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# Humane Society of Huron Valley

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**Financial Report  
December 31, 2019**

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## 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, 2019 and 2018 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Huron Valley as of December 31, 2019 and 2018 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As described in Note 2 to the financial statements, on March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease a pandemic. No impairments were recorded as of December 31, 2019; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future.

To the Board of Directors  
Humane Society of Huron Valley

Also described in Note 2 to the financial statements, the Organization adopted Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, and Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Our opinion is not modified with respect to these matters.

*Plante & Moran, PLLC*

July 27, 2020

**Balance Sheet**

**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 994,915	\$ 931,955
Investments (Note 8)	4,867,261	4,106,203
Receivables:		
Accounts receivable	129,347	140,988
Contributions receivable	22,618	109,372
Bequests receivable	314,500	183,891
Deferred compensation	26,505	-
Prepaid expenses and other current assets	<u>201,766</u>	<u>195,579</u>
Total current assets	6,556,912	5,667,988
<b>Property and Equipment - Net (Note 4)</b>	<u>6,438,313</u>	<u>6,391,268</u>
Total assets	<u><b>\$ 12,995,225</b></u>	<u><b>\$ 12,059,256</b></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 96,214	\$ 165,982
Accrued liabilities and other	<u>294,500</u>	<u>239,613</u>
Total liabilities	390,714	405,595
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	10,476,853	9,356,925
Board designated (Note 2)	2,069,236	2,003,292
With donor restrictions (Note 5)	<u>58,422</u>	<u>293,444</u>
Total net assets	<u>12,604,511</u>	<u>11,653,661</u>
Total liabilities and net assets	<u><b>\$ 12,995,225</b></u>	<u><b>\$ 12,059,256</b></u>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>						
Contributions	\$ 2,837,441	\$ 37,791	\$ 2,875,232	\$ 2,663,236	\$ 18,722	\$ 2,681,958
Bequests	824,038	-	824,038	606,419	158,891	765,310
Donated advertising, supplies, and equipment	179,772	-	179,772	198,696	-	198,696
Operations	4,031,021	-	4,031,021	3,913,352	-	3,913,352
Retail sales	250,479	-	250,479	287,249	-	287,249
Special event revenue	471,143	-	471,143	412,618	-	412,618
Investment income (loss) - Net (Note 3)	618,715	-	618,715	(110,201)	-	(110,201)
Miscellaneous income	-	-	-	1,000	-	1,000
<b>Total revenue and support</b>	<b>9,212,609</b>	<b>37,791</b>	<b>9,250,400</b>	<b>7,972,369</b>	<b>177,613</b>	<b>8,149,982</b>
<b>Net Assets Released from Donor Restrictions</b>	<b>272,813</b>	<b>(272,813)</b>	<b>-</b>	<b>141,215</b>	<b>(141,215)</b>	<b>-</b>
<b>Total revenue, support, and net assets released from donor restrictions</b>	<b>9,485,422</b>	<b>(235,022)</b>	<b>9,250,400</b>	<b>8,113,584</b>	<b>36,398</b>	<b>8,149,982</b>
<b>Expenses</b>						
Program services:						
Clinic	2,036,298	-	2,036,298	1,856,723	-	1,856,723
Shelter	3,395,497	-	3,395,497	3,361,867	-	3,361,867
Support programs	669,302	-	669,302	627,398	-	627,398
Cruelty/Rescue	393,499	-	393,499	388,000	-	388,000
<b>Total program services</b>	<b>6,494,596</b>	<b>-</b>	<b>6,494,596</b>	<b>6,233,988</b>	<b>-</b>	<b>6,233,988</b>
Support services:						
Administration	811,436	-	811,436	725,461	-	725,461
Development	993,518	-	993,518	880,945	-	880,945
<b>Total support services</b>	<b>1,804,954</b>	<b>-</b>	<b>1,804,954</b>	<b>1,606,406</b>	<b>-</b>	<b>1,606,406</b>
<b>Total expenses</b>	<b>8,299,550</b>	<b>-</b>	<b>8,299,550</b>	<b>7,840,394</b>	<b>-</b>	<b>7,840,394</b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,185,872</b>	<b>(235,022)</b>	<b>950,850</b>	<b>273,190</b>	<b>36,398</b>	<b>309,588</b>
<b>Net Assets - Beginning of year</b>	<b>11,360,217</b>	<b>293,444</b>	<b>11,653,661</b>	<b>11,087,027</b>	<b>257,046</b>	<b>11,344,073</b>
<b>Net Assets - End of year</b>	<b>\$ 12,546,089</b>	<b>\$ 58,422</b>	<b>\$ 12,604,511</b>	<b>\$ 11,360,217</b>	<b>\$ 293,444</b>	<b>\$ 11,653,661</b>

Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 1,020,924	\$ 1,774,777	\$ 321,834	\$ 215,598	\$ 3,333,133	\$ 509,907	\$ 380,800	\$ 890,707	\$ 4,223,840
Employee benefits	200,672	386,770	75,547	54,686	717,675	110,605	89,730	200,335	918,010
<b>Total salaries and related expenses</b>	<b>1,221,596</b>	<b>2,161,547</b>	<b>397,381</b>	<b>270,284</b>	<b>4,050,808</b>	<b>620,512</b>	<b>470,530</b>	<b>1,091,042</b>	<b>5,141,850</b>
Professional fees	14,336	55,958	4,508	5,213	80,015	116,508	4,066	120,574	200,589
Animal removal, outside vet, and lab	8,315	13,562	-	190	22,067	-	-	-	22,067
Medical and animal supplies	453,504	244,409	874	16,103	714,890	-	-	-	714,890
Vehicle fuel	241	6,074	53	9,446	15,814	13	13	26	15,840
Contract labor	7,620	17,552	49,450	743	75,365	900	12,299	13,199	88,564
Supplies	67,745	168,115	30,933	14,971	281,764	9,902	18,326	28,228	309,992
Microchips/Trap neuter return	1,181	32,392	-	-	33,573	-	-	-	33,573
Postage and shipping	1,049	231	467	3	1,750	1,155	8,303	9,458	11,208
Insurance	30,277	80,429	15,758	15,292	141,756	10,707	7,189	17,896	159,652
Repair and maintenance	8,490	50,830	5,283	8,520	73,123	1,321	1,320	2,641	75,764
Travel	871	14,129	2,051	1,666	18,717	2,787	1,075	3,862	22,579
Printing	3,466	7,457	1,116	873	12,912	-	10,982	10,982	23,894
Utilities	9,908	86,198	8,807	5,504	110,417	2,202	2,202	4,404	114,821
Telephone	3,507	9,792	1,103	883	15,285	917	995	1,912	17,197
Memberships and subscriptions	11,314	14,890	7,342	3,586	37,132	1,470	59,687	61,157	98,289
Publicity and advertising	19,880	31,807	11,928	7,952	71,567	-	7,974	7,974	79,541
Newsletter	-	25,897	2,876	-	28,773	-	5,756	5,756	34,529
Appeals	-	-	-	-	-	-	314,929	314,929	314,929
Merchandise	52,328	7,620	79,071	-	139,019	-	-	-	139,019
Licenses and permits	3,129	1,675	64	70	4,938	111	278	389	5,327
Miscellaneous	556	414	145	-	1,115	2,621	-	2,621	3,736
Uncollectible accounts	12,703	1,149	-	-	13,852	1	-	1	13,853
Donated goods and services	38,385	61,415	23,031	15,354	138,185	26,233	15,354	41,587	179,772
Credit card fees	33,960	17,172	421	28	51,581	-	42,893	42,893	94,474
Software and support	3,220	6,733	1,114	864	11,931	4,001	956	4,957	16,888
Land lease/Building rental	-	41,933	-	-	41,933	3,693	2,010	5,703	47,636
Depreciation	28,717	236,117	25,526	15,954	306,314	6,382	6,381	12,763	319,077
<b>Total functional expenses</b>	<b>\$ 2,036,298</b>	<b>\$ 3,395,497</b>	<b>\$ 669,302</b>	<b>\$ 393,499</b>	<b>\$ 6,494,596</b>	<b>\$ 811,436</b>	<b>\$ 993,518</b>	<b>\$ 1,804,954</b>	<b>\$ 8,299,550</b>

