

MICHIGAN ANIMAL RESCUE LEAGUE
(A NOT-FOR-PROFIT ORGANIZATION)

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2018

MICHIGAN ANIMAL RESCUE LEAGUE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Michigan Animal Rescue League
Pontiac, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan Animal Rescue League (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2018, 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 audit. We conducted our audit 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.

To the Board of Directors of
Michigan Animal Rescue League
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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 Michigan Animal Rescue League as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in dark ink. The letters 'UHY' are written in a large, stylized, cursive font, and 'LLP' is written in a smaller, simpler font to the right of 'UHY'.

Farmington Hills, Michigan
August 20, 2019

MICHIGAN ANIMAL RESCUE LEAGUE
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,617,659
Investments - unrestricted	3,043,982
Accounts receivable:	
Unrestricted donations	36,984
Other receivables	5,000
Pledges receivable, current portion	1,000,000
Prepaid expenses	17,744
Inventory	1,089

Total current assets	<u>5,722,458</u>
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ENDOWMENT FUNDS, net	<u>49,141</u>
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PROPERTY AND EQUIPMENT, net	<u>471,961</u>
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CONTRIBUTION RECEIVABLE, net	<u>1,494,654</u>
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Total assets	<u><u>\$ 7,738,214</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 60,300
Accrued liabilities	21,376
Deferred revenue	3,500

Total current liabilities	<u>85,176</u>
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NET ASSETS

Without donor restrictions:	
Undesignated	4,108,743
Board-Designated	49,141
With donor restrictions	3,495,154

Total net assets	<u>7,653,038</u>
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Total liabilities and net assets	<u><u>\$ 7,738,214</u></u>
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MICHIGAN ANIMAL RESCUE LEAGUE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Adoption	\$ 114,566	\$ -	\$ 114,566
Contributions	482,933	3,495,154	3,978,087
Non Cash Contributions	26,133	-	26,133
In-kind	17,494	-	17,494
Fundraising	447,677	-	447,677
Estate	524,181	-	524,181
	<u>1,612,984</u>	<u>3,495,154</u>	<u>5,108,138</u>
EXPENSES			
Program services	956,002	-	956,002
Management and general	125,803	-	125,803
Fundraising	236,035	-	236,035
	<u>1,317,840</u>	<u>-</u>	<u>1,317,840</u>
OTHER INCOME (EXPENSES)			
Dividend income	89,054	-	89,054
Unrealized loss on investments	(349,803)	-	(349,803)
Realized gain on investments	110,130	-	110,130
Loss on sale of assets	(751)	-	(751)
	<u>(151,370)</u>	<u>-</u>	<u>(151,370)</u>
CHANGE IN NET ASSETS BEFORE LOSS ON IMPAIRMENT OF ASSETS			
	<u>143,774</u>	<u>3,495,154</u>	<u>3,638,928</u>
Loss on impairment of assets	<u>(237,009)</u>	<u>-</u>	<u>(237,009)</u>
CHANGE IN NET ASSETS			
	<u>(93,235)</u>	<u>3,495,154</u>	<u>3,401,919</u>
NET ASSETS , Beginning of year	<u>4,251,119</u>	<u>-</u>	<u>4,251,119</u>
NET ASSETS , End of year	<u>\$ 4,157,884</u>	<u>\$ 3,495,154</u>	<u>\$ 7,653,038</u>

MICHIGAN ANIMAL RESCUE LEAGUE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

		Management and		
	Program	General	Fundraising	Total
Salaries and Wages - Other	\$ 494,850	\$ 48,435	\$ 40,265	\$ 583,550
Salaries and Wages - Officers	-	20,625	61,875	82,500
Medical Care and Supplies	222,598	-	-	222,598
Fundraising Expense	-	-	112,364	112,364
Payroll Taxes	51,575	5,048	4,197	60,820
Depreciation and Amortization	46,727	2,459	-	49,186
Food and Supplies	34,212	-	-	34,212
Professional Fees and Memberships	1,435	6,250	11,653	19,338
Utilities	17,176	1,555	-	18,731
Repair and Maintenance	17,041	1,542	-	18,583
Insurance	15,322	1,387	-	16,709
Office Expense	-	16,048	-	16,048
Bank Charges	3,155	8,981	-	12,136
Shelter Supplies	11,259	-	-	11,259
Web Based Subscriptions	1,037	4,668	4,668	10,373
Vehicle and Transportation Expense	9,884	-	-	9,884
Telephone and Internet	6,293	616	512	7,421
Disposal	6,556	-	-	6,556
Storage Rental	3,395	332	276	4,003
Advertising	520	3,364	-	3,884
Postage	759	3,034	-	3,793
Uniforms	3,264	-	-	3,264
Training and Education	2,341	-	-	2,341
Alarm	2,086	189	-	2,275
Community Outreach	1,638	-	-	1,638
Behavior and Socialization	1,300	-	-	1,300
Pest Control	698	-	-	698
Off-site Adoptions and Meetings	136	528	-	664
Equipment Rental	269	368	-	637
License and Fees	176	-	225	401
Property Taxes	-	374	-	374
Outside Labor	300	-	-	300
	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>
 Total Expenses	 <u>\$ 956,002</u>	 <u>\$ 125,803</u>	 <u>\$ 236,035</u>	 <u>\$ 1,317,840</u>

