|
| <b>CURRENT ASSETS</b>         |                     |                     |
| Cash and cash equivalents     | \$ 183,234          | \$ 185,947          |
| Receivables                   |                     |                     |
| Grants                        | 10,000              | 5,000               |
| Other                         | 4,387               | 3,492               |
| Supplies inventory            | 16,134              | 4,100               |
| Prepaid expenses              | 1,444               | 3,233               |
| Total current assets          | 215,199             | 201,772             |
| <b>INVESTMENTS</b>            | 421,663             | 414,880             |
| <b>PROPERTY AND EQUIPMENT</b> |                     |                     |
| Buildings                     | 1,672,645           | 1,672,645           |
| Building improvements         | 23,724              | 23,724              |
| Equipment and computers       | 17,872              | 34,443              |
| Furniture and fixtures        | 15,829              | 15,829              |
| Vehicles                      | 6,545               | 6,545               |
|                               | 1,736,615           | 1,753,186           |
| Less accumulated depreciation | (669,236)           | (638,928)           |
|                               | 1,067,379           | 1,114,258           |
| Land                          | 301,682             | 301,682             |
|                               | 1,369,061           | 1,415,940           |
|                               | <b>\$ 2,005,923</b> | <b>\$ 2,032,592</b> |

**LIABILITIES AND NET ASSETS**

|   |                     |                     |
|---|---------------------|---------------------|
| <b>CURRENT LIABILITIES</b>                      |                     |                     |
| Current maturities of long-term debt            | \$ 53,000           | \$ 60,650           |
| Margin loan                                     | -                   | 12,147              |
| Accounts payable                                | 10,642              | 10,905              |
| Spay/neuter deposits                            | -                   | 25                  |
| Accrued liabilities                             |                     |                     |
| Salaries and wages                              | 6,242               | 5,459               |
| Compensated absences                            | -                   | 557                 |
| Withholding and taxes                           | 598                 | 678                 |
| Total current liabilities                       | 70,482              | 90,421              |
| <b>LONG TERM DEBT</b> , less current maturities | 816,493             | 909,340             |
| Total liabilities                               | 886,975             | 999,761             |
| <b>NET ASSETS</b>                               |                     |                     |
| Unrestricted                                    | 742,196             | 657,387             |
| Temporarily restricted                          | 18,760              | 22,398              |
| Permanently restricted                          | 357,992             | 353,046             |
|   | 1,118,948           | 1,032,831           |
|   | <b>\$ 2,005,923</b> | <b>\$ 2,032,592</b> |

See independent accountant's review report.  
The accompanying notes are an integral part of these statements.

Cherryland Humane Society  
**STATEMENT OF ACTIVITIES**  
Years ended December 31, 2016 and 2015

|  | 2016              |                           |                           | Total               |
|--|-------------------|---------------------------|---------------------------|---------------------|
|  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted |                     |
| Revenues and support                         |                   |                           |                           |                     |
| Public support                               |                   |                           |                           |                     |
| Contributions                                |                   |                           |                           |                     |
| Cash   | \$ 305,733        | \$ 70,080                 | \$ -                      | \$ 375,813          |
| Property and equipment                       | -                 | -                         | -                         | -                   |
| Services                                     | 7,316             | -                         | -                         | 7,316               |
| Other  | 27,026            | -                         | -                         | 27,026              |
| Membership dues                              | -                 | -                         | -                         | -                   |
| Local grants                                 | -                 | 20,060                    | -                         | 20,060              |
| Charges for goods and services               |                   |                           |                           |                     |
| Adoption fees                                | 41,502            | -                         | -                         | 41,502              |
| Intake and boarding                          | 43,820            | -                         | -                         | 43,820              |
| Other  | 1,579             | -                         | -                         | 1,579               |
| Investment income (loss)                     | 15,933            | -                         | 4,946                     | 20,879              |
| Other  | 18                | -                         | -                         | 18                  |
| Net assets released from restrictions        |                   |                           |                           |                     |
| Satisfaction of purpose restrictions         | 93,778            | (93,778)                  | -                         | -                   |
| Total revenues and support                   | 536,705           | (3,638)                   | 4,946                     | 538,013             |
| Functional expenses and losses               |                   |                           |                           |                     |
| Functional expenses                          |                   |                           |                           |                     |
| Program services                             |                   |                           |                           |                     |
| Shelter operations                           | 343,494           | -                         | -                         | 343,494             |
| Supporting services                          |                   |                           |                           |                     |
| Management and general                       | 70,616            | -                         | -                         | 70,616              |
| Fundraising                                  | 35,902            | -                         | -                         | 35,902              |
| Total functional expenses                    | 450,012           | -                         | -                         | 450,012             |
| Loss on disposition of equipment             | 1,884             | -                         | -                         | 1,884               |
| Total functional expenses and losses         | 451,896           | -                         | -                         | 451,896             |
| Change in net assets                         | 84,809            | (3,638)                   | 4,946                     | 86,117              |
| Net assets at beginning of year, as restated | 657,387           | 22,398                    | 353,046                   | 1,032,831           |
| Net assets at end of year                    | <b>\$ 742,196</b> | <b>\$ 18,760</b>          | <b>\$ 357,992</b>         | <b>\$ 1,118,948</b> |

