Michigan Humane Society

Financial Report

September 30, 2018

Contents

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

Plante & Moran, PLLC

February 12, 2019

Balance Sheet

September 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 1,507,080	$ 3,039,214
Investments (Note 4)	14,809,048	10,029,117
Accounts receivable:		
Operational accounts receivable	75,692	72,411
Legacies and bequests receivable	96,298	223,979
Investment-related and other accounts receivable	81,562	58,231
Pledges receivable, capital campaign, and other - Net (Note 3)	813,459	2,527,798
Inventory	145,000	205,040
Prepaid expenses and other	163,087	285,041
Assets restricted for long-term use	209,829	194,805
Interest in trusts (Note 4)	860,514	838,083
Property and equipment - Net (Note 5)	19,154,761	19,950,367
Total assets	**$ 37,916,330**	**$ 37,424,086**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	$ 594,082	$ 556,133
Accrued salaries, wages, and employee benefits payable	581,581	546,121
Total liabilities	1,175,663	1,102,254
Net Assets		
Unrestricted net assets (Note 7)	31,000,174	31,247,941
Temporarily restricted net assets (Note 8)	3,143,427	3,364,195
Permanently restricted net assets (Note 9)	2,597,066	1,709,696
Total net assets	36,740,667	36,321,832
Total liabilities and net assets	**$ 37,916,330**	**$ 37,424,086**

Statement of Activities and Changes in Net Assets

Years Ended September 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenue and support:		
Contributions	$ 7,536,001	$ 5,077,729
Legacies and bequests	3,862,409	7,320,301
Adoption center and charitable veterinary hospital - Net (Note 10)	6,994,060	6,679,859
Retail	14,199	22,532
Special event revenue:		
Gross revenue	1,407,967	1,371,190
Direct benefit to donor costs	(59,298)	(44,860)
Investment gains (Note 11)	817,605	1,181,569
Gain on disposal of property and equipment	4,929	-
Net assets released from restrictions	917,382	540,862
Total unrestricted revenue, support, and net assets released from restrictions	21,495,254	22,149,182
Expenses:		
Program expenses	16,830,938	16,680,116
Support services:		
Management and general	1,651,885	804,859
Fundraising	3,260,198	2,768,957
Total expenses	21,743,021	20,253,932
(Decrease) Increase in Unrestricted Net Assets	(247,767)	1,895,250
Changes in Temporarily Restricted Net Assets		
Contributions	337,453	2,036,605
Legacies and bequests	95,509	78,979
Investment gains (Note 11)	241,221	61,519
Change in value of split-interest agreements	22,431	14,010
Net assets released from restrictions	(917,382)	(540,862)
(Decrease) Increase in Temporarily Restricted Net Assets	(220,768)	1,650,251
Changes in Permanently Restricted Net Assets - Contributions	887,370	589,238
Increase in Net Assets	418,835	4,134,739
Net Assets - Beginning of year	36,321,832	32,187,093
Net Assets - End of year	**$ 36,740,667**	**$ 36,321,832**

See notes to financial statements.

Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 8,405,322	$ 855,385	$ 900,962	$ 10,161,669
Employee benefits	1,037,061	97,457	91,292	1,225,810
Payroll taxes	708,211	58,339	69,884	836,434
Total salaries and related expenses	10,150,594	1,011,181	1,062,138	12,223,913
Animal care	2,819,643	-	15,379	2,835,022
Facility	97,681	-	-	97,681
Insurance	17,957	76,272	1,191	95,420
Vehicle	120,413	12,136	10,553	143,102
Rental	76,997	72,567	61,055	210,619
Repairs and maintenance - Building	211,288	2,390	1,620	215,298
Utilities	498,299	4,216	3,279	505,794
Telephone and connectivity	129,550	15,254	8,991	153,795
Fundraising and special event costs	112,088	-	1,032,502	1,144,590
Public relations and marketing	290,670	-	211,775	502,445
Postage	25,606	2,724	385,036	413,366
Printing	104,587	453	109,753	214,793
Professional fees	425,601	88,499	201,034	715,134
Office supplies and expenses	258,904	36,660	17,111	312,675
Meeting	7,948	3,153	5,987	17,088
Employee	124,170	19,353	8,696	152,219
Cost of sales	-	-	5,686	5,686
Investment and banking fees	19,013	230,842	66,060	315,915
IT licenses and support	307,495	49,968	62,751	420,214
Support of collaborative efforts	3,499	-	-	3,499
Bad debt	-	-	(42,753)	(42,753)
Depreciation	997,660	10,668	26,727	1,035,055
Other	31,275	15,549	5,627	52,451
Direct benefit to donor costs	-	-	-	59,298
Total functional expenses	**$ 16,830,938**	**$ 1,651,885**	**$ 3,260,198**	**$ 21,802,319**

Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 8,376,483	$ 254,587	$ 763,630	$ 9,394,700
Employee benefits	1,187,332	72,829	73,811	1,333,972
Payroll taxes	667,835	60,849	55,649	784,333
Total salaries and related expenses	10,231,650	388,265	893,090	11,513,005
Animal care	2,529,109	1,187	60	2,530,356
Facility	237,681	181	174	238,036
Insurance	75,481	1,028	2,368	78,877
Vehicle	134,196	11,180	9,514	154,890
Rental	119,506	41,873	37,411	198,790
Repairs and maintenance - Building	242,970	704	105	243,779
Utilities	462,977	2,969	2,300	468,246
Telephone and connectivity	125,343	10,704	8,922	144,969
Fundraising and special event costs	196,745	345	890,684	1,087,774
Public relations and marketing	351,051	49	192,452	543,552
Postage	36,059	2,247	364,407	402,713
Printing	114,055	842	50,877	165,774
Professional fees	134,787	188,440	140,001	463,228
Office supplies and expenses	87,033	28,003	6,204	121,240
Meeting	7,545	2,003	613	10,161
Employee	67,300	7,336	6,092	80,728
Cost of sales	10,471	-	1,770	12,241
Investment and banking fees	144,118	50,972	122,288	317,378
IT licenses and support	110,958	17,407	34,749	163,114
Support of collaborative efforts	36,527	-	-	36,527
Depreciation	1,079,639	11,839	27,869	1,119,347
Bad debt	-	-	(30,810)	(30,810)
Interest	61,355	-	-	61,355
Other	83,560	37,285	7,817	128,662
Direct benefit to donor costs	-	-	-	44,860
Total functional expenses	**$ 16,680,116**	**$ 804,859**	**$ 2,768,957**	**$ 20,298,792**

Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 418,835	$ 4,134,739
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	1,035,055	1,119,347
Amortization discount on pledges receivable	(68,800)	(97,167)
Net realized and unrealized gains on investments	(540,736)	(1,087,637)
Donated investments	(1,095,292)	(124,212)
Bad debt recovery	(42,753)	(30,810)
Change in value of interest in trusts	(22,431)	(14,010)
Contributions for future operations - Bequests receivable	(95,509)	(78,979)
Contributions restricted for endowment	(887,370)	(589,238)
Gain on sale of property, plant, equipment	(4,929)	-
Changes in operating assets and liabilities that (used) provided cash:		
Operational accounts receivable	(3,281)	(32,995)
Legacies and bequests receivable	223,190	475,652
Other accounts receivable	(23,331)	(44,877)
Pledges receivable	(102,500)	-
Inventory	60,040	292,021
Prepaid expenses and other	121,954	(96,572)
Accounts payable and other	37,949	(126,412)
Accrued salaries, wages, and employee benefits payable	35,460	98,698
Net cash (used in) provided by operating activities	(954,449)	3,797,548
Cash Flows from Investing Activities		
Purchase of property and equipment	(240,712)	(315,144)
Proceeds from disposition of property and equipment	6,192	-
Purchases of investments	(29,718,311)	(8,620,385)
Proceeds from sales and maturities of investments	26,574,408	7,568,403
Net cash used in investing activities	(3,378,423)	(1,367,126)
Cash Flows from Financing Activities		
Payments on debt	-	(4,964,203)
Proceeds from capital campaign contributions	1,928,392	1,789,907
Proceeds from endowment gifts	887,370	1,489,238
Net cash provided by (used in) financing activities	2,815,762	(1,685,058)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,517,110)	745,364
Cash and Cash Equivalents - Beginning of year	3,234,019	2,488,655
Cash and Cash Equivalents - End of year	**$ 1,716,909**	**$ 3,234,019**
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 1,507,080	$ 3,039,214
Assets restricted for long-term use	209,829	194,805
Total cash	**$ 1,716,909**	**$ 3,234,019**
Supplemental Cash Flow Information - Cash paid for interest	$ -	$ 70,557

