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Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Ingham County Humane Society dba Capital Area Humane Society'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 Ingham County Humane Society dba Capital Area Humane Society'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.

Clark, Schaefer, Hackett & Co.

East Lansing, Michigan
June 6, 2023

Ingham County Humane Society dba Capital Area Humane Society
 Statements of Financial Position
 December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,848,654	2,692,367
Certificates of deposit	55,959	55,848
Accounts receivable	4,215	3,202
Promises to give	84,294	251,113
Prepaid expenses	63,570	13,691
Inventory	<u>80,228</u>	<u>83,568</u>
	<u>2,136,920</u>	<u>3,099,789</u>
Long-term assets:		
Promises to give, net of current portion	34,179	73,500
Property and equipment, net of depreciation	2,373,300	2,523,335
Construction in progress	2,177,759	547,159
Investments	1,478,592	1,568,477
Beneficial interest in assets held at Capital Region Community Foundation	<u>356,434</u>	<u>440,753</u>
	<u>6,420,264</u>	<u>5,153,224</u>
Other assets		
Right-of-use assets	<u>98,384</u>	<u>-</u>
	<u>\$ 8,655,568</u>	<u>8,253,013</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 526,092	52,682
Accrued payroll	91,192	86,546
Paycheck Protection Program loan	-	335,370
Current portion of operating lease liabilities	<u>32,013</u>	<u>-</u>
	<u>649,297</u>	<u>474,598</u>
Long-term liabilities:		
Operating lease liabilities, net of current portion	<u>66,371</u>	<u>-</u>
	<u>715,668</u>	<u>474,598</u>
Net assets:		
Without donor restrictions	7,437,524	6,544,794
With donor restrictions	<u>502,376</u>	<u>1,233,621</u>
	<u>7,939,900</u>	<u>7,778,415</u>
	<u>\$ 8,655,568</u>	<u>8,253,013</u>

See accompanying notes to the financial statements.

Ingham County Humane Society dba Capital Area Humane Society
Statement of Activities
Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Shelter:			
Donations	\$ 613,109	97,771	710,880
Donations, capital campaign	-	347,160	347,160
Memorials, bequests, and trusts	665,939	-	665,939
Grants	44,133	-	44,133
Paycheck Protection Program loan forgiveness	335,370	-	335,370
Non-cash donations	6,426	-	6,426
Shelter operations	414,290	-	414,290
Clinic income	11,234	-	11,234
Merchandise sales, net of expenses	29,589	-	29,589
Fundraising income	793,624	-	793,624
Investment loss, net	(204,970)	(84,319)	(289,289)
Humane education	50,890	-	50,890
Miscellaneous	6,633	-	6,633
	<u>2,766,267</u>	<u>360,612</u>	<u>3,126,879</u>
Clinic:			
Donations	32,703	24,455	57,158
Grants	2,700	35,600	38,300
Clinic income	414,514	-	414,514
	<u>449,917</u>	<u>60,055</u>	<u>509,972</u>
Net assets released from restrictions	<u>1,151,912</u>	<u>(1,151,912)</u>	<u>-</u>
	<u>4,368,096</u>	<u>(731,245)</u>	<u>3,636,851</u>
Expenses:			
Program:			
Shelter	2,317,190	-	2,317,190
Clinic	487,184	-	487,184
Management and general	229,298	-	229,298
Fundraising	441,694	-	441,694
	<u>3,475,366</u>	<u>-</u>	<u>3,475,366</u>
Change in net assets	892,730	(731,245)	161,485
Net assets at beginning of year	<u>6,544,794</u>	<u>1,233,621</u>	<u>7,778,415</u>
Net assets at end of year	\$ <u>7,437,524</u>	<u>502,376</u>	<u>7,939,900</u>

See accompanying notes to the financial statements.

