
Michigan Humane

Financial Report
September 30, 2022

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Independent Auditor's Report

To the Board of Directors
Michigan Humane

Opinion

We have audited the financial statements of Michigan Humane (the "Organization"), which comprise the balance sheet as of September 30, 2022 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 September 30, 2022 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 18 to the financial statements, the net assets as of October 1, 2021 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

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.

To the Board of Directors
Michigan Humane

Auditor's Responsibilities for the Audit 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 an audit 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.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Plante & Moreau, PLLC

March 1, 2023

Balance Sheet

September 30, 2022

Assets

Cash and cash equivalents	\$ 1,285,035
Investments (Note 4)	9,339,729
Accounts receivable:	
Operational accounts receivable	46,038
Legacies and bequests receivable	1,886,779
Investment-related and other accounts receivable	156,557
Pledges receivable, capital campaign, and other - Net (Note 3)	2,894,130
Employee Retention Credit receivable (Note 2)	4,314,000
Inventory	1,341,049
Prepaid expenses and other	606,515
Property, plant, and equipment - Net (Note 6)	18,738,006
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Total assets	\$ 40,607,838

Liabilities and Net Assets

Liabilities

Accounts payable and other	\$ 752,007
Accrued salaries, wages, and employee benefits payable	1,160,392
Capital lease obligations (Note 7)	405,466
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Total liabilities	2,317,865

Net Assets

Without donor restrictions	28,188,290
With donor restrictions (Note 8)	10,101,683
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Total net assets	38,289,973
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Total liabilities and net assets	\$ 40,607,838

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2022

Changes in Net Assets without Donor Restrictions

Revenue and support:	
Contributions	\$ 7,435,267
Legacies and bequests	5,054,275
In-kind donations (Note 17)	3,665,790
Adoption center and charitable veterinary hospital - Net (Note 11)	4,402,955
Retail	10,559
Special event revenue	892,097
Investment losses (Note 12)	(1,090,761)
Gain on disposal of property and equipment	10,992
Employee Retention Credit (Note 2)	514,000
Net assets released from restrictions	3,584,038
Total revenue and support	24,479,212
Expenses:	
Program services	21,664,787
Support services:	
Management and general	2,757,019
Fundraising	3,907,311
Total expenses	28,329,117

Decrease in Net Assets without Donor Restrictions (3,849,905)

Changes in Net Assets with Donor Restrictions

Contributions	5,268,911
Legacies and bequests	1,828,146
Investment losses (Note 12)	(333,065)
Net assets released from restrictions	(3,584,038)

Increase in Net Assets with Donor Restrictions 3,179,954

Decrease in Net Assets (669,951)

Net Assets - Beginning of year - As restated 38,959,924

Net Assets - End of year \$ 38,289,973

Statement of Functional Expenses

Year Ended September 30, 2022

	Program Services	Support Services		Total
		Management and General	Fundraising	
Salaries	\$ 9,502,486	\$ 1,457,030	\$ 1,210,655	\$ 12,170,171
Employee benefits	1,069,824	124,229	112,021	1,306,074
Payroll taxes	771,262	102,862	91,508	965,632
Total salaries and related expenses	11,343,572	1,684,121	1,414,184	14,441,877
Animal care	2,301,123	-	-	2,301,123
Facility	341,401	-	-	341,401
Insurance	118,658	20	-	118,678
Vehicle	144,110	416	4,559	149,085
Rental	-	224,715	-	224,715
Repairs and maintenance	329,349	2,401	-	331,750
Utilities	558,885	8,932	-	567,817
Telephone	223,587	3,497	-	227,084
Fundraising and special event costs	47,101	2,071	1,398,594	1,447,766
Public relations and marketing	126,923	83,467	125,201	335,591
Postage	10,067	1,172	453,903	465,142
Printing	36,312	17,621	34,512	88,445
Professional fees	183,277	333,452	151,677	668,406
Office supplies and expenses	135,819	9,324	7,365	152,508
Meeting	1,365	4,223	2,757	8,345
Employee	150,883	67,072	13,662	231,617
Cost of sales	13,280	-	-	13,280
Credit card and banking fees	19,837	117,455	86,059	223,351
IT licenses and support	481,456	151,065	115,765	748,286
Support of collaborative efforts	44,261	-	32	44,293
Depreciation	1,178,446	31,929	-	1,210,375
Other	35,769	9,566	12,167	57,502
In-kind goods and services	3,839,306	4,500	86,874	3,930,680
Total functional expenses	<u>\$ 21,664,787</u>	<u>\$ 2,757,019</u>	<u>\$ 3,907,311</u>	<u>\$ 28,329,117</u>