See independent accountant's review report.  
The accompanying notes are an integral part of these statements.

**2015**

| <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>        |
|---------------------|-----------------------------------|-----------------------------------|---------------------|
| \$ 322,701          | \$ 112,391                        | \$ -                              | \$ 435,092          |
| 5,000               | -                                 | -                                 | 5,000               |
| 5,177               | -                                 | -                                 | 5,177               |
| 13,416              | -                                 | -                                 | 13,416              |
| 2,235               | -                                 | -                                 | 2,235               |
| -                   | 30,000                            | -                                 | 30,000              |
| 32,635              | -                                 | -                                 | 32,635              |
| 41,713              | -                                 | -                                 | 41,713              |
| 4,358               | -                                 | -                                 | 4,358               |
| 4,799               | -                                 | (12,308)                          | (7,509)             |
| 140                 | -                                 | -                                 | 140                 |
| 146,800             | (146,800)                         | -                                 | -                   |
| 578,974             | (4,409)                           | (12,308)                          | 562,257             |
| 377,270             | -                                 | -                                 | 377,270             |
| 88,582              | -                                 | -                                 | 88,582              |
| 22,730              | -                                 | -                                 | 22,730              |
| 488,582             | -                                 | -                                 | 488,582             |
| 1,439               | -                                 | -                                 | 1,439               |
| 490,021             | -                                 | -                                 | 490,021             |
| 88,953              | (4,409)                           | (12,308)                          | 72,236              |
| 568,434             | 26,807                            | 365,354                           | 960,595             |
| <b>\$ 657,387</b>   | <b>\$ 22,398</b>                  | <b>\$ 353,046</b>                 | <b>\$ 1,032,831</b> |

Cherryland Humane Society  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended December 31, 2016

