

Humane Society of Huron Valley

Financial Report
December 31, 2013

Humane Society of Huron Valley

Contents

Report Letter	1
Financial Statements	
Balance Sheet	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4-5
Statement of Cash Flows	6
Notes to Financial Statements	7-15

Independent Auditor's Report

To the Board of Directors
Humane Society of Huron Valley

We have audited the accompanying financial statements of the Humane Society of Huron Valley (the "Organization"), which comprise the balance sheet as of December 31, 2013 and 2012 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Huron Valley as of December 31, 2013 and 2012 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

May 20, 2014

Humane Society of Huron Valley

Balance Sheet

	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 556,648	\$ 541,831
Receivables:		
Accounts receivable	92,214	25,069
Contributions receivable	78,814	55,763
Capital campaign pledges receivable - Net (Note 2)	250,157	75,910
Bequests receivable	46,000	115,130
Investments (Note 3)	3,609,619	4,702,201
Prepaid expenses and other current assets	152,337	99,710
Total current assets	4,785,789	5,615,614
Restricted Cash	89,152	101,329
Long-term Capital Campaign Pledges Receivable - Net (Note 2)	8,810	208,314
Property and Equipment - Net (Note 4)	7,057,501	7,248,702
Total assets	\$ 11,941,252	\$ 13,173,959
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 167,870	\$ 127,212
Current portion of capital lease payable (Note 6)	15,508	15,508
Deferred revenue	38,278	44,083
Accrued liabilities and other	228,318	203,427
Total current liabilities	449,974	390,230
Capital Lease Payable - Net of current portion (Note 6)	1,049,558	2,063,349
Total liabilities	1,499,532	2,453,579
Net Assets		
Unrestricted:		
Undesignated	8,468,776	8,061,454
Board designated (Note 1)	1,915,739	2,533,155
Temporarily restricted (Note 5)	57,205	125,771
Total net assets	10,441,720	10,720,380
Total liabilities and net assets	\$ 11,941,252	\$ 13,173,959

Humane Society of Huron Valley

Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2013			December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions	\$ 1,767,352	\$ 15,608	\$ 1,782,960	\$ 1,459,391	\$ 12,958	\$ 1,472,349
Bequests	-	294,283	294,283	316,374	112,000	428,374
Donated facilities, supplies, and equipment	30,039	-	30,039	117,639	-	117,639
Operations	2,316,358	-	2,316,358	2,020,546	-	2,020,546
Retail sales	170,601	-	170,601	99,306	-	99,306
Special event revenue	376,836	-	376,836	357,815	-	357,815
Investment income	377,420	-	377,420	375,029	-	375,029
Miscellaneous income	2,653	-	2,653	-	-	-
Total revenue and support	5,041,259	309,891	5,351,150	4,746,100	124,958	4,871,058
Net assets released from restrictions	378,457	(378,457)	-	47,322	(47,322)	-
Total revenue, support, and net assets released from restrictions	5,419,716	(68,566)	5,351,150	4,793,422	77,636	4,871,058
Expenses						
Program services:						
Clinic	1,861,253	-	1,861,253	1,873,147	-	1,873,147
Shelter	1,996,675	-	1,996,675	1,935,555	-	1,935,555
Support programs	594,939	-	594,939	494,453	-	494,453
Cruelty/Rescue	381,622	-	381,622	353,066	-	353,066
Total program services	4,834,489	-	4,834,489	4,656,221	-	4,656,221
Support services:						
Administration	437,494	-	437,494	376,167	-	376,167
Development	290,490	-	290,490	340,272	-	340,272
Capital campaign	67,337	-	67,337	343,156	-	343,156
Total expenses	5,629,810	-	5,629,810	5,715,816	-	5,715,816
(Decrease) Increase in Net Assets	(210,094)	(68,566)	(278,660)	(922,394)	77,636	(844,758)
Net Assets - Beginning of year	10,594,609	125,771	10,720,380	11,517,003	48,135	11,565,138
Net Assets - End of year	\$ 10,384,515	\$ 57,205	\$ 10,441,720	\$ 10,594,609	\$ 125,771	\$ 10,720,380

