Michigan Humane

Financial Report

September 30, 2021

Contents

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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, 2021 and 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

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

Our opinion is not modified with respect to these matters.

Plante & Moran, PLLC

February 16, 2022

Balance Sheet

September 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 1,681,090	$ 1,899,633
Investments (Note 4)	13,019,935	13,158,312
Accounts receivable:		
Operational accounts receivable	57,685	50,929
Legacies and bequests receivable	818,857	731,000
Investment-related and other accounts receivable	99,174	97,386
Pledges receivable, capital campaign, and other - Net (Note 3)	441,904	374,373
Employee Retention Credit receivable (Note 2)	3,800,000	-
Inventory	434,616	276,637
Prepaid expenses and other	305,575	175,288
Interest in trusts (Note 4)	222,462	869,132
Property, plant, and equipment - Net (Note 6)	19,188,875	20,199,490
Total assets	**$ 40,070,173**	**$ 37,832,180**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	$ 795,576	$ 898,959
Paycheck Protection Program loan (Note 18)	-	2,548,400
Accrued salaries, wages, and employee benefits payable	1,199,520	1,005,046
Capital lease obligations (Note 7)	387,828	531,211
Total liabilities	2,382,924	4,983,616
Net Assets		
Without donor restrictions	30,765,520	26,146,579
With donor restrictions (Note 8)	6,921,729	6,701,985
Total net assets	37,687,249	32,848,564
Total liabilities and net assets	**$ 40,070,173**	**$ 37,832,180**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended September 30, 2021 and 2020

	2021	2020
Changes in Net Assets without Donor Restrictions		
Revenue and support:		
Contributions	$ 6,481,101	$ 6,988,329
Legacies and bequests	4,292,587	2,757,754
Adoption center and charitable veterinary hospital - Net (Note 11)	5,171,554	5,494,122
Retail	19,407	13,416
Special event revenue	555,230	1,061,039
Investment gains (Note 12)	1,685,425	1,687,575
Gain on disposal of property and equipment	10,275	550
Gain on debt forgiveness (Note 18)	2,548,400	-
Employee Retention Credit (Note 2)	3,800,000	-
Net assets released from restrictions	3,038,473	1,390,892
Total revenue and support	27,602,452	19,393,677
Expenses:		
Program services	16,342,664	16,799,621
Support services:		
Management and general	3,200,883	3,288,486
Fundraising	3,439,964	3,507,839
Total expenses	22,983,511	23,595,946
Increase (Decrease) in Net Assets without Donor Restrictions	4,618,941	(4,202,269)
Changes in Net Assets with Donor Restrictions		
Contributions	2,627,805	1,418,169
Endowment gifts	5,000	8,800
Legacies and bequests	818,857	731,000
Investment gains (Note 12)	420,329	430,541
Change in value of split interest agreements	(613,774)	-
Net assets released from restrictions	(3,038,473)	(1,390,892)
Increase in Net Assets with Donor Restrictions	219,744	1,197,618
Increase (Decrease) in Net Assets	4,838,685	(3,004,651)
Net Assets - Beginning of year	32,848,564	35,853,215
Net Assets - End of year	**$ 37,687,249**	**$ 32,848,564**

See notes to financial statements.

