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# Michigan Humane

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**Financial Report**  
**September 30, 2020**

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## Independent Auditor's Report

To the Board of Directors  
Michigan Humane

We have audited the accompanying financial statements of Michigan Humane (the "Organization"), which comprise the balance sheet as of September 30, 2020 and 2019 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Humane as of September 30, 2020 and 2019 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Michigan Humane

***Emphasis of Matters***

As described in Note 17 to the financial statements, the COVID-19 pandemic has impacted business operations.

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Our opinion is not modified with respect to these matters.

*Plante & Moran, PLLC*

February 19, 2021

Balance Sheet

September 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 1,899,633	\$ 2,273,361
Investments (Note 4)	13,158,312	12,481,143
Accounts receivable:		
Operational accounts receivable	50,929	45,187
Legacies and bequests receivable	731,000	-
Investment-related and other accounts receivable	97,386	152,411
Pledges receivable, capital campaign, and other - Net (Note 3)	374,373	650,767
Inventory	276,637	204,211
Prepaid expenses and other	175,288	309,246
Interest in trusts (Note 4)	869,132	869,132
Property, plant, and equipment - Net (Note 6)	20,199,490	20,738,983
	<u>\$ 37,832,180</u>	<u>\$ 37,724,441</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and other	\$ 898,959	\$ 693,741
Paycheck Protection Program loan (Note 18)	2,548,400	-
Accrued salaries, wages, and employee benefits payable	1,005,046	648,588
Capital lease obligations (Note 7)	531,211	528,897
	<u>4,983,616</u>	<u>1,871,226</u>
Total liabilities		
<b>Net Assets</b>		
Without donor restrictions	26,146,579	30,348,848
With donor restrictions (Note 8)	6,701,985	5,504,367
	<u>32,848,564</u>	<u>35,853,215</u>
Total net assets		
	<u>\$ 37,832,180</u>	<u>\$ 37,724,441</u>
Total liabilities and net assets		

Statement of Activities and Changes in Net Assets

Years Ended September 30, 2020 and 2019

	2020	2019
<b>Changes in Net Assets without Donor Restrictions</b>		
Revenue and support:		
Contributions	\$ 6,988,329	\$ 6,208,963
Legacies and bequests	2,757,754	4,969,273
Adoption center and charitable veterinary hospital - Net (Note 11)	5,494,122	6,612,538
Retail	13,416	11,941
Special event revenue	1,061,039	1,443,605
Investment gains (Note 12)	1,687,575	492,855
Gain on disposal of property and equipment	550	19,800
Net assets released from restrictions	1,390,892	1,667,666
Total revenue and support	19,393,677	21,426,641
Expenses:		
Program services	16,799,621	16,763,908
Support services:		
Management and general	3,288,486	2,866,032
Fundraising	3,507,839	4,052,239
Total expenses	23,595,946	23,682,179
<b>Decrease in Net Assets without Donor Restrictions</b> - Before excess of fair value of net assets acquired over consideration paid in acquisition of Humane Society of Livingston County	(4,202,269)	(2,255,538)
<b>Excess of Fair Value of Net Assets Acquired Over Consideration Paid in Acquisition of Humane Society of Livingston County</b> (Note 16)	-	1,604,213
<b>Decrease in Net Assets without Donor Restrictions</b>	(4,202,269)	(651,325)
<b>Changes in Net Assets with Donor Restrictions</b>		
Contributions	1,418,169	1,257,781
Endowment gifts	8,800	4,350
Legacies and bequests	731,000	44,916
Investment gains (Note 12)	430,541	115,874
Change in value of split interest agreements	-	8,618
Net assets released from restrictions	(1,390,892)	(1,667,666)
<b>Increase (Decrease) in Net Assets with Donor Restrictions</b>	1,197,618	(236,127)
<b>Decrease in Net Assets</b>	(3,004,651)	(887,452)
<b>Net Assets</b> - Beginning of year	35,853,215	36,740,667
<b>Net Assets</b> - End of year	<b>\$ 32,848,564</b>	<b>\$ 35,853,215</b>

