

# **Michigan Humane Society**

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**Financial Report  
September 30, 2016**

# 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, 2016 and 2015 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, 2016 and 2015 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*

February 10, 2017

# Michigan Humane Society

## Balance Sheet

	September 30, 2016	September 30, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 2,308,887	\$ 790,853
Accounts receivable:		
Operational accounts receivable	39,416	60,244
Legacies and bequests receivable	1,520,652	1,475,552
Investment-related and other accounts receivable	13,354	39,697
Capital campaign receivable (Note 3)	4,189,728	2,593,089
Investments (Note 12)	7,765,286	7,745,168
Inventory	497,061	373,102
Prepaid expenses and other	188,469	227,870
Interest in trusts (Note 12)	824,073	813,462
Property and equipment - Net (Note 5)	20,754,570	18,365,370
Assets restricted for long-term use (Note 6)	179,768	1,138,889
Total assets	<u><u>\$ 38,281,264</u></u>	<u><u>\$ 33,623,296</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 623,224	\$ 2,617,263
Annuities payable (Note 12)	59,321	60,527
Accrued salaries, wages, and employee benefits payable	447,423	705,248
Debt facility (Note 13)	4,964,203	2,551,203
Total liabilities	6,094,171	5,934,241
<b>Net Assets</b>		
Unrestricted (Note 7)	29,352,691	24,899,681
Temporarily restricted (Note 8)	1,713,944	2,601,874
Permanently restricted (Note 8)	1,120,458	187,500
Total net assets	<u>32,187,093</u>	<u>27,689,055</u>
Total liabilities and net assets	<u><u>\$ 38,281,264</u></u>	<u><u>\$ 33,623,296</u></u>

# Michigan Humane Society

## Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2016	September 30, 2015
<b>Changes in Unrestricted Net Assets</b>		
Revenue and support:		
Contributions (Note 3)	\$ 10,719,625	\$ 7,178,558
Legacies and bequests	3,462,961	2,954,206
Adoption center and charitable veterinary hospital - Net (Note 2)	6,363,663	6,305,237
Retail	16,404	9,462
Special event revenue:		
Gross revenue	1,796,505	1,808,473
Direct benefit to donor costs	(56,907)	(61,437)
Investment gains (losses) (Note 4)	451,217	(669,528)
Loss on disposal of property and equipment	(88,716)	-
Total revenue and support	22,664,752	17,524,971
Net assets released from restrictions	1,136,944	5,897,281
Total unrestricted revenue, support, and net assets released from restrictions	23,801,696	23,422,252
Expenses:		
Program services	16,045,306	14,810,458
Support services:		
Management and general	476,148	541,113
Fundraising	2,827,232	2,522,812
Total expenses	19,348,686	17,874,383
<b>Increase in Unrestricted Net Assets</b>	4,453,010	5,547,869
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions (Note 3)	45,280	39,259
Legacies and bequests	190,736	1,221,886
Change in value of split-interest agreements	12,998	(10,538)
Net assets released from restrictions	(1,136,944)	(5,897,281)
<b>Decrease in Temporarily Restricted Net Assets</b>	(887,930)	(4,646,674)
<b>Changes in Permanently Restricted Net Assets - Contributions</b>	932,958	-
<b>Increase in Net Assets</b>	4,498,038	901,195
<b>Net Assets - Beginning of year</b>	27,689,055	26,787,860
<b>Net Assets - End of year</b>	<b>\$ 32,187,093</b>	<b>\$ 27,689,055</b>