Statement of Functional Expenses

Year Ended September 30, 2021

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 8,411,832	$ 1,719,800	$ 998,576	$ 11,130,208
Employee benefits	959,112	220,167	94,668	1,273,947
Payroll taxes	676,955	126,091	73,035	876,081
Total salaries and related expenses	10,047,899	2,066,058	1,166,279	13,280,236
Animal care	2,225,641	-	-	2,225,641
Facility	246,294	-	-	246,294
Insurance	-	108,823	-	108,823
Vehicle	96,536	5,106	921	102,563
Rental	58,760	104,216	58,760	221,736
Repairs and maintenance	271,128	1,490	840	273,458
Utilities	515,255	4,274	2,410	521,939
Telephone	172,928	29,054	11,480	213,462
Fundraising and special event costs	23,206	588	1,068,564	1,092,358
Public relations and marketing	62,417	-	247,431	309,848
Postage	9,285	710	387,662	397,657
Printing	16,524	7,053	85,252	108,829
Professional fees	74,529	391,837	29,181	495,547
Office supplies and expenses	110,808	11,842	8,071	130,721
Meeting	628	470	1,778	2,876
Employee	78,343	102,326	6,570	187,239
Cost of sales	12,088	-	-	12,088
Credit card and banking fees	26,132	125,942	85,099	237,173
IT licenses and support	426,194	150,608	172,915	749,717
Support of collaborative efforts	45,304	-	-	45,304
Bad debt expense	-	-	64,000	64,000
Depreciation	1,217,663	72,169	36,487	1,326,319
Other	605,102	18,317	6,264	629,683
Total functional expenses	**$ 16,342,664**	**$ 3,200,883**	**$ 3,439,964**	**$ 22,983,511**

Statement of Functional Expenses

Year Ended September 30, 2020

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
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
Total salaries and related expenses	10,311,104	2,013,639	973,937	13,298,680
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
Total functional expenses	**$ 16,799,621**	**$ 3,288,486**	**$ 3,507,839**	**$ 23,595,946**

Statement of Cash Flows

Years Ended September 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 4,838,685	$ (3,004,651)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,326,319	1,327,013
Amortization of discount on pledges receivable	-	(12,400)
Net realized and unrealized gains on investments	(1,987,155)	(1,981,303)
Donated investments	(1,054,625)	(57,691)
Bad debt expense (recovery)	64,000	(1,500)
Change in value of interest in trusts	646,670	-
Contributions for future operations - Bequests receivable	(818,857)	(731,000)
Contributions restricted for endowment	(5,000)	(8,800)
Gain on sale of property, plant, and equipment	(10,275)	(550)
Gain on debt forgiveness	(2,548,400)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Operational accounts receivable	(6,756)	(5,742)
Legacies and bequests receivable	731,000	-
Other accounts receivable	(1,788)	55,025
Pledges receivable	(145,000)	5,000
Employee Retention Credit receivable	(3,800,000)	-
Inventory	(157,979)	(72,426)
Prepaid expenses and other	(130,287)	133,958
Accounts payable and other	(103,383)	205,218
Accrued salaries, wages, and employee benefits payable	194,474	356,458
Net cash and cash equivalents used in operating activities	(2,968,357)	(3,793,391)
Cash Flows from Investing Activities		
Purchase of property and equipment	(255,979)	(568,509)
Proceeds from disposition of property and equipment	22,775	550
Purchases of investments	(10,152,617)	(11,258,303)
Proceeds from sales and maturities of investments	13,332,774	12,620,128
Net cash and cash equivalents provided by investing activities	2,946,953	793,866
Cash Flows from Financing Activities		
Proceeds from capital campaign contributions	13,469	285,294
Proceeds from endowment gifts	5,000	8,800
Payments on capital leases	(215,608)	(216,697)
Proceeds from Paycheck Protection Program	-	2,548,400
Net cash and cash equivalents (used in) provided by financing activities	(197,139)	2,625,797
Net Decrease in Cash and Cash Equivalents	(218,543)	(373,728)
Cash and Cash Equivalents - Beginning of year	1,899,633	2,273,361
Cash and Cash Equivalents - End of year	**$ 1,681,090**	**$ 1,899,633**
Significant Noncash Transactions - Equipment obtained via capital lease	$ 72,225	$ 219,011

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, 2021 and 2020.

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, 2021.

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

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, 2021 and 2020, in-kind donations of approximately $605,000 and $702,000, 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.

During the year ended September 30, 2021, the Organization determined it was eligible for the Employee Retention Credit as part of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted on December 27, 2020, which made a number of changes to the Employee Retention Credits previously made available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including modifying and extending the Employee Retention Credit (ERC) through September 30, 2021. This credit is analogous to grants/subsidies and should be accounted for under ASC 958-605; thus, it is reported as contribution revenue once it is unconditional. Management has estimated the credit to be $3,800,000 for the year ended September 30, 2021.