Ingham County Humane Society dba Capital Area Humane Society
Statement of Activities
Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Contributions:			
Donations	\$ 548,031	39,702	587,733
Donations, capital campaign	-	478,231	478,231
Memorials, bequests, and trusts	819,233	-	819,233
Grants	55,882	15,500	71,382
Paycheck Protection Program loan forgiveness	335,372	-	335,372
Non-cash donations	6,720	-	6,720
Shelter operations	517,909	-	517,909
Clinic income	7,789	-	7,789
Merchandise sales, net of expenses	16,093	-	16,093
Fundraising income	674,269	-	674,269
Investment return, net	131,935	42,491	174,426
Humane education	67,202	-	67,202
Miscellaneous	<u>4,750</u>	<u>-</u>	<u>4,750</u>
	3,185,185	575,924	3,761,109
Clinic:			
Donations	1,759	11,001	12,760
Grants	-	29,000	29,000
Clinic income	<u>459,576</u>	<u>-</u>	<u>459,576</u>
	461,335	40,001	501,336
Net assets released from restrictions	<u>648,132</u>	<u>(648,132)</u>	<u>-</u>
	<u>4,294,652</u>	<u>(32,207)</u>	<u>4,262,445</u>
Expenses:			
Program services:			
Shelter	2,172,731	-	2,172,731
Clinic	485,611	-	485,611
Management and general	223,083	-	223,083
Fundraising	<u>345,976</u>	<u>-</u>	<u>345,976</u>
	<u>3,227,401</u>	<u>-</u>	<u>3,227,401</u>
Change in net assets	1,067,251	(32,207)	1,035,044
Net assets at beginning of year	<u>5,477,543</u>	<u>1,265,828</u>	<u>6,743,371</u>
Net assets at end of year	\$ <u>6,544,794</u>	<u>1,233,621</u>	<u>7,778,415</u>

See accompanying notes to the financial statements.

Ingham County Humane Society dba Capital Area Humane Society
Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Program Services</u>		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Percent of Total</u>
	<u>Shelter</u>	<u>Clinic</u>				
Wages	\$ 1,330,938	241,030	156,309	121,532	1,849,809	52.88 %
Payroll taxes	110,021	19,925	12,921	10,046	152,913	4.37
Retirement plan	16,291	3,495	1,620	1,259	22,665	0.65
Employee benefits	68,141	3,591	6,776	5,268	83,776	2.39
Professional development	13,381	-	-	226	13,607	0.39
Animal care and clinic	309,630	111,999	-	-	421,629	12.05
Merchandise cost of goods sold	23,435	-	-	-	23,435	0.67
Printing and office expense	81,417	11,180	1,662	279,425	373,684	10.68
Building supplies	23,978	-	757	505	25,240	0.72
Rent	-	38,500	-	-	38,500	1.10
Telephone	11,630	7,758	367	245	20,000	0.57
Utilities	71,316	8,600	2,252	1,501	83,669	2.39
Repairs and maintenance	33,345	18,549	1,053	702	53,649	1.53
General insurance	43,409	-	1,371	914	45,694	1.31
Dues and subscriptions	-	-	1,290	162	1,452	0.04
Depreciation and amortization	158,016	15,330	4,990	3,327	181,663	5.19
Volunteer expenses	12,506	-	-	-	12,506	0.36
Professional fees	-	-	6,100	-	6,100	0.17
Advertising	-	219	-	5,713	5,932	0.17
Humane education	22,387	-	-	-	22,387	0.64
Miscellaneous	-	1,990	20,622	-	22,612	0.65
Travel	10,784	-	11,208	135	22,127	0.63
Contractual services	-	5,018	-	6,372	11,390	0.33
Miscellaneous fundraising	-	-	-	4,362	4,362	0.12
	<u>2,340,625</u>	<u>487,184</u>	<u>229,298</u>	<u>441,694</u>	<u>3,498,801</u>	<u>100.00 %</u>
Less expenses included with revenues on the statement of activities						
Merchandise cost of goods sold	<u>(23,435)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,435)</u>	
Total expenses included on the statement of activities	\$ <u>2,317,190</u>	<u>487,184</u>	<u>229,298</u>	<u>441,694</u>	<u>3,475,366</u>	

See accompanying notes to the financial statements.

