

# **Michigan Humane Society**

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**Financial Report**  
**September 30, 2014**

# Michigan Humane Society

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## Independent Auditor's Report

To the Board of Directors  
Michigan Humane Society

We have audited the accompanying financial statements of Michigan Humane Society (the "Organization"), which comprise the balance sheet as of September 30, 2014 and 2013 and the related statements of activities and changes in net assets, 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 audits 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 Michigan Humane Society as of September 30, 2014 and 2013 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.

*Plante & Moran, PLLC*

January 20, 2015

# Michigan Humane Society

## Balance Sheet

	September 30, 2014	September 30, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 99,689	\$ 1,011,580
Accounts receivable:		
Operational accounts receivable	28,250	34,608
Legacies and bequests receivable	1,663,577	1,168,164
Investment-related and other accounts receivable	83,004	97,202
Capital campaign receivable (Note 3)	2,788,314	984,401
Investments (Note 12)	9,439,316	8,713,007
Inventory	421,154	378,661
Prepaid expenses and other	278,354	147,785
Interest in trusts	824,000	1,081,000
Property and equipment - Net (Note 5)	8,872,712	8,325,308
Assets restricted for long-term use (Note 6)	3,747,513	2,660,427
Total assets	<u>\$ 28,245,883</u>	<u>\$ 24,602,143</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 736,374	\$ 688,821
Annuities payable	69,330	60,273
Accrued salaries, wages, and employee benefits payable	652,319	613,387
Total liabilities	1,458,023	1,362,481
<b>Net Assets</b>		
Unrestricted (Note 7)	19,351,812	19,128,827
Temporarily restricted (Note 8)	7,248,548	3,923,335
Permanently restricted	187,500	187,500
Total net assets	<u>26,787,860</u>	<u>23,239,662</u>
Total liabilities and net assets	<u>\$ 28,245,883</u>	<u>\$ 24,602,143</u>

# Michigan Humane Society

## Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2014	September 30, 2013
<b>Changes in Unrestricted Net Assets</b>		
Revenue and support:		
Contributions	\$ 5,431,391	\$ 5,329,705
Legacies and bequests	937,542	1,742,648
Adoption center and charitable veterinary hospital - Net (Note 2)	5,751,221	5,982,903
Retail	10,122	16,736
Special event revenue:		
Gross revenue	1,621,598	1,405,494
Direct benefit to donor costs	(70,733)	(61,616)
Investment gains (Note 4)	1,346,109	1,375,050
Gain on disposal of property and equipment	2,331	300
Total revenue and support	15,029,581	15,791,220
Net assets released from restrictions	2,140,567	1,409,662
Total unrestricted revenue, support, and net assets released from restrictions	17,170,148	17,200,882
Expenses:		
Program services	13,972,223	14,161,300
Support services:		
Management and general	641,677	660,633
Fundraising	2,333,263	2,180,566
Total expenses	16,947,163	17,002,499
<b>Increase in Unrestricted Net Assets</b>	222,985	198,383
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	3,975,203	1,091,563
Legacies and bequests	1,463,577	1,098,164
Change in value of split-interest agreements	27,000	7,000
Net assets released from restrictions	(2,140,567)	(1,409,662)
<b>Increase in Temporarily Restricted Net Assets</b>	3,325,213	787,065
<b>Increase in Net Assets</b>	3,548,198	985,448
<b>Net Assets - Beginning of year</b>	23,239,662	22,254,214
<b>Net Assets - End of year</b>	<b>\$ 26,787,860</b>	<b>\$ 23,239,662</b>

