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# Humane Society of Huron Valley

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**Financial Report**  
**December 31, 2022**

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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 the Humane Society of Huron Valley (the "Organization"), which comprise the balance sheet as of December 31, 2022 and 2021 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, 2022 and 2021 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*

August 11, 2023

Balance Sheet

December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,204,339	\$ 1,626,230
Investments (Note 4)	10,437,506	11,620,908
Receivables:		
Accounts receivable	123,115	193,178
Contributions receivable	63,625	54,391
Bequests receivable	40,400	37,500
Deferred compensation	194,107	156,277
Prepaid expenses and other current assets	248,039	398,479
Total current assets	12,311,131	14,086,963
<b>Property and Equipment - Net (Note 6)</b>	6,525,527	6,547,709
<b>Right-of-use Operating Lease Assets</b>	259,865	-
Total assets	<b>\$ 19,096,523</b>	<b>\$ 20,634,672</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 379,730	\$ 352,554
Accrued liabilities and other	674,821	604,818
Current portion of lease liabilities - Operating	47,484	-
Total current liabilities	1,102,035	957,372
<b>Lease Liabilities - Operating</b>	138,445	-
Total liabilities	1,240,480	957,372
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	15,901,107	17,657,303
Board designated (Note 2)	1,763,948	2,013,785
With donor restrictions (Note 7)	190,988	6,212
Total net assets	17,856,043	19,677,300
Total liabilities and net assets	<b>\$ 19,096,523</b>	<b>\$ 20,634,672</b>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>						
Contributions	\$ 3,731,991	\$ 190,988	\$ 3,922,979	\$ 3,515,105	\$ 6,212	\$ 3,521,317
Bequests	401,038	-	401,038	1,764,342	-	1,764,342
In-kind donations (Note 9)	292,579	-	292,579	250,950	-	250,950
Operations	4,578,810	-	4,578,810	4,463,431	-	4,463,431
Retail sales	150,393	-	150,393	168,978	-	168,978
Special event revenue	447,210	-	447,210	432,908	-	432,908
Investment (loss) income - Net (Note 5)	(1,418,113)	-	(1,418,113)	456,209	-	456,209
Gain (loss) on sale of property and equipment	15,111	-	15,111	(1,228)	-	(1,228)
Paycheck Protection Program loan forgiveness	-	-	-	969,842	-	969,842
Total revenue and support	8,199,019	190,988	8,390,007	12,020,537	6,212	12,026,749
<b>Net Assets Released from Donor Restrictions</b>	6,212	(6,212)	-	9,691	(9,691)	-
Total revenue, support, and net assets released from donor restrictions	8,205,231	184,776	8,390,007	12,030,228	(3,479)	12,026,749
<b>Expenses</b>						
Program services:						
Clinic	2,752,663	-	2,752,663	2,627,310	-	2,627,310
Shelter	3,985,206	-	3,985,206	3,620,456	-	3,620,456
Support programs	805,723	-	805,723	649,393	-	649,393
Cruelty/Rescue	393,674	-	393,674	376,899	-	376,899
Total program services	7,937,266	-	7,937,266	7,274,058	-	7,274,058
Support services:						
Administration	901,179	-	901,179	909,693	-	909,693
Development	1,372,819	-	1,372,819	1,100,980	-	1,100,980
Total support services	2,273,998	-	2,273,998	2,010,673	-	2,010,673
Total expenses	10,211,264	-	10,211,264	9,284,731	-	9,284,731
<b>(Decrease) Increase in Net Assets</b>	(2,006,033)	184,776	(1,821,257)	2,745,497	(3,479)	2,742,018
<b>Net Assets - Beginning of year</b>	19,671,088	6,212	19,677,300	16,925,591	9,691	16,935,282
<b>Net Assets - End of year</b>	<b>\$ 17,665,055</b>	<b>\$ 190,988</b>	<b>\$ 17,856,043</b>	<b>\$ 19,671,088</b>	<b>\$ 6,212</b>	<b>\$ 19,677,300</b>

Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 1,376,234	\$ 2,011,099	\$ 417,492	\$ 209,051	\$ 4,013,876	\$ 588,139	\$ 548,793	\$ 1,136,932	\$ 5,150,808
Employee benefits	360,527	539,246	113,151	56,382	1,069,306	144,683	156,895	301,578	1,370,884
<b>Total salaries and related expenses</b>	<b>1,736,761</b>	<b>2,550,345</b>	<b>530,643</b>	<b>265,433</b>	<b>5,083,182</b>	<b>732,822</b>	<b>705,688</b>	<b>1,438,510</b>	<b>6,521,692</b>
Professional fees	29,351	49,518	5,814	6,465	91,148	118,859	5,230	124,089	215,237
Animal removal, outside vet, and lab	7,266	21,471	-	-	28,737	-	-	-	28,737
Medical and animal supplies	568,570	303,350	3,546	438	875,904	-	-	-	875,904
Vehicle fuel	3,208	11,107	106	9,344	23,765	26	71	97	23,862
Contract labor	32,625	25,673	33,710	2,370	94,378	1,804	17,870	19,674	114,052
Supplies	48,879	165,840	28,798	11,339	254,856	1,778	21,100	22,878	277,734
Microchips/Trap neuter return	1,181	39,519	-	-	40,700	-	-	-	40,700
Postage and shipping	1,309	96	(86)	3	1,322	889	5,238	6,127	7,449
Insurance	27,143	68,759	13,566	19,080	128,548	8,088	4,816	12,904	141,452
Repair and maintenance	14,471	74,772	7,713	12,349	109,305	1,928	1,928	3,856	113,161
Travel	3,385	13,409	815	1,163	18,772	2,165	269	2,434	21,206
Printing	2,908	5,120	905	454	9,387	-	9,358	9,358	18,745
Utilities	11,930	103,724	10,604	6,628	132,886	2,651	2,651	5,302	138,188
Telephone	4,307	9,784	1,341	672	16,104	910	1,208	2,118	18,222
Memberships and subscriptions	18,342	16,572	8,240	4,663	47,817	12,219	86,768	98,987	146,804
Publicity and advertising	12,957	20,731	7,774	5,183	46,645	-	5,182	5,182	51,827
Newsletter	-	37,095	4,120	-	41,215	-	8,245	8,245	49,460
Appeals	-	-	-	-	-	-	399,220	399,220	399,220
Merchandise	41,765	1,271	63,104	-	106,140	-	-	-	106,140
Licenses and permits	3,842	3,363	167	310	7,682	715	92	807	8,489
Miscellaneous	64	319	-	24	407	3,146	-	3,146	3,553
Uncollectible accounts	14,094	9,100	-	-	23,194	-	-	-	23,194
Donated goods and services	73,470	116,858	43,823	29,214	263,365	-	29,214	29,214	292,579
Credit card fees	56,905	17,828	10,086	12	84,831	-	54,708	54,708	139,539
Software and support	5,494	7,267	2,101	510	15,372	5,970	2,912	8,882	24,254
Land lease/Building rental	332	48,338	295	185	49,150	74	3,914	3,988	53,138
Depreciation	32,104	263,977	28,538	17,835	342,454	7,135	7,137	14,272	356,726
<b>Total functional expenses</b>	<b>\$ 2,752,663</b>	<b>\$ 3,985,206</b>	<b>\$ 805,723</b>	<b>\$ 393,674</b>	<b>\$ 7,937,266</b>	<b>\$ 901,179</b>	<b>\$ 1,372,819</b>	<b>\$ 2,273,998</b>	<b>\$ 10,211,264</b>