Humane Society of Huron Valley

Statement of Functional Expenses Year Ended December 31, 2013

	Program Services					Support Services			Total
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Capital Campaign	
Salaries	\$ 924,208	\$ 985,814	\$ 317,934	\$ 189,701	\$ 2,417,657	\$ 198,958	\$ 15,296	\$ 24,798	\$ 2,656,709
Employee benefits	179,217	284,549	51,168	40,611	555,545	73,650	(587)	27,880	656,488
Total salaries and related expenses	1,103,425	1,270,363	369,102	230,312	2,973,202	272,608	14,709	52,678	3,313,197
Professional fees	27,824	46,373	20,710	4,637	99,544	56,297	-	-	155,841
Animal removal, outside vet, and lab	57,009	18,017	-	11,264	86,290	-	-	-	86,290
Medical and animal supplies	269,520	216,359	-	-	485,879	-	-	-	485,879
Vehicle fuel	-	-	-	15,949	15,949	-	-	-	15,949
Contract labor	39,422	-	-	-	39,422	-	22,680	-	62,102
Supplies	7,072	10,383	20,421	12,870	50,746	44,017	5,080	-	99,843
Microchips/Trap neuter return	45,845	13,944	6,897	-	66,686	-	-	-	66,686
Postage and shipping	2,137	513	758	19	3,427	154	3,700	-	7,281
Insurance	21,502	34,407	7,398	6,117	69,424	16,676	-	-	86,100
Repair and maintenance	30,694	38,054	5,327	8,805	82,880	693	-	-	83,573
Printing	960	2,399	960	240	4,559	-	240	-	4,799
Utilities	19,203	55,616	2,833	725	78,377	32,904	-	-	111,281
Telephone	2,640	4,401	616	3,889	11,546	(2,745)	-	-	8,801
Memberships and subscriptions	3,593	3,325	3,095	1,470	11,483	996	(12,848)	6,609	6,240
Publicity and advertising	55,552	55,552	13,888	13,888	138,880	-	4,235	8,050	151,165
Newsletters	7,358	7,358	1,839	1,839	18,394	-	6,132	-	24,526
Appeals	-	-	-	-	-	-	120,919	-	120,919
Special events	-	-	-	-	-	-	57,054	-	57,054
Merchandise	-	-	103,285	-	103,285	-	-	-	103,285
Support programs	-	-	1,017	36,175	37,192	-	-	-	37,192
Training	16,437	12,550	4,470	2,952	36,409	(10,777)	1,335	-	26,967
Licenses and permits	2,305	-	-	118	2,423	979	3,308	-	6,710
Miscellaneous	(210)	(247)	53	-	(404)	56	-	-	(348)
Client refunds	198	3,970	-	-	4,168	-	-	-	4,168
Uncollectible accounts	17,402	-	-	-	17,402	-	50	-	17,452
Donated supplies and equipment	-	-	-	-	-	-	15,466	-	15,466
Credit card fees	16,636	12,123	5,500	-	34,259	-	38,749	-	73,008
Investment management fees	-	-	-	-	-	6,703	-	-	6,703
Capital lease	30,489	50,815	7,114	5,081	93,499	4,065	4,065	-	101,629
Land lease	-	-	-	-	-	3,693	-	-	3,693
Depreciation	84,240	140,400	19,656	25,272	269,568	11,175	5,616	-	286,359
Total functional expenses	<u>\$ 1,861,253</u>	<u>\$ 1,996,675</u>	<u>\$ 594,939</u>	<u>\$ 381,622</u>	<u>\$ 4,834,489</u>	<u>\$ 437,494</u>	<u>\$ 290,490</u>	<u>\$ 67,337</u>	<u>\$ 5,629,810</u>