See notes to financial statements.

Note 1 - Nature of Organization

Michigan Humane Society (the "Organization") is a not-for-profit corporation dedicated to improving and saving lives through compassionate care, community engagement and advocacy for animals. The Organization operates four 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.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents

The Organization considers all investments with an original maturity of three months or less when purchased 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 and other 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, 2018 and 2017.

Capital campaign and other 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, 2018 and 2017.

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, 2018 and 2017.

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 4.

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.

Note 2 - Significant Accounting Policies (Continued)

Inventory

Inventory, which consists of medical supplies, is stated at the lower of cost or net realizable value, using first-in, first-out (FIFO) method of valuation.

Interest in Trusts

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

Assets Restricted for Long-term Use

Assets restricted for long-term use consist of cash and cash equivalents restricted for building projects.

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.

The Organization receives donations of various goods and services. For the years ended September 30, 2018 and 2017, in-kind donations of approximately $524,000 and $419,000, 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.

Revenue Recognition

Adoption center and charitable veterinary hospital revenue is recognized when ownership is transferred or when services are performed.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

Functional Allocation of Expenses

The costs of providing the 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses 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 Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* 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 standard is expected to have an impact on the Organization's net asset presentation and result in enhanced liquidity and availability of resources disclosures.

Note 2 - Significant Accounting Policies (Continued)

In May 2014, the FASB issued 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 using one of two retrospective application methods. The Organization is in the process of determining which application method it will use and the potential effects of the new standard on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending September 30, 2020 and will be applied on a modified prospective basis. The Organization does not typically receive government contracts, and it has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease 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. If the Organization is engaged in long-term building or equipment leases at the time of the standard's implementation, the standard is expected to increase the Organization's assets and liabilities and potentially have an impact on the pattern of expenses recognition in the statement of activities and changes in net assets.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 12, 2019, which is the date the financial statements were available to be issued.

Note 3 - Contributions Receivable

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

	2018	2017
Gross promises to give before unamortized discount	$ 897,759	$ 2,695,608
Less allowance for uncollectible contributions	(18,100)	(54,000)
Less unamortized discount	(66,200)	(113,810)
Net contributions receivable	$ 813,459	$ 2,527,798
Amounts due in:		
Less than one year	$ 597,770	$ 1,305,618
One to three years	299,989	1,389,990
Total	$ 897,759	$ 2,695,608

The Organization receives contributions from related parties, such as board members and management. For the years ended September 30, 2018 and 2017, such contributions were approximately $230,000 and $160,000, respectively. Related party contribution receivables were $99,000 and $398,619 at September 30, 2018 and 2017, respectively.

Note 4 - 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 measured at fair value on a recurring basis at September 30, 2018 and 2017 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 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 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.

