Humane Society of Huron Valley

Financial Report
December 31, 2021

Contents

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Independent Auditor's Report

To the Board of Directors
Humane Society of Huron Valley

Opinion

We have audited the financial statements of Humane Society of Huron Valley (the "Organization"), which comprise the balance sheet as of December 31, 2021 and 2020 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor’s Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Humane Society of Huron Valley

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

July 29, 2022

Balance Sheet

December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	$ 1,626,230	$ 2,250,056
Investments (Note 8)	11,620,908	5,060,266
Receivables:		
Accounts receivable	193,178	175,562
Contributions receivable	54,391	22,970
Bequests receivable	37,500	4,255,000
Deferred compensation	156,277	74,854
Prepaid expenses and other current assets	398,479	279,906
Total current assets	14,086,963	12,118,614
Property and Equipment - Net (Note 4)	6,547,709	6,521,969
Total assets	**$ 20,634,672**	**$ 18,640,583**
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	$ 352,554	$ 285,397
Accrued liabilities and other	604,818	450,062
Current portion of Paycheck Protection Program loan	-	477,831
Total current liabilities	957,372	1,213,290
Paycheck Protection Program Loan - Net of current portion	-	492,011
Total liabilities	957,372	1,705,301
Net Assets		
Without donor restrictions:		
Undesignated	17,657,303	14,643,329
Board designated (Note 2)	2,013,785	2,282,262
With donor restrictions (Note 5)	6,212	9,691
Total net assets	19,677,300	16,935,282
Total liabilities and net assets	**$ 20,634,672**	**$ 18,640,583**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	$ 3,515,105	$ 6,212	$ 3,521,317	$ 3,157,095	$ 9,691	$ 3,166,786
Bequests	1,764,342	-	1,764,342	4,576,133	-	4,576,133
Donated advertising, supplies, and equipment	250,950	-	250,950	266,417	-	266,417
Operations	4,463,431	-	4,463,431	3,820,544	-	3,820,544
Retail sales	168,978	-	168,978	159,072	-	159,072
Special event revenue	432,908	-	432,908	380,319	-	380,319
Investment income (Note 3)	456,209	-	456,209	504,639	-	504,639
Loss on sale of property and equipment	(1,228)	-	(1,228)	(283)	-	(283)
Paycheck Protection Program loan forgiveness	969,842	-	969,842	-	-	-
Total revenue and support	12,020,537	6,212	12,026,749	12,863,936	9,691	12,873,627
Net Assets Released from Donor Restrictions	9,691	(9,691)	-	58,422	(58,422)	-
Total revenue, support, and net assets released from donor restrictions	12,030,228	(3,479)	12,026,749	12,922,358	(48,731)	12,873,627
Expenses						
Program services:						
Clinic	2,627,310	-	2,627,310	2,205,571	-	2,205,571
Shelter	3,620,456	-	3,620,456	3,469,126	-	3,469,126
Support programs	649,393	-	649,393	576,251	-	576,251
Cruelty/Rescue	376,899	-	376,899	390,885	-	390,885
Total program services	7,274,058	-	7,274,058	6,641,833	-	6,641,833
Support services:						
Administration	909,693	-	909,693	852,857	-	852,857
Development	1,100,980	-	1,100,980	1,048,166	-	1,048,166
Total support services	2,010,673	-	2,010,673	1,901,023	-	1,901,023
Total expenses	9,284,731	-	9,284,731	8,542,856	-	8,542,856
Increase (Decrease) in Net Assets	2,745,497	(3,479)	2,742,018	4,379,502	(48,731)	4,330,771
Net Assets - Beginning of year	16,925,591	9,691	16,935,282	12,546,089	58,422	12,604,511
Net Assets - End of year	**$ 19,671,088**	**$ 6,212**	**$ 19,677,300**	**$ 16,925,591**	**$ 9,691**	**$ 16,935,282**

See notes to financial statements.