Michigan Animal Rescue League
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

OPERATING ACTIVITIES

Change in net assets	\$ 3,401,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	49,186
Impairment loss	237,009
Loss on sale of assets	751
Unrealized loss on investments	346,094
Realized gain on investments	(110,130)
Donated investments	(257)
Changes in assets and liabilities:	
Accounts receivable	(3,405)
Pledges receivable, net	(2,494,654)
Endowment fund, net	3,709
Prepaid expenses	(4,450)
Inventories	(1,089)
Other assets	21,266
Accounts payable	43,198
Accrued payroll and related taxes	2,205
Deferred revenue	(25,500)
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Net cash provided by operating activities	1,465,852

INVESTMENT ACTIVITIES

Investment income directly reinvested	(75,280)
Purchase of property and equipment	(250,153)
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Net cash used in investment activities	(325,433)

NET CHANGE IN CASH AND CASH EQUIVALENTS

1,140,419

CASH AND CASH EQUIVALENTS, Beginning of Year

477,240

CASH AND CASH EQUIVALENTS, End of Year

\$ 1,617,659

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization

The Michigan Animal Rescue League (the "Organization") is a not-for-profit Michigan Corporation recognized as exempt from Federal income taxes pursuant to Section 501 (c)(3) of the Internal Revenue Code. The Organization is engaged to operate an animal shelter in the City of Pontiac, and it is funded largely through donations from the general public. The Organization does not receive any city, state, or federal funding.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, prepaid expenses, payables, and other liabilities.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Organization follows to ensure they consistently report their financial condition, results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification (ASC)*.

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

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

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, and unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Concentration of Credit Risk

At times the Organization has balances on deposit with certain institutions that may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk for cash. Cash in excess of federally insured limits approximated \$1,357,438 at December 31, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms and are charged off when management determines the receivable will not be collected.

Estate donation receivables consist of wills and bequests for which the donor and all other life beneficiaries are deceased and are therefore irrevocable. Payment on these receivables is expected within the next year. The legacy and bequest receivable is deemed fully collectible as of December 31, 2018.

Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for doubtful accounts is determined based on management's evaluation of the collectability of individual promises.

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable consist of unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using the present value technique applied to anticipated cash flows.

Property and Equipment

Property and equipment is stated at cost, or if donated, at fair market value at the date of the gift. Expenditures for maintenance and repairs are charged to operating expenses. Adjustments of the asset and the related accumulated depreciation and amortization accounts are made for property and equipment retirements and disposals, with the resulting gain or loss included in the Statement of Activities. The Organization capitalizes all items with a cost of \$1,000 or more if purchased or estimated fair value if donated and depreciated over their estimated useful life of three to thirty-nine years. Depreciation and amortization is calculated using the straight-line method.

Investments

The Organization records its investments in marketable equity securities in accordance with ASC topic *Not-for-Profit Entities Investments*. Investments are stated at fair values based upon quoted market prices using prevailing financial market information. Realized gains and losses represent the difference between the proceeds received and the cost of investments sold. Unrealized gains and losses represent the change in the market value of the investments during the year.

New Accounting Pronouncement

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

Functional Allocation of Expenses

The cost of providing program and support services are reported on a functional basis in the statements of functional expense. Indirect costs including salaries and wages, fringe benefits, payroll taxes, supplies, insurance, depreciation and occupancy, have been allocated between the various programs and support services based on the percentage of the program or supportive service salaries as compared to the whole organization. Such allocations are determined by management on an equitable basis.

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At December 31, 2018, there were no uncertain tax positions that required accrual.

Functional Expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated on various statistical bases. Although the methods used are considered reasonable, other methods could be used that would produce different results.

Inventory Valuation

Inventories are valued at the lower of cost or market, with cost determined on a first-in, first-out basis (FIFO). Donated goods inventory is valued at fair market value.

Advertising

The costs of advertising are expensed as incurred. Advertising expense for the year ended December 31, 2018 amounted to \$3,884.

Subsequent Events

The Organization has performed a review of events subsequent to the Statement of Financial Position through August 20, 2019, the date the financials were available to be issued.