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
<b>Total salaries and related expenses</b>	<b>1,678,235</b>	<b>2,336,878</b>	<b>431,504</b>	<b>262,423</b>	<b>4,709,040</b>	<b>746,033</b>	<b>607,603</b>	<b>1,353,636</b>	<b>6,062,676</b>
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
<b>Total functional expenses</b>	<b>\$ 2,627,310</b>	<b>\$ 3,620,456</b>	<b>\$ 649,393</b>	<b>\$ 376,899</b>	<b>\$ 7,274,058</b>	<b>\$ 909,693</b>	<b>\$ 1,100,980</b>	<b>\$ 2,010,673</b>	<b>\$ 9,284,731</b>



**Statement of Cash Flows**

**Years Ended December 31, 2022 and 2021**

	2022	2021
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (1,821,257)	\$ 2,742,018
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	356,726	346,579
Net realized and unrealized losses (gains) on investments	1,557,990	(304,373)
Bad debt expense	23,194	15,183
(Gain) loss on disposal of property and equipment	(15,111)	1,228
Forgiveness of Paycheck Protection Program loan	-	(969,842)
Amortization of right-of-use operating asset	41,420	-
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	46,869	(32,799)
Contributions receivable	(9,234)	(31,421)
Bequests receivable	(2,900)	4,217,500
Prepaid expenses and other current assets	80,229	(118,573)
Deferred compensation	(37,830)	(81,423)
Trade accounts payable	27,176	67,157
Operating lease liabilities	(45,145)	-
Accrued liabilities and other	70,003	154,756
	272,130	6,005,990
<b>Net cash and cash equivalents provided by operating activities</b>		
	272,130	6,005,990
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(378,513)	(373,547)
Proceeds from disposition of property and equipment	59,080	-
Purchases of investments	(10,417,688)	(6,841,356)
Proceeds from sales and maturities of investments	10,043,100	585,087
	(694,021)	(6,629,816)
<b>Net cash and cash equivalents used in investing activities</b>		
	(694,021)	(6,629,816)
<b>Net Decrease in Cash and Cash Equivalents</b>	(421,891)	(623,826)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,626,230	2,250,056
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,204,339</b>	<b>\$ 1,626,230</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 4,237	\$ -
Noncash recognition of new leases	134,415	-

**December 31, 2022 and 2021**

**Note 1 - Nature of Business**

The Humane Society of Huron Valley (the "Organization") is a not-for-profit corporation that operates an animal shelter, a veterinary clinic, emergency animal rescue services, a cruelty investigation division, and a support programs division. The Organization was incorporated in 1896 and primarily serves the Washtenaw County, 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, 2022 and 2021.

***Investments***

Investments in debt and equity securities are recorded at fair value based on quoted market prices and other inputs, as described in Note 4.

***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.

***Leases***

The Organization has operating leases for land and a building that serves as Tiny Lions Lounge and Adoption Center and for land leased for the Organization's main location. The Organization recognizes expense for operating leases on a straight-line basis over the lease term.

The Organization elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability in place of the incremental borrowing rate for all leases.

***Revenue and Support Recognition***

During the years ended December 31, 2022 and 2021, the Organization recognized revenue from contracts with customers of approximately \$4,729,000 and \$4,632,000, 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, 2022 or 2021.

**December 31, 2022 and 2021**

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

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, 2022 and 2021. The Organization does not collect cash prior to the satisfaction of the performance obligation; therefore, contract liabilities were not recorded at December 31, 2022 and 2021.

**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 \$3,884,199 and \$3,787,405 for the years ended December 31, 2022 and 2021, respectively.

Operations consist of various services provided to customers but primarily relate to clinic services, pet adoption, and educational trainings. Retail sales represent 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 were provided to the county totaling \$845,004 for the years ended December 31, 2022 and 2021. 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 that 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.

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

***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.

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, 2022 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, 2022 and 2021.

***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 136,667 and 79,942 during 2022 and 2021, 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 \$1,763,948 and \$2,013,785 at December 31, 2022 and 2021, respectively. The board has a policy where net earnings on specific invested assets are added to board-designated net assets.