Ingham County Humane Society dba Capital Area Humane Society
Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Program Services</u>		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Percent of Total</u>
	<u>Shelter</u>	<u>Clinic</u>				
Wages	\$ 1,220,789	221,082	143,373	111,474	1,696,719	52.13 %
Payroll taxes	100,391	18,180	11,790	9,167	139,529	4.29
Retirement plan	11,771	3,410	1,170	910	17,261	0.53
Employee benefits	60,558	8,621	6,022	4,681	79,881	2.46
Professional development	9,143	179	-	-	9,322	0.29
Animal care and clinic	337,211	130,671	-	-	467,882	14.38
Merchandise cost of goods sold	26,320	-	-	-	26,320	0.81
Printing and office expense	69,654	12,392	1,422	185,059	268,527	8.25
Building supplies	24,077	-	760	507	25,344	0.78
Rent	-	38,638	-	-	38,638	1.19
Telephone	8,423	7,753	266	177	16,619	0.51
Utilities	61,525	9,550	1,943	1,295	74,313	2.28
Repairs and maintenance	27,197	16,522	859	573	45,151	1.39
General insurance	35,976	-	1,136	757	37,869	1.16
Dues and subscriptions	-	-	632	555	1,187	0.04
Depreciation and amortization	169,924	6,501	5,366	3,577	185,368	5.70
Volunteer expenses	6,829	-	-	-	6,829	0.21
Professional fees	-	-	6,000	-	6,000	0.18
Advertising	-	10	-	16,912	16,922	0.52
Humane education	19,149	-	-	-	19,149	0.59
Miscellaneous	-	1,278	33,715	-	34,993	1.08
Travel	10,114	-	8,629	-	18,743	0.58
Contractual services	-	10,823	-	2,725	13,548	0.42
Miscellaneous fundraising	-	-	-	<u>7,607</u>	<u>7,607</u>	<u>0.23</u>
	<u>2,199,051</u>	<u>485,611</u>	<u>223,083</u>	<u>345,976</u>	<u>3,253,721</u>	<u>100.00 %</u>
Less expenses included with revenues on the statement of activities						
Merchandise cost of goods sold	<u>(26,320)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,320)</u>	
Total expenses included on the statement of activities	<u>\$ 2,172,731</u>	<u>485,611</u>	<u>223,083</u>	<u>345,976</u>	<u>3,227,401</u>	

See accompanying notes to the financial statements.

Ingham County Humane Society dba Capital Area Humane Society
 Statements of Cash Flows
 Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 161,485	1,035,044
Adjustments to reconcile change in net assets to net cash from by operating activities:		
Depreciation and amortization	181,663	185,368
Amortization of right of use assets	31,616	-
Change in allowance for uncollectible promises to give	(17,196)	3,693
Contribution of stocks	(129,839)	(121,224)
Net gains on investments	236,265	(105,176)
Paycheck Protection Program loan forgiveness	(335,370)	(335,372)
Change in beneficial interest in assets held at Capital Region Community Foundation	69,700	(56,330)
(Increase) decrease in assets		
Accounts receivable	(1,013)	(1,602)
Promises to give	223,336	(64,391)
Prepaid expenses	(49,879)	5,231
Inventory	3,340	(10,726)
Increase (decrease) in liabilities		
Accounts payable	(22,156)	(203)
Accrued payroll	4,646	(1,257)
Operating lease liabilities	(31,616)	-
Net cash from operating activities	324,982	533,055
Cash flows from investing activities:		
Purchase of property and equipment	(31,628)	(60,889)
Construction in progress	(1,135,034)	(496,854)
Change in certificates of deposit	(111)	(168)
Proceeds from sale of investments	353,463	291,022
Purchase of investments	(370,004)	(286,602)
Withdraws from beneficial interest in assets held at Capital Region Community Foundation	14,619	13,839
Net cash from investing activities	(1,168,695)	(539,652)
Cash flows from financing activities:		
Paycheck Protection Program loan	-	335,370
Change in cash and cash equivalents	(843,713)	328,773
Cash and cash equivalents, at beginning of year	2,692,367	2,363,594
Cash and cash equivalents, at end of year	\$ 1,848,654	2,692,367
Noncash investing and financing activities:		
Purchase of property and equipment in accounts payable	\$ -	3,500
Construction in progress in accounts payable	\$ 495,566	-
Contribution of stocks	\$ 129,839	121,224

See accompanying notes to the financial statements.

1. SUMMARY OF ACCOUNTING POLICIES:

Nature of the organization

Ingham County Humane Society dba Capital Area Humane Society (the "Organization"), is a community-supported agency committed to assuring responsible care for and respectful treatment of domestic animals in the greater Lansing, Michigan area. The Organization operates a shelter, provides adoption programs, advocates spaying and neutering of pets, and promotes animal welfare.

Basis of accounting

The financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used in preparing the financial statements.

Cash equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are stated at their net realizable value. Any amount determined to be uncollectible is charged against the allowance for doubtful accounts at the time that determination is made. Management has not assessed an allowance against accounts receivable at December 31, 2022 and 2021.

Promises to give

Unconditional promises to give are recorded at net realizable value when the promise is made and requires the Organization to distinguish between contributions based upon donor imposed restrictions. Unconditional promises to give due in more than one year were not discounted as management believes the amount to be insignificant. The Organization has elected to set up an allowance for uncollectible accounts that approximates 1.4% of outstanding balances for December 31, 2022 and 5.5% of outstanding balances for December 31, 2021.