## Statement of Functional Expenses

Year Ended September 30, 2020

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 8,693,528	\$ 1,739,072	\$ 844,189	\$ 11,276,789
Employee benefits	941,980	152,681	65,019	1,159,680
Payroll taxes	675,596	121,886	64,729	862,211
<b>Total salaries and related expenses</b>	<b>10,311,104</b>	<b>2,013,639</b>	<b>973,937</b>	<b>13,298,680</b>
Animal care	2,120,632	-	-	2,120,632
Facility	313,921	639	302	314,862
Insurance	7,924	92,157	50	100,131
Vehicle	119,167	6,149	2,416	127,732
Rental	49,579	119,440	56,339	225,358
Repairs and maintenance	249,173	1,184	559	250,916
Utilities	502,247	4,829	2,278	509,354
Telephone	179,400	31,376	12,106	222,882
Fundraising and special event costs	5,540	3,654	1,156,612	1,165,806
Public relations and marketing	64,660	12,424	254,463	331,547
Postage	6,249	5,352	553,906	565,507
Printing	34,561	9,109	144,523	188,193
Professional fees	121,063	407,496	41,067	569,626
Office supplies and expenses	198,877	37,784	12,271	248,932
Meeting	6,235	1,800	1,842	9,877
Employee	89,415	109,312	15,990	214,717
Cost of sales	14,865	-	-	14,865
Credit card and banking fees	32,135	155,245	73,664	261,044
IT licenses and support	466,774	160,530	149,813	777,117
Support of collaborative efforts	15,230	-	-	15,230
Bad debt recovery	-	-	(1,500)	(1,500)
Depreciation	1,180,724	94,172	52,117	1,327,013
Other	710,146	22,195	5,084	737,425
<b>Total functional expenses</b>	<b>\$ 16,799,621</b>	<b>\$ 3,288,486</b>	<b>\$ 3,507,839</b>	<b>\$ 23,595,946</b>

## Statement of Functional Expenses

Year Ended September 30, 2019

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 8,502,605	\$ 1,672,693	\$ 991,588	\$ 11,166,886
Employee benefits	912,071	145,516	81,013	1,138,600
Payroll taxes	714,126	123,230	79,935	917,291
<b>Total salaries and related expenses</b>	<b>10,128,802</b>	<b>1,941,439</b>	<b>1,152,536</b>	<b>13,222,777</b>
Animal care	2,443,507	-	-	2,443,507
Facility	362,746	339	759	363,844
Insurance	31,921	72,036	-	103,957
Vehicle	140,408	5,352	5,683	151,443
Rental	43,755	58,975	87,511	190,241
Repairs and maintenance	315,471	13,554	2,249	331,274
Utilities	503,556	2,862	4,246	510,664
Telephone	145,348	10,720	15,710	171,778
Fundraising and special event costs	7,973	-	1,309,371	1,317,344
Public relations and marketing	55,860	7,526	382,366	445,752
Postage	10,176	2,319	426,191	438,686
Printing	41,383	26,722	211,014	279,119
Professional fees	74,304	369,360	50,142	493,806
Office supplies and expenses	157,285	37,213	21,368	215,866
Meeting	5,134	5,376	13,631	24,141
Employee	208,544	62,228	34,360	305,132
Credit card and banking fees	28,224	160,941	74,416	263,581
IT licenses and support	433,705	66,380	160,113	660,198
Support of collaborative efforts	17,747	-	-	17,747
Bad debt recovery	-	-	(23,203)	(23,203)
Depreciation	1,033,252	16,565	37,685	1,087,502
Other	574,807	6,125	86,091	667,023
<b>Total functional expenses</b>	<b>\$ 16,763,908</b>	<b>\$ 2,866,032</b>	<b>\$ 4,052,239</b>	<b>\$ 23,682,179</b>



