
Humane Society of Huron Valley

Financial Report
December 31, 2023

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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, 2023 and 2022 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, 2023 and 2022 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

September 26, 2024

Balance Sheet

December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,875,264	\$ 1,204,339
Investments (Note 3)	9,647,405	10,437,506
Receivables:		
Accounts receivable	265,532	123,115
Contributions receivable	20,681	63,625
Employee Retention Credit (Note 12)	499,211	-
Bequests receivable	1,049,000	40,400
Deferred compensation	317,902	194,107
Prepaid expenses and other current assets	217,327	248,039
Total current assets	14,892,322	12,311,131
Property and Equipment - Net (Note 5)	6,575,606	6,525,527
Right-of-use Operating Lease Assets	214,031	259,865
Total assets	\$ 21,681,959	\$ 19,096,523
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 361,116	\$ 379,730
Accrued liabilities and other	806,564	674,821
Current portion of lease liabilities - Operating	43,750	47,484
Total current liabilities	1,211,430	1,102,035
Lease Liabilities - Operating	92,111	138,445
Total liabilities	1,303,541	1,240,480
Net Assets		
Without donor restrictions:		
Undesignated	18,250,836	15,901,107
Board designated (Note 2)	1,964,682	1,763,948
With donor restrictions (Note 6)	162,900	190,988
Total net assets	20,378,418	17,856,043
Total liabilities and net assets	\$ 21,681,959	\$ 19,096,523

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	\$ 3,729,334	\$ 50,436	\$ 3,779,770	\$ 3,731,991	\$ 190,988	\$ 3,922,979
Bequests	2,488,989	-	2,488,989	401,038	-	401,038
In-kind donations (Note 8)	476,220	-	476,220	292,579	-	292,579
Operations	4,967,306	-	4,967,306	4,578,810	-	4,578,810
Retail sales	189,363	-	189,363	150,393	-	150,393
Employee Retention Credit (Note 12)	499,211	-	499,211	-	-	-
Special event revenue	486,484	-	486,484	447,210	-	447,210
Investment income (loss) - Net (Note 4)	985,268	-	985,268	(1,418,113)	-	(1,418,113)
(Loss) gain on sale of property and equipment	(888)	-	(888)	15,111	-	15,111
Total revenue and support	13,821,287	50,436	13,871,723	8,199,019	190,988	8,390,007
Net Assets Released from Donor Restrictions	78,524	(78,524)	-	6,212	(6,212)	-
Total revenue, support, and net assets released from donor restrictions	13,899,811	(28,088)	13,871,723	8,205,231	184,776	8,390,007
Expenses						
Program services:						
Clinic	2,964,241	-	2,964,241	2,752,663	-	2,752,663
Shelter	4,282,560	-	4,282,560	3,985,206	-	3,985,206
Support programs	992,774	-	992,774	805,723	-	805,723
Cruelty/Rescue	488,203	-	488,203	393,674	-	393,674
Total program services	8,727,778	-	8,727,778	7,937,266	-	7,937,266
Support services:						
Administration	1,105,397	-	1,105,397	901,179	-	901,179
Development	1,516,173	-	1,516,173	1,372,819	-	1,372,819
Total support services	2,621,570	-	2,621,570	2,273,998	-	2,273,998
Total expenses	11,349,348	-	11,349,348	10,211,264	-	10,211,264
Increase (Decrease) in Net Assets	2,550,463	(28,088)	2,522,375	(2,006,033)	184,776	(1,821,257)
Net Assets - Beginning of year	17,665,055	190,988	17,856,043	19,671,088	6,212	19,677,300
Net Assets - End of year	<u>\$ 20,215,518</u>	<u>\$ 162,900</u>	<u>\$ 20,378,418</u>	<u>\$ 17,665,055</u>	<u>\$ 190,988</u>	<u>\$ 17,856,043</u>

