

Humane Society of Huron Valley

**Financial Report
December 31, 2011**

Humane Society of Huron Valley

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Independent Auditor's Report

To the Board of Directors
Humane Society of Huron Valley

We have audited the accompanying balance sheet of the Humane Society of Huron Valley (the "Organization") as of December 31, 2011 and 2010 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 at December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 24, 2012

Humane Society of Huron Valley

Balance Sheet

	December 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 612,698	\$ 529,926
Receivables:		
Accounts receivable	61,137	52,520
Contributions receivable	49,825	18,865
Capital campaign pledges receivable (Note 2)	160,505	913,303
Bequests receivable	21,000	2,330,000
Investments (Note 3)	5,264,331	4,248,907
Accrued interest	1,174	41,444
Prepaid expenses and other current assets	111,808	125,405
Total current assets	6,282,478	8,260,370
Restricted Cash	101,174	100,859
Investments - Net of current portion (Note 3)	479,462	-
Long-term Capital Campaign Pledges Receivable (Note 2)	617,391	200,254
Property and Equipment - Net (Note 4)	7,428,700	7,661,873
Total assets	\$ 14,909,205	\$ 16,223,356
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 94,653	\$ 73,438
Construction payable	-	5,338
Current portion of capital lease payable (Note 6)	15,508	15,508
Accrued payroll and related liabilities	181,765	169,306
Total current liabilities	291,926	263,590
Capital Lease Payable - Net of current portion (Note 6)	3,052,141	3,990,933
Total liabilities	3,344,067	4,254,523
Net Assets		
Unrestricted:		
Undesignated	9,128,946	9,479,693
Board-designated (Note 1)	2,388,057	100,000
Temporarily restricted (Note 5)	48,135	2,389,140
Total net assets	11,565,138	11,968,833
Total liabilities and net assets	\$ 14,909,205	\$ 16,223,356

Humane Society of Huron Valley

Statement of Activities and Changes in Net Assets

	Year Ended December 31					
	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions	\$ 1,480,355	\$ 53,646	\$ 1,534,001	\$ 1,590,020	\$ 59,140	\$ 1,649,160
Bequests	473,096	21,000	494,096	105,056	2,330,000	2,435,056
Donated facilities, supplies, and equipment	127,545	-	127,545	10,670	-	10,670
Operations	1,979,965	-	1,979,965	2,018,006	-	2,018,006
Retail sales	76,349	-	76,349	75,161	-	75,161
Special event revenue	297,724	-	297,724	222,046	-	222,046
Investment income	25,915	-	25,915	208,197	-	208,197
Loss on sale of fixed assets	-	-	-	(11,262)	-	(11,262)
Miscellaneous income	500	-	500	162	-	162
Total revenue and support	4,461,449	74,646	4,536,095	4,218,056	2,389,140	6,607,196
Net Assets Released from Restrictions	2,415,651	(2,415,651)	-	283,252	(283,252)	-
Total revenue, support, and net assets released from restrictions	6,877,100	(2,341,005)	4,536,095	4,501,308	2,105,888	6,607,196
Expenses						
Program services:						
Clinic	1,764,371	-	1,764,371	1,499,853	-	1,499,853
Shelter	1,745,257	-	1,745,257	1,678,542	-	1,678,542
Support programs	448,964	-	448,964	338,517	-	338,517
Cruelty/Rescue	294,439	-	294,439	252,708	-	252,708
Total program services	4,253,031	-	4,253,031	3,769,620	-	3,769,620
Support services:						
Administration	335,395	-	335,395	183,306	-	183,306
Development	309,153	-	309,153	399,981	-	399,981
Capital campaign	42,211	-	42,211	136,072	-	136,072
Total support services	686,759	-	686,759	719,359	-	719,359
Total expenses	4,939,790	-	4,939,790	4,488,979	-	4,488,979
Increase (Decrease) in Net Assets	1,937,310	(2,341,005)	(403,695)	12,329	2,105,888	2,118,217
Net Assets - Beginning of year	9,579,693	2,389,140	11,968,833	9,567,364	283,252	9,850,616
Net Assets - End of year	\$ 11,517,003	\$ 48,135	\$ 11,565,138	\$ 9,579,693	\$ 2,389,140	\$ 11,968,833

See Notes to Financial Statements.