# Michigan Humane Society

## Statement of Functional Expenses Year Ended September 30, 2016

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 8,128,899	\$ 136,321	\$ 683,385	\$ 8,948,605
Employee benefits	1,129,125	70,613	58,466	1,258,204
Payroll taxes	666,674	39,580	51,727	757,981
<b>Total salaries and salary-related expenses</b>	<b>9,924,698</b>	<b>246,514</b>	<b>793,578</b>	<b>10,964,790</b>
Animal care	2,531,858	-	-	2,531,858
Facility	295,488	339	278	296,105
Insurance	70,992	1,279	2,950	75,221
Vehicle	128,056	5,286	10,651	143,993
Rental	114,652	39,164	35,104	188,920
Repairs and maintenance - Building	143,905	32	27	143,964
Utilities	410,242	2,521	2,235	414,998
Telephone and connectivity	113,325	8,275	8,430	130,030
Fundraising and special event costs	211,940	-	1,094,429	1,306,369
Public relations and marketing	338,827	115	9,755	348,697
Postage	25,048	2,850	377,087	404,985
Printing	29,298	589	72,894	102,781
Professional fees	164,263	54,024	200,937	419,224
Office supplies and expenses	82,768	12,701	6,184	101,653
Meeting	12,742	4,066	886	17,694
Employee	65,481	22,120	12,633	100,234
Cost of sales	9,954	-	-	9,954
Investment and banking fees	123,674	38,820	128,184	290,678
IT licenses and support	238,978	21,473	36,654	297,105
Support of collaborative efforts	8,299	-	-	3,023
Interest	72,348	-	-	72,348
Depreciation	894,860	8,630	28,438	931,928
Other	33,610	7,350	5,898	46,858
<b>Total expenses before direct benefit to donor costs</b>	<b>16,045,306</b>	<b>476,148</b>	<b>2,827,232</b>	<b>19,348,686</b>
Direct benefit to donor costs	-	-	-	56,907
<b>Total expenses including direct benefit to donor costs</b>	<b>\$ 16,045,306</b>	<b>\$ 476,148</b>	<b>\$ 2,827,232</b>	<b>\$ 19,405,593</b>

# Michigan Humane Society

## Statement of Functional Expenses Year Ended September 30, 2015

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 7,928,151	\$ 185,337	\$ 535,194	\$ 8,648,682
Employee benefits	1,087,934	78,266	38,849	1,205,049
Payroll taxes	645,149	40,088	42,437	727,674
<b>Total salaries and salary-related expenses</b>	<b>9,661,234</b>	<b>303,691</b>	<b>616,480</b>	<b>10,581,405</b>
Animal care	2,025,327	-	-	2,025,327
Facility	260,695	371	263	261,329
Insurance	57,127	1,255	2,904	61,286
Vehicle	137,018	9,696	9,560	156,274
Rental	125,472	44,636	39,840	209,948
Repairs and maintenance - Building	127,165	237	195	127,597
Utilities	322,322	2,335	2,069	326,726
Telephone and connectivity	99,147	8,683	8,320	116,150
Fundraising and special event costs	230,317	-	996,269	1,226,586
Public relations and marketing	326,835	364	24,472	351,671
Postage	27,609	2,994	351,673	382,276
Printing	36,480	580	34,585	71,645
Professional fees	177,549	54,544	202,433	434,526
Office supplies and expenses	117,089	11,877	6,675	135,641
Meeting	28,763	6,475	1,551	36,789
Employee	54,423	5,535	30,747	90,705
Cost of sales	4,293	-	-	4,293
Investment and banking fees	105,787	53,733	120,135	279,655
IT license and support	250,334	18,544	37,446	306,324
Support of collaborative efforts	3,023	-	-	3,023
Depreciation	598,456	8,721	27,240	634,417
Other	33,993	6,842	9,955	50,790
<b>Total expenses before direct benefit to donor costs</b>	<b>14,810,458</b>	<b>541,113</b>	<b>2,522,812</b>	<b>17,874,383</b>
Direct benefit to donor costs	-	-	-	61,437
<b>Total expenses including direct benefit to donor costs</b>	<b>\$ 14,810,458</b>	<b>\$ 541,113</b>	<b>\$ 2,522,812</b>	<b>\$ 17,935,820</b>