# Michigan Humane Society

## Statement of Functional Expenses Year Ended September 30, 2014

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 7,387,509	\$ 240,960	\$ 510,000	\$ 8,138,469
Employee benefits	938,805	67,824	26,969	1,033,598
Payroll taxes	626,322	47,268	42,896	716,486
<b>Total salaries and salary-related expenses</b>	<b>8,952,636</b>	<b>356,052</b>	<b>579,865</b>	<b>9,888,553</b>
Animal care	1,918,152	-	-	1,918,152
Facility	273,074	640	504	274,218
Insurance	57,318	1,299	2,830	61,447
Vehicle	144,617	18,240	8,074	170,931
Rental	123,914	43,866	39,176	206,956
Repairs and maintenance - Building	124,233	615	514	125,362
Utilities	324,029	2,434	2,157	328,620
Telephone and connectivity	99,075	12,010	8,696	119,781
Fundraising and special event costs	168,344	-	898,001	1,066,345
Public relations and marketing	296,525	1,807	12,706	311,038
Postage	27,761	4,318	332,456	364,535
Printing	15,497	69	14,482	30,048
Professional fees	215,354	51,934	255,132	522,420
Office supplies and expenses	129,940	9,409	8,448	147,797
Meeting	35,034	10,561	3,963	49,558
Employee	105,467	20,763	11,970	138,200
Cost of sales	3,177	-	-	3,177
Investment and banking fees	103,424	60,344	102,056	265,824
IT licenses and support	199,645	17,775	37,399	254,819
Support of collaborative efforts	1,135	350	-	1,485
Depreciation	619,916	9,161	9,862	638,939
Other	33,956	20,030	4,972	58,958
<b>Total expenses before direct benefit to donor costs</b>	<b>13,972,223</b>	<b>641,677</b>	<b>2,333,263</b>	<b>16,947,163</b>
Direct benefit to donor costs	-	-	-	70,733
<b>Total expenses including direct benefit to donor costs</b>	<b>\$ 13,972,223</b>	<b>\$ 641,677</b>	<b>\$ 2,333,263</b>	<b>\$ 17,017,896</b>

# Michigan Humane Society

## Statement of Functional Expenses Year Ended September 30, 2013

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 7,404,260	\$ 272,366	\$ 455,994	\$ 8,132,620
Employee benefits	1,006,053	59,275	33,587	1,098,915
Payroll taxes	666,326	44,632	37,789	748,747
<b>Total salaries and salary-related expenses</b>	<b>9,076,639</b>	<b>376,273</b>	<b>527,370</b>	<b>9,980,282</b>
Animal care	1,880,269	-	56	1,880,325
Facility	255,413	706	240	256,359
Insurance	56,453	1,157	2,588	60,198
Vehicle	189,358	19,056	8,965	217,379
Rental	130,872	49,474	44,272	224,618
Repairs and maintenance - Building	159,631	82	74	159,787
Utilities	350,228	2,632	2,333	355,193
Telephone and connectivity	117,766	16,539	9,482	143,787
Fundraising and special event costs	240,514	-	882,055	1,122,569
Public relations and marketing	318,689	6,814	6,749	332,252
Postage	32,670	3,092	295,672	331,434
Printing	33,669	112	23,766	57,547
Professional fees	180,380	54,880	178,605	413,865
Office supplies and expenses	160,925	15,853	16,622	193,400
Meeting	22,837	11,950	3,031	37,818
Employee	57,962	4,942	10,300	73,204
Cost of sales	5,902	-	8,229	14,131
Investment and banking fees	83,821	59,881	118,745	262,447
IT license and support	166,757	17,074	33,670	217,501
Support of collaborative efforts	12,659	300	-	12,959
Depreciation	591,065	8,180	5,973	605,218
Other	36,821	11,636	1,769	50,226
<b>Total expenses before direct benefit to donor costs</b>	<b>14,161,300</b>	<b>660,633</b>	<b>2,180,566</b>	<b>17,002,499</b>
Direct benefit to donor costs	-	-	-	61,616
<b>Total expenses including direct benefit to donor costs</b>	<b>\$ 14,161,300</b>	<b>\$ 660,633</b>	<b>\$ 2,180,566</b>	<b>\$ 17,064,115</b>

