

ELMBROOK HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Janesville Office:

101 E. Milwaukee Street
Suite 425
Janesville, WI 53545
P: (608) 756-4020

Baraboo Office:

123 Second Street
P.O. Box 150
Baraboo, WI 53913
P: (608) 356-3966
F: (608) 356-2966

Milwaukee Office:

W229 N1433 Westwood Drive
Suite 105
Waukesha, WI 53186
P: (262) 522-7555
F: (262) 522-7550

Madison Office:

2921 Landmark Place
Suite 300
Madison, WI 53713
P: (608) 274-4020 F:
(608) 308-1616

www.wegnercpas.com
info@wegnercpas.com
(888) 204-7665

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, Elmbrook Humane Society, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Wegner CPAs LLP

Wegner CPAs, LLP
Waukesha, Wisconsin
April 25, 2019

ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 323,305	\$ 250,069
Unconditional promises to give	384,041	91,072
Accounts receivable	2,562	-
Prepaid expenses	3,125	8,272
Total current assets	<u>713,033</u>	<u>349,413</u>
PROPERTY AND EQUIPMENT		
Land	210,405	210,405
Building	1,426,612	1,362,786
Equipment	584,673	582,626
Vehicle	44,842	44,842
Less accumulated depreciation	<u>(793,124)</u>	<u>(714,768)</u>
Property and equipment, net	1,473,408	1,485,891
OTHER ASSETS		
Investments	3,586,352	3,860,641
Beneficial interest in assets held by Waukesha County Community Foundation	<u>1,582,727</u>	<u>1,718,835</u>
Total other assets	<u>5,169,079</u>	<u>5,579,476</u>
Total assets	<u><u>\$ 7,355,520</u></u>	<u><u>\$ 7,414,780</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 11,674	\$ 12,504
Accrued sales tax	783	916
Accrued payroll	<u>35,723</u>	<u>30,375</u>
Total liabilities	48,180	43,795
NET ASSETS		
Without donor restrictions	7,304,448	7,321,493
With donor restrictions	<u>2,892</u>	<u>49,492</u>
Total net assets	<u>7,307,340</u>	<u>7,370,985</u>
Total liabilities and net assets	<u><u>\$ 7,355,520</u></u>	<u><u>\$ 7,414,780</u></u>

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT AND REVENUE		
Contributions	\$ 426,496	\$ 368,266
Estates and bequests	491,188	36,773
In-kind contributions	46,890	56,427
Fundraising events, net	106,968	120,136
Adoption fees	164,293	172,206
Municipality contracts	84,325	83,125
Animal medical care and services	10,581	17,054
Surrenders and strays	5,523	7,477
Training classes	15,615	21,673
Retail sales	25,909	29,149
Other income	-	3,002
Investment return, net	(74,250)	394,883
Change in value of beneficial interest in assets held by Waukesha County Community Foundation	(136,108)	239,119
Total support and revenue without donor restrictions	1,167,430	1,549,290
EXPENSES AND LOSSES		
Animal care and education	957,850	933,388
Management and general	112,113	112,839
Fundraising	161,612	149,514
Total expenses	1,231,575	1,195,741
Loss on disposal of property and equipment	-	2,268
Total expenses and losses	1,231,575	1,198,009
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions	47,100	31,590
Change in net assets without donor restrictions	(17,045)	382,871
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Fundraising events, net	500	5,500
Contributions	-	41,040
Net assets released from restrictions	(47,100)	(31,590)
Change in net assets with donor restrictions	(46,600)	14,950
Change in net assets	(63,645)	397,821
Net assets at beginning of year	7,370,985	6,973,164
Net assets at end of year	\$ 7,307,340	\$ 7,370,985