Statement of Cash Flows

Year Ended September 30, 2022

Cash Flows from Operating Activities

Change in net assets	\$ (669,951)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:	
Depreciation	1,210,375
Net realized and unrealized losses on investments	1,523,554
Change in interest in trusts	122,462
Contributions for future operations - Bequests receivable	(1,828,146)
Gain on sale of property, plant, and equipment	(10,992)
Donated inventory	264,890
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:	
Operational accounts receivable	11,647
Legacies and bequests receivable	760,224
Other accounts receivable	(57,383)
Pledges receivable	(2,452,826)
Employee Retention Credit receivable	(514,000)
Inventory	101,352
Prepaid expenses and other	(300,940)
Interest in trusts	100,000
Accounts payable and other	(43,569)
Accrued salaries, wages, and employee benefits payable	(39,128)

Net cash and cash equivalents used in operating activities (1,822,431)

Cash Flows from Investing Activities

Purchase of property and equipment	(617,331)
Proceeds from disposition of property and equipment	10,992
Purchases of investments	(5,976,827)
Proceeds from sales and maturities of investments	8,133,479

Net cash and cash equivalents provided by investing activities 1,550,313

Cash Flows from Financing Activities

Proceeds from capital campaign contributions	600
Payments on capital leases	(124,537)

Net cash and cash equivalents used in financing activities (123,937)

Net Decrease in Cash and Cash Equivalents (396,055)

Cash and Cash Equivalents - Beginning of year 1,681,090

Cash and Cash Equivalents - End of year \$ 1,285,035

Significant Noncash Transactions - Equipment obtained via capital lease \$ 142,175

September 30, 2022

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, 2022.

Capital campaign and other pledges receivable are stated at the gross promise to give, less amortized discounts and allowances for uncollectible pledges. See Note 3 for additional information.

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, 2022.

The investment-related and other accounts receivable consist primarily of interest and dividend income receivable and are considered fully collectible.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the balance sheet. Net investment return/(loss) is reported in the statement of activities and changes in net assets and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Investments are further 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.

September 30, 2022**Note 2 - Significant Accounting Policies (Continued)*****Inventory***

Inventory consists primarily of medical supplies and donated animal food. Purchased inventory is stated at the lower of cost or net realizable value using the first-in, first-out (FIFO) method of valuation. Donated goods are recorded at fair value on the date of donation, and subsequent declines in fair value, if any, are recognized at year end.

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. The Organization did not have a significant interest in trusts at September 30, 2022.

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.

Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an entity substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credits based on meeting the threshold for gross receipts decline in 2021 compared to 2019 and incurring eligible payroll expenses. For the year ended September 30, 2021, the Organization determined these conditions were met and recognized an estimate of \$3,800,000 of ERC revenue on the statement of activities and changes in net assets. During the year ended September 30, 2022, the Organization adjusted its estimate and recognized an additional \$514,000 of ERC revenue. The Organization has recognized a corresponding receivable within contributions receivable on the balance sheet of \$4,314,000 at September 30, 2022.

The Organization's ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If a portion or all of the ERC is determined to be ineligible upon IRS review, the Organization would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes.

September 30, 2022

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

During the year ended September 30, 2022, the Organization recognized revenue from contracts with customers of \$4,413,514. These amounts consist of adoption center and charitable veterinary hospital (operations) and retail sales on the statement of activities and changes in net assets. The Organization did not recognize any impairment losses on trade receivables for the year ended September 30, 2022. Contract receivables as of October 1, 2021 were \$57,685.