Humane Society of Huron Valley

Statement of Functional Expenses Year Ended December 31, 2012

	Program Services					Support Services			Total
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Capital Campaign	
Salaries	\$ 924,054	\$ 952,019	\$ 306,064	\$ 187,336	\$ 2,369,473	\$ 115,338	\$ 47,489	\$ 25,601	\$ 2,557,901
Employee benefits	197,008	269,403	58,317	31,905	556,633	27,613	2,456	9,777	596,479
Total salaries and related expenses	1,121,062	1,221,422	364,381	219,241	2,926,106	142,951	49,945	35,378	3,154,380
Professional fees	23,194	38,657	25,656	3,866	91,373	125,295	-	-	216,668
Animal removal, outside vet, and lab	56,527	11,757	-	10,876	79,160	-	-	-	79,160
Medical and animal supplies	256,017	167,288	-	-	423,305	-	-	-	423,305
Vehicle fuel	-	-	-	12,902	12,902	-	-	-	12,902
Contract labor	8,601	-	-	-	8,601	-	1,625	-	10,226
Supplies	9,067	19,309	12,659	13,717	54,752	28,514	5,049	-	88,315
Microchips/Trap neuter return	58,972	21,801	6,015	-	86,788	-	-	-	86,788
Postage and shipping	1,530	434	111	92	2,167	1,470	563	-	4,200
Insurance	23,948	38,046	8,141	6,625	76,760	5,094	-	-	81,854
Repair and maintenance	23,315	30,050	4,207	9,790	67,362	1,989	-	-	69,351
Printing	1,489	8,432	947	311	11,179	-	3,201	-	14,380
Utilities	17,178	51,391	2,731	481	71,781	31,002	-	-	102,783
Telephone	3,702	6,170	864	1,572	12,308	512	-	-	12,820
Memberships and subscriptions	3,709	3,389	2,141	1,243	10,482	324	(12,772)	6,608	4,642
Publicity and advertising	67,466	67,653	17,466	16,867	169,452	-	2,259	1,170	172,881
Newsletter	6,276	6,276	1,569	1,569	15,690	-	5,230	-	20,920
Appeals	-	-	-	-	-	-	124,624	-	124,624
Special events	-	-	-	-	-	-	57,986	-	57,986
Merchandise	23,630	-	1,685	-	25,315	-	52,755	-	78,070
Support programs	-	-	2,975	16,113	19,088	-	-	-	19,088
Training	8,840	14,210	3,545	5,836	32,431	-	1,014	-	33,445
Licenses and permits	265	-	-	128	393	12,001	3,104	-	15,498
Miscellaneous	(203)	(67)	10,220	-	9,950	-	-	-	9,950
Client refunds	15	13,925	-	-	13,940	-	-	-	13,940
Uncollectible accounts	19,465	-	-	-	19,465	-	25	300,000	319,490
Donated supplies and equipment	-	-	-	-	-	-	10,510	-	10,510
Credit card fees	14,200	7,273	-	-	21,473	-	24,015	-	45,488
Investment management fees	-	-	-	-	-	12,183	-	-	12,183
Capital lease	42,205	70,342	9,848	7,034	129,429	5,627	5,627	-	140,683
Land lease	-	-	-	-	-	3,693	-	-	3,693
Depreciation	82,677	137,797	19,292	24,803	264,569	5,512	5,512	-	275,593
Total functional expenses	\$ 1,873,147	\$ 1,935,555	\$ 494,453	\$ 353,066	\$ 4,656,221	\$ 376,167	\$ 340,272	\$ 343,156	\$ 5,715,816

