
Humane Society of Huron Valley

Financial Report
December 31, 2020

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

Independent Auditor's Report

To the Board of Directors
Humane Society of Huron Valley

We have audited the accompanying financial statements of the Humane Society of Huron Valley (the "Organization"), which comprise the balance sheet as of December 31, 2020 and 2019 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, 2020 and 2019 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 Matter

As described in Note 11 to the financial statements, the Organization was impacted by the COVID-19 pandemic. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

August 6, 2021

Balance Sheet

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,250,056	\$ 994,915
Investments (Note 8)	5,060,266	4,867,261
Receivables:		
Accounts receivable	175,562	129,347
Contributions receivable	22,970	22,618
Bequests receivable	4,255,000	314,500
Deferred compensation	74,854	26,505
Prepaid expenses and other current assets	<u>279,906</u>	<u>201,766</u>
Total current assets	12,118,614	6,556,912
Property and Equipment - Net (Note 4)	<u>6,521,969</u>	<u>6,438,313</u>
Total assets	<u>\$ 18,640,583</u>	<u>\$ 12,995,225</u>
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 285,397	\$ 96,214
Accrued liabilities and other	450,062	294,500
Current portion of Paycheck Protection Program loan	<u>477,831</u>	<u>-</u>
Total current liabilities	1,213,290	390,714
Paycheck Protection Program Loan - Net of current portion	<u>492,011</u>	<u>-</u>
Total liabilities	1,705,301	390,714
Net Assets		
Without donor restrictions:		
Undesignated	14,643,329	10,476,853
Board designated (Note 2)	2,282,262	2,069,236
With donor restrictions (Note 5)	<u>9,691</u>	<u>58,422</u>
Total net assets	<u>16,935,282</u>	<u>12,604,511</u>
Total liabilities and net assets	<u>\$ 18,640,583</u>	<u>\$ 12,995,225</u>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	\$ 3,157,095	\$ 9,691	\$ 3,166,786	\$ 2,837,441	\$ 37,791	\$ 2,875,232
Bequests	4,576,133	-	4,576,133	824,038	-	824,038
Donated advertising, supplies, and equipment	266,417	-	266,417	179,772	-	179,772
Operations	3,820,544	-	3,820,544	4,031,021	-	4,031,021
Retail sales	159,072	-	159,072	250,479	-	250,479
Special event revenue	380,319	-	380,319	471,143	-	471,143
Investment income (Note 3)	504,639	-	504,639	618,715	-	618,715
Loss on sale of property and equipment	(283)	-	(283)	-	-	-
Total revenue and support	12,863,936	9,691	12,873,627	9,212,609	37,791	9,250,400
Net Assets Released from Donor Restrictions	58,422	(58,422)	-	272,813	(272,813)	-
Total revenue, support, and net assets released from donor restrictions	12,922,358	(48,731)	12,873,627	9,485,422	(235,022)	9,250,400
Expenses						
Program services:						
Clinic	2,205,571	-	2,205,571	2,036,298	-	2,036,298
Shelter	3,469,126	-	3,469,126	3,395,497	-	3,395,497
Support programs	576,251	-	576,251	669,302	-	669,302
Cruelty/Rescue	390,885	-	390,885	393,499	-	393,499
Total program services	6,641,833	-	6,641,833	6,494,596	-	6,494,596
Support services:						
Administration	852,857	-	852,857	811,436	-	811,436
Development	1,048,166	-	1,048,166	993,518	-	993,518
Total support services	1,901,023	-	1,901,023	1,804,954	-	1,804,954
Total expenses	8,542,856	-	8,542,856	8,299,550	-	8,299,550
Increase (Decrease) in Net Assets	4,379,502	(48,731)	4,330,771	1,185,872	(235,022)	950,850
Net Assets - Beginning of year	12,546,089	58,422	12,604,511	11,360,217	293,444	11,653,661
Net Assets - End of year	<u>\$ 16,925,591</u>	<u>\$ 9,691</u>	<u>\$ 16,935,282</u>	<u>\$ 12,546,089</u>	<u>\$ 58,422</u>	<u>\$ 12,604,511</u>