## Statement of Cash Flows

Years Ended September 30, 2020 and 2019

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (3,004,651)	\$ (887,452)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,327,013	1,087,502
Amortization discount on pledges receivable	(12,400)	(24,600)
Net realized and unrealized gains on investments	(1,981,303)	(374,332)
Donated investments	(57,691)	(43,213)
Bad debt recovery	(1,500)	(23,203)
Change in value of interest in trusts	-	(8,618)
Contributions for future operations - Bequests receivable	(731,000)	(44,916)
Contributions restricted for endowment	(8,800)	(4,350)
Gain on sale of property, plant, equipment	(550)	(19,800)
Gain on acquisition of Humane Society of Livingston County	-	(1,604,213)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Operational accounts receivable	(5,742)	30,505
Legacies and bequests receivable	-	141,214
Other accounts receivable	55,025	(11,304)
Pledges receivable	5,000	(242,500)
Inventory	(72,426)	(59,211)
Prepaid expenses and other	133,958	(139,743)
Accounts payable and other	205,218	(39,272)
Accrued salaries, wages, and employee benefits payable	356,458	67,007
Net cash and cash equivalents used in operating activities	(3,793,391)	(2,200,499)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(568,509)	(485,847)
Proceeds from disposition of property and equipment	550	19,800
Purchases of investments	(11,258,303)	(26,584,140)
Proceeds from sales and maturities of investments	12,620,128	29,354,025
Cash received in acquisition of Humane Society of Livingston County	-	45,523
Net cash and cash equivalents provided by investing activities	793,866	2,349,361
<b>Cash Flows from Financing Activities</b>		
Proceeds from capital campaign contributions	285,294	452,995
Proceeds from endowment gifts	8,800	4,350
Payments on capital leases	(216,697)	(49,755)
Proceeds from Paycheck Protection Program	2,548,400	-
Net cash and cash equivalents provided by financing activities	2,625,797	407,590
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(373,728)	556,452
<b>Cash and Cash Equivalents - Beginning of year</b>	2,273,361	1,716,909
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,899,633</b>	<b>\$ 2,273,361</b>
<b>Significant Noncash Transactions</b>		
Equipment obtained via capital lease (Note 7)	\$ 219,011	\$ 578,652
Property and equipment obtained as part of acquisition of Humane Society of Livingston County (Note 16)	-	1,607,225

September 30, 2020 and 2019

**Note 1 - Nature of Organization**

Michigan Humane (the "Organization") is a not-for-profit corporation dedicated to improving and saving lives through compassionate care, community engagement, and advocacy for animals. The Organization operates five adoption centers, four charitable veterinary hospitals, emergency animal rescue services, a cruelty investigation division, and an education division. In addition, the Organization facilitates companion animal adoption at multiple offsite locations and special events. Southeastern Michigan is the primary service area for the Organization's operations.

**Note 2 - Significant Accounting Policies**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting.

***Cash Equivalents***

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents, except for certain money market mutual funds that are included in the Organization's investment portfolio. The balances in the Organization's deposit accounts may, from time to time, exceed the amounts covered by Federal Deposit Insurance Corporation (FDIC) insurance.

***Accounts Receivable***

Accounts receivable consist of operational accounts receivable, capital campaign and other pledges receivable, legacies and bequests receivable, and investment-related and other accounts receivable.

Operational accounts receivable are stated at invoice amounts from services provided. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. All operational accounts receivable are considered fully collectible as of September 30, 2020 and 2019.

Capital campaign and other pledges receivable are stated at the gross promise to give, less amortized discounts and allowances for uncollectible pledges. The Organization calculates the amortized discounts at 3.00 percent of the pledges receivable balance as of September 30, 2020 and 2019.

The legacies and bequests receivable consist of wills and bequests for which the donor and all other life beneficiaries are deceased and are, therefore, irrevocable. Payment on these receivables is expected in the next year. The legacies and bequests receivable were deemed fully collectible as of September 30, 2020.

The investment-related and other accounts receivable consist primarily of interest and dividend income receivable.

***Investments***

Investments in debt and equity securities are recorded at fair value, as described in Note 4.

***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.

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

***Inventory***

Inventory, which consists of medical supplies, is stated at the lower of cost or net realizable value, using the first-in, first-out (FIFO) method of valuation.

***Interest in Trusts***

Interest in trusts consists of funds that are held in trusts of which the Organization is a beneficiary and is recorded at fair value, 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, which range from 2 to 40 years depending on the type of asset. Costs of maintenance and repairs are charged to expense when incurred.

The Organization reports gifts of property, plant, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, the Organization reports expirations of donor restrictions when placed in service.

***Contributions***

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions are reported as net assets without donor restrictions. Restricted gifts are reported as net assets with donor restrictions.

The Organization receives donations of various goods and services. For the years ended September 30, 2020 and 2019, in-kind donations of approximately \$702,000 and \$652,000, respectively, met the criteria for recording in accordance with generally accepted accounting principles and have been recorded in the statement of activities and changes in net assets. The Organization also receives significant volunteer services that are not recordable in accordance with generally accepted accounting principles.

***Revenue Recognition***

Adoption center and charitable veterinary hospital revenue is recognized when ownership is transferred or when services are performed.