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Animal Care and Education	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 463,696	\$ 32,797	\$ 75,044	\$ 571,537
Employee benefits	63,721	4,507	10,313	78,541
Payroll taxes	37,119	2,625	6,007	45,751
Veterinarian services and medication	143,776	-	-	143,776
Supplies	73,572	8,079	-	81,651
Professional fees and services	4,449	41,474	8,500	54,423
Event fees and supplies	-	-	49,465	49,465
Advertising	-	2,015	534	2,549
Auto expense	3,339	-	-	3,339
Bank and credit card fees	-	6,520	-	6,520
Education and training classes	5,852	-	-	5,852
Licenses and permits	-	128	50	178
Insurance	16,626	1,176	2,691	20,493
Printing and postage	-	1,961	22,466	24,427
Repairs and maintenance	26,397	1,970	495	28,862
Telephone	6,395	452	1,035	7,882
Utilities	38,065	2,839	714	41,618
Depreciation	71,666	5,346	1,344	78,356
Miscellaneous	3,177	224	514	3,915
Total expenses	957,850	112,113	179,172	1,249,135
Less expenses included with support and revenue on the statements of activities	-	-	(17,560)	(17,560)
Total expenses included in the expenses section of the statements of activities	<u>\$ 957,850</u>	<u>\$ 112,113</u>	<u>\$ 161,612</u>	<u>\$ 1,231,575</u>

See accompanying notes.

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

	Animal Care and Education	Management and General	Fundraising	Total Expenses
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	3,905	91,196
Professional fees and services	1,850	51,686	-	53,536
Event fees and supplies	-	-	59,457	59,457
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
Repairs and maintenance	19,065	1,422	357	20,844
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	168,319	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	<u>\$ 933,388</u>	<u>\$ 112,839</u>	<u>\$ 149,514</u>	<u>\$ 1,195,741</u>

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (63,645)	\$ 397,821
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	78,356	75,341
Loss on disposal of property and equipment	-	2,268
Realized and unrealized (gains) losses on investments	153,801	(324,680)
Change in value of beneficial interest in assets held by Waukesha County Community Foundation	136,108	(239,119)
(Increase) decrease in assets		
Unconditional promises to give	(292,969)	1,059
Accounts receivable	(2,562)	21,152
Prepaid expenses	5,147	(4,968)
Increase (decrease) in liabilities		
Accounts payable	(830)	68
Accrued sales tax	(133)	(192)
Accrued payroll	5,348	(2,019)
Net cash flows from operating activities	18,621	(73,269)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends retained in investments	(79,458)	(70,159)
Purchases of investments	(4,722)	(4,514)
Proceeds from sales of investments	204,668	124,927
Purchases of property and equipment	(65,873)	(32,994)
Net cash flows from investing activities	54,615	17,260
Change in cash	73,236	(56,009)
Cash at beginning of year	250,069	306,078
Cash at end of year	<u>\$ 323,305</u>	<u>\$ 250,069</u>

See accompanying notes.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Promises to Give

Unconditional promises to give are recognized as revenues in the period received 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.

Accounts Receivable

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

Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

Investments

EBHS reports investments in marketable equity securities with readily determinable fair values at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. 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 change could materially affect the amounts reported in the statements of financial position.

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was \$2,549 and \$2,085, respectively.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits, payroll taxes, insurance, telephone, and miscellaneous, which are allocated on the basis of estimates of time and effort, as well as repairs and maintenance, utilities, and depreciation, which are allocated on a square-footage basis.

Sales Tax

The State of Wisconsin and Waukesha County imposes 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

EBHS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Date of Management's Review

Management has evaluated subsequent events through April 25, 2019, the date which the financial statements were available to be issued.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Pronouncement

EBHS adopted the Financial Accounting Standards Board’s Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The changes required by the update have been applied retrospectively to all periods presented. A key change required by the update are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

NOTE 2—INVESTMENTS

Investments are comprised of the following:

	2018	2017
Cash	\$ 305,371	\$ 129,804
Stocks	180,811	186,863
Exchange traded funds	167,755	91,665
Fixed income securities	659,294	870,499
Mutual funds	2,273,121	2,581,810
	\$ 3,586,352	\$ 3,860,641

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 net assets without donor restrictions.