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 1,174,583	\$ 1,820,100	\$ 292,800	\$ 210,413	\$ 3,497,896	\$ 532,675	\$ 428,684	\$ 961,359	\$ 4,459,255
Employee benefits	260,012	453,217	73,967	57,828	845,024	123,183	102,667	225,850	1,070,874
Total salaries and related expenses	1,434,595	2,273,317	366,767	268,241	4,342,920	655,858	531,351	1,187,209	5,530,129
Professional fees	17,157	32,333	4,874	3,035	57,399	100,254	4,321	104,575	161,974
Animal removal, outside vet, and lab	3,653	28,748	-	3,554	35,955	-	-	-	35,955
Medical and animal supplies	403,119	231,430	3,671	13,872	652,092	-	-	-	652,092
Vehicle fuel	1,176	4,979	95	6,311	12,561	24	24	48	12,609
Contract labor	2,375	6,634	23,054	532	32,595	177	2,201	2,378	34,973
Supplies	48,149	157,505	18,563	12,290	236,507	9,780	9,308	19,088	255,595
Microchips/Trap neuter return	1,283	29,218	-	-	30,501	-	-	-	30,501
Postage and shipping	566	213	256	2	1,037	549	4,443	4,992	6,029
Insurance	33,829	81,548	16,145	17,329	148,851	7,926	7,169	15,095	163,946
Repair and maintenance	12,042	47,525	4,962	10,163	74,692	1,240	1,241	2,481	77,173
Travel	884	8,521	318	129	9,852	-	237	237	10,089
Printing	2,457	4,694	698	435	8,284	-	11,603	11,603	19,887
Utilities	9,591	82,642	8,525	5,328	106,086	2,131	2,131	4,262	110,348
Telephone	3,889	9,754	1,105	688	15,436	866	979	1,845	17,281
Memberships and subscriptions	13,979	17,474	7,536	3,915	42,904	31,828	60,825	92,653	135,557
Publicity and advertising	9,715	15,545	5,829	3,886	34,975	-	3,887	3,887	38,862
Newsletter	-	25,832	2,869	-	28,701	-	5,741	5,741	34,442
Appeals	-	-	-	-	-	-	324,054	324,054	324,054
Merchandise	34,778	1,075	47,322	-	83,175	-	-	-	83,175
Licenses and permits	1,397	1,332	75	47	2,851	39	19	58	2,909
Miscellaneous	-	68	-	-	68	3,763	-	3,763	3,831
Uncollectible accounts	23,577	-	-	-	23,577	-	-	-	23,577
Donated goods and services	62,094	97,094	36,378	24,251	219,817	23,823	24,247	48,070	267,887
Credit card fees	50,579	22,554	211	-	73,344	-	45,603	45,603	118,947
Software and support	5,569	6,905	1,115	700	14,289	4,177	2,055	6,232	20,521
Land lease/Building rental	-	42,770	-	-	42,770	3,951	258	4,209	46,979
Depreciation	29,118	239,416	25,883	16,177	310,594	6,471	6,469	12,940	323,534
Total functional expenses	\$ 2,205,571	\$ 3,469,126	\$ 576,251	\$ 390,885	\$ 6,641,833	\$ 852,857	\$ 1,048,166	\$ 1,901,023	\$ 8,542,856

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
Total salaries and related expenses	1,221,596	2,161,547	397,381	270,284	4,050,808	620,512	470,530	1,091,042	5,141,850
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
Total functional expenses	\$ 2,036,298	\$ 3,395,497	\$ 669,302	\$ 393,499	\$ 6,494,596	\$ 811,436	\$ 993,518	\$ 1,804,954	\$ 8,299,550

Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Increase in net assets	\$ 4,330,771	\$ 950,850
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	323,534	319,077
Net realized and unrealized gain on investments	(402,749)	(499,633)
Bad debt expense	23,577	13,853
Loss on sale of property and equipment	283	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(69,792)	(2,212)
Contributions receivable	(352)	86,754
Bequests receivable	(3,940,500)	(130,609)
Prepaid expenses and other current assets	(78,140)	(6,187)
Deferred compensation	(48,349)	(26,505)
Trade accounts payable	109,444	(69,768)
Accrued liabilities and other	155,562	54,887
Net cash and cash equivalents provided by operating activities	403,289	690,507
Cash Flows from Investing Activities		
Purchase of property and equipment	(327,734)	(366,122)
Purchases of investments	(167,563)	(917,775)
Proceeds from sales and maturities of investments	377,307	656,350
Net cash and cash equivalents used in investing activities	(117,990)	(627,547)
Cash Flows Provided by Financing Activities - Proceeds from Paycheck Protection Program loan	969,842	-
Net Increase in Cash and Cash Equivalents	1,255,141	62,960
Cash and Cash Equivalents - Beginning of year	994,915	931,955
Cash and Cash Equivalents - End of year	\$ 2,250,056	\$ 994,915
Significant Noncash Transactions - Capitalized property and equipment not yet paid	\$ 79,739	\$ -

December 31, 2020 and 2019

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, Michigan 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, 2020 and 2019.

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, 2020 and 2019, the Organization recognized revenue from contracts with customers of approximately \$3,980,000 and \$4,282,000, 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, 2020 or 2019. Contract receivables as of January 1, 2019 were \$140,988.