Humane Society of Huron Valley

Statement of Functional Expenses Year Ended December 31, 2011

	Program Services				Support Services				
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Capital Campaign	Total
Salaries	\$ 862,479	\$ 787,644	\$ 280,394	\$ 157,354	\$ 2,087,871	\$ 77,990	\$ 78,142	\$ 20,105	\$ 2,264,108
Employee benefits	180,145	246,636	60,463	43,370	530,614	49,439	3,390	20,611	604,054
Total salaries and related expenses	1,042,624	1,034,280	340,857	200,724	2,618,485	127,429	81,532	40,716	2,868,162
Professional fees	23,978	39,964	19,809	3,996	87,747	119,807	-	-	207,554
Animal removal, outside vet, and lab	48,474	15,193	-	6,146	69,813	-	-	-	69,813
Medical and animal supplies	243,926	163,151	-	-	407,077	-	-	-	407,077
Vehicle fuel	-	-	-	12,283	12,283	-	-	-	12,283
Supplies	11,659	15,450	10,199	4,382	41,690	11,241	5,441	-	58,372
Microchips/Trap neuter return	59,062	15,424	8,292	-	82,778	-	-	-	82,778
Postage and shipping	1,665	387	152	36	2,240	1,706	1,496	-	5,442
Insurance	24,693	38,926	7,055	5,942	76,616	6,228	-	-	82,844
Repair and maintenance	21,763	32,161	4,503	5,758	64,185	5,146	-	-	69,331
Travel	-	-	-	-	-	359	-	-	359
Printing	1,089	9,884	1,688	258	12,919	-	2,650	-	15,569
Utilities	16,508	50,042	2,703	407	69,660	30,423	-	-	100,083
Telephone	5,163	8,606	1,205	1,341	16,315	897	-	-	17,212
Memberships and subscriptions	2,566	261	1,231	1,022	5,080	171	-	-	5,251
Publicity and advertising	56,750	56,750	14,187	14,187	141,874	-	305	1,495	143,674
Newsletter	7,841	7,841	1,960	1,960	19,602	-	6,534	-	26,136
Appeals	-	-	-	-	-	-	90,154	-	90,154
Special events	-	-	-	-	-	-	55,894	-	55,894
Merchandise	26,215	-	-	-	26,215	-	30,757	-	56,972
Support programs	-	-	1,326	-	1,326	-	-	-	1,326
Training	1,478	6,298	1,952	2,068	11,796	3,796	582	-	16,174
Licenses and permits	737	1,177	-	-	1,914	697	3,013	-	5,624
Miscellaneous	(260)	(330)	-	-	(590)	-	(524)	-	(1,114)
Client refunds	182	13,678	-	-	13,860	-	52	-	13,912
Uncollectible accounts	13,605	-	-	-	13,605	-	50	-	13,655
Donated supplies and equipment	-	1,945	-	-	1,945	-	1,000	-	2,945
Credit card fees	18,175	6,707	-	-	24,882	-	17,611	-	42,493
Investment management fees	-	-	-	-	-	11,196	-	-	11,196
Capital lease	52,612	87,686	12,276	8,769	161,343	7,015	7,015	-	175,373
Land lease	-	-	-	-	-	3,693	-	-	3,693
Depreciation	83,866	139,776	19,569	25,160	268,371	5,591	5,591	-	279,553
Total functional expenses	<u>\$ 1,764,371</u>	<u>\$ 1,745,257</u>	<u>\$ 448,964</u>	<u>\$ 294,439</u>	<u>\$ 4,253,031</u>	<u>\$ 335,395</u>	<u>\$ 309,153</u>	<u>\$ 42,211</u>	<u>\$ 4,939,790</u>

