Michigan Humane Society

Financial Report
September 30, 2017

Contents

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Independent Auditor's Report

To the Board of Directors
Michigan Humane Society

We have audited the accompanying financial statements of Michigan Humane Society (the "Organization"), which comprise the balance sheet as of September 30, 2017 and 2016 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Humane Society as of September 30, 2017 and 2016 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

February 6, 2018

Michigan Humane Society

Balance Sheet

		September 30, 2017		September 30, 2016
Assets				
Cash and cash equivalents	$	3,039,214	$	2,308,887
Accounts receivable:				
Operational accounts receivable		72,411		39,416
Legacies and bequests receivable		223,979		1,520,652
Investment-related and other accounts receivable		58,231		13,354
Capital campaign receivable (Note 2)		2,527,798		4,189,728
Investments (Note 3)		10,029,117		7,765,286
Inventory		205,040		497,061
Prepaid expenses and other		285,041		188,469
Interest in trusts (Note 3)		838,083		824,073
Property and equipment - Net (Note 4)		19,950,367		20,754,570
Assets restricted for long-term use		194,805		179,768
Total assets	**$**	**37,424,086**	**$**	**38,281,264**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$	543,095	$	623,224
Annuities payable (Note 3)		13,038		59,321
Accrued salaries, wages, and employee benefits payable		546,121		447,423
Debt facility (Note 5)		-		4,964,203
Total liabilities		1,102,254		6,094,171
Net Assets				
Unrestricted (Note 6)		31,247,941		29,352,691
Temporarily restricted (Note 7)		3,364,195		1,713,944
Permanently restricted (Note 8)		1,709,696		1,120,458
Total net assets		36,321,832		32,187,093
Total liabilities and net assets	**$**	**37,424,086**	**$**	**38,281,264**

See Notes to Financial Statements.

Michigan Humane Society

Statement of Activities and Changes in Net Assets

	Year Ended September 30, 2017	Year Ended September 30, 2016
Changes in Unrestricted Net Assets		
Revenue and support:		
Contributions	$ 5,077,729	$ 10,719,625
Legacies and bequests	7,320,301	3,462,961
Adoption center and charitable veterinary hospital - Net (Note 9)	6,679,859	6,363,663
Retail	22,532	16,404
Special event revenue:		
Gross revenue	1,371,190	1,796,505
Direct benefit to donor costs	(44,860)	(56,907)
Investment gains (Note 10)	1,181,569	451,217
Loss on disposal of property and equipment	-	(88,716)
Total revenue and support	21,608,320	22,664,752
Net assets released from restrictions	540,862	1,136,944
Total unrestricted revenue, support, and net assets released from restrictions	22,149,182	23,801,696
Expenses:		
Program services	16,680,116	16,045,306
Support services:		
Management and general	804,859	476,148
Fundraising	2,768,957	2,827,232
Total expenses	20,253,932	19,348,686
Increase in Unrestricted Net Assets	1,895,250	4,453,010
Changes in Temporarily Restricted Net Assets		
Contributions	2,036,605	45,280
Legacies and bequests	78,979	190,736
Change in value of split-interest agreements	14,010	12,998
Investment gains (Note 10)	61,519	-
Net assets released from restrictions	(540,862)	(1,136,944)
Increase (Decrease) in Temporarily Restricted Net Assets	1,650,251	(887,930)
Changes in Permanently Restricted Net Assets - Contributions	589,238	932,958
Increase in Net Assets	4,134,739	4,498,038
Net Assets - Beginning of year	32,187,093	27,689,055
Net Assets - End of year	**$ 36,321,832**	**$ 32,187,093**

Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 8,376,483	$ 254,587	$ 763,630	$ 9,394,700
Employee benefits	1,187,332	72,829	73,811	1,333,972
Payroll taxes	667,835	60,849	55,649	784,333
Total salaries and salary-related expenses	10,231,650	388,265	893,090	11,513,005
Animal care	2,529,109	1,187	60	2,530,356
Facility	237,681	181	174	238,036
Insurance	75,481	1,028	2,368	78,877
Vehicle	134,196	11,180	9,514	154,890
Rental	119,506	41,873	37,411	198,790
Repairs and maintenance - Building	242,970	704	105	243,779
Utilities	462,977	2,969	2,300	468,246
Telephone and connectivity	125,343	10,704	8,922	144,969
Fundraising and special event costs	196,745	345	890,684	1,087,774
Public relations and marketing	351,051	49	192,452	543,552
Postage	36,059	2,247	364,407	402,713
Printing	114,055	842	50,877	165,774
Professional fees	134,787	188,440	140,001	463,228
Office supplies and expenses	87,033	28,003	6,204	121,240
Meeting	7,545	2,003	613	10,161
Employee	67,300	7,336	6,092	80,728
Cost of sales	10,471	-	1,770	12,241
Investment and banking fees	144,118	50,972	122,288	317,378
IT licenses and support	110,958	17,407	34,749	163,114
Support of collaborative efforts	36,527	-	-	36,527
Depreciation	1,079,639	11,839	27,869	1,119,347
Bad debt	-	-	(30,810)	(30,810)
Interest	61,355	-	-	61,355
Other	83,560	37,285	7,817	128,662
Total expenses before direct benefit to donor costs	16,680,116	804,859	2,768,957	20,253,932
Direct benefit to donor costs	-	-	-	44,860
Total expenses including direct benefit to donor costs	**$ 16,680,116**	**$ 804,859**	**$ 2,768,957**	**$ 20,298,792**

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Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 8,128,899	$ 136,321	$ 683,385	$ 8,948,605
Employee benefits	1,129,125	70,613	58,466	1,258,204
Payroll taxes	666,674	39,580	51,727	757,981
Total salaries and salary-related expenses	9,924,698	246,514	793,578	10,964,790
Animal care	2,531,858	-	-	2,531,858
Facility	295,488	339	278	296,105
Insurance	70,992	1,279	2,950	75,221
Vehicle	128,056	5,286	10,651	143,993
Rental	114,652	39,164	35,104	188,920
Repairs and maintenance - Building	143,905	32	27	143,964
Utilities	410,242	2,521	2,235	414,998
Telephone and connectivity	113,325	8,275	8,430	130,030
Fundraising and special event costs	211,940	-	1,094,429	1,306,369
Public relations and marketing	338,827	115	9,755	348,697
Postage	25,048	2,850	377,087	404,985
Printing	29,298	589	72,894	102,781
Professional fees	164,263	54,024	200,937	419,224
Office supplies and expenses	82,768	12,701	6,184	101,653
Meeting	12,742	4,066	886	17,694
Employee	65,481	22,120	12,633	100,234
Cost of sales	9,954	-	-	9,954
Investment and banking fees	123,674	38,820	128,184	290,678
IT licenses and support	238,978	21,473	36,654	297,105
Support of collaborative efforts	8,299	-	-	8,299
Interest	72,348	-	-	72,348
Depreciation	894,860	8,630	28,438	931,928
Other	33,610	7,350	5,898	46,858
Total expenses before direct benefit to donor costs	16,045,306	476,148	2,827,232	19,348,686
Direct benefit to donor costs	-	-	-	56,907
Total expenses including direct benefit to donor costs	**$ 16,045,306**	**$ 476,148**	**$ 2,827,232**	**$ 19,405,593**

Michigan Humane Society

Statement of Cash Flows

	Year Ended September 30, 2017	Year Ended September 30, 2016
Cash Flows from Operating Activities		
Increase in net assets	$ 4,134,739	$ 4,498,038
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	1,119,347	931,928
Loss on disposal of property and equipment	-	88,716
Amortization discount on pledges receivable	(97,167)	36,827
Net realized and unrealized gains on investments	(1,087,637)	(314,286)
Donated investments	(124,212)	(76,563)
Bad debt recovery	(30,810)	-
Distributions of interest in trust	-	2,387
Change in value of interest in trusts	(14,010)	(12,998)
Contributions restricted for building improvements	-	(4,823,256)
Contributions restricted for future operations - Bequests receivable	(78,979)	(1,139,267)
Contributions restricted for endowment	(589,238)	-
Changes in operating assets and liabilities which (used) provided cash:		
Operational accounts receivable	(32,995)	20,828
Other accounts receivable	(44,877)	26,343
Legacies and bequests receivable	475,652	1,094,167
Inventory	292,021	(123,959)
Prepaid expenses and other	(96,572)	39,401
Accounts payable and other	(126,412)	262,972
Accrued salaries, wages, and employee benefits payable	98,698	(257,825)
Net cash provided by operating activities	3,797,548	253,453
Cash Flows from Investing Activities		
Purchase of property and equipment	(315,144)	(5,668,061)
Purchases of investments	(8,620,385)	(4,142,181)
Proceeds from sales and maturities of investments	7,568,403	4,512,912
Net cash used in investing activities	(1,367,126)	(5,297,330)
Cash Flows from Financing Activities		
Borrowings from debt facility	-	4,245,000
Payments on debt	(4,964,203)	(1,832,000)
Proceeds from capital campaign contributions	1,789,907	3,189,790
Proceeds from endowment gifts	1,489,238	-
Net cash (used in) provided by financing activities	(1,685,058)	5,602,790
Net Increase in Cash and Cash Equivalents	745,364	558,913
Cash and Cash Equivalents - Beginning of year	2,488,655	1,929,742
Cash and Cash Equivalents - End of year	**$ 3,234,019**	**$ 2,488,655**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 70,557**	**$ 104,843**
Cash and Cash Equivalents are Classified on the Balance Sheet as Follows		
Cash and cash equivalents	$ 3,039,214	$ 2,308,887
Assets restricted for long-term use	194,805	179,768
Total	**$ 3,234,019**	**$ 2,488,655**