Statement of Functional Expenses

Year Ended December 31, 2023

	Program Services					Support Services			
	Clinic	Shelter	Support Programs	Cruelty/Rescue	Total	Administration	Development	Total	Total
Salaries	\$ 1,416,466	\$ 2,127,266	\$ 510,032	\$ 247,567	\$ 4,301,331	\$ 737,482	\$ 575,451	\$ 1,312,933	\$ 5,614,264
Employee benefits	348,552	543,539	145,924	79,314	1,117,329	171,852	173,100	344,952	1,462,281
Total salaries and related expenses	1,765,018	2,670,805	655,956	326,881	5,418,660	909,334	748,551	1,657,885	7,076,545
Professional fees	33,433	95,385	10,300	7,973	147,091	151,858	8,311	160,169	307,260
Animal removal, outside vet, and lab	6,668	20,575	-	-	27,243	-	-	-	27,243
Medical and animal supplies	556,473	328,369	3,697	204	888,743	-	-	-	888,743
Vehicle fuel	2,538	7,752	240	10,178	20,708	24	25	49	20,757
Contract labor	120,049	35,500	39,569	6,814	201,932	837	15,297	16,134	218,066
Supplies	50,578	171,592	34,514	11,600	268,284	10,964	18,062	29,026	297,310
Microchips/Trap neuter return	1,228	26,833	-	-	28,061	-	-	-	28,061
Postage and shipping	1,273	127	(380)	3	1,023	383	11,282	11,665	12,688
Insurance	55,780	94,609	24,824	27,947	203,160	9,447	13,487	22,934	226,094
Repair and maintenance	11,520	54,950	5,530	6,079	78,079	1,382	1,382	2,764	80,843
Travel	1,659	11,687	2,930	1,846	18,122	1,062	1,149	2,211	20,333
Printing	3,994	3,795	808	484	9,081	2	5,934	5,936	15,017
Utilities	12,012	104,725	10,678	6,674	134,089	2,669	2,670	5,339	139,428
Telephone	4,472	9,639	1,633	870	16,614	1,036	1,326	2,362	18,976
Memberships and subscriptions	6,921	6,214	5,640	1,532	20,307	2,575	24,269	26,844	47,151
Publicity and advertising	19,078	30,524	11,887	7,631	69,120	-	7,630	7,630	76,750
Newsletter	-	33,836	3,758	-	37,594	-	7,521	7,521	45,115
Appeals	-	-	-	-	-	-	417,299	417,299	417,299
Merchandise	51,992	113	59,190	216	111,511	-	-	-	111,511
Licenses and permits	2,917	1,599	39	54	4,609	80	159	239	4,848
Miscellaneous	(27)	62	-	-	35	104	-	104	139
Uncollectible accounts	22,202	333	-	200	22,735	-	-	-	22,735
Donated goods and services	119,805	190,088	71,283	47,522	428,698	-	47,522	47,522	476,220
Credit card fees	54,408	21,086	9,426	12	84,932	-	69,367	69,367	154,299
Software and support	25,738	32,812	10,575	4,309	73,434	5,970	96,270	102,240	175,674
Land lease/Building rental	332	48,513	295	185	49,325	74	11,064	11,138	60,463
Depreciation	34,180	281,037	30,382	18,989	364,588	7,596	7,596	15,192	379,780
Total functional expenses	\$ 2,964,241	\$ 4,282,560	\$ 992,774	\$ 488,203	\$ 8,727,778	\$ 1,105,397	\$ 1,516,173	\$ 2,621,570	\$ 11,349,348

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
Total salaries and related expenses	1,736,761	2,550,345	530,643	265,433	5,083,182	732,822	705,688	1,438,510	6,521,692
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
Total functional expenses	\$ 2,752,663	\$ 3,985,206	\$ 805,723	\$ 393,674	\$ 7,937,266	\$ 901,179	\$ 1,372,819	\$ 2,273,998	\$ 10,211,264

Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 2,522,375	\$ (1,821,257)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation	379,780	356,726
Net realized and unrealized (gains) losses on investments	(742,288)	1,557,990
Credit loss expense	23,079	23,194
Loss (gain) on disposal of property and equipment	888	(15,111)
Amortization of right-of-use operating asset	45,834	41,420
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(165,496)	46,869
Contributions receivable	42,944	(9,234)
Employee Retention Credit	(499,211)	-
Bequests receivable	(1,008,600)	(2,900)
Prepaid expenses and other current assets	30,712	80,229
Deferred compensation	(79,899)	(37,830)
Trade accounts payable	(18,614)	27,176
Operating lease liabilities	(50,068)	(45,145)
Accrued liabilities and other	131,743	70,003
	613,179	272,130
Net cash and cash equivalents provided by operating activities	613,179	272,130
Cash Flows from Investing Activities		
Purchase of property and equipment	(430,747)	(378,513)
Proceeds from disposition of property and equipment	-	59,080
Purchases of investments	(2,457,755)	(10,417,688)
Proceeds from sales and maturities of investments	3,946,248	10,043,100
	1,057,746	(694,021)
Net cash and cash equivalents provided by (used in) investing activities	1,057,746	(694,021)
Net Increase (Decrease) in Cash and Cash Equivalents	1,670,925	(421,891)
Cash and Cash Equivalents - Beginning of year	1,204,339	1,626,230
Cash and Cash Equivalents - End of year	\$ 2,875,264	\$ 1,204,339
Supplemental Cash Flow Information		
Cash paid for interest	\$ 3,637	\$ 4,237
Noncash recognition of new leases	-	134,415