Humane Society of Huron Valley

Statement of Cash Flows

	Year Ended	
	December 31, 2013	December 31, 2012
Cash Flows from Operating Activities		
Decrease in net assets	\$ (278,660)	\$ (844,758)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	286,359	275,593
Amortization of debt costs	18,373	18,372
Bad debt expense	17,257	319,490
Net realized and unrealized gain on investments	(302,860)	(264,573)
Change in discount on pledges	(38,670)	(1,828)
Contributions restricted for future operations - Bequests	(46,000)	(112,000)
Gain on sale of assets	(2,653)	-
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(67,145)	36,068
Contributions receivable	(40,308)	(25,428)
Bequest receivable	115,130	17,870
Prepaid expenses and other current assets	(69,283)	(3,384)
Accounts payable	40,658	54,034
Deferred revenue	(5,805)	22,608
Accrued payroll and related liabilities	24,891	21,662
Net cash used in operating activities	(348,716)	(486,274)
Cash Flows from Investing Activities		
Change in restricted cash	12,177	(155)
Purchase of property and equipment	(97,760)	(95,595)
Proceeds from disposition of property and equipment	5,255	-
Purchases of investments	(495,557)	(403,308)
Proceeds from sales and maturities of investments	1,890,999	1,709,473
Net cash provided by investing activities	1,315,114	1,210,415
Cash Flows from Financing Activities		
Proceeds from capital campaign contribution	63,927	195,500
Principal payments on capital lease	(1,015,508)	(990,508)
Net cash used in financing activities	(951,581)	(795,008)
Net Increase (Decrease) in Cash and Cash Equivalents	14,817	(70,867)
Cash and Cash Equivalents - Beginning of year	541,831	612,698
Cash and Cash Equivalents - End of year	<u>\$ 556,648</u>	<u>\$ 541,831</u>
Supplemental Disclosure of Cash Flow Information -		
Interest paid on capital lease	<u>\$ 83,313</u>	<u>\$ 122,313</u>

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - The Humane Society of Huron Valley (the "Organization") is a not-for-profit corporation that operates an animal shelter, a veterinary clinic, emergency animal rescue services, a cruelty investigation division, and a support programs division. The Organization was incorporated in 1896 and primarily serves the Washtenaw County area.

Significant accounting policies are as follows:

Cash Equivalents - The Organization considers all highly liquid investments purchased with an original maturity of less than three months to be cash equivalents except for temporary investment funds considered part of the investment portfolio. The balances in the Organization's deposit accounts may exceed FDIC insurance coverage amounts for those accounts.

Accounts Receivable - Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All amounts are considered fully collectible at December 31, 2013 and 2012.

Contributions Receivable - The Organization's contributions receivable are comprised primarily of amounts committed from various donors for use in the Organization's activities. Contributions receivable at December 31, 2013 are expected to be collected within one year. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All amounts are considered fully collectible at December 31, 2013 and 2012.

Capital Campaign Pledges Receivable - The Organization's capital campaign pledges receivable are comprised primarily of amounts committed from various donors for use in the construction of the Organization's new facility which was completed in 2009. Capital campaign pledges are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible. As of December 31, 2013 and 2012, an allowance of \$449,900 has been recorded against these receivables.

Bequest Receivable - Bequest receivable consists of wills and estates for which the will was validated by probate court. Payment on this receivable is expected in the next year. The bequest receivable is deemed fully collectible as of December 31, 2013 and 2012.

Investments - Investments in debt and equity securities are recorded at fair value based on quoted market prices and other inputs as described in Note 8.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

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

Restricted Cash - Restricted cash consists of amounts contractually restricted for the development and maintenance of a site buffer as required by the land lease.

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, ranging from 5 to 30 years. Costs of maintenance and repairs are charged to expense when incurred.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property 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 and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property 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 and equipment.

Revenue and Support Recognition - Revenue from clinic and shelter operations, including a county contract, is recognized as earned.

Contributions are recognized upon the receipt of the gift or a written unconditional promise to give. Contributions that include donor restrictions that limit the use of the gift are recorded as restricted support. When the donor restrictions are fulfilled, temporarily restricted gifts are reclassified as unrestricted activities. For financial statement presentation purposes, management has elected to report temporarily restricted gifts, whose requirements were fulfilled in the same period that the gift was received, as unrestricted activities.

The Organization raises additional money with direct fundraising events or as a participant at community activities. Special events revenue and revenue from merchandise sales is recorded when earned.

Donated Services - The Organization receives donations of various services. In accordance with generally accepted accounting principles, these services are recorded in the statement of activities and changes in net assets when they meet certain criteria.