Note 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization - Michigan Humane Society (the "Organization") is a not-for-profit corporation dedicated to improving and saving lives through compassionate care, community engagement and advocacy for animals. The Organization operates four adoption centers, three charitable veterinary hospitals, emergency animal rescue services, a cruelty investigation division, and an education division. In addition, the Organization facilitates companion animal adoption at multiple offsite locations and special events. Southeastern Michigan is the primary service area for the Organization's operations.

Significant accounting policies are as follows:

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

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for certain money market mutual funds that are included in the Organization's investment portfolio. The balances in the Organization's deposit accounts may, from time to time, exceed the amounts covered by FDIC insurance.

Accounts Receivable - Accounts receivable consist of operational accounts receivable, capital campaign pledges receivable, legacies and bequests receivable, and investment-related and other accounts receivable.

Operational accounts receivable are stated at invoice amounts from services provided. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All operational accounts receivable are considered fully collectible as of September 30, 2017 and 2016.

Capital campaign pledges receivable are stated at the gross promise to give, less amortized discounts and allowances for uncollectible pledges. The Organization calculates the amortized discounts at 3.00 percent of the pledges receivable balance as of September 30, 2017 and 2016.

The legacies and bequests receivable consist of wills and bequests for which the donor and all other life beneficiaries are deceased and are, therefore, irrevocable. Payment on these receivables is expected in the next year. The legacies and bequests receivable are deemed fully collectible as of September 30, 2017 and 2016.

The investment-related and other accounts receivable consist primarily of interest and dividend income receivable.

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

Investments - Investments in debt and equity securities are recorded at fair value as described in Note 3.

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.

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

Interest in Trusts - Interest in trusts consists of funds which are held in trusts of which the Organization is a beneficiary. The corpus of the trusts is expected to be paid to the Organization through 2020.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives, which range from 2 to 40 years depending on the type of asset. Costs of maintenance and repairs are charged to expense when incurred.

The Organization reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, the Organization reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property, plant, and equipment.

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

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

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

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

The Organization receives donations of various goods and services. For the years ended September 30, 2017 and 2016, in-kind donations of $418,795 and $433,213, respectively, met the criteria for recording in accordance with generally accepted accounting principles and have been recorded in the statement of activities and changes in net assets. The Organization also receives significant volunteer services that are not recordable in accordance with generally accepted accounting principles.

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

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on permanently restricted net assets are available to support the general charitable purpose of the Organization. In accordance with generally accepted accounting principles, these earnings and gains are classified as temporarily restricted until they are appropriated for expenditure.

Board-designated Net Assets - Unrestricted board-designated net assets are investments and other assets set aside by the board as disclosed in Note 6. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Functional Allocation of Expenses - The costs of providing 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.

Note 1 - Nature of Organization 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Upcoming Accounting Changes - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The standard is expected to have an impact on the Organization's net asset presentation and result in enhanced liquidity and availability of resources disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending September 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization is in the process of determining which application method it will use and the potential effects of the new standard, if any, on the financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending September 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. If the Organization is engaged in a long-term building or equipment lease at the time of the standard's implementation, the standard is expected to increase the Organization's assets and liabilities and potentially have an impact on the pattern of expense recognition in the statement of activities and changes in net assets.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including February 6, 2018, which is the date the financial statements were available to be issued.

Note 2 - Contributions Receivable

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

	2017	2016
Gross promises to give	$ 2,695,608	$ 4,490,515
Less unamortized discount	(113,810)	(210,977)
Less allowance for doubtful accounts	(54,000)	(89,810)
Net contributions receivable	$ 2,527,798	$ 4,189,728
Amounts due in:		
Less than one year	$ 1,305,618	$ 1,446,413
One to two years	1,389,990	3,044,102
Total	$ 2,695,608	$ 4,490,515

The Organization receives contributions from related parties such as board members and management. For the years ended September 30, 2017 and 2016, such contributions were approximately $160,000 and $802,000, respectively. Related party contribution receivables were $398,619 and $851,276 at September 30, 2017 and 2016, respectively.