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and Cash Equivalents	\$ 1,617,659
Operating Investments	3,043,982
Accounts Receivable	36,984
Pledges Receivable - within 1 year	<u>1,000,000</u>
	<u><u>\$ 5,698,625</u></u>

Accounts receivable consist of donations made to the Organization through a third party (Facebook, PayPal, or a Retail Store) during 2018.

Pledges receivable consist of written pledges due within one year of the statement of financial position date.

NOTE 3 – PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates of 5.50% as of December 31, 2018.

Pledges receivable is committed by one donor and consist of the following:

	December 31, <u>2018</u>
Pledges receivable	\$ 3,000,000
Less: Pledges unamortized discount	<u>(505,346)</u>
Net pledges receivable	<u><u>\$ 2,494,654</u></u>
Amounts due in:	
Less than one year	\$ 1,000,000
One to five years	807,217
Over five years	<u>687,437</u>
Total pledges receivable	<u><u>\$ 2,494,654</u></u>

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2018
Furniture, equipment & software	\$ 112,306
Vehicles	65,987
Building & land improvements	28,645
Land	116,024
Kennels	114,191
Construction in progress	<u>168,008</u>
Total cost	605,161
Less: Accumulated depreciation and amortization	<u>(133,200)</u>
Net carrying amount	<u>\$ 471,961</u>

Depreciation and amortization expense totaled \$49,186 for the year ended December 31, 2018.

NOTE 5 – IMPAIRMENT OF FIXED ASSETS

Accounting Standards Codification (ASC) 360-10-5-04 – *Property, Plant and Equipment, Impairment or Disposal of Long-Lived Assets* provides guidance for a) recognition and measurement of the impairment of long-lived assets to be held and used, b) measurement of long-lived assets to be disposed of by sale, and c) disclosures about the impairment or disposal of long-lived assets and disposals of individually significant components of an entity. During the fiscal year ending December 31, 2018, the Organization determined that as a part of their planned capital expansion project, certain fixed assets including the building will be demolished. The carrying value of these assets will not be recoverable and the corresponding assets would be impaired. The estimated future undiscounted cash flows of the assets were less than its carrying value; therefore, an impairment loss of \$237,009 was recorded in the period when the indicator of impairment occurred.

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – IN-KIND CONTRIBUTIONS AND EXPENSES

The Organization received professional veterinarian and graphic design services as in-kind contributions. The Organization records in-kind contributions and expenses related to these contributions. The total value of the in-kind contributions received meeting the criteria for being recorded in the financial statements was \$17,494 which is recorded in the accompanying statements of activities.

The in-kind expenses, related to the in-kind contributions, are included in the statements of functional expenses. Total in-kind expenses are categorized as follows:

	December 31, 2018
	<u> </u>
Professional Fees	\$ 10,692
Medical Care and Supplies	<u>6,802</u>
	<u>\$ 17,494</u>

NOTE 7 – INVESTMENTS – BOARD DESIGNATED ENDOWMENT

As of December 31, 2018, the Board of Directors had designated \$49,475 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Board designated funds' principal is to remain invested in perpetuity. The investment income and appreciation generated by the designated funds are available to the organization's management and the Board of Directors for operational or improvement expenses.

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

	<u>December 31, 2018</u>		
	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>
Endowment net assets, beginning of year	\$ 52,850	\$ -	\$ 52,850
Investment loss and depreciation	<u>(3,709)</u>	<u>-</u>	<u>(3,709)</u>
Endowment net assets, end of year	<u>\$ 49,141</u>	<u>\$ -</u>	<u>\$ 49,141</u>

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 8 – NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consist for the following purposes as of December 31, 2018:

Subject to expenditure for specified purpose:

Contributions received comprehensive campaign	\$ 1,000,500
Contributions pledges comprehensive campaign	<u>2,494,654</u>
Total net assets with donor restrictions	<u><u>\$ 3,495,154</u></u>

NOTE 9 – FAIR VALUE MEASUREMENTS

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the abilities to access.

Level 2 Inputs to the valuation methodology include:

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

If the asset or liability has a specific (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 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.

MICHIGAN ANIMAL RESCUE LEAGUE
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Equity securities: Valued at the closing price reported in the active market in 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, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value or certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Equities	\$ 6,910	\$ -	\$ -	\$ 6,910
Mutual funds	3,037,072	-	-	3,037,072
Total	<u>\$ 3,043,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,043,982</u>

NOTE 10 – INVENTORIES

Inventories consist of the following:

	<u>December 31, 2018</u>
Retail Inventory	<u>\$ 1,089</u>

Retail inventory consists primarily of goods donated for resale.