December 31, 2022 and 2021

**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 \$4,827,933 and \$5,753,500 at December 31, 2022 and 2021, 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 \$214,216 and \$201,893 for the years ended December 31, 2022 and 2021, 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).

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including August 11, 2023, which is the date the financial statements were available to be issued.

December 31, 2022 and 2021

### Note 3 - Adoption of New Accounting Pronouncements

As of January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-of-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. The Organization elected to adopt the ASU using the modified retrospective method as of January 1, 2022 and applied the following practical expedients:

- The Organization did not reassess if expired or existing contracts are or contain a lease.
- The Organization did not reassess the lease classification for expired or existing leases.
- The Organization did not reassess initial direct costs for any existing leases.
- The Organization used hindsight to determine the lease term and to assess impairment of the right-of-use assets for existing leases.
- The Organization did not reassess whether any existing or expired land easements that were not previously classified as leases are or contain a lease.

As a result of the adoption of the ASU, the Organization recorded a right-of-use asset of \$166,870 and a lease liability of \$96,659 and removed previously recognized straight-lined prepaid rent of \$70,211 as of January 1, 2022 for existing operating leases. There was no impact on retained earnings as a result of adopting the new ASU.

During the year ended December 31, 2022, the Organization adopted FASB ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires contributed nonfinancial assets to be presented as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash and other financial assets. It also adds disclosure requirements for contributed nonfinancial assets, including qualitative information, such as whether the contribution was monetized or utilized, how it was utilized, the Organization's policy for monetizing vs. utilizing, a description of any donor-imposed restrictions, and a description of how the fair value was determined. In addition, disclosures have been added above and in Note 9.

### Note 4 - 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.

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.

December 31, 2022 and 2021

**Note 4 - Fair Value Measurements (Continued)**

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2022 and 2021 and the valuation techniques used by the Organization to determine those fair values:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Balance at December 31, 2022
<b>Investments</b>				
Exchange-traded funds:				
Equity securities	\$	3,011,598	\$ -	\$ 3,011,598
Debt securities		1,760,649	-	1,760,649
Total exchange-traded funds		4,772,247	-	4,772,247
U.S. Treasury securities		-	4,879,638	4,879,638
Total investments	\$	4,772,247	\$ 4,879,638	\$ 9,651,885
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)	Balance at December 31, 2021
<b>Investments</b>				
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

Not included in the tables above are cash equivalents totaling \$785,621 and \$1,980,224 at December 31, 2022 and 2021, respectively.

The fair value of U.S. Treasury securities at December 31, 2022 was determined based on quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time values and yield curve, as well as other relevant economic measures, and are primarily Level 2 inputs.

**Note 5 - Investment Income**

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

	2022	2021
Interest and dividends - Net of fees	\$ 139,877	\$ 151,836
Realized and unrealized (losses) gains	(1,557,990)	304,373
Total	\$ (1,418,113)	\$ 456,209



December 31, 2022 and 2021

**Note 6 - Property and Equipment**

Property and equipment are summarized as follows:

	2022	2021
Building and improvements	\$ 8,801,351	\$ 8,704,484
Equipment	827,188	831,985
Vehicles	203,230	288,613
Computer software	79,002	63,611
Construction in progress	173,584	40,348
Total cost	10,084,355	9,929,041
Accumulated depreciation	3,558,828	3,381,332
Net property and equipment	<u>\$ 6,525,527</u>	<u>\$ 6,547,709</u>

Depreciation expense for 2022 and 2021 was \$356,726 and \$346,579, 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 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. See Note 11 for additional disclosure.

As of December 31, 2022, the Organization had purchase commitments with an outside vendor related to the purchase and installment of solar panels on the Organization's property totaling \$238,400.