# Michigan Humane Society

## Statement of Cash Flows

	Year Ended	
	September 30, 2014	September 30, 2013
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 3,548,198	\$ 985,448
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	638,939	605,218
Gain on disposal of property and equipment	(2,331)	(300)
Amortization discount on pledges receivable	37,695	68,776
Net realized and unrealized gains on investments	(995,326)	(999,718)
Investments donated for long-term projects	(189,583)	(26,102)
Change in value of interest in trusts	(27,000)	(7,000)
Contributions restricted for building improvements	(3,287,766)	(1,105,183)
Contributions restricted for future operations - Bequests receivable	(1,463,577)	(1,098,164)
Changes in operating assets and liabilities which provided (used) cash:		
Operational accounts receivable	6,358	(5,465)
Other accounts receivable	14,198	53,225
Legacies and bequests receivable	1,252,164	871,206
Inventory	(42,493)	(65,220)
Prepaid expenses and other	(130,569)	29,444
Accounts payable	56,610	(85,704)
Accrued salaries, wages, and employee benefits payable	38,932	(48,575)
Net cash used in operating activities	(545,551)	(828,114)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(1,185,212)	(937,847)
Proceeds from disposition of property and equipment	1,200	300
Purchases of investments	(3,570,092)	(2,266,683)
Proceeds from sales and maturities of investments	3,849,526	3,705,047
Net cash (used in) provided by investing activities	(904,578)	500,817
<b>Cash Flows from Financing Activities</b>		
Proceeds from capital campaign contributions	1,436,158	38,780
Proceeds from contributions restricted for building improvements	10,000	13,726
Investments donated for long-term projects	189,583	26,102
Net cash provided by financing activities	1,635,741	78,608
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	185,612	(248,689)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,469,224	1,717,913
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,654,836</b>	<b>\$ 1,469,224</b>
Cash and cash equivalents are classified on the balance sheet as follows:		
Cash and cash equivalents	\$ 99,689	\$ 1,011,580
Assets restricted for long-term use	1,555,147	457,644
Total	<b>\$ 1,654,836</b>	<b>\$ 1,469,224</b>



### Note I - Nature of Organization and Significant Accounting Policies

**Nature of Organization** - 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, legacies and bequests receivable, and investment-related and other accounts 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 as of September 30, 2014 and 2013.

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 3.00 percent of the pledges receivable balance as of September 30, 2014 and 2013.

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, 2014 and 2013.

The investment-related and other accounts receivable consists primarily of interest and dividend income receivable and donated rent receivable related to a below market lease agreement. The Organization recorded a receivable for the fair market value of the lease over the remaining lease term.

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

**Investments** - Investments in debt and equity securities are recorded at fair value as described in Note 12.

**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, which range from 2 to 40 years depending on the type of asset. 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 years ended September 30, 2014 and 2013, in-kind donations of \$157,147 and \$141,030, respectively, 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. The Organization also receives significant volunteer services that are not recordable in accordance with generally accepted accounting principles.

**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 permanently restricted net assets are available to support the general charitable purpose of the Organization. In accordance with generally accepted accounting principles, these earnings and gains 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 as disclosed in Note 7. These designations are based on board actions, which can be altered or revoked at a future time by the board.

**Permanently Restricted Net Assets** - 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.

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.

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

**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, 2014 and 2013, 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 2011.

**Reclassification** - Certain reclassifications were made to amounts in the 2013 financial statements to conform to the classifications used in 2014.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including January 20, 2015, which is the date the financial statements were available to be issued.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 2 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the years ended September 30, 2014 and 2013 is reported net of discounts as follows:

	<u>2014</u>	<u>2013</u>
Adoption center and charitable veterinary hospital revenue - Gross	\$ 6,515,398	\$ 7,697,137
Clinic discounts and other	<u>(764,177)</u>	<u>(1,714,234)</u>
Net revenue	<u>\$ 5,751,221</u>	<u>\$ 5,982,903</u>

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 - Contributions Receivable

Included in contributions receivable are unconditional promises to give generated from a capital campaign that began during 2013. They are included as follows:

	<u>2014</u>	<u>2013</u>
Gross promises to give before unamortized discount	\$ 2,953,862	\$ 1,074,670
Less unamortized discount	(106,471)	(68,776)
Less allowance for doubtful accounts	<u>(59,077)</u>	<u>(21,493)</u>
Net contributions receivable	<u>\$ 2,788,314</u>	<u>\$ 984,401</u>
Amounts due in:		
Less than one year	\$ 1,584,662	\$ 397,116
One to five years	<u>1,369,200</u>	<u>677,554</u>
Total	<u>\$ 2,953,862</u>	<u>\$ 1,074,670</u>

The Organization receives contributions from related parties such as board members and management. For the years ended September 30, 2014 and 2013, such contributions were approximately \$656,000 and \$1,200,000, respectively. A total of \$1,080,862 and \$1,074,670 due at September 30, 2014 and 2013, respectively, was received from these related parties.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 4 - Investment Gains