Note 3 - 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 and liabilities measured at fair value on a recurring basis at September 30, 2017 and 2016 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 and liabilities 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 or liabilities 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 or liability. These Level 3 fair value measurements are based primarily on management's own judgement and estimation using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

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 or liability.

Note 3 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2017
Assets				
Investments:				
Money market funds	$ 2,013,599	$ -	$ -	$ 2,013,599
U.S. agency notes	-	99,730	-	99,730
Mutual funds	74,496	-	-	74,496
Common stock	5,537,796	-	-	5,537,796
Corporate debt	-	2,303,496	-	2,303,496
Total investments	7,625,891	2,403,226	-	10,029,117
Interest in trusts	-	-	838,083	838,083
Total assets	$ 7,625,891	$ 2,403,226	$ 838,083	$ 10,867,200
Liabilities - Charitable gift annuity	$ -	$ -	$ 13,038	$ 13,038

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2016
Assets				
Investments:				
Money market funds	$ 1,179,951	$ -	$ -	$ 1,179,951
U.S. agency notes	-	99,929	-	99,929
Mutual funds	454,630	-	-	454,630
Common stock	3,842,208	-	-	3,842,208
Corporate debt	-	2,188,568	-	2,188,568
Total investments	5,476,789	2,288,497	-	7,765,286
Interest in trusts	-	-	824,073	824,073
Total assets	$ 5,476,789	$ 2,288,497	$ 824,073	$ 8,589,359
Liabilities - Charitable gift annuity	$ -	$ -	$ 59,321	$ 59,321

Note 3 - Fair Value Measurements (Continued)

Corporate debt securities, which include convertible bonds and corporate bonds, and U.S. agency notes 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 following tables summarize the valuation methods and inputs used to determine fair value at September 30, 2017 and 2016 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2017	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Interest in trusts	$ 838,083	Discounted cash flow	Growth rate	3%
			Remaining life expectancies of beneficiaries	24-26 years
Liabilities - Charitable gift annuity	13,038	Discounted cash flow	Growth rate	2.40%
			Remaining life expectancies of beneficiaries	4-30 years

	Fair Value at September 30, 2016	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Interest in trusts	$ 824,073	Discounted cash flow	Growth rate	3%
			Remaining life expectancies of beneficiaries	25-27 years
Liabilities - Charitable gift annuity	59,321	Discounted cash flow	Growth rate	1.60%
			Remaining life expectancies of beneficiaries	3-31 years

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include reviewing the life expectancy of the income beneficiary of the trusts, the term of the trusts, the expected growth and distribution rates, and the Organization's relative share of assets held in the trusts.

Note 3 - Fair Value Measurements (Continued)

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended September 30, 2017 and 2016 are as follows:

	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2016	$ 824,073	$ 59,321
Change in beneficial interest in trusts	14,010	-
Change in charitable gift annuities	-	(43,458)
Distributions	-	(2,825)
Balance at September 30, 2017	$ 838,083	$ 13,038

	Interest in Trusts	Charitable Gift Annuities
Balance at October 1, 2015	$ 813,462	$ 60,527
Change in beneficial interest in trusts	12,998	-
Change in charitable gift annuities	-	7,259
Distributions	(2,387)	(8,465)
Balance at September 30, 2016	$ 824,073	$ 59,321

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Of the Level 3 assets and liabilities still held by the Organization at September 30, 2017, the unrealized gain for the years ended September 30, 2017 and 2016 was $57,468 and $5,739, respectively, which is recognized in the statement of activities and changes in net assets.

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2017	2016
Land	$ 913,790	$ 888,150
Land improvements	465,540	465,540
Buildings	19,919,845	19,919,845
Building improvements	2,301,611	2,259,181
Medical and other equipment	4,836,521	4,776,073
Transportation equipment	954,690	858,821
Furniture and fixtures	894,310	878,336
Computer equipment and software	459,372	445,449
Leasehold improvements	112,009	90,381
Construction in progress	61,717	22,484
Total cost	30,919,405	30,604,260
Accumulated depreciation	(10,969,038)	(9,849,690)
Net carrying amount	$ 19,950,367	$ 20,754,570

Depreciation expense totaled $1,119,347 and $931,928 in 2017 and 2016, respectively.