Revenue Recognition

During the years ended September 30, 2021 and 2020, the Organization recognized revenue from contracts with customers of approximately $5,190,961 and $5,507,538, respectively. These amounts consist of adoption center and charitable veterinary hospital and retail sales on the statement of activities and changes in net assets. The Organization did not recognize any impairment losses on trade receivables for the years ended September 30, 2021 or 2020. Contract receivables as of October 1, 2019 were $45,187.

Note 2 - Significant Accounting Policies (Continued)

Typically, the Organization does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, contract assets were not recorded at September 30, 2021 and 2020. 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, 2021; September 30, 2020; and October 1, 2019 totaled $4,750, $39,310, and $35,660, 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 $4,798,926 and $5,105,364 for the years ended September 30, 2021 and 2020, respectively.

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

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

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

Contract Revenue

The Organization recognized revenue from contracts with municipalities during the year in which the related services are provided to the municipalities totaling $392,035 and $402,174 for the years ended September 30, 2021 and 2020, respectively. 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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, 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, 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 Organization adopted the new standard using the full retrospective method to all contracts. The adoption of the ASU did not impact the Organization's reported historical revenue.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

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.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions charities and other not-for-profit organizations receive, known as gifts-in-kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Organization's year ending September 30, 2022 and will be applied using the retrospective method.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 16, 2022, which is the date the financial statements were available to be issued.

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:

	2021	2020
Gross promises to give before unamortized discount	$ 489,804	$ 411,773
Less allowance for uncollectible contributions	(9,800)	(8,200)
Less unamortized discount	(38,100)	(29,200)
Net contributions receivable	$ 441,904	$ 374,373
Amounts due in:		
Less than one year	$ 179,804	$ 216,773
One to five years	285,000	145,000
Thereafter	25,000	50,000
Total	$ 489,804	$ 411,773

The Organization receives contributions from related parties, such as board members and management. For the years ended September 30, 2021 and 2020, such contributions were approximately $325,000 and $128,000, respectively. Related party contribution receivables were approximately $152,000 and $15,000 at September 30, 2021 and 2020, 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, 2021 and 2020 and the valuation techniques used by the Organization to determine those fair values.

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

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

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

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

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2021			
	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, 2021
Assets				
Investments:				
Money market funds	$ 750,526	$ -	$ -	$ 750,526
U.S. agency notes	-	199,990	-	199,990
Mutual funds	21,400	-	-	21,400
Mortgage-backed securities	-	260,703	-	260,703
Common stock	8,641,299	-	-	8,641,299
Corporate debt	-	3,146,017	-	3,146,017
Total investments	9,413,225	3,606,710	-	13,019,935
Interest in trusts	-	-	222,462	222,462
Total assets	$ 9,413,225	$ 3,606,710	$ 222,462	$ 13,242,397

Note 4 - Fair Value Measurements (Continued)

	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
Assets				
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

Debt securities, which include corporate debt, 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, 2021 and 2020 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at September 30, 2021	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets - Interest in trusts	$ 222,462	Discounted cash flow	Growth rate	3.00%
			Remaining life expectancies of beneficiaries	20-22 years

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

Note 4 - Fair Value Measurements (Continued)

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements, which consist of a trust and an interest in a cemetery (received from a trust). These processes include reviewing the life expectancy of the income beneficiary of the trusts, the term of the trusts/interest, the expected growth and distribution rates, and the Organization's relative share of assets held in trusts. During the year ended September 30, 2021, the Organization entered into negotiations to sell its interest in the cemetery, and a potential buyer issued a letter of intent to the Organization. At September 30, 2020, the cemetery interest was valued at approximately $850,000. Based upon the letter of intent, the Organization has concluded to adjust the asset to the expected net cash flow, which is $200,000 and represents the value recorded at September 30, 2021.