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2018			
	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, 2018
Assets				
Investments:				
Money market funds	$ 1,839,820	$ -	$ -	$ 1,839,820
U.S. agency notes	-	1,197,465	-	1,197,465
Mutual funds	82,138	-	-	82,138
Mortgage-backed securities	-	568,633	-	568,633
Common stock	8,314,711	-	-	8,314,711
Corporate debt	-	2,806,281	-	2,806,281
Total investments	10,236,669	4,572,379	-	14,809,048
Interest in trusts	-	-	860,514	860,514
Total assets	$ 10,236,669	$ 4,572,379	$ 860,514	$ 15,669,562

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2017			
	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, 2017
Assets				
Investments:				
Money market funds	$ 2,013,599	$ -	$ -	$ 2,013,599
U.S. agency notes	-	99,730	-	99,730
Mutual funds	74,496	-	-	74,496
Common stock	5,537,796	-	-	5,537,796
Corporate debt	-	2,303,496	-	2,303,496
Total investments	7,625,891	2,403,226	-	10,029,117
Interest in trusts	-	-	838,083	838,083
Total assets	$ 7,625,891	$ 2,403,226	$ 838,083	$ 10,867,200

Debt securities, which include convertible bonds and corporate bonds, U.S. agency notes and mortgage-backed securities, 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 4 - Fair Value Measurements (Continued)

The following table summarizes the valuation methods and inputs used to determine fair value at September 30, 2018 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2018	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	$ 860,514	Discounted cash flow	Growth rate	3.00%
			Remaining life expectancies of beneficiaries	22-24 years

	Fair Value at September 30, 2017	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	$ 838,083	Discounted cash flow	Growth rate	3.00%
			Remaining life expectancies of beneficiaries	23-24 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 trusts.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended September 30, 2018 and 2017 are as follows:

	Interest in Trusts
Balance at October 1, 2017	$ 838,083
Change in beneficial interest in trusts	22,431
Balance at September 30, 2018	$ 860,514

	Interest in Trusts
Balance at October 1, 2016	$ 824,073
Change in beneficial interest in trusts	14,010
Balance at September 30, 2017	$ 838,083

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, 2018, the unrealized gain for the years ended September 30, 2018 and 2017 was $22,431 and $14,010, respectively, which is recognized in the statement of activities and changes in net assets.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Land	$ 917,095	$ 913,790
Land improvements	476,445	465,540
Buildings	19,919,845	19,919,845
Building improvements	2,326,807	2,301,611
Medical and other equipment	4,710,242	4,836,521
Transportation equipment	708,888	954,690
Furniture and fixtures	862,604	894,310
Computer equipment and software	414,672	459,372
Leasehold improvements	112,009	112,009
Construction in progress	27,105	61,717
Total cost	30,475,712	30,919,405
Accumulated depreciation	11,320,951	10,969,038
Net property and equipment	$ 19,154,761	$ 19,950,367

Depreciation expense for 2018 and 2017 was $1,035,055 and $1,119,347, respectively.

Note 6 - 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 was to be reduced by 10 percent ($679,620) until December 31, 2020, at which time a balloon payment of unpaid principal and interest would be due. Interest is payable monthly at a rate of 1.50 percent above LIBOR (an effective rate of 2.02 percent at September 30, 2016). The Organization was subject to meeting certain covenant requirements, and the facility was collateralized by a first mortgage on the Detroit property and investments of the Organization. During 2017, the revolver note was paid off in full.

Note 7 - Board-designated Net Assets

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

	2018	2017
Operating reserve	$ 9,000,000	$ 7,500,000

Note 8 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017 are restricted for the following purposes:

	2018	2017
Time-restricted contributions	$ 956,815	$ 1,062,064
Building and equipment improvements	209,829	194,805
Program activity	1,976,783	2,107,326
Total temporarily restricted net assets	$ 3,143,427	$ 3,364,195

Note 8 - Temporarily and Permanently Restricted Net Assets (Continued)

Included in the amounts above for program activity is $302,740 and $61,519 in endowment earnings at September 30, 2018 and 2017, respectively.

At September 30, 2018 and 2017, permanently restricted net assets are $2,597,066 and $1,709,696, respectively. Funds are permanently restricted for an endowment.