A substantial number of volunteers have donated significant amounts of their time to the Organization's programs and services, which do not meet the requirements to be recorded. Volunteer hours totaled 94,745 and 62,993 during 2013 and 2012, respectively.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

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

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 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. There were no permanently restricted net assets as of December 31, 2013 and 2012. Earnings, gains, and losses on temporarily restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Board-designated Net Assets - Board-designated net assets are unrestricted net assets designated by the board for facility building repairs and maintenance and repayment of Capital Improvement Bonds (see Note 6). These designations are based on board actions, which can be altered or revoked at a future time by the board. Board-designated net assets were \$1,915,739 and \$2,533,155 at December 31, 2013 and 2012, respectively.

Community Foundation - Certain funds donated by outside donors for the benefit of the Organization are held and managed by the Ann Arbor Area Community Foundation (AAACF). AAACF 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 was \$4,214,499 and \$3,848,552 at December 31, 2013 and 2012, respectively. Earnings, net of AAACF fees, are available for distribution to the Organization at the discretion of AAACF and therefore are not reflected as revenue in the financial statements until received by the Organization. Annual distributions from these funds have been shown as contribution revenue in the statement of activities and changes in net assets. These distributions were \$139,345 and \$118,321 for the years ended December 31, 2013 and 2012, respectively.

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.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note I - Nature of Activities 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.

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 certain reported amounts and disclosures. Accordingly, 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). The Internal Revenue Service has classified the Organization as an organization that is not a private foundation. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 20, 2014, which is the date the financial statements were available to be issued.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Capital Campaign Pledges Receivable

Starting in 2006, the Organization began soliciting funds for a capital campaign to construct a new facility. Pledge commitments extend through 2015. Capital campaign pledges receivable as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Pledges before unamortized discount	\$ 719,532	\$ 783,459
Less unamortized discount and allowance for uncollectible pledges	<u>(460,565)</u>	<u>(499,235)</u>
Net pledges receivable	<u>\$ 258,967</u>	<u>\$ 284,224</u>
Amounts due in:		
Less than one year	\$ 699,032	\$ 196,068
One to five years	<u>20,500</u>	<u>587,391</u>
Total	<u>\$ 719,532</u>	<u>\$ 783,459</u>

Note 3 - Investments

Investments consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Bank trust fund:		
Cash equivalents	\$ 1,104,726	\$ 994,878
Equity securities (Note 8)	872,526	1,107,331
Debt securities (Note 8)	709,117	1,950,172
Mutual funds (Note 8)	<u>673,073</u>	<u>409,321</u>
Total bank trust fund	3,359,442	4,461,702
Certificates of deposit	<u>250,177</u>	<u>240,499</u>
Total investments	<u>\$ 3,609,619</u>	<u>\$ 4,702,201</u>

Investment income consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 74,560	\$ 110,456
Realized and unrealized gains	<u>302,860</u>	<u>264,573</u>
Total	<u>\$ 377,420</u>	<u>\$ 375,029</u>

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2013</u>	<u>2012</u>
Buildings and improvements	\$ 7,891,225	\$ 7,864,475
Equipment	249,834	214,069
Vehicles	74,685	93,788
Computer software	<u>51,023</u>	<u>18,277</u>
Total cost	8,266,767	8,190,609
Accumulated depreciation	<u>(1,209,266)</u>	<u>(941,907)</u>
Net carrying amount	<u>\$ 7,057,501</u>	<u>\$ 7,248,702</u>

Depreciation expense was \$286,359 and \$275,593 at December 31, 2013 and 2012, respectively.

The Organization owns approximately six acres of land on which part of the operating facility is located. The land was contributed to the Organization in 1951. The land is permanently restricted by deed for use only as an animal shelter and any other use of the land may result in reversion of ownership to the former owner of the land. There is no value assigned to the land in these financial statements.

In 2008, the Organization entered into a 65-year land lease with the Regents of the University of Michigan for an additional 4.82 acres of vacant land on which to construct the new facility. The lease rent is \$8,000 annually for the first 30 years and \$1 annually for the remainder of the lease for a total rent expense of \$240,036. The Organization subsequently subleased this land to the County of Washtenaw (see Note 6).