|                                   | <b>Program<br/>Services</b>   | <b>Supporting Services</b>        |                         | <b>Total</b>             |
|-----------------------------------|-------------------------------|-----------------------------------|-------------------------|--------------------------|
|                                   | <b>Shelter<br/>Operations</b> | <b>Management<br/>and General</b> | <b>Fundraising</b>      |                          |
| Compensation and related expenses |                               |                                   |                         |                          |
| Salaries and wages                | \$ 110,784                    | \$ 27,953                         | \$ 15,787               | \$ 154,524               |
| Employee benefits                 | 2,218                         | 863                               | 379                     | 3,460                    |
| Payroll taxes                     | 9,570                         | 2,415                             | 1,364                   | 13,349                   |
|                                   | <u>122,572</u>                | <u>31,231</u>                     | <u>17,530</u>           | <u>171,333</u>           |
| Advertising                       | 234                           | -                                 | 2,292                   | 2,526                    |
| Animal food and supplies          | 26,219                        | -                                 | -                       | 26,219                   |
| Bank and processing charges       | -                             | 857                               | 1,200                   | 2,057                    |
| Contracted services               | -                             | 2,318                             | 88                      | 2,406                    |
| Depreciation                      | 43,595                        | 1,400                             | -                       | 44,995                   |
| Dues and subscriptions            | 330                           | 150                               | -                       | 480                      |
| General insurance                 | 11,996                        | 2,419                             | 272                     | 14,687                   |
| Interest                          | 38,240                        | 5,214                             | -                       | 43,454                   |
| Legal and professional            | -                             | 12,340                            | -                       | 12,340                   |
| Office expenses                   | 5,554                         | 5,000                             | 14,520                  | 25,074                   |
| Repairs and maintenance           | 13,186                        | 2,000                             | -                       | 15,186                   |
| Small equipment and software      | 1,787                         | 1,500                             | -                       | 3,287                    |
| Staff training                    | 1,047                         | -                                 | -                       | 1,047                    |
| Travel                            | 213                           | -                                 | -                       | 213                      |
| Utilities                         | 35,105                        | 4,787                             | -                       | 39,892                   |
| Veterinary services               | 40,493                        | -                                 | -                       | 40,493                   |
| Other                             | 2,923                         | 1,400                             | -                       | 4,323                    |
|                                   | <u><b>\$ 343,494</b></u>      | <u><b>\$ 70,616</b></u>           | <u><b>\$ 35,902</b></u> | <u><b>\$ 450,012</b></u> |

See independent accountant's review report.  
The accompanying notes are an integral part of these statements.

Cherryland Humane Society  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended December 31, 2015

|                                   | <b>Program Services</b> |                    | <b>Supporting Services</b> |  | <b>Total</b>      |
|-----------------------------------|-------------------------|--------------------|----------------------------|--|-------------------|
|                                   | <b>Shelter</b>          | <b>Management</b>  |                            |  |                   |
|                                   | <b>Operations</b>       | <b>and General</b> | <b>Fundraising</b>         |  |                   |
| Compensation and related expenses |                         |                    |                            |  |                   |
| Salaries and wages                | \$ 140,903              | \$ 18,511          | \$ 9,842                   |  | \$ 169,256        |
| Payroll taxes                     | 11,805                  | 1,551              | 825                        |  | 14,181            |
|                                   | <u>152,708</u>          | <u>20,062</u>      | <u>10,667</u>              |  | <u>183,437</u>    |
| Advertising                       | -                       | 1,342              | 441                        |  | 1,783             |
| Animal food and supplies          | 29,744                  | -                  | -                          |  | 29,744            |
| Bank and processing charges       | -                       | 754                | 1,000                      |  | 1,754             |
| Contracted services               | 2,000                   | 21,946             | 4,250                      |  | 28,196            |
| Depreciation                      | 40,187                  | 5,480              | -                          |  | 45,667            |
| Dues and subscriptions            | 108                     | 100                | -                          |  | 208               |
| General insurance                 | 13,484                  | 1,936              | 147                        |  | 15,567            |
| Interest                          | 47,071                  | 6,419              | -                          |  | 53,490            |
| Legal and professional            | -                       | 14,969             | -                          |  | 14,969            |
| Office expenses                   | -                       | 5,928              | 5,025                      |  | 10,953            |
| Repairs and maintenance           | 17,924                  | 2,444              | -                          |  | 20,368            |
| Small equipment and software      | 513                     | 1,500              | 1,200                      |  | 3,213             |
| Staff training                    | -                       | 450                | -                          |  | 450               |
| Travel                            | -                       | 267                | -                          |  | 267               |
| Utilities                         | 30,707                  | 4,187              | -                          |  | 34,894            |
| Veterinary services               | 42,657                  | -                  | -                          |  | 42,657            |
| Other                             | 167                     | 798                | -                          |  | 965               |
|                                   | <u>\$ 377,270</u>       | <u>\$ 88,582</u>   | <u>\$ 22,730</u>           |  | <u>\$ 488,582</u> |

See independent accountant's review report.  
The accompanying notes are an integral part of these statements.