Humane Society of Huron Valley

Statement of Functional Expenses Year Ended December 31, 2010

	Program Services				Support Services				Total
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Administration	Development	Capital Campaign		
Salaries	\$ 728,272	\$ 752,020	\$ 188,958	\$ 132,028	\$ 1,801,278	\$ 70,097	\$ 121,365	\$ 6,783	\$ 1,999,523
Employee benefits	153,046	227,038	51,752	30,788	462,624	5,684	11,674	1,496	481,478
Total salaries and related expenses	881,318	979,058	240,710	162,816	2,263,902	75,781	133,039	8,279	2,481,001
Professional fees	12,365	16,701	14,305	2,748	46,119	45,287	2,991	-	94,397
Animal removal, outside vet, and lab	35,016	12,506	-	4,827	52,349	-	-	-	52,349
Medical and animal supplies	227,138	161,724	-	-	388,862	-	-	-	388,862
Vehicle fuel	-	-	-	8,701	8,701	-	-	-	8,701
Contract labor	1,374	-	-	-	1,374	-	1,473	-	2,847
Supplies	8,908	15,645	3,585	4,592	32,730	6,742	5,349	-	44,821
Microchips/Trap neuter return	31,757	13,021	8,201	-	52,979	-	-	-	52,979
Postage and shipping	1,112	380	24	1,091	2,607	422	2,283	-	5,312
Insurance	12,728	26,886	5,462	9,979	55,055	6,176	2,918	-	64,149
Repair and maintenance	10,961	35,405	320	7,656	54,342	6,667	276	-	61,285
Printing	2,966	13,761	1,432	428	18,587	-	1,376	-	19,963
Utilities	12,717	44,787	11,390	-	68,894	11,254	-	-	80,148
Telephone	2,046	9,817	439	2,039	14,341	790	216	-	15,347
Memberships and subscriptions	1,670	135	1,211	825	3,841	360	720	-	4,921
Publicity and advertising	35,890	62,792	7,504	6,593	112,779	-	447	7,793	121,019
Newsletter	6,051	10,085	2,017	2,017	20,170	-	6,724	-	26,894
Appeals	-	-	-	-	-	-	127,405	-	127,405
Special events	-	-	-	-	-	-	54,540	-	54,540
Merchandise	26,447	-	714	-	27,161	-	27,612	-	54,773
Support programs	-	-	5,582	50	5,632	-	-	-	5,632
Training	8,463	5,771	2,175	3,836	20,245	2,152	1,161	-	23,558
Licenses and permits	404	757	-	37	1,198	563	3,004	-	4,765
Miscellaneous	(201)	(217)	225	-	(193)	-	-	-	(193)
Client refunds	-	13,055	-	-	13,055	-	-	-	13,055
Uncollectible accounts	23,645	1,788	-	-	25,433	-	25	120,000	145,458
Donated supplies and equipment	-	10,970	-	-	10,970	-	670	-	11,640
Credit card and investment fees	14,703	6,423	-	-	21,126	-	14,140	-	35,266
Investment management fees	-	-	-	-	-	9,808	-	-	9,808
Capital lease	61,799	102,998	14,420	10,300	189,517	8,240	8,240	-	205,997
Land lease	-	-	-	-	-	3,692	-	-	3,692
Depreciation	80,576	134,294	18,801	24,173	257,844	5,372	5,372	-	268,588
Total functional expenses	<u>\$ 1,499,853</u>	<u>\$ 1,678,542</u>	<u>\$ 338,517</u>	<u>\$ 252,708</u>	<u>\$ 3,769,620</u>	<u>\$ 183,306</u>	<u>\$ 399,981</u>	<u>\$ 136,072</u>	<u>\$ 4,488,979</u>

