
Michigan Humane Society

Financial Report
September 30, 2019

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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, 2019 and 2018 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, 2019 and 2018 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

February 18, 2020

Balance Sheet

September 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 2,273,361	\$ 1,507,080
Investments (Note 4)	12,481,143	14,809,048
Accounts receivable:		
Operational accounts receivable	45,187	75,692
Legacies and bequests receivable	-	96,298
Investment-related and other accounts receivable	152,411	81,562
Pledges receivable, capital campaign, and other - Net (Note 3)	650,767	813,459
Inventory	204,211	145,000
Prepaid expenses and other	309,246	163,087
Assets restricted for long-term use	-	209,829
Interest in trusts (Note 4)	869,132	860,514
Property and equipment - Net (Note 6)	20,738,983	19,154,761
	\$ 37,724,441	\$ 37,916,330
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	\$ 693,741	\$ 594,082
Accrued salaries, wages, and employee benefits payable	648,588	581,581
Capital lease obligations (Note 7)	528,897	-
	1,871,226	1,175,663
Net Assets		
Without donor restrictions	30,348,848	31,000,174
With donor restrictions (Note 8)	5,504,367	5,740,493
	35,853,215	36,740,667
	\$ 37,724,441	\$ 37,916,330

Michigan Humane Society

Statement of Activities and Changes in Net Assets

Years Ended September 30, 2019 and 2018

	2019	2018
Changes in Net Assets without Donor Restrictions		
Revenue and support:		
Contributions	\$ 6,208,963	\$ 7,536,001
Legacies and bequests	4,969,273	3,862,409
Adoption center and charitable veterinary hospital - Net (Note 11)	6,612,538	6,994,060
Retail	11,941	14,199
Special event revenue	1,443,605	1,407,967
Investment gains (Note 12)	492,855	755,174
Gain on disposal of property and equipment	19,800	4,929
Net assets released from restrictions	1,667,666	917,382
Total revenue and support	21,426,641	21,492,121
Expenses:		
Program services	16,763,908	15,560,792
Support services:		
Management and general	2,866,032	2,449,568
Fundraising	4,052,239	3,729,528
Total expenses	23,682,179	21,739,888
Decrease in Net Assets without Donor Restrictions - Before excess of fair value of net assets acquired over consideration paid in acquisition of Humane Society of Livingston County	(2,255,538)	(247,767)
Excess of Fair Value of Net Assets Acquired Over Consideration Paid in Acquisition of Humane Society of Livingston County (Note 16)	1,604,213	-
Decrease in Net Assets without Donor Restrictions	(651,325)	(247,767)
Changes in Net Assets with Donor Restrictions		
Contributions	1,257,781	337,453
Endowment gifts	4,350	887,370
Legacies and bequests	44,916	95,509
Investment gains (Note 12)	115,874	241,221
Change in value of split-interest agreements	8,618	22,431
Net assets released from restrictions	(1,667,666)	(917,382)
(Decrease) Increase in Net Assets with Donor Restrictions	(236,127)	666,602
(Decrease) Increase in Net Assets	(887,452)	418,835
Net Assets - Beginning of year	36,740,667	36,321,832
Net Assets - End of year	\$ 35,853,215	\$ 36,740,667

Statement of Functional Expenses

Year Ended September 30, 2019

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 8,502,605	\$ 1,672,693	\$ 991,588	\$ 11,166,886
Employee benefits	912,071	145,516	81,013	1,138,600
Payroll taxes	714,126	123,230	79,935	917,291
Total salaries and related expenses	10,128,802	1,941,439	1,152,536	13,222,777
Animal care	2,443,507	-	-	2,443,507
Facility	362,746	339	759	363,844
Insurance	31,921	72,036	-	103,957
Vehicle	140,408	5,352	5,683	151,443
Rental	43,755	58,975	87,511	190,241
Repairs and maintenance	315,471	13,554	2,249	331,274
Utilities	503,556	2,862	4,246	510,664
Telephone	145,348	10,720	15,710	171,778
Fundraising and special event costs	7,973	-	1,309,371	1,317,344
Public relations and marketing	55,860	7,526	382,366	445,752
Postage	10,176	2,319	426,191	438,686
Printing	41,383	26,722	211,014	279,119
Professional fees	74,304	369,360	50,142	493,806
Office supplies and expenses	157,285	37,213	21,368	215,866
Meeting	5,134	5,376	13,631	24,141
Employee	208,544	62,228	34,360	305,132
Credit card and banking fees	28,224	160,941	74,416	263,581
IT licenses and support	433,705	66,380	160,113	660,198
Support of collaborative efforts	17,747	-	-	17,747
Bad debt recovery	-	-	(23,203)	(23,203)
Depreciation	1,033,252	16,565	37,685	1,087,502
Other	574,807	6,125	86,091	667,023
Total functional expenses	\$ 16,763,908	\$ 2,866,032	\$ 4,052,239	\$ 23,682,179

Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 7,896,918	\$ 1,287,839	\$ 976,912	\$ 10,161,669
Employee benefits	984,527	156,638	84,645	1,225,810
Payroll taxes	669,328	93,434	73,672	836,434
Total salaries and related expenses	9,550,773	1,537,911	1,135,229	12,223,913
Animal care	2,291,600	-	-	2,291,600
Facility	321,521	521	513	322,555
Insurance	27,806	74,315	-	102,121
Vehicle	129,589	4,361	2,452	136,402
Rental	37,579	50,650	75,158	163,387
Repairs and maintenance	212,883	2,107	308	215,298
Utilities	497,988	3,281	4,525	505,794
Telephone	128,441	10,720	14,634	153,795
Fundraising and special event costs	18,181	-	1,182,332	1,200,513
Public relations and marketing	75,701	53,278	376,841	505,820
Postage	8,964	2,677	401,725	413,366
Printing	30,474	19,727	164,591	214,792
Professional fees	80,954	377,118	99,333	557,405
Office supplies and expenses	255,523	30,023	27,128	312,674
Meeting	4,267	3,329	9,492	17,088
Employee	132,687	43,670	15,076	191,433
Cost of sales	388	-	5,299	5,687
Credit card and banking fees	18,018	168,398	68,795	255,211
IT licenses and support	291,157	45,818	83,238	420,213
Support of collaborative efforts	3,499	-	-	3,499
Bad debt (recovery) expense	(57,410)	-	14,657	(42,753)
Depreciation	1,001,092	16,001	17,962	1,035,055
Other	499,117	5,663	30,240	535,020
Total functional expenses	\$ 15,560,792	\$ 2,449,568	\$ 3,729,528	\$ 21,739,888

Statement of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (887,452)	\$ 418,835
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	1,087,502	1,035,055
Amortization discount on pledges receivable	(24,600)	(68,800)
Net realized and unrealized gains on investments	(374,332)	(540,736)
Donated Investments	(43,213)	(1,095,292)
Bad debt recovery	(23,203)	(42,753)
Change in value of interest in trusts	(8,618)	(22,431)
Contributions for future operations - Bequests receivable	(44,916)	(95,509)
Contributions restricted for endowment	(4,350)	(887,370)
Gain on sale of property, plant, equipment	(19,800)	(4,929)
Gain on acquisition of Humane Society of Livingston County	(1,604,213)	-
Changes in operating assets and liabilities that provided (used) cash:		
Operational accounts receivable	30,505	(3,281)
Legacies and bequests receivable	141,214	223,190
Other accounts receivable	(11,304)	(23,331)
Pledges receivable	(242,500)	(102,500)
Inventory	(59,211)	60,040
Prepaid expenses and other	(139,743)	121,954
Accounts payable and other	(39,272)	37,949
Accrued salaries, wages, and employee benefits payable	67,007	35,460
Net cash used in operating activities	(2,200,499)	(954,449)
Cash Flows from Investing Activities		
Purchase of property and equipment	(485,847)	(240,712)
Proceeds from disposition of property and equipment	19,800	6,192
Purchases of investments	(26,584,140)	(29,718,311)
Proceeds from sales and maturities of investments	29,354,025	26,574,408
Cash received in acquisition of Humane Society of Livingston County	45,523	-
Net cash provided by (used in) investing activities	2,349,361	(3,378,423)
Cash Flows from Financing Activities		
Proceeds from capital campaign contributions	452,995	1,928,392
Proceeds from endowment gifts	4,350	887,370
Payments on capital leases	(49,755)	-
Net cash provided by financing activities	407,590	2,815,762
Net Increase (Decrease) in Cash and Cash Equivalents	556,452	(1,517,110)
Cash and Cash Equivalents - Beginning of year	1,716,909	3,234,019
Cash and Cash Equivalents - End of year	\$ 2,273,361	\$ 1,716,909
Balance Sheet Classification of Cash		
Cash and cash equivalents	\$ 2,273,361	\$ 1,507,080
Assets restricted for long-term use	-	209,829
Total cash and cash equivalents	\$ 2,273,361	\$ 1,716,909
Significant Noncash Transactions		
Equipment obtained via capital lease (Note 7)	\$ 578,652	-
Property and equipment obtained as part of acquisition of Humane Society of Livingston County (Note 16)	1,607,225	-