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Support Services			Total
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	
Salaries	\$ 863,455	\$ 1,682,555	\$ 286,357	\$ 216,633	\$ 3,049,000	\$ 474,979	\$ 314,282	\$ 789,261	\$ 3,838,261
Employee benefits	169,067	391,371	74,840	54,622	689,900	94,558	74,845	169,403	859,303
<b>Total salaries and related expenses</b>	<b>1,032,522</b>	<b>2,073,926</b>	<b>361,197</b>	<b>271,255</b>	<b>3,738,900</b>	<b>569,537</b>	<b>389,127</b>	<b>958,664</b>	<b>4,697,564</b>
Professional fees	15,658	32,648	4,465	3,987	56,758	78,696	3,645	82,341	139,099
Animal removal, outside vet, and lab	11,767	54,327	-	4,500	70,594	-	-	-	70,594
Medical and animal supplies	466,785	269,718	3,253	6,984	746,740	-	-	-	746,740
Vehicle fuel	136	6,066	27	11,182	17,411	259	5	264	17,675
Contract labor	55,324	20,241	45,540	2,153	123,258	11	7,600	7,611	130,869
Supplies	49,575	190,817	20,753	15,784	276,929	11,734	47,384	59,118	336,047
Microchips/Trap neuter return	1,530	33,132	-	-	34,662	-	-	-	34,662
Postage and shipping	1,472	302	302	17	2,093	674	7,054	7,728	9,821
Insurance	21,797	63,003	12,564	11,202	108,566	10,533	4,761	15,294	123,860
Repair and maintenance	8,986	59,599	6,131	9,556	84,272	1,533	1,533	3,066	87,338
Travel	262	10,065	3,689	2,241	16,257	2,344	760	3,104	19,361
Printing	2,960	6,381	873	779	10,993	-	12,474	12,474	23,467
Utilities	10,803	93,875	9,603	6,002	120,283	2,401	2,401	4,802	125,085
Telephone	2,813	8,153	830	741	12,537	600	676	1,276	13,813
Memberships and subscriptions	8,994	11,951	6,239	2,749	29,933	1,177	57,863	59,040	88,973
Publicity and advertising	16,768	27,067	10,061	6,707	60,603	-	6,707	6,707	67,310
Newsletter	-	24,709	2,744	-	27,453	-	5,493	5,493	32,946
Appeals	-	-	-	-	-	-	268,474	268,474	268,474
Merchandise	40,187	8,765	88,079	-	137,031	-	-	-	137,031
Licenses and permits	1,782	1,206	419	43	3,450	112	16	128	3,578
Miscellaneous	159	20	19	40	238	2,927	-	2,927	3,165
Uncollectible accounts	7,702	576	-	-	8,278	-	-	-	8,278
Donated goods and services	37,372	59,795	22,423	14,949	134,539	29,527	14,950	44,477	179,016
Credit card fees	29,386	16,521	1,236	88	47,231	17	39,562	39,579	86,810
Software and support	2,489	5,367	734	655	9,245	3,132	1,561	4,693	13,938
Land lease/Building rental	-	41,129	-	-	41,129	3,693	2,345	6,038	47,167
Depreciation	29,494	242,508	26,217	16,386	314,605	6,554	6,554	13,108	327,713
<b>Total functional expenses</b>	<b>\$ 1,856,723</b>	<b>\$ 3,361,867</b>	<b>\$ 627,398</b>	<b>\$ 388,000</b>	<b>\$ 6,233,988</b>	<b>\$ 725,461</b>	<b>\$ 880,945</b>	<b>\$ 1,606,406</b>	<b>\$ 7,840,394</b>



**Statement of Cash Flows**

**Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 950,850	\$ 309,588
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	319,077	327,713
Net realized and unrealized (gain) loss on investments	(499,633)	199,098
Bad debt expense	13,853	8,278
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(2,212)	(76,171)
Contributions receivable	86,754	6,397
Bequests receivable	(130,609)	(113,391)
Prepaid expenses and other current assets	(6,187)	13,953
Deferred compensation	(26,505)	-
Trade accounts payable	(69,768)	(6,332)
Accrued liabilities and other	54,887	29,126
Net cash and cash equivalents provided by operating activities	690,507	698,259
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(366,122)	(120,797)
Purchases of investments	(917,775)	(2,543,547)
Proceeds from sales and maturities of investments	656,350	1,713,476
Net cash and cash equivalents used in investing activities	(627,547)	(950,868)
<b>Cash Flows Provided by Financing Activities</b> - Proceeds from capital campaign pledge receivable	-	120,000
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	62,960	(132,609)
<b>Cash and Cash Equivalents</b> - Beginning of year	931,955	1,064,564
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 994,915</b>	<b>\$ 931,955</b>

**December 31, 2019 and 2018**

**Note 1 - Nature of Business**

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.

**Note 2 - Significant Accounting Policies**

***Cash Equivalents***

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased 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 Federal Deposit Insurance Corporation (FDIC) insurance coverage amounts for those accounts.

***Accounts Receivable***

Accounts receivable are stated at net 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. Management considers all accounts receivable collectible, and, therefore, an allowance for doubtful accounts has not been recorded at December 31, 2019 and 2018.