# Michigan Humane Society

## Statement of Cash Flows

	Year Ended	
	September 30, 2016	September 30, 2015
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,498,038	\$ 901,195
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	931,928	634,417
Loss on disposal of property and equipment	88,716	-
Amortization discount on pledges receivable	36,827	67,679
Net realized and unrealized (gains) losses on investments	(314,286)	935,016
Donated investments	(76,563)	-
Distributions of interest in trust	2,387	-
Change in value of interest in trusts	(12,998)	10,538
Contributions restricted for building improvements	(4,823,256)	(1,646,807)
Contributions restricted for future operations - Bequests receivable	(1,139,267)	(1,221,886)
Changes in operating assets and liabilities which provided (used) cash:		
Operational accounts receivable	20,828	(31,994)
Other accounts receivable	26,343	43,307
Legacies and bequests receivable	1,094,167	1,409,911
Inventory	(123,959)	48,052
Prepaid expenses and other	39,401	50,484
Accounts payable and other	262,972	(197,978)
Accrued salaries, wages, and employee benefits payable	(257,825)	52,929
Net cash provided by operating activities	253,453	1,054,863
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(5,668,061)	(8,057,011)
Purchases of investments	(4,142,181)	(2,287,825)
Proceeds from sales and maturities of investments	4,512,912	5,239,323
Net cash used in investing activities	(5,297,330)	(5,105,513)
<b>Cash Flows from Financing Activities</b>		
Borrowings from debt facility	4,245,000	2,551,203
Payments on debt	(1,832,000)	-
Proceeds from capital campaign contributions	3,189,790	1,764,353
Proceeds from contributions restricted for building improvements	-	10,000
Net cash provided by financing activities	5,602,790	4,325,556
<b>Net Increase in Cash and Cash Equivalents</b>	558,913	274,906
<b>Cash and Cash Equivalents - Beginning of year</b>	1,929,742	1,654,836
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,488,655</b>	<b>\$ 1,929,742</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<b>\$ 104,843</b>	<b>\$ 7,812</b>
<b>Cash and Cash Equivalents are Classified on the Balance Sheet as Follows</b>		
Cash and cash equivalents	\$ 2,308,887	\$ 790,853
Assets restricted for long-term use	179,768	1,138,889
Total	<b>\$ 2,488,655</b>	<b>\$ 1,929,742</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, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

The investment-related and other accounts receivable consist primarily of interest and dividend income receivable.

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

### **Note I - 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, using 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, 2016 and 2015, in-kind donations of \$433,213 and \$272,100, 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 an investment policy for endowment assets that attempts 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 I - 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).

**Upcoming Accounting Changes** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending September 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

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

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending September 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including February 10, 2017, 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 years ended September 30, 2016 and 2015 is reported net of discounts as follows:

	<u>2016</u>	<u>2015</u>
Adoption center and charitable veterinary hospital revenue - Gross	\$ 7,053,405	\$ 6,991,403
Clinic discounts and other	<u>(689,742)</u>	<u>(686,166)</u>
Net revenue	<u>\$ 6,363,663</u>	<u>\$ 6,305,237</u>

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

### Note 2 - Adoption Center and Charitable Veterinary Hospital Revenue (Continued)

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>2016</u>	<u>2015</u>
Gross promises to give before unamortized discount	\$ 4,490,515	\$ 2,826,672
Less unamortized discount	(210,977)	(174,150)
Less allowance for doubtful accounts	<u>(89,810)</u>	<u>(59,433)</u>
Net contributions receivable	<u>\$ 4,189,728</u>	<u>\$ 2,593,089</u>
Amounts due in:		
Less than one year	\$ 1,446,413	\$ 1,113,506
One to five years	<u>3,044,102</u>	<u>1,713,166</u>
Total	<u>\$ 4,490,515</u>	<u>\$ 2,826,672</u>

The Organization receives contributions from related parties such as board members and management. For the years ended September 30, 2016 and 2015, such contributions were approximately \$802,000 and \$289,000, respectively. A total of \$851,276 and \$802,585 due at September 30, 2016 and 2015, respectively, was received from these related parties.

