Michigan Humane Society

Financial Report
September 30, 2012

Michigan Humane Society

Contents

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Independent Auditor's Report

To the Board of Directors
Michigan Humane Society

We have audited the accompanying balance sheet of the Michigan Humane Society (the "Organization") as of September 30, 2012 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Humane Society at September 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

December 18, 2012

Michigan Humane Society

Balance Sheet
September 30, 2012

Assets	
Cash and cash equivalents	$ 1,717,913
Accounts receivable:	
Operational accounts receivable	29,143
Legacies and bequests receivable	941,206
Investment-related and other accounts receivable	150,927
Investments (Note 3)	11,354,436
Inventory	313,441
Prepaid expenses and other	177,229
Interest in trusts	1,074,000
Property and equipment - Net (Note 4)	7,992,679
Total assets	**$ 23,750,974**
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 834,798
Accrued salaries, wages, and employee benefits payable	661,962
Total liabilities	1,496,760
Net Assets	
Unrestricted	18,930,444
Temporarily restricted (Note 5)	3,136,270
Permanently restricted	187,500
Total net assets	22,254,214
Total liabilities and net assets	**$ 23,750,974**

Michigan Humane Society

Statement of Activities and Changes in Net Assets
Year Ended September 30, 2012

Changes in Unrestricted Net Assets	
Revenue and support:	
Contributions	$ 5,083,973
Legacies and bequests	1,716,130
Adoption center and charitable veterinary hospital - Net (Note 2)	5,953,641
Retail	21,687
Special event:	
Gross revenue	1,168,234
Direct benefit to donor costs	(50,672)
Investment gain (Note 3)	1,551,409
Gain on disposal of property and equipment	500
Total revenue and support	15,444,902
Net assets released from restrictions	1,543,266
Total unrestricted revenue, support, and net assets released from restrictions	16,988,168
Expenses:	
Program services	13,442,181
Support services:	
Management and general	630,486
Fundraising	2,729,955
Total expenses	16,802,622
Increase in Unrestricted Net Assets	185,546
Changes in Temporarily Restricted Net Assets	
Contributions	222,646
Legacies and bequests	846,206
Change in value of interest in trusts	(22,000)
Net assets released from restrictions	(1,543,266)
Decrease in Temporarily Restricted Net Assets	(496,414)
Decrease in Net Assets	(310,868)
Net Assets - Beginning of year	22,565,082
Net Assets - End of year	**$ 22,254,214**

Michigan Humane Society

Statement of Functional Expenses
Year Ended September 30, 2012

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 7,153,328	$ 222,482	$ 424,261	$ 7,800,071
Employee benefits	920,169	41,726	33,299	995,194
Payroll taxes	627,367	41,487	34,203	703,057
Total salaries and related expenses	8,700,864	305,695	491,763	9,498,322
Animal care expense	1,800,309	-	-	1,800,309
Facility expense	270,476	664	-	271,140
Insurance	53,030	1,138	2,203	56,371
Vehicle expense	210,859	22,182	7,014	240,055
Rental expense	129,805	49,074	37,333	216,212
Repairs and maintenance - Building	297,853	22,609	10,278	330,740
Utilities	319,856	2,669	2,365	324,890
Telephone and connectivity	67,576	12,343	4,300	84,219
Fundraising and special events	171,105	-	775,329	946,434
Public relations and marketing	251,575	9,039	8,926	269,540
Postage	32,781	3,248	348,626	384,655
Printing	32,199	129	703,024	735,352
Professional fees	125,881	56,593	168,880	351,354
Office supplies and expenses	130,692	10,516	13,844	155,052
Meeting expense	20,613	17,211	3,050	40,874
Employee expenses	79,498	17,043	6,719	103,260
Investment and banking fees	78,303	64,216	108,503	251,022
IT license and support	31,220	2,096	27,441	60,757
Support of collaborative efforts	14,840	-	-	14,840
Interest expense	58,092	-	-	58,092
Change in fair value of interest rate swap	(36,559)	-	-	(36,559)
Depreciation	553,306	14,697	7,858	575,861
Other	48,007	19,324	2,499	69,830
Total expenses before direct benefit to donor costs	13,442,181	630,486	2,729,955	16,802,622
Direct benefit to donor costs	-	-	-	50,672
Total expenses including direct benefit to donor costs	$ 13,442,181	$ 630,486	$ 2,729,955	$ 16,853,294