Note 5 - Debt Facility

During 2015, the Organization obtained a $7,500,000 line of credit from a bank to fund the construction of the new Detroit building project. The draw period on the line of credit expired on December 31, 2015, at which point the outstanding balance of $6,796,203 was converted to a five-year reducing revolver note. Each year, on December 31, the bank's revolver commitment was to be reduced by 10 percent ($679,620) until December 31, 2020, at which time a balloon payment of unpaid principal and interest would be due. Interest was payable monthly at a rate of 1.50 percent above LIBOR (an effective rate of 2.02 percent at September 30, 2016). The outstanding balance at September 30, 2016 was $4,964,203. The Organization was subject to meeting certain covenant requirements, and the facility was collateralized by a first mortgage on the Detroit property and investments of the Organization. During 2017, the revolver note was paid off in full.

Note 6 - Board-designated Net Assets

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

	2017	2016
Operating reserve	$ 7,500,000	$ 7,500,000
Detroit building project	-	903,390
Total	$ 7,500,000	$ 8,403,390

Note 7 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2017 and 2016 are restricted for the following purposes:

	2017	2016
Time-restricted contributions	$ 1,062,064	$ 1,444,725
Building and equipment improvements	194,805	179,768
Program activity	2,107,326	89,451
Total temporarily restricted net assets	$ 3,364,195	$ 1,713,944

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

Note: As of September 30, 2017 and 2016, permanently restricted net assets are $1,709,696 and $1,120,458, respectively. Funds are permanently restricted for an endowment.

Note 8 - Donor-restricted and Board-designated Endowments

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

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

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

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization.

Endowment Net Asset Composition by Type of Fund as of September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 61,519	$ 1,709,696	$ 1,771,215

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ -	$ 220,458	$ 220,458
Investment income	-	61,519	-	61,519
Contributions	-	-	1,489,238	1,489,238
Endowment net assets - End of year	$ -	$ 61,519	$ 1,709,696	$ 1,771,215

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Return Objectives and Risk Parameters

The Organization has adopted an investment policy and is in the process of adopting a distribution policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under the investment policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the market index, or blended market index, net of fees selected and agreed upon by the Organization's board that most closely correspond to the style of investment management while displaying an overall level of risk in the portfolio, which is consistent with the risk associated with the benchmark specified. The Organization expects its endowment funds, over time, to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

Strategies Employed for Achieving Objectives

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

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

During the year ended September 30, 2017, the Organization did not distribute assets from its endowment fund. A distribution policy is being established that will consider the long-term expected return on its endowment as the Organization expects to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of the assets.

Note 9 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the years ended September 30, 2017 and 2016 is reported net of discounts as follows:

	2017	2016
Adoption center and charitable veterinary hospital revenue - Gross	$ 7,330,058	$ 7,053,405
Clinic discounts and other	(650,199)	(689,742)
Net revenue	$ 6,679,859	$ 6,363,663

Clinic discounts represent services provided for free or at reduced fees, including sterilizations performed for free or below cost, treatment and care provided to animals during their stay at the Organization, treatment of animals post-adoption, treatment of animals from cruelty situations, and services provided to clients with limited financial capability at reduced prices.

Note 10 - Investment Gains

Investment gains consisted of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Interest and dividend income	$ 155,451	$ 136,931
Net realized and unrealized gains	1,087,637	314,286
Total	$ 1,243,088	$ 451,217

Note 11 - Employee Benefit Plan

The Organization has a 403(b) retirement plan (the "Plan"). Under the Plan, employees can elect to defer a portion of their compensation. The Organization made matching contributions of $144,530 and $138,004 to the Plan for the years ended September 30, 2017 and 2016, respectively.

Note 12 - Operating Leases

The Organization has operating lease agreements for office space and equipment that expire through 2021. Total rent expense under these leases was $200,214 and $194,951 for the years ended September 30, 2017 and 2016, respectively. Future commitments under these operating leases are as follows:

Years Ending September 30	Amount
2018	$ 179,294
2019	21,548
2020	21,548
2021	9,395
Total	$ 231,785

Note 13 - Allocation of Joint Costs

The Organization's newsletter and certain event activities include requests for contributions, as well as education and retail components. Total joint costs for these activities were $500,095 and $525,863 for the years ended September 30, 2017 and 2016, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2017	2016
Fundraising	$ 273,308	$ 275,891
Education	226,787	249,972
Total	$ 500,095	$ 525,863