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 five adoption centers, four 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 Federal Deposit Insurance Corporation (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, 2019 and 2018.

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, 2019 and 2018.

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 were deemed fully collectible as of September 30, 2018.

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 the 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 when placed in service.

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 are reported as net assets without donor restrictions. Restricted gifts are reported as net assets with donor restrictions.

The Organization receives donations of various goods and services. For the years ended September 30, 2019 and 2018, in-kind donations of approximately \$652,000 and \$524,000, 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 based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled by the Organization. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Note 2 - Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Earnings on endowment assets are classified as net assets with donor restrictions until such time as the related donor restrictions have been met, if applicable, and the funds have been appropriated for expenditure by the board of directors.

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. Corporate headquarters costs are allocated based on employee headcount at headquarters, while information technology and internal trainings are allocated based on headcount across the entire organization. Marketing expenses that are not directly identifiable are allocated based on the nature of the individual expense. 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).

Adoption of New Accounting Pronouncement

For the year ended September 30, 2019, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, applied retrospectively to all years presented, except for liquidity disclosures, which were applied prospectively, as permitted by the standard. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general expenses and prohibits certain expenses from being allocated out of the management and general category. Additionally, the standard requires that investment expense related to total return on investments be netted against investment return on the statement of activities. As a result of the adoption of this standard, net assets of \$31,000,174 previously reported as unrestricted net assets at September 30, 2018 have been reclassified as net asset without donor restrictions, and \$3,143,427 previously reported as temporarily restricted net assets and \$2,597,066 previously reported as permanently restricted net assets at September 30, 2018 have been reclassified as net assets with donor restrictions. Additionally, management and general and fundraising expenses at September 30, 2018 have increased by \$797,683 and \$469,330, respectively, from the amounts previously reported, with a corresponding decrease in program services. Investment expenses of \$62,431 have been netted against investment returns, resulting in a corresponding decrease in management and general expenses for the year ended September 30, 2018.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 activities and changes in net assets. 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 statement of activities and changes 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, 2022 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 expense 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 18, 2020, which is the date the financial statements were available to be issued.

September 30, 2019 and 2018

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:

	2019	2018
Gross promises to give before unamortized discount	\$ 705,667	\$ 897,759
Less allowance for uncollectible contributions	(13,300)	(18,100)
Less unamortized discount	(41,600)	(66,200)
Net contributions receivable	\$ 650,767	\$ 813,459
Amounts due in:		
Less than one year	\$ 455,667	\$ 597,770
One to five years	175,000	299,989
Thereafter	75,000	-
Total	\$ 705,667	\$ 897,759

The Organization receives contributions from related parties, such as board members and management. For the years ended September 30, 2019 and 2018, such contributions were approximately \$206,000 and \$230,000, respectively. Related party contribution receivables were approximately \$47,000 and \$99,000 at September 30, 2019 and 2018, 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, 2019 and 2018 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.