Humane Society of Huron Valley

Statement of Cash Flows

	Year Ended	
	December 31, 2011	December 31, 2010
Cash Flows from Operating Activities		
(Decrease) Increase in net assets	\$ (403,695)	\$ 2,118,217
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	279,552	268,588
Amortization of debt costs	18,372	18,372
Bad debt expense	(100)	120,000
Net realized and unrealized loss (gain) on investments	71,733	(78,658)
Loss on sale of assets	-	11,262
Contributions restricted for capital campaign	(102,500)	(102,500)
Change in discount on pledges	9,412	(35,335)
Donated stock	-	(119,256)
Contributions restricted for future operations - Bequests	(21,000)	(2,330,000)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(8,617)	2,396
Contributions receivable	(30,960)	5,174
Accrued interest	40,270	(16,117)
Bequest receivable	2,330,000	276,650
Prepaid expenses and other current assets	(3,059)	23,435
Accounts payable	21,215	(34,835)
Accrued payroll and related liabilities	12,459	51,950
Net cash provided by operating activities	2,213,082	179,343
Cash Flows from Investing Activities		
Restricted cash	(315)	(495)
Purchase of property and equipment	(51,717)	(1,028,365)
Purchases of investments	(4,883,300)	(2,244,173)
Proceeds from sales and maturities of investments	3,316,681	2,489,203
Net cash used in investing activities	(1,618,651)	(783,830)
Cash Flows from Financing Activities		
Proceeds from capital campaign contribution	428,849	557,088
Principal payments on capital lease	(940,508)	(887,923)
Proceeds from collection of county receivable	-	929,415
Net cash (used in) provided by financing activities	(511,659)	598,580
Net Increase (Decrease) in Cash and Cash Equivalents	82,772	(5,907)
Cash and Cash Equivalents - Beginning of year	529,926	535,833
Cash and Cash Equivalents - End of year	\$ 612,698	\$ 529,926
Supplemental Disclosure of Cash Flow Information -		
Interest paid on capital lease	\$ 157,000	\$ 187,625

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 and 2010.

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. 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, 2011 and 2010, an allowance of \$149,900 and \$240,000, respectively, 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, 2011 and 2010.

Investments - Investments in debt and equity securities are recorded at fair value based on quoted market prices and other inputs as described in Note 7.

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.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

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

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 57,142 and 55,400 during 2011 and 2010, respectively.

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.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

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

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, 2011 and 2010. 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 \$2,388,057 and \$100,000 at December 31, 2011 and 2010, 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 \$3,424,411 and \$3,507,796 at December 31, 2011 and 2010, respectively. These funds are not reflected in the financial statements. 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 investment income in the statement of activities and changes in net assets. These distributions were \$8,003 and \$6,496 for the years ended December 31, 2011 and 2010, 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.

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.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

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

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, 2011 and 2010, 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 the 2008 fiscal year.

Fair Value Disclosures - The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Organization could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 24, 2012, which is the date the financial statements were available to be issued.

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Pledges before unamortized discount	\$ 978,959	\$ 1,395,308
Less unamortized discount and allowance for uncollectible pledges	<u>(201,063)</u>	<u>(281,751)</u>
Net pledges receivable	<u>\$ 777,896</u>	<u>\$ 1,113,557</u>
Amounts due in:		
Less than one year	\$ 361,568	\$ 853,787
One to five years	<u>617,391</u>	<u>541,521</u>
Total	<u>\$ 978,959</u>	<u>\$ 1,395,308</u>

Note 3 - Investments

Investments consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Bank trust fund:		
Cash equivalents	\$ 1,328,207	\$ 386,172
Equity securities (Note 7)	973,675	3,218
Debt securities (Note 7)	1,589,249	1,159,288
Mutual funds (Note 7)	<u>1,083,470</u>	<u>1,083,056</u>
Total bank trust fund	4,974,601	2,631,734
Certificates of deposit	<u>769,192</u>	<u>1,617,173</u>
Total investments	5,743,793	4,248,907
Short-term portion	<u>(5,264,331)</u>	<u>(4,248,907)</u>
Long-term portion	<u>\$ 479,462</u>	<u>\$ -</u>

Humane Society of Huron Valley

Notes to Financial Statements December 31, 2011 and 2010

Note 3 - Investments (Continued)

Long-term investments consist of certificates of deposit that mature in more than one year from the balance sheet date.