***Investments***

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

***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 net assets without donor restrictions, 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 net assets with donor restrictions. Absent explicit donor stipulations about how long the property and equipment must be maintained or used, the Organization reports expirations of donor restrictions upon placing the asset in service.

***Revenue and Support Recognition***

During the years ended December 31, 2019 and 2018, the Organization recognized revenue from contracts with customers of \$4,281,500 and \$4,200,601, respectively. These amounts consist of Operations and retail sales on the statement of activities and changes in net assets. The Organization did not recognize any impairment losses on trade receivables for the years ended December 31, 2019 or 2018. Contract receivables as of January 1, 2018 were \$73,095.

Typically, the Organization does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, contract assets were not recorded at December 31, 2019 and 2018. The Organization does not collect cash prior to the satisfaction of the performance obligation; therefore, contract liabilities were not recorded at December 31, 2019 and 2018.

***Operations and Retail Sales***

The Organization recognizes revenue from operations and retail sales during the year in which the related services and sales are provided to customers, typically individuals or groups of individuals, totaling \$3,451,496 and \$3,385,597 for the years ended December 31, 2019 and 2018.

**December 31, 2019 and 2018**

**Note 2 - Significant Accounting Policies (Continued)**

Operations consist of various services provided to customers but primarily relate to clinic services, pet adoption, and educational trainings. Retail sales represents the sale of goods to a customer. These services and sales have one performance obligation, which is the delivery of that service or good to the customer. Revenue is recognized for the sale of goods at a point in time upon completion of the sale. As the duration of each service is trivially short, as a practical matter, revenue is recognized upon completion of the service. In no case does the Organization act as an agent (i.e., the Organization does not provide a service of arranging for another party to transfer goods or services to the customer).

The transaction price of a contract is the amount of consideration to which the Organization expects to be entitled in exchange for transferring promised services and goods to a customer. To determine the transaction price, the Organization considers its customary business practices and the terms of the service and stand-alone selling prices of the goods being provided. For the purpose of determining transaction prices, the Organization assumes that the services and sales will be provided to the customer as promised in accordance with existing policies and will not be canceled or modified. Any discounts are netted with the transaction price.

Under the typical payment terms, payment is due upon completion of the service. There are no significant refunds related to services being provided or goods being sold to individual customers.

**Contract Revenue**

The Organization recognized revenue from county contracts during the year in which the related services are provided to the county totaling \$830,004 and \$815,004 for the years ended December 31, 2019 and 2018, respectively. Contract revenue is included within operations on the statement of activities and changes in net assets.

For county contracts, the Organization has a performance obligation for providing shelter and care services for animals that are brought in from Washtenaw County. The benefits provided to the county are considered one performance obligation and recognized over time using the term of the current contract. The Organization uses the input method and has determined intakes and effort to fulfill the performance obligation are expended evenly throughout the performance period; therefore, revenue is recognized evenly as time passes during the contract period.

The transaction price of a contract is the amount of consideration to which the Organization expects to be entitled in exchange for transferring promised services to the county based on the terms of the contract. For the purpose of determining transaction prices, the Organization assumes that the services will be provided to the customer as promised in accordance with the existing contract and that the contract will not be canceled, renewed, or modified.

The Organization invoices the county monthly based on agreed-upon payment terms in the contract. Payment is typically due within 30 days after an invoice is sent to the county. The contract does not have a significant financing component.

**Contributions and Bequests**

Contributions are recognized at fair value 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 with donor restrictions. When the donor restrictions are fulfilled, net assets with donor restrictions are reclassified as net assets without donor restrictions. For financial statement presentation purposes, management has elected to report net assets with donor restrictions whose requirements were fulfilled in the same period that the gift was received as net assets without donor restrictions.

The Organization raises additional money with direct fundraising events or as a participant at community activities. Special events revenue is recorded when events are held.

**Note 2 - Significant Accounting Policies (Continued)**

The Organization's contributions receivable are primarily composed of amounts committed from various donors for use in the Organization's activities. Bequests receivable consist of wills and estates for which the will was validated by the probate court or trusts that have become irrevocable and for which the Organization has received support allowing reasonable valuation of the interest in assets.

All contributions and bequests receivable at December 31, 2019 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, 2019 and 2018.

***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 121,838 and 124,142 during 2019 and 2018, respectively. This information has not been audited.

***Classification of Net Assets***

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

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

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable state law.