***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 by the Organization. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

September 30, 2020 and 2019

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

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Earnings on endowment assets are classified as net assets with donor restrictions until such time as the related donor restrictions have been met, if applicable, and the funds have been appropriated for expenditure by the board of directors.

***Functional Allocation of Expenses***

The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Corporate headquarters costs are allocated based on employee headcount at headquarters, while information technology and internal trainings are allocated based on headcount across the entire organization. Marketing expenses that are not directly identifiable are allocated based on the nature of the individual expense. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Federal Income Taxes***

The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

***Adoption of New Accounting Pronouncement***

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

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending September 30, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization is in the process of determining which application method it will use and the potential effects of the new standard on the financial statements.

September 30, 2020 and 2019

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

The 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 activities and changes in net assets. 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 statement of activities and changes and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending September 30, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. If the Organization is engaged in long-term building or equipment leases at the time of the standard's implementation, the standard is expected to increase the Organization's assets and liabilities and potentially have an impact on the pattern of expense recognition in the statement of activities and changes in net assets.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including February 19, 2021, which is the date the financial statements were available to be issued.

**Note 3 - Contributions Receivable**

Included in contributions receivable are several unconditional promises to give generated from a capital campaign that began during 2013 and other pledges receivable. They are included as follows:

	2020	2019
Gross promises to give before unamortized discount	\$ 411,773	\$ 705,667
Less allowance for uncollectible contributions	(8,200)	(13,300)
Less unamortized discount	(29,200)	(41,600)
Net contributions receivable	<u>\$ 374,373</u>	<u>\$ 650,767</u>
Amounts due in:		
Less than one year	\$ 216,773	\$ 455,667
One to five years	145,000	175,000
Thereafter	50,000	75,000
Total	<u>\$ 411,773</u>	<u>\$ 705,667</u>

The Organization receives contributions from related parties, such as board members and management. For the years ended September 30, 2020 and 2019, such contributions were approximately \$128,000 and \$206,000, respectively. Related party contribution receivables were approximately \$15,000 and \$47,000 at September 30, 2020 and 2019, respectively.

**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.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at September 30, 2020 and 2019 and the valuation techniques used by the Organization to determine those fair values.

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

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

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

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

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at  
September 30, 2020

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2020
<b>Assets</b>				
Investments:				
Money market funds	\$ 1,110,950	\$ -	\$ -	\$ 1,110,950
U.S. agency notes	-	199,978	-	199,978
Mutual funds	26,860	-	-	26,860
Mortgage-backed securities	-	355,730	-	355,730
Common stock	8,794,860	-	-	8,794,860
Corporate debt	-	2,669,934	-	2,669,934
Total investments	9,932,670	3,225,642	-	13,158,312
Interest in trusts	-	-	869,132	869,132
Total assets	\$ 9,932,670	\$ 3,225,642	\$ 869,132	\$ 14,027,444

## Notes to Financial Statements

September 30, 2020 and 2019

## Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2019
<b>Assets</b>				
Investments:				
Money market funds	\$ 575,003	\$ -	\$ -	\$ 575,003
U.S. agency notes	-	199,982	-	199,982
Mutual funds	80,038	-	-	80,038
Mortgage-backed securities	-	466,190	-	466,190
Common stock	8,358,236	-	-	8,358,236
Corporate debt	-	2,801,694	-	2,801,694
Total investments	9,013,277	3,467,866	-	12,481,143
Interest in trusts	-	-	869,132	869,132
Total assets	\$ 9,013,277	\$ 3,467,866	\$ 869,132	\$ 13,350,275

Debt securities, which include corporate bonds, U.S. agency notes, and mortgage-backed securities, are valued using 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 value and yield curve, as well as other relevant economic measures.

The following tables summarize the valuation methods and inputs used to determine fair value at September 30, 2020 and 2019 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2020	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	\$ 869,132	Discounted cash flow	Growth rate Remaining life expectancies of beneficiaries	3.00% 21-23 years
	Fair Value at September 30, 2019	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	\$ 869,132	Discounted cash flow	Growth rate Remaining life expectancies of beneficiaries	3.00% 22-24 years

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include reviewing the life expectancy of the income beneficiary of the trusts, the term of the trusts, the expected growth and distribution rates, and the Organization's relative share of assets held in trusts.