Cherryland Humane Society  
**STATEMENT OF CASH FLOWS**  
Years ended December 31, 2016 and 2015

|   | <u>2016</u>              | <u>2015</u>              |
|---|--------------------------|--------------------------|
| Operating activities  |                          |                          |
| Change in net assets  | \$ 86,117                | \$ 72,236                |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities |                          |                          |
| Depreciation  | 44,995                   | 45,667                   |
| Loss on disposition of equipment  | 1,884                    | 1,439                    |
| Contribution of property and equipment  | -                        | (5,000)                  |
| Contribution of investments and related margin loan   | -                        | (39,464)                 |
| Contribution restricted for mortgage retirement   | (66,850)                 | (105,000)                |
| Realized and unrealized (gain) loss on investments  | (12,934)                 | 14,656                   |
|   | <u>53,212</u>            | <u>(15,466)</u>          |
| (Increase) decrease in operating assets   |                          |                          |
| Receivables   | (5,895)                  | 249,008                  |
| Supplies inventory  | (12,034)                 | (4,100)                  |
| Prepaid expenses  | 1,789                    | (1,660)                  |
| Increase (decrease) in operating liabilities  |                          |                          |
| Accounts payable  | (263)                    | 6,536                    |
| Spay/neuter deposits  | (25)                     | (3,195)                  |
| Accrued liabilities   | 146                      | (4,234)                  |
|   | <u>36,930</u>            | <u>226,889</u>           |
| Net cash provided by operating activities   |                          |                          |
| Investing activities  |                          |                          |
| Investment purchases  | (45,216)                 | (415,269)                |
| Proceeds from sale of investments   | 51,367                   | 304,669                  |
| Property and equipment purchases  | -                        | (9,450)                  |
| Proceeds from sale of equipment   | -                        | 180                      |
|   | <u>6,151</u>             | <u>(119,870)</u>         |
| Net cash provided by (used for) investing activities  |                          |                          |
| Financing activities  |                          |                          |
| Repayment of margin loan  | (12,147)                 | -                        |
| Principal payments on long-term debt  | (100,497)                | (156,922)                |
| Contributions restricted for mortgage retirement  | 66,850                   | 105,000                  |
|   | <u>(45,794)</u>          | <u>(51,922)</u>          |
| Net cash used for financing activities  |                          |                          |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <u>(2,713)</u>           | <u>55,097</u>            |
| Cash and cash equivalents at beginning of year  | <u>185,947</u>           | <u>130,850</u>           |
| Cash and cash equivalents at end of year  | <u><b>\$ 183,234</b></u> | <u><b>\$ 185,947</b></u> |
| Supplemental cash flow disclosure   |                          |                          |
| Cash paid during the year for interest  | \$ 43,454                | \$ 53,490                |
| Schedule of non-cash investing and financing activities   |                          |                          |
| Donation of property and equipment  | \$ -                     | \$ 5,000                 |
| Donation of investments and related margin loan   | -                        | 39,464                   |

See independent accountant's review report.  
The accompanying notes are an integral part of these statements.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cherryland Humane Society (Society) was established to provide a bright and positive future for all pets. Its vision is to provide a responsible, loving, and permanent home for every pet and a heightened public awareness of the benefits of our pets to mankind. The Society is dedicated to serving animals, the individuals, and the area by promoting a humane, compassionate, and responsible attitude toward the treatment of pets. The Society also provides education and action designed to help solve the pet overpopulation problem as well as maximizing the shelter's adoption rate. Its operations are concentrated in the Grand Traverse area. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

**Basis of Accounting**

The financial statements are presented on an accrual basis of accounting which recognizes income when earned and expenses when incurred.

**Basis of Presentation**

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

*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 either by actions of the Society and/or the passage of time.

*Permanently restricted net assets.* Net assets subject to donor-imposed stipulations that resources be maintained permanently but permits the Society to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

**Revenue Recognition**

The Society records appropriations, grants and earned revenues on an accrual basis. The Society records as revenue in the period received the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges), certain contributed services and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of the Society's appropriations and grants are considered to be contributions for purposes of applying revenue recognition policies. Contributions are recorded net of estimated uncollectible amounts.