Note 9 - Donor-restricted and Board-designated Endowments

The Organization's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

	Endowment Net Asset Composition by Type of Fund as of September 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 302,740	$ 2,597,066	$ 2,899,806

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ 61,519	$ 1,709,696	$ 1,771,215
Investment return:				
Investment income	-	98,714	-	98,714
Net appreciation (realized and unrealized)	-	142,507	-	142,507
Total investment return	-	241,221	-	241,221
Contributions	-	-	887,370	887,370
Endowment net assets - End of year	$ -	$ 302,740	$ 2,597,066	$ 2,899,806

	Endowment Net Asset Composition by Type of Fund as of September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 61,519	$ 1,709,696	$ 1,771,215

	Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ -	$ 220,458	$ 220,458
Investment income	-	61,519	-	61,519
Contributions	-	-	1,489,238	1,489,238
Endowment net assets - End of year	$ -	$ 61,519	$ 1,709,696	$ 1,771,215

Return Objectives and Risk Parameters

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 the investment 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 market index, or blended market index, net of fees selected and agreed upon by the Organization’s board that most closely correspond to the style of investment management, while displaying an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified. The Organization expects its endowment funds, over time, to emphasize long-term growth of principal, while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

Income available for distribution will be up to 5 percent of its 12-quarter rolling average fair market value. The income that is not distributed will be reinvested. Distributions will not be made until the Organization has 12 quarters of historical endowment fair market value data or a $5,000,000 endowment fair market value, whichever comes first. If the endowment's fair market value reaches $5,000,000 before the Organization has 12 quarters of historical date, the Organization will use a rolling average of the total quarters available from the start date to the subsequent calculation date. During the years ended September 30, 2018 and 2017, the Organization did not distribute assets from its endowment fund.

Note 10 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the years ended September 30, 2018 and 2017 is reported net of discounts as follows:

	2018	2017
Adoption center and charitable veterinary hospital revenue - Gross	$ 7,821,221	$ 7,330,058
Clinic discounts and other	(827,161)	(650,199)
Total	$ 6,994,060	$ 6,679,859

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 postadoption, treatment of animals from cruelty situations, and services provided to clients with limited financial capability at reduced prices.

Note 11 - Investment Gains

Investment gains consisted of the following for the years ended September 30, 2018 and 2017:

	2018	2017
Interest and dividend income	$ 518,090	$ 155,451
Net realized and unrealized gains	540,736	1,087,637
Total	$ 1,058,826	$ 1,243,088

Note 12 - 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 approximately $199,000 and $145,000 to the Plan for the years ended September 30, 2018 and 2017, respectively.

Note 13 - Operating Leases

The Organization has operating lease agreements for office space and equipment that expire through 2024. Total rent expense under these leases was approximately $212,000 and $200,000 for the years ended September 30, 2018 and 2017, respectively. Future commitments under these operating leases are as follows:

2019	$ 193,529
2020	254,499
2021	249,138
2022	249,686
2023	242,545
Thereafter	140,651
Total	$ 1,330,048

Note 14 - 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 $524,677 and $500,095 for the years ended September 30, 2018 and 2017, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2018	2017
Fundraising	$ 294,750	$ 273,308
Education	229,927	226,787
Total	$ 524,677	$ 500,095

Note 15 - Livingston County

On August 17, 2018, the Organization entered into an agreement with The Humane Society of Livingston County for a demand promissory note with a maximum principal amount of $75,000. The principal balance of this note bears an interest rate of 4 percent per annum. The Humane Society of Livingston County may request up to five advances from the Organization, each in the amount of $15,000. The Organization is under no obligation to issue advances more than two times in any given calendar month. The promissory note is secured by a mortgage taken out by The Humane Society of Livingston County. As of September 30, 2018, the Organization has $45,000 outstanding in notes receivable, considered fully collectible, from The Humane Society of Livingston County.