***Board-designated Net Assets***

Board-designated net assets are net assets without donor restrictions for facility repairs and maintenance. 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 \$2,069,236 and \$2,003,292 at December 31, 2019 and 2018, respectively. The board has a policy where net earnings on specific invested assets are added to board-designated net assets.

***Community Foundation***

Certain funds donated by outside donors for the benefit of the Organization are held and managed by the Ann Arbor Area Community Foundation (AAACF). AAACF maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of the Organization. The fair market value of these funds was \$4,615,852 and \$4,101,377 at December 31, 2019 and 2018, respectively. Earnings, net of AAACF fees, are available for distribution to the Organization at the discretion of AAACF and, therefore, are not reflected as revenue in the financial statements until received by the Organization. Annual distributions from these funds have been shown as contribution revenue in the statement of activities and changes in net assets. These distributions were \$198,911 and \$196,598 for the years ended December 31, 2019 and 2018, respectively.

December 31, 2019 and 2018

**Note 2 - Significant Accounting Policies (Continued)**

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Depreciation; facility wages and related benefits, supplies, utilities, repairs, and maintenance; other common facility costs; and certain insurance costs are allocated on the basis of square footage for the appropriate area of usage. IT wages and related benefits, professional fees, other identified IT and support costs, and certain insurance costs are allocated on the basis of employee headcount for the usage. Certain advertising, contract labor, and contributed services are allocated on the basis of time, effort, and materials benefiting each function. 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 appropriate, 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.

***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. Actual results could differ from those estimates.

***Federal Income Taxes***

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

***Adoption of New Accounting Pronouncements***

As of January 1, 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 Organization adopted the new standard using the full retrospective method to all contracts. The adoption of ASU did not impact the Organization's reported historical revenue.

As of January 1, 2019, the Organization adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Organization adopted the new standard on a modified prospective basis, and it did not impact the recognition of contribution and grant received in the year of adoption.

**Note 2 - Significant Accounting Policies (Continued)**

**Reclassification**

Certain 2018 amounts have been reclassified to conform to the 2019 presentation. A total of \$1,815 previously classified as deferred revenue has been reclassified to accrued liabilities and other.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including July 27, 2020, which is the date the financial statements were available to be issued.

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state, and local authorities resulting in an overall decline in economic activity. Specific to the Organization, there was a decline in operational revenue of about 50 percent over the course of the state's stay-at-home order. The Organization's services were scaled back to those most essential to our core mission of protecting the most vulnerable animals and people in need in our community by taking in, caring for, and adopting out homeless animals; investigating animal cruelty; helping injured wildlife; and providing free pet food assistance and emergency harbor. The Organization's veterinary clinic also reduced services to urgent care only, as was specifically required by the governor's order. To ensure the health and safety of employees and the public, many of these essential services were provided by appointment only and were offered car side. Due to stay-at-home orders, animal intakes were also down, and nearly all of our programs that generate revenue were canceled or put on hold, including all in-person educational programs, dog training, and pet supply retail. In addition, Love Train, our adoption transfer program, was paused, and our cat café, Tiny Lions Lounge and Adoption Center, was temporarily shuttered. Smaller fundraising activities and events were canceled, and our flagship annual fundraising event, Walk and Wag, was converted to a virtual event, experiencing a significant decline in sponsorships and donations. Some departments, such as Humane Education and dog training, created virtual content available online to provide fun educational activities for children and teens at home and to support the community and pet owners but, as anticipated, did not make a noticeable impact on revenue. Due to the required reduction in services, need for safe social distancing, and supply chain challenges, about 25 percent of our staff were temporarily furloughed, and volunteering was scaled back extensively. Revenue losses have been partially offset by reductions in related variable expenses, and the Organization was a recipient of the Paycheck Protection Program (PPP).

Subsequent to year end, the Organization's investment portfolio incurred a decline in fair value, consistent with the general decline in financial markets due to the large-scale COVID-19 pandemic. However, because the values of individual investments fluctuate with market conditions and the ongoing volatility in the market as of issuance, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

**Note 3 - Investment Income**

Investment income (loss) consists of the following for the years ended December 31:

	2019	2018
Interest and dividends, net of fees	\$ 119,082	\$ 88,897
Realized and unrealized gains (losses)	499,633	(199,098)
Total	<u>\$ 618,715</u>	<u>\$ (110,201)</u>

**December 31, 2019 and 2018**

**Note 4 - Property and Equipment**

Property and equipment are summarized as follows:

	2019	2018
Building and improvements	\$ 8,189,501	\$ 7,951,441
Equipment	739,885	628,278
Vehicles	193,658	184,140
Computer software	87,239	87,239
Construction in progress	42,280	45,843
Total cost	9,252,563	8,896,941
Accumulated depreciation	2,814,250	2,505,673
Net property and equipment	\$ 6,438,313	\$ 6,391,268

Depreciation expense for 2019 and 2018 was \$319,077 and \$327,713, 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 operating land lease with the Regents of the University of Michigan for an additional 4.82 acres of vacant land, adjacent to the owned 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 total rent payments of \$240,035. The Organization recognizes rent expense on a straight-line basis over the life of the lease.