Typically, the Organization does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, contract assets were not recorded at September 30, 2022. The Organization does not collect cash prior to the satisfaction of the performance obligation except for surgery deposits. The balance of surgery deposits payable at September 30, 2022 and October 1, 2021 totaled \$1,575 and \$4,750, respectively, and is included on the balance sheet within accounts payable and other.

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 \$4,562,873 for the year ended September 30, 2022.

Operations consist of various services provided to customers but primarily relate to clinic services, pet adoption, and educational trainings. Retail sales represents the sale of goods to a customer. These services and sales have one performance obligation, which is the delivery of that service or good to the customer. Revenue is recognized for the sale of goods at a point in time upon completion of the sale. As the duration of each service is trivially short, as a practical matter, revenue is recognized upon completion of the service. In no case does the Organization act as an agent (i.e., the Organization does not provide a service of arranging for another party to transfer goods or services to the customer).

The transaction price of a contract is the amount of consideration to which the Organization expects to be entitled in exchange for transferring promised services and goods to a customer. To determine the transaction price, the Organization considers its customary business practices and the terms of the service and stand-alone selling prices of the goods being provided. For the purpose of determining transaction prices, the Organization assumes that the services and sales will be provided to the customer as promised in accordance with existing policies and will not be canceled or modified. Any discounts are netted with the transaction price.

Under the typical payment terms, payment is due upon completion of the service. There are no significant refunds related to services being provided or goods being sold to individual customers.

Contract Revenue

The Organization recognized revenue from contracts with municipalities during the year in which the related services are provided to the municipalities totaling \$364,641 for the year ended September 30, 2022. Contract revenue is included within adoption center and charitable veterinary hospital on the statement of activities and changes in net assets.

For contracts with municipalities, the Organization has a performance obligation for providing shelter and care services for animals that are brought in from Wayne County. The benefits provided to the municipalities are considered one performance obligation and recognized over time using the term of the current contract. The Organization uses the input method and has determined intakes and effort to fulfill the performance obligation are expended evenly throughout the performance period; therefore, revenue is recognized evenly as time passes during the contract period.

Note 2 - Significant Accounting Policies (Continued)

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 municipalities based on the terms of the contract. For the purpose of determining transaction prices, the Organization assumes that the services will be provided to the customer as promised in accordance with the existing contract and that the contract will not be canceled, renewed, or modified.

The Organization invoices the municipalities monthly based on agreed upon payment terms in the contract. Payment is typically due within 30 days after an invoice is sent to the municipalities. The contract does not have a significant financing component.

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.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Earnings 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 program and support services based on estimates determined by management. Corporate headquarters, information technology, support services, and marketing are estimated following an internal cost center allocation based primarily on estimates of employees' time in each function. Depreciation is allocated primarily to program expense, as the majority of depreciation expense relates to programming activities, such as vet centers and their associated depreciation. 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).

September 30, 2022

Note 2 - Significant Accounting Policies (Continued)***Adoption of New Accounting Pronouncement***

As of October 1, 2021, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 provided additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets are reported by category within the financial statements, and there are additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement.

Upcoming Accounting Pronouncement

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-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of 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 statements of activities and changes in net assets 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 year of adoption. 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 March 1, 2023, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization obtained an on-demand line of credit with a maximum total advance of \$3,100,000. The line of credit has an interest rate of 210 basis points above SOFR and is collateralized by certain organization investment accounts.

In addition, in February 2023, the Organization listed the warehouse for sale where its Pet Pantry program operates. The Organization also agreed to a lease with an unrelated third party to house the Pet Pantry program. The lease begins April 2023 for an initial term of 4.5 years, with annual base rent beginning at \$226,100 and increasing to \$306,166 at the end of the initial term.

September 30, 2022

Note 3 - Pledges Receivable, Capital Campaign, and Other

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

Gross promises to give before unamortized discount	\$ 3,367,330
Less allowance for uncollectible contributions	(67,400)
Less discount to net present value using a rate of 4.00 percent	(405,800)
	<u>2,894,130</u>
Net contributions receivable	<u>\$ 2,894,130</u>
Amounts due in:	
Less than one year	\$ 988,204
One to five years	2,354,126
Thereafter	25,000
	<u>2,367,330</u>
Total	<u>\$ 3,367,330</u>

The Organization receives contributions from related parties, such as board members and management. For the year ended September 30, 2022, such contributions were approximately \$1,260,000. Related party contribution receivables were approximately \$90,000 as of September 30, 2022.