### Note 4 - Investment Gains (Losses)

Investment gains (losses) consisted of the following for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 136,931	\$ 265,488
Net realized and unrealized gains (losses)	<u>314,286</u>	<u>(935,016)</u>
Total	<u>\$ 451,217</u>	<u>\$ (669,528)</u>

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

### Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015
Land	\$ 888,150	\$ 848,268
Land improvements	465,540	510,252
Buildings	19,919,845	7,066,643
Building improvements	2,259,181	2,698,985
Medical and other equipment	4,776,073	4,107,685
Transportation equipment	858,821	865,141
Furniture and fixtures	878,336	462,261
Computer equipment and software	445,449	418,874
Leasehold improvements	90,381	90,381
Construction in progress	22,484	11,231,806
Total cost	30,604,260	28,300,296
Accumulated depreciation	(9,849,690)	(9,934,926)
Net carrying amount	\$ 20,754,570	\$ 18,365,370

Depreciation expense totaled \$931,928 and \$634,417 in 2016 and 2015, respectively.

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

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

	2016	2015
Detroit building project - Board-designated - Cash and cash equivalents	\$ -	\$ 960,015
Other building projects - Cash and cash equivalents	179,768	178,874
Total	\$ 179,768	\$ 1,138,889

### Note 7 - Board-designated Net Assets

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

	2016	2015
Operating reserve	\$ 7,500,000	\$ 7,500,200
Detroit building project	903,390	960,015
Total	\$ 8,403,390	\$ 8,460,215

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

### Note 8 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2016 and 2015 are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Time-restricted contributions	\$ 1,444,725	\$ 2,289,014
Building and equipment improvements	179,768	178,874
Program activity	89,451	85,455
Life insurance policy cash surrender value	-	48,531
Total temporarily restricted net assets	<u>\$ 1,713,944</u>	<u>\$ 2,601,874</u>

Note as of September 30, 2016 and 2015, permanently restricted net assets are \$1,120,458 and \$187,500, respectively. Funds are permanently restricted for an endowment.

### Note 9 - Operating Leases

The Organization has operating lease agreements for office space and equipment that expire through 2021. Total rent expense under these leases was \$194,951 and \$213,122 for the years ended September 30, 2016 and 2015, respectively. Future commitments under these operating leases are as follows:

2017	\$ 196,155
2018	175,093
2019	17,347
2020	17,347
2021	<u>5,193</u>
Total	<u>\$ 411,135</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 \$138,004 and \$133,645 to the Plan for the years ended September 30, 2016 and 2015, 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 \$525,863 and \$506,188 for the years ended September 30, 2016 and 2015, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2016	2015
Fundraising	\$ 275,891	\$ 223,927
Education	249,972	282,261
Total	<u>\$ 525,863</u>	<u>\$ 506,188</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, 2016 and 2015 and the valuation techniques used by the Organization to determine those fair values.

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 or 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 or 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 or liability.

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

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

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2016

	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, 2016
<b>Assets</b>				
Investments (including assets restricted for long-term use):				
Money market funds	\$ 1,179,951	\$ -	\$ -	\$ 1,179,951
U.S. agency notes	-	99,929	-	99,929
Mutual funds	454,630	-	-	454,630
Common stock:				
Communications	318,235	-	-	318,235
Consumer cyclical	381,081	-	-	381,081
Consumer noncyclical	149,460	-	-	149,460
Energy	404,643	-	-	404,643
Financial	1,028,553	-	-	1,028,553
Industrial	169,747	-	-	169,747
Technology	792,147	-	-	792,147
Utilities	303,966	-	-	303,966
Health care	294,376	-	-	294,376
Corporate debt:				
Aaa credit rating	-	60,293	-	60,293
Aa credit rating	-	269,692	-	269,692
A credit rating	-	813,358	-	813,358
Baa credit rating	-	826,075	-	826,075
Ba credit rating	-	157,085	-	157,085
B credit rating	-	30,972	-	30,972
Not rated	-	31,093	-	31,093
Total investments (including assets restricted for long-term use)	5,476,789	2,288,497	-	7,765,286
Interest in trusts	-	-	824,073	824,073
Total assets	\$ 5,476,789	\$ 2,288,497	\$ 824,073	\$ 8,589,359
<b>Liabilities - Charitable gift annuity</b>	\$ -	\$ -	\$ 59,321	\$ 59,321