The Society reports gifts of cash or other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Cash and Cash Equivalents**

The Society considers all certificates of deposit with a maturity of three months or less to be cash equivalents. Certificates of deposit with original maturities of greater than three months are considered investments. Cash and cash equivalents does not include cash held by investment managers and designated for investment.

**Investments**

Investments are reported at their fair values which are generally based on quoted market prices.

Gains and losses of disposition are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the statements of activities.

**Supplies Inventory and Prepaid Expenses**

Supplies inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Property and Equipment**

Property and equipment are recorded at cost or estimated fair market value on the date donated. Property and equipment are assets with an initial cost of more than \$2,500 and an estimated useful life in excess of one year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives utilizing the straight-line method.

**Compensated Absences**

The Society grants paid time off to all of its full-time employees. Upon termination, employees will be paid the amount they were allowed to accrue providing certain conditions are met.

**Volunteers**

A number of volunteers, including the members of the Board of Directors, have made significant contributions of time to the Society's policy-making, program, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

**Other Donated Services**

Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Other Donated Services—Continued**

Those services include the following items:

|                            | 2016            |                           |               |                 |
|----------------------------|-----------------|---------------------------|---------------|-----------------|
|                            | Shelter         | Management<br>and General | Fundraising   | Total           |
| Veterinarian               | \$ 3,872        | \$ -                      | \$ -          | \$ 3,872        |
| Repairs and maintenance    | 2,128           | -                         | -             | 2,128           |
| Accounting                 | -               | 950                       | -             | 950             |
| Fundraising                | -               | -                         | 366           | 366             |
| Total contributed services | <b>\$ 6,000</b> | <b>\$ 950</b>             | <b>\$ 366</b> | <b>\$ 7,316</b> |
|                            | 2015            |                           |               |                 |
|                            | Shelter         | Management<br>and General | Fundraising   | Total           |
| Veterinarian               | \$ 4,177        | \$ -                      | \$ -          | \$ 4,177        |
| Accounting                 | -               | 1,000                     | -             | 1,000           |
| Total contributed services | <b>\$ 4,177</b> | <b>\$ 1,000</b>           | <b>\$ -</b>   | <b>\$ 5,177</b> |

**Non-monetary Transactions**

Non-monetary transactions are recorded on the basis of the market value of services provided or assets transferred. Fair values of donated assets at December 31, 2016 and 2015 were \$27,026 and \$18,416, respectively.

**Functional Expenses**

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management’s analysis and estimates.

**Advertising Costs**

The Society expenses the cost of advertising and promotions as incurred. Advertising expense was \$2,526 and \$1,783 for the years ended December 31, 2016 and 2015, respectively.

**Tax Status**

The Society is exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state and local tax returns generally remain open for examination by the various taxing authorities for a period of three or four years.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Use of 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 these estimates.

**Reclassifications**

Certain prior year accounts have been reclassified for comparative purposes to conform to current year presentation.

**Date of Management's Review**

Subsequent events have been evaluated through April 20, 2017, which is the date the financial statements were available to be issued.

**NOTE B—INVESTMENTS AND ENDOWMENT**

**Background**

The Society is the beneficiary of two endowments. The Robert T. Hughes Family Trust Endowment and the Sonja Clason Trust Endowment were created to provide support to the operations of the Society.

The Society's Endowment is subject to the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted Endowment absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts to the Endowment, and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the fund. The remaining portion of the donor-restricted Endowments that are not classified in permanently restricted net assets are classified as unrestricted as the donor restrictions are essentially for operations. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted Endowment: the duration and preservation of the various funds, the purposes of the donor-restricted Endowment, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Society, and the Society's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies**

The Society has adopted an investment policy, approved by the Board of Directors, for endowment funds with an objective to maximize the return on invested assets while minimizing risk and expenses.

The Society's investment policy emphasizes diversification of its portfolio in order to reduce risk. Allowable investments include cash and cash equivalents, and marketable securities including equities and fixed income securities held directly or within mutual funds. Prohibited investments include non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any margin transactions, straddles, warrants, options, life insurance contracts, leverage or letter stock.