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, 2022 and the valuation techniques used by the Organization to determine those fair values.

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

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

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

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

Notes to Financial Statements

September 30, 2022

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2022				
Assets	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, 2022
Investments:				
Money market funds	\$ 1,198,910	\$ -	\$ -	\$ 1,198,910
U.S. agency notes	-	124,643	-	124,643
Mutual funds	18,262	-	-	18,262
Common stock	5,719,231	-	-	5,719,231
Corporate debt	-	2,278,683	-	2,278,683
Total assets	<u>\$ 6,936,403</u>	<u>\$ 2,403,326</u>	<u>\$ -</u>	<u>\$ 9,339,729</u>

Debt securities, which include corporate debt and U.S. agency notes, 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.

During the year ended September 30, 2022, the Organization sold its interest in a Level 3 asset (a cemetery interest received via a trust distribution) for \$100,000. The asset was previously valued at \$200,000 as of September 30, 2021, and the difference was recorded as a loss during the year ended September 30, 2022.

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) are managed by the Community Foundation for Southeastern Michigan (the "Foundation"). The Foundation 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 is approximately \$172,500 at September 30, 2022. 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 \$24,200 at September 30, 2022.

September 30, 2022

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

Land	\$ 1,124,595
Land improvements	523,139
Buildings	21,310,742
Building improvements	2,682,694
Medical and other equipment	5,834,861
Transportation equipment	1,181,084
Furniture and fixtures	1,289,433
Computer equipment and software	448,942
Leasehold improvements	169,870
Construction in progress	107,846
Total cost	34,673,206
Accumulated depreciation	15,935,200
Net property and equipment	<u><u>\$ 18,738,006</u></u>

Depreciation expense for 2022 was \$1,210,375.

Note 7 - Capital Leases

The Organization leases vehicles, office furniture, and other equipment under long-term lease arrangements 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 to \$13,995 and are due monthly through August 2027. The leases have interest rates ranging from 1.60 percent to 6.00 percent.

The future minimum lease payments, which consist of principal and insignificant interest, under capital leases are as follows:

Years Ending September 30	Amount
2023	\$ 151,851
2024	135,243
2025	59,519
2026	32,248
2027	26,605
Total	<u><u>\$ 405,466</u></u>

September 30, 2022

Note 8 - Net Assets

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

Subject to time and purpose restrictions:	
Pledges receivable for Pet Pantry	\$ 2,150,000
Pledges receivable for field services	30,000
Humane Communities Initiative	1,000,000
Direct care of animals and other	184,126
Total subject to time and purpose restrictions	3,364,126
Subject to purpose restrictions:	
Direct care of animals	1,052,113
Field services	50,344
Other programs	174,224
Total subject to purpose restrictions	1,276,681
Subject to time restrictions:	
Interest in trusts	22,462
Other estate receivables	1,886,779
Total subject to time restrictions	1,909,241
Subject to spending policy restrictions and appropriation by the governing body:	
Endowment gifts	2,615,216
Accumulated endowment earnings	936,419
Total subject to spending policy and appropriation	3,551,635
Total net assets with donor restrictions	\$ 10,101,683

Note 9 - Donor-restricted Endowment

The Organization's endowment consists of 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

September 30, 2022

Note 9 - Donor-restricted Endowment (Continued)

- 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, 2022
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 2,615,216
Accumulated investment gains	936,419
Total	<u>\$ 3,551,635</u>
	Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2022
Endowment net assets - Beginning of year	\$ 3,884,700
Investment return - Net	<u>(333,065)</u>
Endowment net assets - End of year	<u>\$ 3,551,635</u>

Funds with Deficiencies

As of September 30, 2022, there were no funds with deficiencies.

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, 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.