Michigan Humane Society

Statement of Cash Flows
Year Ended September 30, 2012

Cash Flows from Operating Activities	
Decrease in net assets	$ (310,868)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Depreciation	575,861
Gain on disposal of property and equipment	(500)
Net realized and unrealized gains on investments	(1,123,143)
Donated investments	(224,406)
Donated property lease receivable	(72,000)
Change in value of interest rate swap	(36,559)
Change in value of interest in trusts	22,000
Contributions restricted for building improvements	(55,024)
Contributions restricted for future operations - Bequests receivable	(846,206)
Changes in operating assets and liabilities which provided (used) cash:	
Operational accounts receivable	2,038
Other accounts receivable	54,074
Legacies and bequests receivable	1,489,213
Inventory	75,159
Prepaid expenses and other	(35,780)
Accounts payable	149,272
Accrued salaries, wages, and employee benefits payable	183,107
Net cash used in operating activities	(153,762)
Cash Flows from Investing Activities	
Purchase of property and equipment	(590,197)
Proceeds from disposition of property and equipment	500
Purchases of investments	(924,583)
Proceeds from sales and maturities of investments	4,414,235
Net cash provided by investing activities	2,899,955
Cash Flows from Financing Activities	
Payments on debt	(2,840,827)
Payment to terminate interest rate swap	(25,515)
Proceeds from capital campaign contributions	4,298
Proceeds from contributions restricted for building improvements	55,024
Net cash used in financing activities	(2,807,020)
Net Decrease in Cash and Cash Equivalents	(60,827)
Cash and Cash Equivalents - Beginning of year	1,778,740
Cash and Cash Equivalents - End of year	**$ 1,717,913**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 58,092**

Note 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization - The Michigan Humane Society (the "Organization") is a not-for-profit corporation dedicated to ending companion animal homelessness, providing the highest quality service and compassion to the animals entrusted to its care, and being a leader in promoting humane values. The Organization operates three adoption centers, three charitable veterinary hospitals, emergency animal rescue services, a cruelty investigation division, and an education division. In addition, the Organization facilitates companion animal adoption at multiple offsite locations and special events. Southeastern Michigan is the primary service area for the Organization's operations.

Significant accounting policies are as follows:

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents except for certain money market mutual funds that are included in the Organization's investment portfolio. The balances in the Organization's deposit accounts may, from time to time, exceed the amounts covered by FDIC insurance.

Accounts Receivable - Accounts receivable consist of operational accounts receivable, capital campaign pledges receivable, and legacies and bequests receivable.

Operational accounts receivable are stated at invoice amounts from services provided. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All operational accounts receivable are considered fully collectible at September 30, 2012.

Capital campaign pledges receivable are stated at the gross promise to give, less amortized discounts and allowances for uncollectible pledges. The Organization calculates the amortized discounts at 3.50 percent of the pledges receivable balance at year end. There was no unamortized discount on capital campaign pledges receivable as of September 30, 2012. All capital campaign pledges receivable are considered fully collectible at September 30, 2012 and are expected to be collected within one year.

The legacies and bequests receivable 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 in the next year. The legacies and bequests receivable are deemed fully collectible as of September 30, 2012.

Investments - Investments in debt and equity securities are recorded at fair value as described in Note 9.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

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

Inventory - Inventory, which consists of medical supplies and retail items, is stated at the lower of cost or market, by use of the first-in, first-out (FIFO) method of valuation.

Interest in Trusts - Interest in trusts consists of funds which are held in trusts of which the Organization is a beneficiary. The corpus of the trusts is expected to be paid to the Organization through 2020.

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

The Organization reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, the Organization reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property, plant, and equipment.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

The Organization receives donations of various goods and services. For the year ended September 30, 2012, in-kind donations of $272,664 met the criteria for recording in accordance with generally accepted accounting principles and have been recorded in the statement of activities and changes in net assets. Significant additional in-kind donations have not been reflected in the statement of activities and changes in net assets since they either do not meet the criteria for recording in accordance with generally accepted accounting principles or an appropriate fair market value was not readily determinable.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as temporarily restricted until they are appropriated for expenditure.

Board-designated Net Assets - Unrestricted board-designated net assets are investments and other assets set aside by the board for capital projects, sterilization, and as a general reserve fund. These designations are based on board actions, which can be altered or revoked at a future time by the board. As of September 30, 2012, the board had designated net assets of $10,095,900.

Permanently Restricted Net Assets - Permanently restricted net assets are restricted to investment in perpetuity. The income earned by these assets is available to support the general charitable purpose of the Organization and was recorded using unrestricted gains.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of their equity and bond holdings, while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide a rate of return equivalent to those of its general investment portfolio. Actual returns in any given year may vary from this amount.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends). The Organization targets a diversified asset allocation in order to achieve its long-term return objectives within prudent risk constraints.

Functional Allocation of Expenses - The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of September 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including December 18, 2012, which is the date the financial statements were available to be issued.