During 2009, the Organization substantially completed the construction of its new building. The construction was financed with contributions and with the proceeds from tax-exempt bonds issued by Washtenaw County (the "County"), which the Organization is obligated to repay to the County (see Note 6). The cost of the new facility was approximately \$7.5 million. Accumulated amortization was \$735,848 and \$567,592 at December 31, 2013 and 2012, respectively. Amortization expense is included in depreciation expense above and on the statement of functional expenses.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 5 - Temporarily Restricted Net Assets

The Organization receives contributions whereon the donor places certain temporary restrictions on the use of the funds. In addition, bequests receivable are considered time restricted until they are collected by the Organization and available to use for operations. Below is a summary of the amounts temporarily restricted as of December 31:

	<u>2013</u>	<u>2012</u>
Time-restricted contributions	\$ 46,000	\$ 115,130
Program activities	<u>11,205</u>	<u>10,641</u>
Total	<u>\$ 57,205</u>	<u>\$ 125,771</u>

Note 6 - Capital Leases

In September 2008, the County of Washtenaw, Michigan (the "County") issued \$6,500,000 of Capital Improvement Bonds, Series 2007. The bonds are dated September 1, 2008 and are due in annual installments of \$825,000 to \$1,050,000 through January 1, 2015, plus interest at 2.75 percent to 4.125 percent. The proceeds of the bond issue were used to construct a new 29,165 square-foot building, including equipment and furnishings, to be used by the Organization.

The County and the Organization have entered into an operating agreement dated October 1, 2008, whereby the County is subleasing from the Organization the land on which the facility is located. The County is, in turn, leasing the land and building back to the Organization for the seven-year bond repayment period. Once the County's bond issue has been fully repaid by the Organization, the County has agreed to transfer title of the new facility to the Organization. The Organization has retained title to the land. This agreement is classified as a capital lease in the Organization's financial statements.

In addition, the Organization leases certain equipment under capital leases, which call for monthly installments of \$1,292 through February 2015. The future minimum lease payments under these capital leases are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2014	\$ 78,820
2015	<u>1,073,841</u>
Total minimum lease payments	1,152,661
Less amount representing interest	<u>87,595</u>
Present value of net minimum lease payments	<u>\$ 1,065,066</u>

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 7 - Employee Benefit Plan

The Organization has an employee 401(k) salary deferral plan. All employees who have reached the age of 18, with at least 1,000 hours and one year of service, are eligible to participate in the plan. The Organization matches 100 percent of a participant's elective deferral up to a maximum of 2 percent of gross pay as limited by the Internal Revenue Service. The Organization made contributions of \$20,891 and \$0 to the plan for the years ended December 31, 2013 and 2012, respectively.

Note 8 - 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 December 31, 2013 and 2012 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.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Assets - Investments				
Equity securities (domestic)	\$ 872,526	\$ -	\$ -	\$ 872,526
Debt securities (corporate bonds)	-	605,900	-	605,900
Debt securities (municipal bonds)	-	103,217	-	103,217
Mutual funds (balanced)	61,094	-	-	61,094
Mutual funds (equity)	264,363	-	-	264,363
Mutual funds (global)	119,437	-	-	119,437
Mutual funds (fixed-income)	228,179	-	-	228,179
Total investments	<u>\$ 1,545,599</u>	<u>\$ 709,117</u>	<u>\$ -</u>	<u>\$ 2,254,716</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
Assets - Investments				
Equity securities (domestic)	\$ 1,107,331	\$ -	\$ -	\$ 1,107,331
Debt securities (U.S. government agency bonds)	-	99,148	-	99,148
Debt securities (corporate bonds)	-	1,742,712	-	1,742,712
Debt securities (municipal bonds)	-	108,312	-	108,312
Mutual funds (equity)	223,544	-	-	223,544
Mutual funds (global)	92,775	-	-	92,775
Mutual funds (balanced)	93,002	-	-	93,002
Total investments	<u>\$ 1,516,652</u>	<u>\$ 1,950,172</u>	<u>\$ -</u>	<u>\$ 3,466,824</u>

Not included in the tables above are cash equivalents and certificates of deposit totaling \$1,354,903 and \$1,235,377 at December 31, 2013 and 2012, respectively.

The fair values of U.S. government agency bonds, corporate bonds, and municipal 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.