December 31, 2023 and 2022

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

Trade accounts receivable are stated at invoice amounts and consist of amounts due from its customers. An allowance for credit losses is established for amounts expected to be uncollectible over the contractual life of the receivables. The Organization collectively evaluates trade receivables to determine the allowance for credit losses based on historical loss experience and adjusted for current and supportable forecasts of economic conditions, specifically the economy within Washtenaw County, the county the Organization primarily operates within. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices and other inputs, as described in Note 3.

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, 2023 and 2022, the Organization recognized revenue from contracts with customers of approximately \$5,157,000 and \$4,729,000, respectively. These amounts consist of operations and retail sales on the statement of activities and changes in net assets.

December 31, 2023 and 2022

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, 2023 and 2022. The Organization does not collect cash prior to the satisfaction of the performance obligation; therefore, contract liabilities were not recorded at December 31, 2023 and 2022.

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 \$3,856,496 and \$3,884,199 for the years ended December 31, 2023 and 2022, 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 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 \$1,300,000 and \$845,004 for the years ended December 31, 2023 and 2022, 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 the 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 the services will be provided to the customer as promised in accordance with the existing contract and 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 limiting 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, 2023 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, 2023 and 2022.

Conditional contributions are not recognized as revenue until barriers prescribed by the agreement are overcome. During 2023, management determined the Organization was eligible for the Employee Retention Credit (ERC) and filed amended payroll tax returns to claim the credit. Barriers associated with this agreement include incurring eligible wage and health care costs in addition to being a qualified employer due to a decline in gross receipts or a full or partial suspension of operations. The Organization claimed the credit under the partial suspension eligibility for the second and third quarters of 2020. As a result, \$499,211 of revenue and receivables was recognized in 2023. The ERC is subject to audit by the Internal Revenue Service for up to three years after the filing was made. If upon audit the Organization is deemed ineligible for the credit, a portion or all of the credit may have to be returned and penalties and fines could be assessed.

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 139,810 and 136,667 during 2023 and 2022, 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.

Note 2 - Significant Accounting Policies (Continued)

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 designated 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 \$1,964,682 and \$1,763,948 at December 31, 2023 and 2022, 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). The AAACF maintains variance power, which, as a result, requires the assets it holds not be recorded as assets of the Organization. The fair market value of these funds was \$5,318,617 and \$4,827,933 at December 31, 2023 and 2022, 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 \$223,065 and \$214,216 for the years ended December 31, 2023 and 2022, 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 changes in the values of investment securities will occur in the near term and 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 accounting principles generally accepted in the United States of America (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).

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 26, 2024, which is the date the financial statements were available to be issued.

Note 3 - Fair Value Measurements

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

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2023 and 2022 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, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at December 31, 2023
Investments			
Exchange-traded funds:			
Equity securities	\$ 3,383,051	\$ -	\$ 3,383,051
Debt securities	931,942	-	931,942
Total exchange-traded funds	4,314,993	-	4,314,993
U.S. Treasury securities	-	4,185,946	4,185,946
Total investments	\$ 4,314,993	\$ 4,185,946	\$ 8,500,939

December 31, 2023 and 2022

Note 3 - Fair Value Measurements (Continued)

	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
Investments			
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	<u>\$ 4,772,247</u>	<u>\$ 4,879,638</u>	<u>\$ 9,651,885</u>

Not included in the tables above are cash equivalents totaling \$1,146,466 and \$785,621 at December 31, 2023 and 2022, respectively.