September 30, 2020 and 2019

**Note 5 - Community Foundation Endowment Fund**

Certain funds donated by outside donors for the benefit of the Organization (originally for the benefit of Humane Society of Livingston County, which was acquired in 2019; see Note 16) are managed by the Community Foundation for Southeastern Michigan (the "Foundation"). The Foundation 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 is approximately \$176,800 and \$181,500 at September 30, 2020 and 2019, respectively. These funds are not reflected in the financial statements. Earnings are available for distribution to the Organization at the discretion of the Foundation and, therefore, are not reflected as revenue in the financial statements until received by the Organization.

The Foundation also holds and manages funds transferred through a reciprocal transfer directly from the Organization. In accordance with not-for-profit accounting standards, the fair market value of these funds is recorded as an asset by the Organization. The fair market value of these funds reflected in the financial statements is approximately \$24,800 and \$25,400 at September 30, 2020 and 2019, respectively.

**Note 6 - Property and Equipment**

Property and equipment are summarized as follows:

	2020	2019
Land	\$ 1,137,095	\$ 1,137,095
Land improvements	486,337	483,590
Buildings	21,310,742	21,310,742
Building improvements	2,531,071	2,440,121
Medical and other equipment	5,219,837	4,912,545
Transportation equipment	1,155,302	890,664
Furniture and fixtures	1,280,979	1,237,774
Computer equipment and software	429,522	414,672
Leasehold improvements	137,254	112,009
Construction in progress	110,996	86,032
Total cost	33,799,135	33,025,244
Accumulated depreciation	13,599,645	12,286,261
Net property and equipment	<u>\$ 20,199,490</u>	<u>\$ 20,738,983</u>

Depreciation expense for 2020 and 2019 was \$1,327,013 and \$1,087,502, respectively.

**Note 7 - Capital Leases**

The Organization leases vehicles, office furniture, and other equipment under long-term lease arrangements that the Organization has determined to be classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, total annual payments range from \$477 and \$130,386 and are due monthly through August 2025. The leases have interest rates ranging from 2.20 percent to 6.00 percent.



**Note 7 - Capital Leases (Continued)**

The future minimum lease payments under capital leases are as follows:

Years Ending September 30	Amount
2021	\$ 225,039
2022	120,157
2023	120,157
2024	96,210
2025	15,994
Total	577,557
Less amount representing interest	46,346
Present value of net minimum lease payments	<u>\$ 531,211</u>

**Note 8 - Net Assets**

Net assets with donor restrictions as of September 30 are available for the following purposes:

	2020	2019
Subject to time and purpose restrictions:		
Pledges receivable for Pet Pantry	\$ 200,000	\$ 225,000
Pledges receivable for field services	50,000	80,000
Direct care of animals	600,000	-
Other	-	40,000
Total subject to time and purpose restrictions	850,000	345,000
Subject to purpose restrictions:		
Direct care of animals	1,026,863	936,546
Oakland County	-	114,046
Field services	40,877	40,877
Other programs	324,742	178,736
Total subject to purpose restrictions	1,392,482	1,270,205
Subject to time restrictions:		
Interest in trusts	869,132	869,132
Other estate receivables	131,000	-
Total subject to time restrictions	1,000,132	869,132
Subject to spending policy restrictions and appropriation by the governing body:		
Endowment gifts	2,610,216	2,601,416
Accumulated endowment earnings	849,155	418,614
Total subject to spending policy and appropriation	3,459,371	3,020,030
Total net assets with donor restrictions	<u>\$ 6,701,985</u>	<u>\$ 5,504,367</u>

**Note 9 - Donor-restricted Endowment**

The Organization's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of initial and subsequent gifts donated to the fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

	Endowment Net Asset Composition by Type of Fund as of September 30	
	2020	2019
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 2,610,216	\$ 2,601,416
Accumulated investment gains	849,155	418,614
Total	\$ 3,459,371	\$ 3,020,030
	Changes in Endowment Net Assets for the Fiscal Year Ended September 30	
	2020	2019
Endowment net assets - Beginning of year	\$ 3,020,030	\$ 2,899,806
Investment return - Net	430,541	115,874
Contributions	8,800	4,350
Endowment net assets - End of year	\$ 3,459,371	\$ 3,020,030

September 30, 2020 and 2019

**Note 9 - Donor-restricted Endowment (Continued)**

***Return Objectives and Risk Parameters***

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under the investment policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the market index, or blended market index, net of fees selected and agreed upon by the Organization's board that most closely correspond to the style of investment management, while displaying an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified. The Organization expects its endowment funds, over time, to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

***Distribution Policy and How the Investment Objectives Relate to Distribution Policy***

Income available for distribution will be up to 5 percent of its 12-quarter rolling average fair market value. The income that is not distributed will be reinvested. Distributions will not be made until the Organization has 12 quarters of historical endowment fair market value data or a \$5,000,000 endowment fair market value, whichever comes first. If the endowment's fair market value reaches \$5,000,000 before the Organization has 12 quarters of historical data, the Organization will use a rolling average of the total quarters available from the start date to the subsequent calculation date. During the years ended September 30, 2020 and 2019, the Organization did not distribute assets from its endowment fund.