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	Total
Salaries	$ 1,341,611	$ 1,866,669	$ 347,468	$ 206,556	$ 3,762,304	$ 613,785	$ 489,017	$ 1,102,802	$ 4,865,106
Employee benefits	336,624	470,209	84,036	55,867	946,736	132,248	118,586	250,834	1,197,570
Total salaries and related expenses	1,678,235	2,336,878	431,504	262,423	4,709,040	746,033	607,603	1,353,636	6,062,676
Professional fees	20,189	53,605	4,549	3,392	81,735	99,900	5,113	105,013	186,748
Animal removal, outside vet, and lab	3,856	13,805	-	-	17,661	-	-	-	17,661
Medical and animal supplies	554,706	268,100	-	481	823,287	-	-	-	823,287
Vehicle fuel	2,625	7,571	72	8,222	18,490	23	18	41	18,531
Contract labor	6,766	18,160	22,297	1,107	48,330	549	4,596	5,145	53,475
Supplies	50,928	145,141	19,769	11,417	227,255	10,095	13,014	23,109	250,364
Microchips/Trap neuter return	1,619	35,886	-	-	37,505	-	-	-	37,505
Postage and shipping	1,839	370	-	3	2,212	1,014	12,812	13,826	16,038
Insurance	28,801	72,122	14,251	18,902	134,076	11,850	6,401	18,251	152,327
Repair and maintenance	13,285	59,591	6,244	13,190	92,310	1,545	1,545	3,090	95,400
Travel	233	10,278	516	52	11,079	22	1,296	1,318	12,397
Printing	3,627	6,257	873	591	11,348	-	6,345	6,345	17,693
Utilities	10,362	88,821	9,210	5,756	114,149	2,303	2,302	4,605	118,754
Telephone	3,821	9,606	973	659	15,059	829	1,094	1,923	16,982
Memberships and subscriptions	16,038	16,913	8,274	4,739	45,964	2,528	74,767	77,295	123,259
Publicity and advertising	10,638	17,017	6,380	4,254	38,289	-	4,643	4,643	42,932
Newsletter	-	32,081	3,563	-	35,644	-	7,131	7,131	42,775
Appeals	-	-	-	-	-	-	273,598	273,598	273,598
Merchandise	40,564	2,758	52,359	-	95,681	-	-	-	95,681
Licenses and permits	2,999	1,448	85	259	4,791	102	71	173	4,964
Miscellaneous	-	-	-	-	-	3,537	-	3,537	3,537
Uncollectible accounts	14,545	638	-	-	15,183	-	-	-	15,183
Donated goods and services	59,773	94,197	35,324	23,549	212,843	14,557	23,550	38,107	250,950
Credit card fees	60,563	22,630	4,228	-	87,421	-	43,444	43,444	130,865
Software and support	10,106	6,505	1,196	574	18,381	4,181	865	5,046	23,427
Land lease/Building rental	-	43,610	-	-	43,610	3,693	3,840	7,533	51,143
Depreciation	31,192	256,468	27,726	17,329	332,715	6,932	6,932	13,864	346,579
Total functional expenses	**$ 2,627,310**	**$ 3,620,456**	**$ 649,393**	**$ 376,899**	**$ 7,274,058**	**$ 909,693**	**$ 1,100,980**	**$ 2,010,673**	**$ 9,284,731**

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**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	$ 2,742,018	$ 4,330,771
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	346,579	323,534
Net realized and unrealized gain on investments	(304,373)	(402,749)
Bad debt expense	15,183	23,577
Loss on disposal of property and equipment	1,228	283
Forgiveness of Paycheck Protection Program loan	(969,842)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(32,799)	(69,792)
Contributions receivable	(31,421)	(352)
Bequests receivable	4,217,500	(3,940,500)
Prepaid expenses and other current assets	(118,573)	(78,140)
Deferred compensation	(81,423)	(48,349)
Trade accounts payable	67,157	109,444
Accrued liabilities and other	154,756	155,562
Net cash and cash equivalents provided by operating activities	6,005,990	403,289
Cash Flows from Investing Activities		
Purchase of property and equipment	(373,547)	(327,734)
Purchases of investments	(6,841,356)	(167,563)
Proceeds from sales and maturities of investments	585,087	377,307
Net cash and cash equivalents used in investing activities	(6,629,816)	(117,990)
Cash Flows Provided by Financing Activities - Paycheck Protection Program loan	-	969,842
Net (Decrease) Increase in Cash and Cash Equivalents	(623,826)	1,255,141
Cash and Cash Equivalents - Beginning of year	2,250,056	994,915
Cash and Cash Equivalents - End of year	**$ 1,626,230**	**$ 2,250,056**
Significant Noncash Transactions - Capitalized property and equipment not yet paid	$ -	$ 79,739

See notes to financial statements.

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, 2021 and 2020.

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. Subsequent to year end, the Organization's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

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.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions, unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets 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 long-lived assets must be maintained. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Revenue and Support Recognition

During the years ended December 31, 2021 and 2020, the Organization recognized revenue from contracts with customers of approximately $4,632,000 and $3,980,000, 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, 2021 or 2020. Contract receivables as of January 1, 2020 were $129,347.

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, 2021 and 2020. The Organization does not collect cash prior to the satisfaction of the performance obligation; therefore, contract liabilities were not recorded at December 31, 2021 and 2020.

Note 2 - Significant Accounting Policies (Continued)

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 $3,787,405 and $3,134,612 for the years ended December 31, 2021 and 2020, respectively.

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 for the years ended December 31, 2021 and 2020. 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.