September 30, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2019				
	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, 2019
Assets				
Investments:				
Money market funds	\$ 575,003	\$ -	\$ -	\$ 575,003
U.S. agency notes	-	199,982	-	199,982
Mutual funds	80,038	-	-	80,038
Mortgage-backed securities	-	466,190	-	466,190
Common stock	8,358,236	-	-	8,358,236
Corporate debt	-	2,801,694	-	2,801,694
Total investments	9,013,277	3,467,866	-	12,481,143
Interest in trusts	-	-	869,132	869,132
Total assets	\$ 9,013,277	\$ 3,467,866	\$ 869,132	\$ 13,350,275
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

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 tables summarize the valuation methods and inputs used to determine fair value at September 30, 2019 and 2018 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2019	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	\$ 869,132	Discounted cash flow	Growth rate Remaining life expectancies of beneficiaries	3.00% 22-24 years
	Fair Value at September 30, 2018	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	\$ 860,514	Discounted cash flow	Growth rate Remaining life expectancies of beneficiaries	3.00% 22-24 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.

Note 5 - Community Foundation Endowment Fund

Certain funds donated by outside donors for the benefit of the Organization (originally for the benefit of the Humane Society of Livingston County, which was acquired in 2019; see Note 16) are managed by the Community Foundation for Southeastern Michigan (the "Foundation"). The Foundation maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of the Organization. The fair market value of these funds is approximately \$181,500 at September 30, 2019. These funds are not reflected in the financial statements. Earnings are available for distribution to the Organization at the discretion of the Foundation and, therefore, are not reflected as revenue in the financial statements until received by the Organization.

The Foundation also holds and manages funds transferred through a reciprocal transfer directly from the Organization. In accordance with not-for-profit accounting standards, the fair market value of these funds is recorded as an asset by the Organization. The fair market value of these funds reflected in the financial statements is approximately \$25,400 at September 30, 2019 .

September 30, 2019 and 2018

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Land	\$ 1,137,095	\$ 917,095
Land improvements	483,590	476,445
Buildings	21,310,742	19,919,845
Building improvements	2,440,121	2,326,807
Medical and other equipment	4,912,545	4,710,242
Transportation equipment	890,664	708,888
Furniture and fixtures	1,237,774	862,604
Computer equipment and software	414,672	414,672
Leasehold improvements	112,009	112,009
Construction in progress	86,032	27,105
Total cost	33,025,244	30,475,712
Accumulated depreciation	12,286,261	11,320,951
Net property and equipment	\$ 20,738,983	\$ 19,154,761

Depreciation expense for 2019 and 2018 was \$1,087,502 and \$1,035,055, respectively.

Note 7 - Capital Leases

The Organization leases vehicles, office furniture and other equipment under long-term lease arrangements that the Organization has determined to be classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, total annual payments range from \$2,177 to \$130,386 and are due monthly through September 2024. The leases have interest rates ranging from 2.20 percent to 6.00 percent.

The future minimum lease payments under capital leases are as follows:

Years Ending September 30	Amount
2020	\$ 208,890
2021	175,648
2022	70,766
2023	70,766
2024	46,818
Total	572,888
Less amount representing interest	43,991
Present value of net minimum lease payments	\$ 528,897

September 30, 2019 and 2018

Note 8 - Net Assets

Net assets with donor restrictions as of September 30 are available for the following purposes:

	2019	2018
Subject to time and purpose restrictions:		
Pledges receivable for Pet Pantry	\$ 225,000	\$ -
Pledges receivable for field services	80,000	80,000
Other	40,000	22,500
	345,000	102,500
Subject to purpose restrictions:		
Direct care of animals	936,546	1,412,223
Oakland County	114,046	-
Building and equipment improvements	-	209,829
Field services	40,877	40,877
Other programs	178,736	118,446
	1,270,205	1,781,375
Subject to time restrictions:		
Interest in trusts	869,132	860,514
Other estate receivables	-	96,298
	869,132	956,812
Subject to spending policy restrictions and appropriation by the governing body:		
Endowment gifts	2,601,416	2,597,066
Accumulated endowment earnings	418,614	302,740
	3,020,030	2,899,806
Total net assets with donor restrictions	\$ 5,504,367	\$ 5,740,493

Note 9 - Donor-restricted Endowment

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 Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restriction. The board of directors of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of initial and subsequent gifts donated to the fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. 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

Note 9 - Donor-restricted Endowment (Continued)

- 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,	
		2019	2018
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$	2,601,416	\$ 2,597,066
Accumulated investment gains		418,614	302,740
Total		\$ 3,020,030	\$ 2,899,806
Changes in Endowment Net Assets for the Fiscal Year Ended September 30,			
		2019	2018
Endowment net assets - Beginning of year	\$	2,899,806	\$ 1,771,215
Investment return - Net		115,874	241,221
Contributions		4,350	887,370
Endowment net assets - End of year		\$ 3,020,030	\$ 2,899,806

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.

