

# **Humane Society of Huron Valley**

---

**Financial Report  
December 31, 2012**

# **Humane Society of Huron Valley**

---

## **Contents**

<b>Report Letter</b>	<b>1</b>
<b>Financial Statements</b>	
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	7-16

## 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, 2012 and 2011 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, 2012 and 2011 and the results of its operations, functional expenses, 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, 2013

# Humane Society of Huron Valley

## Balance Sheet

	December 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 541,831	\$ 612,698
Receivables:		
Accounts receivable	25,069	61,137
Contributions receivable	55,763	49,825
Capital campaign pledges receivable - Net (Note 2)	75,910	160,505
Bequests receivable	115,130	21,000
Investments (Note 3)	4,702,201	5,264,331
Prepaid expenses and other current assets	99,710	112,982
Total current assets	5,615,614	6,282,478
<b>Restricted Cash</b>	101,329	101,174
<b>Investments - Net of current portion (Note 3)</b>	-	479,462
<b>Long-term Capital Campaign Pledges Receivable - Net (Note 2)</b>	208,314	617,391
<b>Property and Equipment - Net (Note 4)</b>	7,248,702	7,428,700
Total assets	<b>\$ 13,173,959</b>	<b>\$ 14,909,205</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 127,212	\$ 73,178
Current portion of capital lease payable (Note 6)	15,508	15,508
Deferred revenue	44,083	21,475
Accrued payroll and related liabilities	203,427	181,765
Total current liabilities	390,230	291,926
<b>Capital Lease Payable - Net of current portion (Note 6)</b>	2,063,349	3,052,141
Total liabilities	2,453,579	3,344,067
<b>Net Assets</b>		
Unrestricted:		
Undesignated	8,061,454	9,128,946
Board-designated (Note 1)	2,533,155	2,388,057
Temporarily restricted (Note 5)	125,771	48,135
Total net assets	10,720,380	11,565,138
Total liabilities and net assets	<b>\$ 13,173,959</b>	<b>\$ 14,909,205</b>

# Humane Society of Huron Valley

## Statement of Activities and Changes in Net Assets

	December 31, 2012			December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>						
Contributions	\$ 1,459,391	\$ 12,958	\$ 1,472,349	\$ 1,480,355	\$ 53,646	\$ 1,534,001
Bequests	316,374	112,000	428,374	473,096	21,000	494,096
Donated facilities, supplies, and equipment	117,639	-	117,639	127,545	-	127,545
Operations	2,020,546	-	2,020,546	1,981,347	-	1,981,347
Retail sales	99,306	-	99,306	76,349	-	76,349
Special event revenue	357,815	-	357,815	297,724	-	297,724
Investment income	375,029	-	375,029	25,915	-	25,915
Miscellaneous income	-	-	-	500	-	500
Total revenue and support	4,746,100	124,958	4,871,058	4,462,831	74,646	4,537,477
Net assets released from restrictions	47,322	(47,322)	-	2,415,651	(2,415,651)	-
Total revenue, support, and net assets released from restrictions	4,793,422	77,636	4,871,058	6,878,482	(2,341,005)	4,537,477
<b>Expenses</b>						
Program services:						
Clinic	1,873,147	-	1,873,147	1,765,753	-	1,765,753
Shelter	1,935,555	-	1,935,555	1,745,257	-	1,745,257
Support programs	494,453	-	494,453	448,964	-	448,964
Cruelty/Rescue	353,066	-	353,066	294,439	-	294,439
Total program services	4,656,221	-	4,656,221	4,254,413	-	4,254,413
Supporting services:						
Administration	376,167	-	376,167	335,395	-	335,395
Development	340,272	-	340,272	309,153	-	309,153
Capital campaign	343,156	-	343,156	42,211	-	42,211
Total expenses	5,715,816	-	5,715,816	4,941,172	-	4,941,172
<b>(Decrease) Increase in Net Assets</b>	(922,394)	77,636	(844,758)	1,937,310	(2,341,005)	(403,695)
<b>Net Assets - Beginning of year</b>	11,517,003	48,135	11,565,138	9,579,693	2,389,140	11,968,833
<b>Net Assets - End of year</b>	<b>\$ 10,594,609</b>	<b>\$ 125,771</b>	<b>\$ 10,720,380</b>	<b>\$ 11,517,003</b>	<b>\$ 48,135</b>	<b>\$ 11,565,138</b>