September 30, 2022

Note 9 - Donor-restricted Endowment (Continued)***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. During the year ended September 30, 2022, the Organization did not distribute assets from its endowment fund.

Note 10 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of September 30, 2022, 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	\$ 1,285,035
Investments	9,339,729
Operational, legacy and bequest, investment-related, other accounts receivable, and Employee Retention Credit receivable	6,403,374
Pledges receivable, capital campaign, and other	<u>2,894,130</u>
Financial assets - At year end	19,922,268
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	58,578
Pledges receivable - Not collectible within one year	2,149,126
Interest in trusts	22,462
Perpetual endowment fund gifts	2,615,216
Accumulated endowment earnings not yet appropriated	<u>936,419</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,140,467</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 \$14.6 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 \$3,551,635, including \$936,419 of unappropriated earnings, at September 30, 2022. Earnings from donor-restricted endowments are not restricted and are available for general expenditure. The endowment distribution policy is described in Note 9.

September 30, 2022

Note 11 - Adoption Center and Charitable Veterinary Hospital Revenue

Adoption center and charitable veterinary hospital revenue for the year ended September 30, 2022 is reported net of discounts as follows:

Adoption center and charitable veterinary hospital revenue - Gross	\$ 5,284,156
Clinic discounts and other	<u>(881,201)</u>
Total	<u>\$ 4,402,955</u>

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 - Net Investment Return

Net investment return consisted of the following for the year ended September 30, 2022:

Interest and dividend income	\$ 158,465
Net realized and unrealized losses	(1,523,554)
Direct investment expenses	<u>(58,737)</u>
Total	<u>\$ (1,423,826)</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 \$215,000 to the Plan for the year ended September 30, 2022.

Note 14 - Operating Leases

At September 30, 2022, the Organization has operating lease agreements for office space and equipment that expire through 2024. Total rent expense under these leases was approximately \$250,000 for the year ended September 30, 2022. Future commitments under these operating leases are as follows:

2023	\$ 227,255
2024	<u>165,144</u>
Total	<u>\$ 392,399</u>

Note 15 - Related Party Transactions

During the course of operations, the Organization conducted various transactions, such as animal care, utilities, and legal, with entities that have owners or key employees who are organization board members. These expenses totaled approximately \$660,000 for the year ended September 30, 2022.

Note 16 - 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 \$703,255 for the year ended September 30, 2022. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

Fundraising	\$ 394,944
Education	<u>308,311</u>
Total	<u>\$ 703,255</u>

September 30, 2022

Note 17 - Contributed Nonfinancial Assets

The Organization receives donations of various goods and services. In-kind donations that met the criteria for recording in accordance with accounting principles generally accepted in the United States of America and have been recorded in the statement of activities and changes in net assets by the Organization for the year ended September 30, 2022 are as follows:

Pet food	\$	3,217,015
Pet supplies		297,674
Professional services		101,115
Other		49,986
Total	\$	<u>3,665,790</u>

Contributed pet food and pet supplies received by the Organization are recorded as in-kind contribution revenue with a corresponding increase to inventory, then expensed once utilized. Pet food and pet supplies were valued using market prices, primarily using methods that include (1) current price located on a publicly available website if the inventory item is a match for the website item when donated and (2) percentage of the price located on a publicly available website if the item donated has been used but the item located online is new. At September 30, 2022, there was approximately \$1,000,000 of donated pet supplies and food not yet disbursed to community members and recorded in inventory.

The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation of professional services. Donated professional services consist primarily of legal and event planning services, which are valued using current rates for similar services.

Pet food and supplies were used for program purposes, in which they were then donated to community members. Donated professional services were used by the Organization for assistance in operations and fundraising areas.

The Organization receives volunteer services that are not recordable under generally accepted accounting principles. The value of the volunteer services is not disclosed, since no objective basis is available to measure the value of such services.

Note 18 - Prior Period Adjustment

Net assets as of October 1, 2021 have been restated to correct an error related to the timing of recognizing donation expense and inventory for contributed nonfinancial assets, specifically animal food and supplies, in 2021. The effect of the restatement was to increase both inventory and net assets without donor restrictions as of October 1, 2021 by \$1,272,675.