The Society uses inflation objectives for the total Society and index objectives for individual portfolio components as a benchmark for its investments. Performance is evaluated on a three to five year basis to allow for market fluctuations and volatility.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE B—INVESTMENTS AND ENDOWMENT—Continued**

**Spending Policies**

Under the Hughes Endowment, the Society is entitled to the lesser of five percent of the principal amount in the Endowment or the actual net income for that year. Net income in excess of five percent is to be added to the principal amount and retained. Under the Clason Endowment, the Society is entitled to the greater of five percent of the principal amount in the Endowment or the actual net income for that year. Withdrawals shall be made out of the principal of the Endowment if income is insufficient.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with the Endowment may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were none as of December 31, 2016 and 2015, respectively. However, there was a deficiency that resulted from the Trustee of the Endowment giving the Society permission to use \$100,000 of the Endowment in 2014 to cover operating expenses with the requirement that the amount be repaid to the Endowment at a later date. The Society repaid the Endowment in March 2015.

**Composition of Investments and Endowment**

Investments are stated at fair value and consist of money market funds, corporate bonds, equities, and mutual funds. Fair values at December 31, 2016 and 2015 are summarized as follows:

|                         | <u>2016</u>              | <u>2015</u>              |
|-------------------------|--------------------------|--------------------------|
| <b>Investment type:</b> |                          |                          |
| Money market funds      | \$ 5,053                 | \$ 8,401                 |
| Corporate bonds         | 54,652                   | 51,611                   |
| Equities                | -                        | 8,365                    |
| Mutual funds            | 361,958                  | 346,503                  |
|                         | <u><b>\$ 421,663</b></u> | <u><b>\$ 414,880</b></u> |

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2016 and 2015:

|                                     | <u>2016</u>             | <u>2015</u>              |
|-------------------------------------|-------------------------|--------------------------|
| Interest and dividends              | \$ 11,051               | \$ 10,338                |
| Realized and unrealized gain (loss) | 12,934                  | (14,656)                 |
| Less investment fees                | (3,106)                 | (3,191)                  |
| Total investment return             | <u><b>\$ 20,879</b></u> | <u><b>\$ (7,509)</b></u> |

Endowment assets at December 31, 2016 and 2015 are summarized as follows:

|             | <u>2016</u>              | <u>2015</u>              |
|-------------|--------------------------|--------------------------|
| Investments | <u><b>\$ 365,586</b></u> | <u><b>\$ 354,402</b></u> |

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE B—INVESTMENTS AND ENDOWMENT—Continued**

**Composition of Investments and Endowment—Continued**

The composition of the endowment funds by net asset class at December 31, 2016 and 2015 is summarized as follows:

|  | <b>2016</b>            |                                   |                   |
|--|------------------------|-----------------------------------|-------------------|
|  | <b>Unrestricted</b>    | <b>Permanently<br/>Restricted</b> | <b>Total</b>      |
|  | Donor-restricted funds | <b>\$ 7,594</b>                   | <b>\$ 357,992</b> |

  

|  | <b>2015</b>            |                                   |                   |
|--|------------------------|-----------------------------------|-------------------|
|  | <b>Unrestricted</b>    | <b>Permanently<br/>Restricted</b> | <b>Total</b>      |
|  | Donor-restricted funds | <b>\$ 1,356</b>                   | <b>\$ 353,046</b> |

The following schedule summarizes changes in endowment net assets for the year ended December 31, 2016 and 2015:

|   | <b>2016</b>         |                                   |                   |
|---|---------------------|-----------------------------------|-------------------|
|   | <b>Unrestricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>      |
| Revenues                                |                     |                                   |                   |
| Dividends and interest                  | \$ 10,374           | \$ -                              | \$ 10,374         |
| Realized and unrealized gains (losses)  | 4,954               | 4,946                             | 9,900             |
|   | 15,328              | 4,946                             | 20,274            |
| Expenses                                |                     |                                   |                   |
| Withdrawals for allowable expenses      | 6,361               | -                                 | 6,361             |
| Management fees                         | 2,729               | -                                 | 2,729             |
|   | 9,090               | -                                 | 9,090             |
| Change in endowment net assets          | 6,238               | 4,946                             | 11,184            |
| Endowment net assets, beginning of year | 1,356               | 353,046                           | 354,402           |
| Endowment net assets, end of year       | <b>\$ 7,594</b>     | <b>\$ 357,992</b>                 | <b>\$ 365,586</b> |