Investment gains consisted of the following for the years ended September 30, 2014 and 2013:

	2014	2013
Interest and dividend income	\$ 350,783	\$ 375,332
Net realized and unrealized gains	995,326	999,718
Total	<u>\$ 1,346,109</u>	<u>\$ 1,375,050</u>

### Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2014	2013
Land	\$ 848,268	\$ 848,268
Land improvements	495,361	476,313
Buildings	7,066,643	7,066,643
Building improvements	2,593,951	2,338,290
Medical and other equipment	3,982,269	3,816,460
Transportation equipment - Cost	804,008	764,521
Furniture and fixtures - Cost	448,642	437,731
Computer equipment and software - Cost	409,014	296,117
Leasehold improvements	86,133	86,133
Construction in progress	1,438,931	887,575
Total cost	18,173,220	17,018,051
Accumulated depreciation	<u>(9,300,508)</u>	<u>(8,692,743)</u>
Net carrying amount	<u>\$ 8,872,712</u>	<u>\$ 8,325,308</u>

Depreciation expense totaled \$638,939 and \$605,218 in 2014 and 2013, respectively.

Construction in progress relates to construction of a new facility in Detroit, Michigan. The Organization has entered into construction contracts related to the facility. The remaining commitment on these contracts was approximately \$10.5 million as of September 30, 2014.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 6 - Assets Restricted for Long-term Use

Assets restricted for long-term use consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Detroit building project:		
Donor-restricted:		
Cash and cash equivalents	\$ 1,399,166	\$ 325,231
Investments	533,811	336,985
Board-designated - Investments	<u>1,658,555</u>	<u>1,865,798</u>
Total Detroit building project	3,591,532	2,528,014
Other building projects - Cash and cash equivalents	<u>155,981</u>	<u>132,413</u>
Total	<u>\$ 3,747,513</u>	<u>\$ 2,660,427</u>

### Note 7 - Board-designated Net Assets

Unrestricted net assets include net assets designated by the board for the following purposes as of September 30:

	<u>2014</u>	<u>2013</u>
Operating reserve	\$ 8,672,200	\$ 8,410,600
Detroit building project	<u>1,658,555</u>	<u>1,865,798</u>
Total	<u>\$ 10,330,755</u>	<u>\$ 10,276,398</u>

### Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2014 and 2013 are restricted for the following:

	<u>2014</u>	<u>2013</u>
Time-restricted contributions	\$ 2,237,577	\$ 2,249,165
Construction of new facilities	4,685,958	1,362,095
Building and equipment improvements	155,981	168,413
Program activity	134,663	125,959
Life insurance policy cash surrender value	<u>34,369</u>	<u>17,703</u>
Total temporarily restricted net assets	<u>\$ 7,248,548</u>	<u>\$ 3,923,335</u>

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 9 - Operating Leases

The Organization has operating lease agreements for office space and equipment. Total rent expense under these leases was \$216,825 and \$258,884 for the years ended September 30, 2014 and 2013, respectively. Future commitments under these operating leases are as follows:

2015	\$	199,442
2016		187,948
2017		23,548
2018		<u>11,088</u>
Total	\$	<u>422,026</u>

### Note 10 - 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 \$122,799 and \$151,123 to the Plan for the years ended September 30, 2014 and 2013, respectively.

### Note 11 - 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 \$442,638 and \$568,605 for the years ended September 30, 2014 and 2013, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	<u>2014</u>	<u>2013</u>
Fundraising	\$ 162,738	\$ 255,449
Education	<u>279,900</u>	<u>313,156</u>
Total	<u>\$ 442,638</u>	<u>\$ 568,605</u>

### Note 12 - 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 tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis at September 30, 2014 and 2013 and the valuation techniques used by the Organization to determine those fair values.



### **Note 12 - Fair Value Measurements (Continued)**

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets and liabilities that the Organization has the ability to access.

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 or liabilities 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 and liability. 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 and liability.