The fair value of U.S. Treasury securities at December 31, 2023 and 2022 were 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 4 - Investment Income

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

	2023	2022
Interest and dividends - Net of fees	\$ 242,980	\$ 139,877
Realized and unrealized gains (losses)	742,288	(1,557,990)
Total	<u>\$ 985,268</u>	<u>\$ (1,418,113)</u>

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2023	2022
Building and improvements	\$ 8,933,826	\$ 8,801,351
Equipment	862,648	827,188
Vehicles	302,806	203,230
Computer software	78,044	79,002
Construction in progress	300,413	173,584
Total cost	10,477,737	10,084,355
Accumulated depreciation	3,902,131	3,558,828
Net property and equipment	<u>\$ 6,575,606</u>	<u>\$ 6,525,527</u>

Depreciation expense for 2023 and 2022 was \$379,780 and \$356,726, respectively.

December 31, 2023 and 2022

Note 5 - Property and Equipment (Continued)

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 10 for additional disclosure.

Note 6 - 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:

	<u>2023</u>	<u>2022</u>
Subject to expenditures for a specified purpose - Friends For Life	\$ 111,446	\$ 189,970
Subject to expenditures for a specified purpose - Hardship	5,687	1,018
Subject to expenditures for a specified purpose - Transportation	45,767	-
Total	<u>\$ 162,900</u>	<u>\$ 190,988</u>

Note 7 - 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:

	<u>2023</u>	<u>2022</u>
Hardship	\$ -	\$ 6,212
Friends for Life	78,524	-

Note 8 - 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 \$476,000 and \$293,000 during 2023 and 2022, respectively, and are reflected in the financial statements separately within revenue and program services 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, 2023 and 2022 were without donor restrictions.

December 31, 2023 and 2022

Note 9 - 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 years ended December 31, 2023 and 2022, the Organization made a deferral match for eligible participants equal to 100 percent of a participant's elective deferral up to a maximum of 3 percent of gross pay. The Organization made contributions of \$131,040 and \$124,674 to the Plan for the years ended December 31, 2023 and 2022, 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 \$123,796 and \$37,830 to the 457(b) plan for the years ended December 31, 2023 and 2022, 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 \$317,902 and \$194,107 as of December 31, 2023 and 2022, respectively, and is included within accrued liabilities and other on the balance sheet.

Note 10 - 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 \$46,000 and \$42,000 for the years ended December 31, 2023 and 2022, respectively.

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, 2023 and 2022.

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 10 - Leases (Continued)

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

Years Ending December 31	Amount
2024	\$ 54,605
2025	11,890
2026	8,000
2027	8,000
2028	8,000
Thereafter	<u>72,036</u>
Total	162,531
Less amount representing interest	<u>26,670</u>
Present value of net minimum lease payments	135,861
Less current obligations	<u>43,750</u>
Long-term obligations under leases	<u><u>\$ 92,111</u></u>

Expenses recognized under these leases for the years ended December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 49,700	\$ 45,700
Other information:		
Operating cash flows from operating leases	\$ 50,066	\$ 44,903
Right-of-use assets obtained in exchange for new operating lease liabilities	-	134,415
Weighted-average remaining lease term (years) - Operating leases	32.7	25.8
Weighted-average discount rate - Operating leases	2.4 %	2.2 %

December 31, 2023 and 2022

Note 11 - 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,875,264	\$ 1,204,339
Investments	9,647,405	10,437,506
Receivables	1,834,424	227,140
Deferred compensation asset	<u>317,902</u>	<u>194,107</u>
Financial assets - At year end	14,674,995	12,063,092
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	162,900	190,988
Designated by the board for facility repairs and maintenance	1,964,682	1,763,948
Amounts contractually restricted to fund deferred compensation plan	<u>317,902</u>	<u>194,107</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,229,511</u>	<u>\$ 9,914,049</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 12 - Employee Retention Credit

During the year ended December 31, 2023 the Organization amended certain payroll filings with the Internal Revenue Service (IRS) and claimed reimbursement through the Employee Retention Credit (ERC), a credit introduced through the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and since amended. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under GAAP, government grants are recognized as revenue in the period in which an organization overcomes all measurable barriers to be entitled to the funding. Probability is not able to be used in the assessment of whether a barrier has been overcome. Measurable barriers include being eligible for the credit as well as incurring eligible costs as defined by act and IRS guidance. The amount claimed through ERC was \$499,211. The Organization believes they have met the eligibility and eligible cost criteria to support filing for the credit and recognizing revenue and a related receivable. Under the ERC program, the IRS has the right to audit the claim within the applicable statute of limitations, which is approximately a period of 3-5 years from the filing date. If the IRS were to determine the Organization was not eligible for a portion or all of the amount claimed, any dollars received prior to that date would need to be returned and the Organization could be subject to penalties and interest.