Notes to Financial Statements

September 30, 2020 and 2019

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

The following reflects the Organization's financial assets as of September 30, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Cash and cash equivalents	\$ 1,899,633	\$ 2,273,361
Investments	13,158,312	12,481,143
Operational, legacy and bequest, investment-related, and other accounts receivable	879,315	197,598
Pledges receivable, capital campaign, and other receivables	374,373	650,767
Interest in trusts	<u>869,132</u>	<u>869,132</u>
Financial assets - At year end	17,180,765	16,472,001
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Assets subject to donor purpose restrictions outside of general expenditures	101,027	101,077
Pledges receivable - Not collectible within one year	195,000	250,000
Interest in trusts	869,132	869,132
Perpetual endowment fund gifts	2,610,216	2,601,416
Accumulated endowment earnings not yet appropriated	<u>849,155</u>	<u>418,614</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,556,235</u>	<u>\$ 12,231,762</u>

The Organization is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 180 days of normal operating expenses, which are, on average, approximately \$11.6 million. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization also realizes there could be unanticipated liquidity needs.

The Organization's endowment funds consist of donor-restricted endowments of \$3,459,371 and \$3,020,030, including \$849,155 and \$418,614 of unappropriated earnings, at September 30, 2020 and 2019, respectively. Earnings from donor-restricted endowments are not restricted and are available for general expenditure. The endowment distribution policy is described in Note 9.

**Note 11 - Adoption Center and Charitable Veterinary Hospital Revenue**

Adoption center and charitable veterinary hospital revenue for the years ended September 30, 2020 and 2019 is reported net of discounts as follows:

	<u>2020</u>	<u>2019</u>
Adoption center and charitable veterinary hospital revenue - Gross	\$ 6,482,273	\$ 7,610,123
Clinic discounts and other	<u>(988,151)</u>	<u>(997,585)</u>
Total	<u>\$ 5,494,122</u>	<u>\$ 6,612,538</u>

September 30, 2020 and 2019

**Note 11 - Adoption Center and Charitable Veterinary Hospital Revenue  
(Continued)**

Clinic discounts represent services provided for free or at reduced fees, including sterilizations performed for free or below cost, treatment and care provided to animals during their stay at the Organization, treatment of animals postadoption, treatment of animals from cruelty situations, and services provided to clients with limited financial capability at reduced prices.

**Note 12 - Investment Gains**

Investment gains consisted of the following for the years ended September 30, 2020 and 2019:

	2020	2019
Interest and dividend income	\$ 214,963	\$ 307,449
Net realized and unrealized gains	1,981,303	374,332
Direct investment expenses	(78,150)	(73,052)
Total	<u>\$ 2,118,116</u>	<u>\$ 608,729</u>

**Note 13 - Employee Benefit Plan**

The Organization has a 403(b) retirement plan (the "Plan"). Under the Plan, employees can elect to defer a portion of their compensation. The Organization made matching contributions of approximately \$144,000 and \$202,000 to the Plan for the years ended September 30, 2020 and 2019, respectively.

**Note 14 - Operating Leases**

The Organization has operating lease agreements for office space and equipment that expire through 2024. Total rent expense under these leases was approximately \$270,000 and \$234,000 for the years ended September 30, 2020 and 2019, respectively. Future commitments under these operating leases are as follows:

2021	\$ 250,774
2022	244,531
2023	227,255
2024	<u>165,144</u>
Total	<u>\$ 887,704</u>

**Note 15 - Allocation of Joint Costs**

The Organization's newsletter and certain event activities include requests for contributions, as well as education and retail components. Total joint costs for these activities were \$663,129 and \$644,714 for the years ended September 30, 2020 and 2019, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2020	2019
Fundraising	\$ 388,251	\$ 344,436
Education	<u>274,878</u>	<u>300,278</u>
Total	<u>\$ 663,129</u>	<u>\$ 644,714</u>