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 another organization and help provide program services as determined by the Foundation.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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.

Changes in value of beneficial interest in assets held by the Foundation are as follows:

	2018	2017
Balance - beginning of year	\$ 1,718,835	\$ 1,479,716
Change in value of beneficial interest	(136,108)	239,119
Balance - end of year	\$ 1,582,727	\$ 1,718,835

NOTE 4—FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis are as follows:

Assets at Fair Value as of December 31, 2018				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	\$ 180,811	\$ 180,811	\$ -	\$ -
Exchange traded funds	167,755	167,755	-	-
Fixed income securities	659,294	-	659,294	-
Mutual funds	2,273,121	2,273,121	-	-
Beneficial interest in assets held by Waukesha County Community Foundation	1,582,727	-	-	1,582,727
	\$ 4,863,708	\$ 2,621,687	\$ 659,294	\$ 1,582,727

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4—FAIR VALUE MEASUREMENTS (continued)

	Assets at Fair Value as of December 31, 2017			
	Fair Value	Quoted Prices 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
	<u>\$ 5,449,672</u>	<u>\$ 2,860,338</u>	<u>\$ 870,499</u>	<u>\$ 1,718,835</u>

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. Fair values for fixed income securities are determined based on recent prices of similar assets.

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.

The table below presents a reconciliation from the beginning balance to the ending balance of the beneficial interest in assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs for the years ended December 31, 2018 and 2017:

	2018	2017
Beginning balance	\$ 1,718,835	\$ 1,479,716
Change in value of beneficial interest	(136,108)	239,119
Ending balance	<u>\$ 1,582,727</u>	<u>\$ 1,718,835</u>

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5—NET ASSETS

EBHS's board of directors has designated net assets without donor restrictions for the following purposes:

	2018	2017
Beneficial interest in assets held by Waukesha County Community Foundation	\$ 1,582,727	\$ 1,718,835
Undesignated	5,721,721	5,602,658
	\$ 7,304,448	\$ 7,321,493

Net assets with donor restrictions are restricted for the following purposes:

	2018	2017
Mill dog fund	\$ -	\$ 41,040
Pitbull enrichment program	1,392	1,952
Staff development	1,000	1,000
Spring Gala	500	5,500
	\$ 2,892	\$ 49,492

NOTE 6—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 the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Veterinarian services and medication	\$ 1,266	\$ 2,636
Supplies	44,579	51,529
Event fees and supplies	-	2,262
Repairs and maintenance	1,045	-
	\$ 46,890	\$ 56,427

NOTE 7—CONCENTRATIONS OF CREDIT RISK

EBHS maintains cash balances at one financial institution located in southeastern Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018 and 2017, EBHS's uninsured cash balances total approximately \$81,000 and \$14,000, respectively.

ELMBROOK HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 8—PENSION PLAN

EBHS has a 403(b) retirement savings plan covering all eligible employees. Pension expense for the years ended December 31, 2018 and 2017 was \$9,745 and \$10,142, respectively.

NOTE 9—LIQUIDITY AND AVAILABILITY

The table below presents financial assets available for general expenditures within one year of the date of the statement of financial position:

Financial assets at end of year	
Cash	\$ 323,305
Unconditional promises to give	384,041
Accounts receivable	2,562
Investments	3,586,352
Beneficial interest in assets held by Waukesha County Community Foundation	<u>1,582,727</u>
Total financial assets at end of year	5,878,987
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with purpose restrictions	(2,892)
Board designated beneficial interest in assets held by Waukesha County Community Foundation, primarily for long-term investing	<u>(1,582,727)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,293,368</u></u>

As part of EBHS's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. None of the beneficial interest in assets held by Waukesha County Community Foundation, primarily for long-term investing, are subject to donor restrictions that make them unavailable for general expenditure.