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, 2020 and 2019. The Organization does not collect cash prior to the satisfaction of the performance obligation; therefore, contract liabilities were not recorded at December 31, 2020 and 2019.

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 \$3,134,612 and \$3,451,496 for the years ended December 31, 2020 and 2019, respectively.

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 \$845,004 and \$830,004 for the years ended December 31, 2020 and 2019, 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 as 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 period in which 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, 2020 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, 2020 and 2019.

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 86,507 and 121,838 during 2020 and 2019, 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, where 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 \$2,282,262 and \$2,069,236 at December 31, 2020 and 2019, 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 \$4,968,836 and \$4,615,852 at December 31, 2020 and 2019, 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 \$198,582 and \$198,911 for the years ended December 31, 2020 and 2019, respectively.

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 program and support services based on estimates 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 financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP 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).

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including August 6, 2021, which is the date the financial statements were available to be issued.

Note 3 - Investment Income

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

	2020	2019
Interest and dividends, net of fees	\$ 101,890	\$ 119,082
Realized and unrealized gains	402,749	499,633
Total	\$ 504,639	\$ 618,715

December 31, 2020 and 2019

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2020	2019
Building and improvements	\$ 8,240,638	\$ 8,189,501
Equipment	761,320	739,885
Vehicles	193,658	193,658
Computer software	53,712	87,239
Construction in progress	317,394	42,280
Total cost	9,566,722	9,252,563
Accumulated depreciation	3,044,753	2,814,250
Net property and equipment	<u>\$ 6,521,969</u>	<u>\$ 6,438,313</u>

Depreciation expense for 2020 and 2019 was \$323,534 and \$319,077, 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:

	2020	2019
Subject to expenditures for a specified purpose - Transportation	\$ 9,691	\$ 58,422

Note 6 - Release of Restrictions

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

	2020	2019
Purpose restrictions accomplished - Transportation	\$ 58,422	\$ 88,922
Time restrictions expired - Passage of specified time	-	183,891
Total restrictions released	<u>\$ 58,422</u>	<u>\$ 272,813</u>

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 \$68,872 and \$62,280 to the plan for the years ended December 31, 2020 and 2019, 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 \$48,349 and \$26,505 to the plan for the years ended December 31, 2020 and 2019, respectively. Employees participating in this plan are fully vested in all contributions once those contributions are made or allocated. The liability associated with the 457(b) plan was \$74,854 and \$26,505 as of December 31, 2020 and 2019, respectively, and is included within accrued liabilities and other on the balance sheet.

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, 2020 and 2019 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.

Assets Measured at Fair Value on a Recurring Basis at
December 31, 2020

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Investments - Exchange-traded funds:				
Equity securities	\$ 2,153,260	\$ -	\$ -	\$ 2,153,260
Debt securities	2,401,149	-	-	2,401,149
Total investments	\$ 4,554,409	\$ -	\$ -	\$ 4,554,409

Note 8 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			Balance 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)	
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>

Not included in the tables above are cash equivalents totaling \$505,857 and \$496,358 at December 31, 2020 and 2019, 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
2021	\$ 43,610
2022	3,640
Total	<u>\$ 47,250</u>

Total rent expense for this lease was approximately \$43,000 and \$42,000 for the years ended December 31, 2020 and 2019, respectively.

Notes to Financial Statements

December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,250,056	\$ 994,915
Investments	5,060,266	4,867,261
Receivables	4,453,532	466,465
Deferred compensation asset	<u>74,854</u>	<u>26,505</u>
Financial assets - At year end	11,838,708	6,355,146
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	9,691	58,422
Designated by the board for facility repairs and maintenance	2,282,262	2,069,236
Amounts contractually restricted to fund deferred compensation plan	<u>74,854</u>	<u>26,505</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,471,901</u>	<u>\$ 4,200,983</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.

December 31, 2020 and 2019

Note 11 - COVID-19

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there were mandates from federal, state, and local authorities that resulted in an overall decline in economic activity in early 2020. 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 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 curbside. 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, this 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 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 a Paycheck Protection Program (PPP) loan in the amount of \$969,842.

The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. The Organization may use the funds on qualifying expenses over a covered period of up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the SBA will be repaid over a period of two years, with interest accruing at 1 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period. Based on the loan amount, irrespective of any potential forgiveness that may be granted in the future, monthly principal payments would range from approximately \$109,000 to \$124,000 during the repayment period. Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures and staffing and salary levels.

Subsequent to December 31, 2020, the Organization applied for and received notification of forgiveness of the entire loan balance from the SBA. The amount of the loan forgiven will be recorded as cancellation of debt income in 2021. At December 31, 2020, the outstanding balance on the PPP loan is \$969,842, which is classified as debt on the balance sheet.