September 30, 2020 and 2019

**Note 16 - Acquisition of Humane Society of Livingston County**

In August 2018, the Organization entered into an agreement with Humane Society of Livingston County (HSLC), an unrelated nonprofit organization whose mission provides for animal adoption and veterinary services, under which the Organization embedded its staff alongside HSLC's staff to provide the animals of HSLC with premium care and to implement best practices in shelter and veterinary services. During this time, the Organization acted as an advisor and provided thought leadership specifically over shelter and veterinary services. All decisions and supervisory responsibilities were held by HSLC personnel and management. Other management functions, such as fundraising, marketing, accounting, and maintenance were also being managed by HSLC.

Effective May 31, 2019, the board of directors of HSLC voted to transfer all assets, liabilities, and operations to the Organization. The Organization did not transfer any consideration as part of the acquisition and recorded the following at their fair value, all approximate: \$1,743,000 of assets acquired and \$139,000 of liabilities assumed, resulting in an inherent contribution of \$1,604,000 as of and for the year ended September 30, 2019.

**Note 17 - COVID-19 Pandemic**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. Known as COVID-19, the outbreak has impacted individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

With the occurrence of the COVID-19 pandemic in March 2020, Michigan Humane was able to deploy a focused and customer-centric response to the altered landscape created by the pandemic. Even though veterinary services were considered essential services, Michigan Humane's operations were deeply impacted with the various executive orders released by the governor of the State of Michigan. Our shelter facilities were closed to the public for several weeks, which prevented us from performing several services, such as pet adoptions and animal intakes, among others. Our veterinary clinics were open to provide services to the public, but our procedures for performing those services were modified to limit exposure of customers and employees. For instance, we provided drive-up services where clients remained in their cars while their pets were being treated at the clinic. Our pet pantry continued to be open and, based upon the huge demand for food, we distributed well over a million pounds of pet food through the drive-up process implemented at the pantry.

During this time of contraction, Michigan Humane was able to keep all staff employed. Staff were rotated through the shelter and veterinary facilities. In addition, this time allowed us to update our staff's training in areas related to the safety precautions being implemented throughout the operations, maintaining their skill sets, and learning about new software being implemented within the Organization. The closures that occurred in the first few weeks of the pandemic and the limited capacity in the months that followed have impacted the normal sources of revenue for the Organization, but the needs of the animals, the community, and our staff continued in new ways. Needed supplies for the Organization to continue operations in accordance with guidelines from the State of Michigan and CDC and moneys needed to continue to employ staff negatively impacted our earnings during the year. These increased expenses were partially offset by the reduction of operating expenses from the closure of our facilities and the receipt of \$2.5 million through the Paycheck Protection Program loan.

Michigan Humane has begun the process of building back revenue as the facilities move toward more normal operation and has embarked on several successful fundraising initiatives to offset the revenue lost earlier in 2020. The full impact of the pandemic on donor and community support is not known at this time, and the Organization continues to assess and respond to shortfalls in the budget, both current and anticipated.

September 30, 2020 and 2019

**Note 18 - Paycheck Protection Program (PPP) Loan**

During the year ended September 30, 2020, the Organization received a Paycheck Protection Program (PPP) loan in the amount of \$2,548,400. Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and staffing level and salary maintenance requirements are met. The Organization may use the funds on qualifying expenses over a covered period of at least 8 weeks and up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the Small Business Administration (SBA) will be repaid. Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures, staffing levels, and salary maintenance requirements. In addition, because the Organization's loan exceeds \$2 million, the SBA will review the Organization's loan file, which will include review of the Organization's eligibility for the program and the good-faith certification of the necessity of the loan. There can be no assurance that any portion of the PPP loan will be forgiven.

The Organization's current loan agreement has a maturity date of two years (April 2022) from the date of issuance (April 2020); however, the program permits a negotiation of up to five years if chosen. The loan has a 1 percent interest rate, with monthly payments of principal and interest that could begin as soon as six months after the conclusion of the covered period. Based on the loan amount, irrespective of any potential forgiveness that may be granted in the future, payments will be approximately \$197,200 during the repayment period. The principal amount to mature is approximately \$1,172,800 during the year ending September 30, 2021 and \$1,375,600 during the year ending September 30, 2022.