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE B—INVESTMENTS AND ENDOWMENT—Continued**

**Composition of Investments and Endowment—Continued**

|   | 2015         |                           |            |
|---|--------------|---------------------------|------------|
|   | Unrestricted | Permanently<br>Restricted | Total      |
| Revenues                                |              |                           |            |
| Society contributions                   | \$ 100,753   | \$ -                      | \$ 100,753 |
| Dividends and interest                  | 8,896        | -                         | 8,896      |
| Realized and unrealized gains (losses)  | (59)         | (12,308)                  | (12,367)   |
|   | 109,590      | (12,308)                  | 97,282     |
| Expenses                                |              |                           |            |
| Withdrawals for allowable expenses      | 7,402        | -                         | 7,402      |
| Management fees                         | 2,803        | -                         | 2,803      |
|   | 10,205       | -                         | 10,205     |
| Change in endowment net assets          | 99,385       | (12,308)                  | 87,077     |
| Endowment net assets, beginning of year | (98,029)     | 365,354                   | 267,325    |
| Endowment net assets, end of year       | \$ 1,356     | \$ 353,046                | \$ 354,402 |

The Society invests in various investment securities through the Endowment Fund. Investment securities are exposed to various risks such as interest rates, 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 investment account balances and the amounts reported in the financial statement.



Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE C—FAIR VALUE MEASUREMENTS**

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1     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.

Level 2     Inputs to the valuation methodology include the following:

- 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     Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's 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 methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

***Money market funds:*** Valued at amortized cost which approximates fair value.

***Corporate bonds, equities, and mutual funds:*** Valued at the closing price reported on the active market on which the individual securities are traded.

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, while 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.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2016 and 2015

**NOTE C—FAIR VALUE MEASUREMENTS—Continued**

The following table sets forth by level, within the fair value hierarchy, Society’s assets at fair value as of December 31, 2016 and 2015:

|                 | <b>Assets at Fair Value as of December 31, 2016</b> |                 |                |                   |
|-----------------|---|-----------------|----------------|-------------------|
|                 | <b>Level 1</b>                                      | <b>Level 2</b>  | <b>Level 3</b> | <b>Total</b>      |
| Money markets   | \$ -  | \$ 5,053        | \$ -           | \$ 5,053          |
| Corporate bonds | 54,652  | -               | -              | 54,652            |
| Mutual funds    | 361,958   | -               | -              | 361,958           |
|                 | <b>\$ 416,610</b>                                   | <b>\$ 5,053</b> | <b>\$ -</b>    | <b>\$ 421,663</b> |

|                 | <b>Assets at Fair Value as of December 31, 2015</b> |                 |                |                   |
|-----------------|---|-----------------|----------------|-------------------|
|                 | <b>Level 1</b>                                      | <b>Level 2</b>  | <b>Level 3</b> | <b>Total</b>      |
| Money markets   | \$ -  | \$ 8,401        | \$ -           | \$ 8,401          |
| Corporate bonds | 51,611  | -               | -              | 51,611            |
| Equities        | 8,365   | -               | -              | 8,365             |
| Mutual funds    | 346,503   | -               | -              | 346,503           |
|                 | <b>\$ 406,479</b>                                   | <b>\$ 8,401</b> | <b>\$ -</b>    | <b>\$ 414,880</b> |

**NOTE D—MARGIN LOAN**

The Society paid off the balance of a margin loan during the year ended December 31, 2016.