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 and liability.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 12 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2014

	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, 2014
<b>Assets</b>				
Investments (including assets restricted for long-term use):				
Money market funds	\$ 1,267,403	\$ -	\$ -	\$ 1,267,403
U.S. agency notes	-	149,998	-	149,998
Mutual funds	429,247	-	-	429,247
Common stock:				
Communications	359,072	-	-	359,072
Consumer cyclical	586,261	-	-	586,261
Consumer noncyclical	354,103	-	-	354,103
Energy	1,448,107	-	-	1,448,107
Financial	721,263	-	-	721,263
Industrial	537,736	-	-	537,736
Technology	515,510	-	-	515,510
Utilities	1,133,426	-	-	1,133,426
Preferred stock	-	195,396	-	195,396
Corporate debt:				
Aa credit rating	-	49,954	-	49,954
A credit rating	-	432,320	-	432,320
Baa credit rating	-	1,860,223	-	1,860,223
Ba credit rating	-	848,282	-	848,282
B credit rating	-	602,300	-	602,300
Not rated	-	141,081	-	141,081
Total investments (including assets restricted for long-term use)	7,352,128	4,279,554	-	11,631,682
Interest in trusts	-	-	824,000	824,000
Total assets	\$ 7,352,128	\$ 4,279,554	\$ 824,000	\$ 12,455,682
<b>Liabilities - Charitable gift annuity</b>	\$ -	\$ -	\$ 69,330	\$ 69,330

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 12 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2013

	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, 2013
<b>Assets</b>				
Investments (including assets restricted for long-term use):				
Money market funds	\$ 232,574	\$ -	\$ -	\$ 232,574
Mutual funds	307,798	-	-	307,798
Common stock:				
Communications	363,237	-	-	363,237
Consumer cyclical	602,725	-	-	602,725
Consumer noncyclical	140,441	-	-	140,441
Energy	1,617,075	-	-	1,617,075
Financial	1,048,480	-	-	1,048,480
Industrial	991,515	-	-	991,515
Technology	205,784	-	-	205,784
Utilities	1,267,749	-	-	1,267,749
Healthcare	255,362	-	-	255,362
Preferred stock	-	248,414	-	248,414
Corporate debt:				
A credit rating	-	427,468	-	427,468
Baa credit rating	-	1,758,008	-	1,758,008
Ba credit rating	-	573,677	-	573,677
B credit rating	-	734,775	-	734,775
Not rated	-	140,708	-	140,708
Total investments (including assets restricted for long-term use)	7,032,740	3,883,050	-	10,915,790
Interest in trusts	-	-	1,081,000	1,081,000
Total assets	<u>\$ 7,032,740</u>	<u>\$ 3,883,050</u>	<u>\$ 1,081,000</u>	<u>\$ 11,996,790</u>
<b>Liabilities</b> - Charitable gift annuity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,273</u>	<u>\$ 60,273</u>

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.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2014 and 2013

### Note 12 - Fair Value Measurements (Continued)

The following table summarizes the valuation methods and inputs used to determine fair value at September 30, 2014 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2014	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Interest in trusts	\$ 824,000	Discounted cash flow	Growth rate	3%
	-		Life expectancies of beneficiaries	25-27 years
Liabilities - Charitable gift annuity	69,330	Discounted cash flow	Growth rate	2.5%
	-		Life expectancies of beneficiaries	3-30 years

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include reviewing the life expectancy of the income beneficiary of the trusts, the term of the trusts, the expected growth and distribution rates, and the Organization's relative share of assets held in the trusts.

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended September 30, 2014 and 2013 are as follows:

	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2013	\$ 1,081,000	\$ 60,273
Issuances	12,606	18,962
Change in beneficial interest in trusts recognized in gains	27,000	-
Distributions	(296,606)	(9,905)
Balance at September 30, 2014	<u>\$ 824,000</u>	<u>\$ 69,330</u>
	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2012	\$ 1,074,000	\$ -
Issuances	-	61,790
Change in beneficial interest in trusts recognized in gains	7,000	-
Distributions	-	(1,517)
Balance at September 30, 2013	<u>\$ 1,081,000</u>	<u>\$ 60,273</u>

### **Note 12 - Fair Value Measurements (Continued)**

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 tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Of the Level 3 assets still held by the Organization at September 30, 2014, the unrealized gain for the years ended September 30, 2014 and 2013 was \$27,000 and \$7,000, respectively, which is recognized in the statement of activities and changes in net assets.

### **Note 13 - Subsequent Events**

Subsequent to year end, the Organization obtained a line of credit with a limit of \$7,500,000. No amount was outstanding on the line of credit as of January 20, 2015.