# 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
Newsletters	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	<u>\$ 1,873,147</u>	<u>\$ 1,935,555</u>	<u>\$ 494,453</u>	<u>\$ 353,066</u>	<u>\$ 4,656,223</u>	<u>\$ 376,167</u>	<u>\$ 340,272</u>	<u>\$ 343,156</u>	<u>\$ 5,715,818</u>

# Humane Society of Huron Valley

## Statement of Functional Expenses Year Ended December 31, 2011

	Program Services					Support Services			Total
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Capital Campaign	
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	19,558	6,707	-	-	26,265	-	17,611	-	43,876
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	83,865	139,776	19,569	25,160	268,370	5,591	5,591	-	279,552
Total functional expenses	<u>\$ 1,765,753</u>	<u>\$ 1,745,257</u>	<u>\$ 448,964</u>	<u>\$ 294,439</u>	<u>\$ 4,254,413</u>	<u>\$ 335,395</u>	<u>\$ 309,153</u>	<u>\$ 42,211</u>	<u>\$ 4,941,172</u>

# Humane Society of Huron Valley

## Statement of Cash Flows

	Year Ended	
	December 31, 2012	December 31, 2011
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (844,758)	\$ (403,695)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	275,593	279,552
Amortization of debt costs	18,372	18,372
Bad debt expense (recovery)	319,490	(100)
Net realized and unrealized (gain) loss on investments	(264,573)	71,733
Contributions restricted for capital campaign	-	(102,500)
Change in discount on pledges	(1,828)	9,412
Contributions restricted for future operations - Bequests	(112,000)	(21,000)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	36,068	(8,617)
Contributions receivable	(25,428)	(30,960)
Accrued interest	-	40,270
Bequest receivable	17,870	2,330,000
Prepaid expenses and other current assets	(3,384)	(3,059)
Accounts payable	54,034	21,215
Deferred revenue	22,608	-
Accrued payroll and related liabilities	21,662	12,459
Net cash (used in) provided by operating activities	(486,274)	2,213,082
<b>Cash Flows from Investing Activities</b>		
Change in restricted cash	(155)	(315)
Purchase of property and equipment	(95,595)	(51,717)
Purchases of investments	(403,308)	(4,883,300)
Proceeds from sales and maturities of investments	1,709,473	3,316,681
Net cash provided by (used in) investing activities	1,210,415	(1,618,651)
<b>Cash Flows from Financing Activities</b>		
Proceeds from capital campaign contribution	195,500	428,849
Principal payments on capital lease	(990,508)	(940,508)
Net cash used in financing activities	(795,008)	(511,659)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(70,867)	82,772
<b>Cash and Cash Equivalents - Beginning of year</b>	612,698	529,926
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 541,831</b>	<b>\$ 612,698</b>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Interest paid on capital lease	<b>\$ 122,313</b>	<b>\$ 157,000</b>



# Humane Society of Huron Valley

---

## Notes to Financial Statements December 31, 2012 and 2011

### 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, 2012 and 2011.

**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, 2012 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, 2012 and 2011.

**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, 2012 and 2011, an allowance of \$449,900 and \$149,900, 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, 2012 and 2011.

**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.

# Humane Society of Huron Valley

---

## Notes to Financial Statements December 31, 2012 and 2011

### **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 62,993 and 57,142 during 2012 and 2011, respectively.

# Humane Society of Huron Valley

---

## Notes to Financial Statements December 31, 2012 and 2011

### **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, 2012 and 2011. 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 \$2,533,155 and \$2,388,057 at December 31, 2012 and 2011, 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 \$3,848,552 and \$3,424,411 at December 31, 2012 and 2011, 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 contribution revenue in the statement of activities and changes in net assets. These distributions were \$118,321 and \$8,003 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011

### **Note 1 - 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, 2012 and 2011, 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 2009.