Investment income consists of the following at December 31:

	2011	2010
Interest and dividends	\$ 97,648	\$ 129,539
(Loss) gain on sale of securities	(4,497)	3,703
Unrealized (loss) gain	(67,236)	74,955
Total	<u>\$ 25,915</u>	<u>\$ 208,197</u>

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2011	2010
Buildings and improvements	\$ 7,817,007	\$ 7,809,280
Equipment	176,127	162,475
Vehicles	83,603	58,603
Computer software	18,277	18,277
Total cost	8,095,014	8,048,635
Accumulated depreciation	(666,314)	(386,762)
Net carrying amount	<u>\$ 7,428,700</u>	<u>\$ 7,661,873</u>

Depreciation expense was \$279,552 and \$268,588 at December 31, 2011 and 2010, 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).

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Notes to Financial Statements December 31, 2011 and 2010

Note 4 - Property and Equipment (Continued)

During 2009, the Organization substantially completed the construction of its new building. The cost of the new facility was approximately \$7.5 million. 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).

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:

	2011	2010
Time-restricted contributions	\$ 21,000	\$ 2,330,000
Program activities	27,135	59,140
Total	<u>\$ 48,135</u>	<u>\$ 2,389,140</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.

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Notes to Financial Statements December 31, 2011 and 2010

Note 6 - Capital Leases (Continued)

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>
2012	\$ 155,164
2013	1,093,320
2014	1,078,820
2015	<u>1,073,841</u>
Total minimum lease payments	3,401,145
Less amount representing interest	<u>333,496</u>
Present value of net minimum lease payments	<u>\$ 3,067,649</u>

Note 7 - 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, 2011 and 2010 and the valuation techniques used by the Organization to determine those fair values.

In general, 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.

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Notes to Financial Statements December 31, 2011 and 2010

Note 7 - Fair Value Measurements (Continued)

In instances where 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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2011

	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, 2011
Investments:				
Equity securities (domestic)	\$ 973,675	\$ -	\$ -	\$ 973,675
Debt securities (U.S. government agency bonds)	-	100,199	-	100,199
Debt securities (corporate bonds)	-	1,283,434	-	1,283,434
Debt securities (municipal bonds)	-	205,616	-	205,616
Mutual funds (fixed income)	434,378	-	-	434,378
Mutual funds (equity)	372,976	-	-	372,976
Mutual funds (global)	140,101	-	-	140,101
Mutual funds (balanced)	136,015	-	-	136,015
Total investments	<u>\$ 2,057,145</u>	<u>\$ 1,589,249</u>	<u>\$ -</u>	<u>\$ 3,646,394</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010

	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, 2010
Investments:				
Equity securities (domestic)	\$ 3,218	\$ -	\$ -	\$ 3,218
Debt securities (U.S. government agency bonds)	-	146,313	-	146,313
Debt securities (corporate bonds)	-	814,964	-	814,964
Debt securities (municipal bonds)	-	198,011	-	198,011
Mutual funds (fixed income)	379,556	-	-	379,556
Mutual funds (equity)	347,716	-	-	347,716
Mutual funds (global)	203,455	-	-	203,455
Mutual funds (balanced)	152,329	-	-	152,329
Total assets	<u>\$ 1,086,274</u>	<u>\$ 1,159,288</u>	<u>\$ -</u>	<u>\$ 2,245,562</u>

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Notes to Financial Statements December 31, 2011 and 2010

Note 7 - Fair Value Measurements (Continued)

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.

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. No transfers occurred during the periods ending December 31, 2011 and 2010.