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

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

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2015

	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, 2015
<b>Assets</b>				
Investments (including assets restricted for long-term use):				
Money market funds	\$ 1,254,672	\$ -	\$ -	\$ 1,254,672
U.S. agency notes	-	99,998	-	99,998
Mutual funds	434,654	-	-	434,654
Common stock:				
Communications	174,640	-	-	174,640
Consumer cyclical	516,574	-	-	516,574
Consumer noncyclical	365,879	-	-	365,879
Energy	177,700	-	-	177,700
Financial	274,862	-	-	274,862
Industrial	344,195	-	-	344,195
Technology	637,776	-	-	637,776
Utilities	370,136	-	-	370,136
Healthcare	637,681	-	-	637,681
Preferred stock	-	160,085	-	160,085
Corporate debt:				
Aa credit rating	-	155,685	-	155,685
A credit rating	-	625,038	-	625,038
Baa credit rating	-	1,155,582	-	1,155,582
Ba credit rating	-	95,136	-	95,136
B credit rating	-	58,875	-	58,875
Not rated	-	206,000	-	206,000
Total investments (including assets restricted for long-term use)	5,188,769	2,556,399	-	7,745,168
Interest in trusts	-	-	813,462	813,462
Total assets	\$ 5,188,769	\$ 2,556,399	\$ 813,462	\$ 8,558,630
<b>Liabilities - Charitable gift annuity</b>	\$ -	\$ -	\$ 60,527	\$ 60,527

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, 2016 and 2015

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

The following table summarizes the valuation methods and inputs used to determine fair value at September 30, 2016 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2016	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Interest in trusts	\$ 824,073	Discounted cash flow	Growth rate Life expectancies of beneficiaries	3% 25-27 years
Liabilities - Charitable gift annuity	59,321	Discounted cash flow	Growth rate Life expectancies of beneficiaries	1.60% 3-31 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, 2016 and 2015 are as follows:

	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2015	\$ 813,462	\$ 60,527
Change in beneficial interest in trusts	12,998	-
Change in charitable gift annuities	-	7,259
Distributions	(2,387)	(8,465)
Balance at September 30, 2016	<u>\$ 824,073</u>	<u>\$ 59,321</u>
	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2014	\$ 824,000	\$ 69,330
Change in beneficial interest in trusts	(10,538)	-
Distributions	-	(8,803)
Balance at September 30, 2015	<u>\$ 813,462</u>	<u>\$ 60,527</u>

# Michigan Humane Society

## Notes to Financial Statements September 30, 2016 and 2015

### 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 and liabilities. 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 and liabilities still held by the Organization at September 30, 2016, the unrealized gain (loss) for the years ended September 30, 2016 and 2015 was \$5,739 and (\$10,538), respectively, which is recognized in the statement of activities and changes in net assets.

### Note 13 - Debt Facility

During 2015, the Organization obtained a \$7,500,000 line of credit from a bank to fund the construction of the new Detroit building project. The draw period on the line of credit expired on December 31, 2015, at which point the outstanding balance of \$6,796,203 was converted to a five-year reducing revolver note. Each year, on December 31, the bank's revolver commitment will be reduced by 10 percent (\$679,620) until December 31, 2020, at which time a balloon payment of unpaid principal and interest is due. Interest is payable monthly at a rate of 1.50 percent above LIBOR (an effective rate of 2.02 percent and 1.69 percent at September 30, 2016 and 2015, respectively). The outstanding balance at September 30, 2016 and 2015 was \$4,964,203 and \$2,551,203, respectively. The Organization is subject to meeting certain covenant requirements, and the facility is collateralized by a first mortgage on the Detroit property and investments of the Organization.

Future payments due on the debt outstanding for the years ending September 30 are as follows:

2019	\$	206,860
2020		679,620
2021		<u>4,077,723</u>
Total	\$	<u>4,964,203</u>