Note 2 - Significant Accounting Policies (Continued)

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.

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, 2021 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, 2021 and 2020.

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 79,942 and 86,507 during 2021 and 2020, 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 $2,013,785 and $2,282,262 at December 31, 2021 and 2020, respectively. The board has a policy where net earnings on specific invested assets are added to board-designated net assets.

Note 2 - Significant Accounting Policies (Continued)

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 $5,753,500 and $4,968,836 at December 31, 2021 and 2020, 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 $201,893 and $198,582 for the years ended December 31, 2021 and 2020, respectively.

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 require 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).

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (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-to-use asset and related lease 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 December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Organization is still evaluating which method it will apply. The new lease standard is expected to have an impact on the Organization’s financial statements as a result of the Organization's operating lease, as disclosed in Note 9, that will be reported on the balance sheet at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Organization’s year ending December 31, 2022 and will be applied using the retrospective method.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 29, 2022, 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:

	2021	2020
Interest and dividends, net of fees	$ 151,836	$ 101,890
Realized and unrealized gains	304,373	402,749
Total	$ 456,209	$ 504,639

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2021	2020
Building and improvements	$ 8,704,484	$ 8,240,638
Equipment	831,985	761,320
Vehicles	288,613	193,658
Computer software	63,611	53,712
Construction in progress	40,348	317,394
Total cost	9,929,041	9,566,722
Accumulated depreciation	3,381,332	3,044,753
Net property and equipment	$ 6,547,709	$ 6,521,969

Depreciation expense for 2021 and 2020 was $346,579 and $323,534, 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. Below is a summary of the amounts with donor restrictions as of December 31:

	2021	2020
Subject to expenditures for a specified purpose - Transportation	$ -	$ 9,691
Subject to expenditures for a specified purpose - Hardship	6,212	-

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:

	2021	2020
Purpose restrictions accomplished - Transportation	$ 9,691	$ 58,422

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. Subsequent to December 31, 2021, the Organization amended the deferral match to 100 percent of a participant's elective deferral up to a maximum of 3 percent of gross pay. The Organization made contributions of $78,305 and $68,872 to the plan for the years ended December 31, 2021 and 2020, 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 $81,422 and $48,349 to the plan for the years ended December 31, 2021 and 2020, 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 $156,277 and $74,854 as of December 31, 2021 and 2020, 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, 2021 and 2020 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, 2021			
	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, 2021
Investments - Exchange-traded funds:				
Equity securities	$ 4,304,363	$ -	$ -	$ 4,304,363
Debt securities	5,336,321	-	-	5,336,321
Total investments	$ 9,640,684	$ -	$ -	$ 9,640,684

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

Not included in the tables above are cash equivalents totaling $1,980,224 and $505,857 at December 31, 2021 and 2020, 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 expired in January 2022. On January 16, 2022, the Organization entered into an agreement to extend the lease for three additional years to expire in January 2025.

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

Year Ending December 31	Amount
2022	$ 3,640

Total rent expense for this lease was approximately $44,000 and $43,000 for the years ended December 31, 2021 and 2020, respectively.

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:

	2021	2020
Cash and cash equivalents	$ 1,626,230	$ 2,250,056
Investments	11,620,908	5,060,266
Receivables	285,069	4,453,532
Deferred compensation asset	156,277	74,854
Financial assets - At year end	13,688,484	11,838,708
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	6,212	9,691
Designated by the board for facility repairs and maintenance	2,013,785	2,282,262
Amounts contractually restricted to fund deferred compensation plan	156,277	74,854
Financial assets available to meet cash needs for general expenditures within one year	$ 11,512,210	$ 9,471,901

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.

Note 11 - COVID-19

In early 2020, an outbreak of COVID-19 emerged globally. As a result, there were mandates from federal, state, and local authorities resulting in an overall decline in economic activity in early 2020. Specific to the Organization, there was a decline in operational revenue over the course of the state's stay-at-home order. The Organization's services were scaled back to those most essential to its core mission of protecting the most vulnerable animals and people in need in the 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 carside. Due to stay-at-home orders, animal intakes were also down, and nearly all of the 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, the Organization's adoption transfer program, was paused, and its cat café, Tiny Lions Lounge and Adoption Center, was temporarily shuttered. Smaller fundraising activities and events were canceled, and its 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.

Note 11 - COVID-19 (Continued)

During the year ended December 31, 2020, the Organization received 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.

During the year ended December 31, 2021, the Organization applied for and received notification of forgiveness of the entire loan balance from the SBA. The amount of the loan forgiven was recorded as loan forgiveness in 2021 on the statement of activities and changes in net assets. The Organization was able to begin to resume many of the revenue-generating programs that were limited as discussed above in 2020, though often with lower volume and capacity limits than pre-pandemic levels.