Note 2 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the year ended September 30, 2012 is reported net of discounts as follows:

Adoption center and charitable veterinary hospital revenue - Gross	$ 7,602,117
Clinic discounts and other	(1,648,476)
Net revenue	$ 5,953,641

Clinic discounts represent services provided for free or at reduced fees, including sterilizations performed for free or below cost, treatment and care provided to animals during their stay at the Organization, treatment of animals post-adoption, treatment of animals from cruelty situations, and services provided to clients with limited financial capability at reduced prices.

Note 3 - Investments

Investments consisted of the following at September 30, 2012:

Money market funds	$ 649,735
Corporate debt securities	5,719,453
Common stock	4,393,765
Mutual funds	258,486
Preferred stock	332,997
Total	$ 11,354,436

Interest and dividend income totaled $428,266 in 2012. Net realized and unrealized gains on investments totaled $1,123,143 in 2012.

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

Land	$ 848,268
Land improvements	473,394
Buildings	7,066,643
Building improvements	2,191,713
Medical and other equipment	3,704,748
Transportation equipment	712,325
Furniture and fixtures	437,731
Computer equipment and software	282,984
Leasehold improvements	56,851
Construction in progress	305,547
Total cost	16,080,204
Accumulated depreciation	(8,087,525)
Net carrying amount	$ 7,992,679

Depreciation expense totaled $575,861 in 2012.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2012 are restricted for the following:

Time-restricted contributions	$ 2,015,206
Construction of new facilities	742,048
Building and equipment improvements	180,902
Program activity	160,980
Life insurance policy cash surrender value	37,134
Total temporarily restricted net assets	$ 3,136,270

Note 6 - Operating Leases

The Organization has operating lease agreements for office space and equipment. Total rent expense under these leases was $249,659 for the year ended September 30, 2012. Future commitments under these operating leases are as follows:

2013		$ 223,026
2014		213,763
2015		165,411
2016		3,108
2017		2,849
	Total	$ 608,157

Note 7 - Employee Benefit Plan

The Organization has a 403(b) retirement plan (the "Plan"). Under the Plan, employees can elect to defer a portion of their compensation. The Organization made matching contributions of $118,616 to the Plan for the year ended September 30, 2012.

Note 8 - Allocation of Joint Costs

The Organization's newsletter and certain event activities include requests for contributions, as well as education and retail components. Total joint costs for these activities were $190,954 for the year ended September 30, 2012. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

Fundraising	$ 57,339
Education	133,615
Total	$ 190,954

Note 9 - Fair Value Measurements

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

The following table presents information about the Organization’s assets measured at fair value on a recurring basis at September 30, 2012 and the valuation techniques used by the Organization to determine those fair values.

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

Note 9 - Fair Value Measurements (Continued)

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

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

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

The Organization's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2012.

Note 9 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2012
Assets				
Cash equivalents - Sweep account - Money market funds	$ 919,791	$ -	$ -	$ 919,791
Investments:				
Money market funds	649,735	-	-	649,735
Mutual funds	258,486	-	-	258,486
Common stock:				
Basic materials	164,650	-	-	164,650
Communications	431,909	-	-	431,909
Consumer cyclical	428,225	-	-	428,225
Consumer noncyclical	234,990	-	-	234,990
Energy	740,183	-	-	740,183
Financial	699,081	-	-	699,081
Industrial	323,279	-	-	323,279
Technology	335,893	-	-	335,893
Utilities	1,035,555	-	-	1,035,555
Preferred stock	-	332,997	-	332,997
Corporate debt:				
A credit rating	-	749,285	-	749,285
Baa credit rating	-	3,012,455	-	3,012,455
Ba credit rating	-	956,061	-	956,061
B credit rating	-	864,151	-	864,151
Not rated	-	137,501	-	137,501
Total investments	5,301,986	6,052,450	-	11,354,436
Interest in trusts	-	-	1,074,000	1,074,000
Total assets	$ 6,221,777	$ 6,052,450	$ 1,074,000	$ 13,348,227

Preferred stock and debt securities, which include U.S. agency notes, convertible bonds, and corporate bonds, are valued using quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Note 9 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended September 30, 2012 were as follows:

	Interest in Trusts
Balance at September 30, 2011	$ 1,096,000
Change in beneficial interest in trusts recognized in gains	(22,000)
Balance at September 30, 2012	$ 1,074,000

Interest in trusts categorized as Level 3 assets consists of charitable remainder trusts and other trusts in which the Organization is the remainder beneficiary. The Organization estimates the fair value of these interests based on the present value of expected future cash flows using management's best estimate of key assumptions, including the market value of the assets held in the trusts, the expected payments to the income beneficiaries, and a discount rate commensurate with the current market and other risks involved. The discount rate used to measure the present value of future cash flows for these trusts was 3.50 percent at September 30, 2012.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.