**Note 7 - 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:

	2022	2021
Subject to expenditures for a specified purpose - Friends For Life	\$ 189,970	\$ -
Subject to expenditures for a specified purpose - Hardship	1,018	6,212
Total	<u>\$ 190,988</u>	<u>\$ 6,212</u>

**Note 8 - 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:

	2022	2021
Hardship	\$ 6,212	\$ -
Transportation	-	9,691



**December 31, 2022 and 2021**

**Note 9 - In-kind Contributions**

Donated services received and utilized by the Organization related to online advertising services valued using clicks, impressions, and cost of exposure contributed. Donated services were valued at approximately \$293,000 and \$251,000 during 2022 and 2021, respectively, and are reflected in the financial statements separately within revenue and program expenses on the statement of activities and changes in net assets at their estimated fair values provided at fair market prices. All in-kind contributions received during the years ended December 31, 2022 and 2021 were without donor restrictions.

**Note 10 - Employee Benefit Plans**

The Organization has an employee 401(k) salary deferral plan (the "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. During the year ended December 31, 2021, the Organization matched 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. During the year ended December 31, 2022, 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 \$124,674 and \$78,305 to the Plan for the years ended December 31, 2022 and 2021, respectively.

The Organization adopted a 457(b) plan effective January 1, 2019. The 457(b) 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 \$37,830 and \$81,422 to the 457(b) plan for the years ended December 31, 2022 and 2021, respectively. Employees participating in this deferred compensation plan are fully vested in all contributions once those contributions are made or allocated. The liability associated with the 457(b) plan was \$194,107 and \$156,277 as of December 31, 2022 and 2021, respectively, and is included within accrued liabilities and other on the balance sheet.

**Note 11 - Leases**

The Organization is obligated under an operating lease for the property used for the Tiny Lions Lounge and Adoption Center, which expires in January 2025. The right-of-use asset and related lease liability have been calculated using a discount rate of 1.39 percent. The lease requires the Organization to pay taxes, if applicable; insurance; utilities; and maintenance costs. Total rent expense under the lease was approximately \$42,000 for the years ended December 31, 2022 and 2021.

The Organization is obligated under an operating lease for the use of land, on which the main facility is located, expiring in July 2073. The right-of-use asset and related lease liability have been calculated using a discount rate of 2.80 percent. The lease requires the Organization to pay taxes, if assessed, on use of the land. Total rent expense under the lease was approximately \$3,700 for the years ended December 31, 2022 and 2021.

The Organization made a policy election not to separate lease and nonlease components for property and land leases. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability.

**Note 11 - Leases (Continued)**

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

Years Ending December 31	Amount
2023	\$ 53,705
2024	54,605
2025	11,890
2026	8,000
2027	8,000
Thereafter	<u>80,035</u>
Total	216,235
Less amount representing interest	<u>30,306</u>
Present value of net minimum lease payments	185,929
Less current obligations	<u>47,484</u>
Long-term obligations under leases	<u><u>\$ 138,445</u></u>

Expenses recognized under these leases for the year ended December 31, 2022 consist of the following:

Operating lease cost	\$ 45,700
Other information:	
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	\$ 44,903
Right-of-use assets obtained in exchange for new operating lease liabilities	134,415
Weighted-average remaining lease term (years) - Operating leases	25.8
Weighted-average discount rate - Operating leases	2.2 %

**December 31, 2022 and 2021**

**Note 12 - 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,204,339	\$ 1,626,230
Investments	10,437,506	11,620,908
Receivables	227,140	285,069
Deferred compensation asset	<u>194,107</u>	<u>156,277</u>
Financial assets - At year end	12,063,092	13,688,484
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	190,988	6,212
Designated by the board for facility repairs and maintenance	1,763,948	2,013,785
Amounts contractually restricted to fund deferred compensation plan	<u>194,107</u>	<u>156,277</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,914,049</u>	<u>\$ 11,512,210</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.

**Note 13 - Paycheck Protection Program Forgiveness**

The Organization was a recipient of a Paycheck Protection Program (PPP) loan during the year ended December 31, 2020 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.