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE E—LONG-TERM DEBT**

Long-term debt at December 31, 2016 and 2015 consists of the following:

|   | <b>2016</b>       | <b>2015</b>       |
|---|-------------------|-------------------|
| 4.75% Mortgage payable in aggregate monthly installments of \$8,784 including interest; refinanced August 2016. The mortgage was collateralized by substantially all assets of the Society.                           | \$ -              | \$ 969,990        |
| 4.5% Mortgage payable in aggregate monthly installments of \$3,577 including interest; final balloon payment of \$460,957 due August 2021. The mortgage is collateralized by substantially all assets of the Society. | 552,772           | -                 |
| 4.5% Mortgage payable in aggregate monthly installments of \$2,227 including interest; final balloon payment of \$227,618 due August 2021. The mortgage is collateralized by substantially all assets of the Society. | 316,721           | -                 |
|   | 869,493           | 969,990           |
| Less current maturities   | (53,000)          | (60,650)          |
|   | <b>\$ 816,493</b> | <b>\$ 909,340</b> |

Aggregate maturities of long-term debt for 2017 through 2021 are as follows:

| <b>Year ending<br/>December 31,</b> | <b>Amount</b>     |
|-------------------------------------|-------------------|
| 2017                                | \$ 53,000         |
| 2018                                | 33,600            |
| 2019                                | 35,100            |
| 2020                                | 36,800            |
| 2021                                | 710,993           |
|                                     | <b>\$ 869,493</b> |

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2016 and 2015

**NOTE F—RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

|                    | <u>2016</u>      | <u>2015</u>      |
|--------------------|------------------|------------------|
| Education          | \$ -             | \$ 1,803         |
| Mortgage reduction | 16,100           | -                |
| Spay/neuter        | -                | 12,359           |
| Strategic planning | 2,660            | -                |
| Technology         | -                | 8,236            |
|                    | <u>\$ 18,760</u> | <u>\$ 22,398</u> |

Temporarily restricted net assets were released from donor restrictions by incurring the following expenses satisfying the restricted purpose as follows:

|                          | <u>2016</u>      | <u>2015</u>       |
|--------------------------|------------------|-------------------|
| Animal comfort           | \$ 1,950         | \$ 2,902          |
| Education                | 1,803            | 2,500             |
| Emergency animal welfare | -                | 2,054             |
| Mortgage reduction       | 50,750           | 105,000           |
| Spay/neuter              | 28,699           | 27,581            |
| Strategic planning       | 2,340            | -                 |
| Technology               | 8,236            | 6,763             |
|                          | <u>\$ 93,778</u> | <u>\$ 146,800</u> |

Permanently restricted net assets are comprised entirely of donor restricted endowments.

**NOTE G—PRIOR PERIOD ADJUSTMENT**

During 2016, management identified an unrecorded endowment, the Sonja Clason Trust Endowment, of which the Society is a beneficiary.

The effect of this adjustment on net assets is summarized as follows:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Net assets at January 1, 2015,<br>as previously stated | \$ 568,434          | \$ 26,807                         | \$ 198,700                        | \$ 793,941        |
| Unrecorded endowment                                   | -                   | -                                 | 166,654                           | 166,654           |
| Net assets at January 1, 2015, as restated             | <u>\$ 568,434</u>   | <u>\$ 26,807</u>                  | <u>\$ 365,354</u>                 | <u>\$ 960,595</u> |

Cherryland Humane Society  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2016 and 2015

**NOTE G—PRIOR PERIOD ADJUSTMENT—Continued**

The effect of this restatement on change in net assets is summarized as follows:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Change in net assets for the year ended<br>December 31, 2015, as previously reported | \$ 88,953           | \$ (4,409)                        | \$ -                              | \$ 84,544        |
| Unrecorded endowment investment loss   | 7,402               | -                                 | (12,308)                          | (4,906)          |
| Withdrawal of endowment assets recorded<br>as a contribution                         | (7,402)             | -                                 | -                                 | (7,402)          |
| Change in net assets for the year ended<br>December 31, 2015, as restated            | <u>\$ 88,953</u>    | <u>\$ (4,409)</u>                 | <u>\$ (12,308)</u>                | <u>\$ 72,236</u> |