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.

September 30, 2019 and 2018

Note 9 - Donor-restricted Endowment (Continued)

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, 2019 and 2018, the Organization did not distribute assets from its endowment fund.

Note 10 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of September 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Cash and cash equivalents	\$ 2,273,361
Investments	12,481,143
Operational, investment-related, and other accounts receivable	197,598
Pledges receivable, capital campaign, and other receivables	650,767
Interest in trusts	<u>869,132</u>
Financial assets - At year end	16,472,001
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:	
Assets subject to donor purpose restrictions outside of general expenditures	101,077
Pledges receivable - Not collectible within one year	250,000
Interest in trusts - Not collectible within one year	869,132
Perpetual endowment fund gifts	2,601,416
Accumulated endowment earnings not yet appropriated	<u>418,614</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,231,762</u>

The Organization is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 180 days of normal operating expenses, which are, on average, approximately \$11.8 million. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization also realizes there could be unanticipated liquidity needs.

The Organization's endowment funds consist of donor-restricted endowments of \$3,020,030, including \$418,614 of unappropriated earnings, at September 30, 2019. Earnings from donor-restricted endowments are not restricted and are available for general expenditure. The endowment distribution policy is described at Note 9.

Notes to Financial Statements

September 30, 2019 and 2018

Note 11 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the years ended September 30, 2019 and 2018 is reported net of discounts as follows:

	2019	2018
Adoption center and charitable veterinary hospital revenue - Gross	\$ 7,610,123	\$ 7,821,221
Clinic discounts and other	(997,585)	(827,161)
Total	<u>\$ 6,612,538</u>	<u>\$ 6,994,060</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 postadoption, treatment of animals from cruelty situations, and services provided to clients with limited financial capability at reduced prices.

Note 12 - Investment Gains

Investment gains consisted of the following for the years ended September 30, 2019 and 2018:

	2019	2018
Interest and dividend income	\$ 307,449	\$ 518,090
Net realized and unrealized gains	374,332	540,736
Direct investment expenses	(73,052)	(62,431)
Total	<u>\$ 608,729</u>	<u>\$ 996,395</u>

Note 13 - 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 \$202,000 and \$199,000 to the Plan for the years ended September 30, 2019 and 2018, respectively.

Note 14 - 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 \$234,000 and \$212,000 for the years ended September 30, 2019 and 2018, respectively. Future commitments under these operating leases are as follows:

2020	\$ 257,913
2021	245,760
2022	239,516
2023	225,583
2024	165,144
Total	<u>\$ 1,133,916</u>

Note 15 - 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 \$644,714 and \$524,677 for the years ended September 30, 2019 and 2018, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2019	2018
Fundraising	\$ 344,436	\$ 294,750
Education	300,278	229,927
Total	\$ 644,714	\$ 524,677

Note 16 - Acquisition of Humane Society of Livingston County

In August 2018, the Organization entered into an agreement with The Humane Society of Livingston County (HSLC), an unrelated nonprofit organization whose mission provides for animal adoption and veterinary services, under which the Organization embedded its staff alongside HSLC's staff to provide the animals of HSLC with premium care and to implement best practices in shelter and veterinary services. During this time, the Organization acted as an advisor and provided thought leadership specifically over shelter and veterinary services. All decisions and supervisory responsibilities were held by HSLC personnel and management. Other management functions, such as fundraising, marketing, accounting, and maintenance were also being managed by HSLC.

Effective May 31, 2019, the board of directors of HSLC voted to transfer all assets, liabilities, and operations to the Organization. The Organization did not transfer any consideration as part of the acquisition and recorded the following at their fair value, all approximate: \$1,743,000 of assets acquired and \$139,000 of liabilities assumed, resulting in an inherent contribution of \$1,604,000.