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 that the assets it holds not be recorded as assets of the Organization. The fair market value of these funds is approximately $209,800 and $176,800 at September 30, 2021 and 2020, 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 $29,400 and $24,800 at September 30, 2021 and 2020, respectively.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2021	2020
Land	$ 1,124,595	$ 1,137,095
Land improvements	486,337	486,337
Buildings	21,310,742	21,310,742
Building improvements	2,572,218	2,531,071
Medical and other equipment	5,503,706	5,219,837
Transportation equipment	1,134,697	1,155,302
Furniture and fixtures	1,280,979	1,280,979
Computer equipment and software	429,522	429,522
Leasehold improvements	137,254	137,254
Construction in progress	8,348	110,996
Total cost	33,988,398	33,799,135
Accumulated depreciation	14,799,523	13,599,645
Net property and equipment	$ 19,188,875	$ 20,199,490

Depreciation expense for 2021 and 2020 was $1,326,319 and $1,327,013, 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 to $97,790 and are due monthly through November 2025. The leases have interest rates ranging from 2.20 percent to 6.00 percent.

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

Years Ending September 30	Amount
2022	$ 135,998
2023	135,998
2024	112,050
2025	31,835
2026	2,640
Total	418,521
Less amount representing interest	30,693
Present value of net minimum lease payments	$ 387,828

Note 8 - Net Assets

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

	2021	2020
Subject to time and purpose restrictions:		
Pledges receivable for Pet Pantry	$ 175,000	$ 200,000
Pledges receivable for field services	65,000	50,000
Direct care of animals	170,000	600,000
Other	75,000	-
Total subject to time and purpose restrictions	485,000	850,000
Subject to purpose restrictions:		
Direct care of animals	1,213,922	1,026,863
Field services	89,721	40,877
Other programs	207,067	324,742
Total subject to purpose restrictions	1,510,710	1,392,482
Subject to time restrictions:		
Interest in trusts	222,462	869,132
Other estate receivables	818,857	131,000
Total subject to time restrictions	1,041,319	1,000,132
Subject to spending policy restrictions and appropriation by the governing body:		
Endowment gifts	2,615,216	2,610,216
Accumulated endowment earnings	1,269,484	849,155
Total subject to spending policy and appropriation	3,884,700	3,459,371
Total net assets with donor restrictions	$ 6,921,729	$ 6,701,985

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

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	
	2021	2020
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	$ 2,615,216	$ 2,610,216
Accumulated investment gains	1,269,484	849,155
Total	$ 3,884,700	$ 3,459,371

	Changes in Endowment Net Assets for the Fiscal Year Ended September 30	
	2021	2020
Endowment net assets - Beginning of year	$ 3,459,371	$ 3,020,030
Investment return - Net	420,329	430,541
Contributions	5,000	8,800
Endowment net assets - End of year	$ 3,884,700	$ 3,459,371

Funds with Deficiencies

As of September 30, 2021 and 2020, 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, 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.

Note 9 - Donor-restricted Endowment (Continued)

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 years ended September 30, 2021 and 2020, 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, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	2021	2020
Cash and cash equivalents	$ 1,681,090	$ 1,899,633
Investments	13,019,935	13,158,312
Operational, legacy and bequest, investment-related, other accounts receivable, and Employee Retention Credit receivable	4,775,716	879,315
Pledges receivable, capital campaign, and other	441,904	374,373
Interest in trusts	222,462	869,132
Financial assets - At year end	20,141,107	17,180,765
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	83,942	101,027
Pledges receivable - Not collectible within one year	160,000	195,000
Interest in trusts	22,462	869,132
Perpetual endowment fund gifts	2,615,216	2,610,216
Accumulated endowment earnings not yet appropriated	1,269,484	849,155
Financial assets available to meet cash needs for general expenditures within one year	$ 15,990,003	$ 12,556,235

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 $11.3 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 $3,884,700 and $3,459,371, including $1,269,484 and $849,155 of unappropriated earnings, at September 30, 2021 and 2020, 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, 2021 and 2020 is reported net of discounts as follows:

	2021	2020
Adoption center and charitable veterinary hospital revenue - Gross	$ 6,171,072	$ 6,482,273
Clinic discounts and other	(999,518)	(988,151)
Total	$ 5,171,554	$ 5,494,122

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, 2021 and 2020:

	2021	2020
Interest and dividend income	$ 179,986	$ 214,963
Net realized and unrealized gains	1,987,155	1,981,303
Direct investment expenses	(61,387)	(78,150)
Total	$ 2,105,754	$ 2,118,116

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 $218,000 and $144,000 to the Plan for the years ended September 30, 2021 and 2020, 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 $260,000 and $270,000 for the years ended September 30, 2021 and 2020, respectively. Future commitments under these operating leases are as follows:

2022	$ 245,581
2023	227,255
2024	165,144
Total	$ 637,980

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 $560,000 and $459,000 for the years ended September 30, 2021 and 2020, respectively.