**Note 5 - Net Assets with Donor Restrictions**

The Organization receives contributions that have certain donor restrictions placed on their use. 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 with donor restrictions as of December 31:

	2019	2018
Subject to expenditures for a specified purpose - Transportation	\$ 58,422	\$ 109,553
Subject to the passage of time - Bequest receivable	-	183,891
Total	\$ 58,422	\$ 293,444



**December 31, 2019 and 2018**

**Note 6 - Release of Restrictions**

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of the passage or time or other events specified by donors, as follows:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Transportation	\$ 88,922	\$ 79,451
Intake prevention	-	13,512
Food	-	2,752
	<u>88,922</u>	<u>95,715</u>
Total purpose restrictions accomplished		
Time restrictions expired - Passage of specified time	<u>183,891</u>	<u>45,500</u>
	<u>\$ 272,813</u>	<u>\$ 141,215</u>
Total restrictions released		

**Note 7 - Employee Benefit Plans**

The Organization has an employee 401(k) salary deferral plan. All employees who have reached the age of 18, with at least 1,000 hours and one year of service, are eligible to participate in the plan. The Organization matches 100 percent of a participant's elective deferral up to a maximum of 2 percent of gross pay, as limited by the Internal Revenue Service. The Organization made contributions of \$62,280 and \$54,399 to the plan for the years ended December 31, 2019 and 2018, respectively.

In December 2018, the Organization adopted a 457(b) plan effective January 1, 2019. The deferred compensation plan is maintained for the purpose of providing deferred compensation to a select group of management or highly compensated employees. The Organization made contributions of \$26,505 to the plan for the year ended December 31, 2019. Employees participating in this plan are fully vested in all contributions once those contributions are made or allocated.

**Note 8 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances 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.



**Note 8 - Fair Value Measurements (Continued)**

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	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, 2019
Investments - Exchange-traded funds:				
Equity securities	\$ 1,956,522	\$ -	\$ -	\$ 1,956,522
Debt securities	2,414,381	-	-	2,414,381
Total investments	<u>\$ 4,370,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,370,903</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	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, 2018
Investments - Exchange-traded funds:				
Equity securities	\$ 1,510,598	\$ -	\$ -	\$ 1,510,598
Debt securities	2,025,226	-	-	2,025,226
Total investments	<u>\$ 3,535,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,535,824</u>

Not included in the tables above are cash equivalents totaling \$496,358 and \$570,379 at December 31, 2019 and 2018, respectively.

**Note 9 - Operating Leases**

During 2018, the Organization entered into an operating lease agreement for land and a building that serves as Tiny Lions Lounge and Adoption Center. The lease is for a three-year period and expires in January 2022.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2020	\$ 42,770
2021	43,610
2022	3,640
Total	<u>\$ 90,020</u>

Total rent expense for this lease was approximately \$42,000 and \$41,000 for the years ended December 31, 2019 and 2018, respectively.

December 31, 2019 and 2018

**Note 10 - Liquidity and Availability of Resources**

The following reflects the Organization's financial assets as of December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 994,915	\$ 931,955
Investments	4,867,261	4,106,203
Receivables	466,465	383,759
Deferred compensation asset	<u>26,505</u>	<u>-</u>
Financial assets - At year end	6,355,146	5,421,917
Less those unavailable for general expenditures within one year due to:		
Board designations and donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	58,422	293,444
Designated by the board for facility repairs and maintenance	2,069,236	2,003,292
Amounts contractually restricted to fund deferred compensation plan	<u>26,505</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,200,983</u>	<u>\$ 3,125,181</u>

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet normal operating expenses and planned capital expenditures. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests in equity and debt securities that are easily converted into cash. The Organization also realizes there could be unanticipated liquidity needs; if necessary, the board-designated net assets could be undesignated or redesignated for a specific purpose through an action of the board.