**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 May 20, 2013, which is the date the financial statements were available to be issued.

**Reclassification** - Certain reclassifications were made to amounts in the 2011 financial statements to conform to the classifications used in 2012. These reclassifications had no effect on the reported net assets, changes in net assets, or cash flows for the year ended December 31, 2011.

# Humane Society of Huron Valley

## Notes to Financial Statements December 31, 2012 and 2011

### 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Pledges before unamortized discount	\$ 783,459	\$ 978,959
Less unamortized discount and allowance for uncollectible pledges	<u>(499,235)</u>	<u>(201,063)</u>
Net pledges receivable	<u>\$ 284,224</u>	<u>\$ 777,896</u>
Amounts due in:		
Less than one year	\$ 196,068	\$ 361,568
One to five years	<u>587,391</u>	<u>617,391</u>
Total	<u>\$ 783,459</u>	<u>\$ 978,959</u>

### Note 3 - Investments

Investments consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Bank trust fund:		
Cash equivalents	\$ 994,878	\$ 1,587,763
Equity securities (Note 7)	1,107,331	973,675
Debt securities (Note 7)	1,950,172	1,589,249
Mutual funds (Note 7)	<u>409,321</u>	<u>1,083,470</u>
Total bank trust fund	4,461,702	5,234,157
Certificates of deposit	<u>240,499</u>	<u>509,636</u>
Total investments	4,702,201	5,743,793
Short-term portion	<u>(4,702,201)</u>	<u>(5,264,331)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 479,462</u>

# Humane Society of Huron Valley

## Notes to Financial Statements December 31, 2012 and 2011

### 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:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 110,456	\$ 97,648
Realized and unrealized gains (losses)	<u>264,573</u>	<u>(71,733)</u>
Total	<u>\$ 375,029</u>	<u>\$ 25,915</u>

### Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 7,864,475	\$ 7,817,007
Equipment	214,069	176,127
Vehicles	93,788	83,603
Computer software	<u>18,277</u>	<u>18,277</u>
Total cost	8,190,609	8,095,014
Accumulated depreciation	<u>(941,907)</u>	<u>(666,314)</u>
Net carrying amount	<u>\$ 7,248,702</u>	<u>\$ 7,428,700</u>

Depreciation expense was \$275,593 and \$279,552 at December 31, 2012 and 2011, 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).

# Humane Society of Huron Valley

## Notes to Financial Statements December 31, 2012 and 2011

### Note 4 - Property and Equipment (Continued)

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 \$503,661 and \$385,661 at December 31, 2012 and 2011, respectively. Amortization expense is included in depreciation expense above and on the statement of functional expenses.

### 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:

	2012	2011
Time-restricted contributions	\$ 115,130	\$ 21,000
Program activities	10,641	27,135
Total	<u>\$ 125,771</u>	<u>\$ 48,135</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.

# Humane Society of Huron Valley

## Notes to Financial Statements December 31, 2012 and 2011

### 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>
2013	\$ 118,320
2014	1,078,820
2015	<u>1,073,841</u>
Total minimum lease payments	2,270,981
Less amount representing interest	<u>192,124</u>
Present value of net minimum lease payments	<u>\$ 2,078,857</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, 2012 and 2011 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.



# Humane Society of Huron Valley

## Notes to Financial Statements December 31, 2012 and 2011

### 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.

The Organization's policy is to recognize transfers between levels as of the actual date of the event of change in circumstances that caused the transfer. No transfers occurred during the years ending December 31, 2012 and 2011.

#### 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
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>

#### 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>

# **Humane Society of Huron Valley**

---

## **Notes to Financial Statements December 31, 2012 and 2011**

### **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.