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 $590,299 and $663,129 for the years ended September 30, 2021 and 2020, respectively. These costs are not specifically attributable to fundraising or education activities and were allocated as follows:

	2021	2020
Fundraising	$ 221,935	$ 388,251
Education	368,364	274,878
Total	$ 590,299	$ 663,129

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 since March 2020, the Organization 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, the Organization’s operations were deeply impacted with the various executive orders released by the governor of the State of Michigan. Shelter facilities were closed to the public for several weeks, which prevented the Organization from performing several services, such as preventive services like spay/neuter, vaccines, pet adoptions, and animal intakes, among others. The veterinary clinics were open to provide services to the public, but the procedures for performing those services were modified to limit exposure of customers and employees. For instance, the Organization provided drive-up services where clients remained in their cars while their pets were being treated at the clinic. The Judith Caplan Phillips Pet Food Pantry continued to be open, and, based upon the financial strains on families, demand for food was high. The Organization distributed over a million pounds of free pet food through the drive-up process implemented at the pantry.

During this time of contraction, the Organization was able to keep all staff employed. Staff were rotated through the shelter and veterinary facilities. In addition, this time allowed the Organization to update its staff’s training in areas related to the safety precautions being implemented throughout the Organization and required to maintain their skill sets, as well as for staff to learn 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 normal sources of revenue for the Organization, but the needs of the animals, the community, and organization staff continued in new ways. Supplies needed for the Organization to continue operations in accordance with guidelines from the State of Michigan and Centers for Disease Control and Prevention (CDC) and moneys needed to continue to employ staff negatively impacted the Organization's earnings during the year. These increased expenses were partially offset by the reduction of operating expenses from the closure of the Organization's facilities and the receipt of $2.5 million through the Paycheck Protection Program loan and its forgiveness.

Note 17 - COVID-19 Pandemic (Continued)

The Organization has celebrated many successes throughout the past two years despite the pandemic, but the Organization has also experienced challenges. Below summarizes a few of the challenges.

Revenue Losses

The veterinary centers are critical both in terms of providing care for owned pets in the community and in generating revenue to support the Organization's ongoing missional work. The state-mandated shutdowns and ongoing veterinary staffing shortages have reduced the number of appointments that can be scheduled and pets served through the Organization's clinics.

Increased Animal Intakes

The disruption to preventive care at the onset of the pandemic, coupled with the ongoing veterinary staffing shortage across the industry and COVID-19 illness or exposure, combined with the continuing economic challenges many families are still facing, have all contributed to a backlog of pet sterilizations. Based on the trend of intakes over the past two years, the Organization expects an increase in animals entering its shelters as a result.

Infrastructure Expenses

The Organization has had to make investments over the past two years that have forced it to dip into its financial reserves to continue essential services:

- To ensure the safety of the Organization's staff, volunteers, and clients, the Organization made significant technology investments to transition as many staff as possible to a remote work environment.
- The Organization committed to increasing salaries for essential front-line and public-facing staff to provide appropriate compensation for the risk they face by working in person and to retain critical staff.

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.

Note 18 - Paycheck Protection Program Loan

During the year ended September 30, 2020, the Organization received a Paycheck Protection Program (PPP) loan in the amount of $2,548,400. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and staffing level and salary maintenance requirements are met.

Prior to September 30, 2021, the Organization applied for and received notification of forgiveness of the loan from the SBA. Loan forgiveness in the amount of $2,548,400 has been recorded as a gain on debt forgiveness on the statement of activities and changes in net assets.