Inventory

Inventory is stated at cost and consists primarily of animal care supplies.

Property and equipment

Property and equipment are stated at cost. The Organization capitalizes assets costing over \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets, which range from three to thirty-nine years.

Investments

Investments are stated at fair value. Investments are classified as long-term on the statements of financial position as there is no immediate need for these funds and it is the Organization's intention to grow its investment portfolio to provide for future projects and endeavors. Net investment return is included in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. Certificates of Deposit are recorded at cost, which is approximate fair value.

Net assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net assets with donor restrictions – Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished.

Revenue recognition

Revenue is recognized when earned. Program service fees, payments under cost-reimbursable contracts, fees and payments received in advance are deferred to the period the related services are performed or expenditures are incurred. Gifts and contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are recognized when the conditions on which they depend have been met.

Clinic and shelter income are based on the satisfaction of the performance obligations at a point in time. The performance obligations related to the clinic and shelter income is the completion of the shelter or clinic services. Upon completion of the services, the Organization records revenue. There are no significant financing components, warranties, or variable considerations.

Contract balances are as follows:

	December 31, <u>2022</u>	December 31, <u>2021</u>	January 1, <u>2021</u>
Accounts receivable	\$ 4,215	3,202	1,600

Donated services

The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Adoption of ASU 2020-07

The Organization changed accounting policies related to their financial statement presentation and disclosures of contributed nonfinancial assets, or gifts-in-kind by adopting FASB Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, during the year ended December 31, 2022. The standard requires separate disclosure of non-financial contributed asset on the statement of activities and enhanced disclosures including the Organization’s policy for valuation and monetization of contributed non-financial assets, and any donor-restrictions attached to the assets. The accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

Adoption of FASB ASC 842

Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets of \$130,000 and operating lease liabilities of \$130,000 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with the Organization's historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the Organization. See Note 8.

Leases

The Organization leases a building and copiers. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the Organization's statements of financial position.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. Since most of the Organization's leases do not provide an implicit rate, the Organization is electing to use the risk-free rate applicable at lease commencement for all classes of leased assets. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise the option.

Functional allocation of expenses

The costs of providing program and other activities have been reported in the statements of activities. The statements of functional expenses presents the natural classification of expenses that are allocated to program or supporting functions of the Organization. Allocated expenses primarily consist of payroll and related expenses and general expenses based on salary and wage analysis and management's estimated use of resources using allocated salary and wages as the driving factor.

Credit risk

The Organization is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and promises to give. The Organization follows a policy of placing its cash and cash equivalents with various major financial institutions. Although such cash balances may exceed the federally insured limits at certain times during the year and at year-end, they are in the opinion of management, subject to minimal risk. Credit risk associated with promises to give is considered to be limited due to high historical collection rates. As of December 31, 2022, 71% of the promises to give balance is concentrated among three individuals. As of December 31, 2021, 93% of the promises to give balance is concentrated among three individuals.

Advertising costs

The Organization's policy is to expense advertising costs as incurred.

Date of management's review

Subsequent events have been evaluated through June 6, 2023, which is the date the financial statements were available to be issued.

2. PROMISES TO GIVE:

Unconditional promises to give primarily consist of amounts for the use of renovating the building. There are also \$8,000 and \$9,000 of unconditional promises to give without any donor restrictions as of December 31, 2022 and 2021, respectively.

Unconditional promises to give consist of the following:

	<u>2022</u>	<u>2021</u>
Unconditional promises to give	\$ 120,173	343,509
Less: allowance for uncollectible accounts	<u>(1,700)</u>	<u>(18,896)</u>
Net unconditional promises to give	<u>\$ 118,473</u>	<u>324,613</u>
Amounts due in		
One year or less	\$ 84,294	251,113
One to five years	31,179	69,500
More than five years	<u>3,000</u>	<u>4,000</u>
	<u>\$ 118,473</u>	<u>324,613</u>

3. PROPERTY AND EQUIPMENT:

Major classes of property and equipment are as follows:

	<u>2022</u>	<u>2021</u>
Shelter	\$ 3,613,973	3,613,973
Land	119,040	119,040
Equipment	698,667	668,406
Off-site clinic leasehold improvements	194,582	194,582
Off-site clinic equipment	<u>86,271</u>	<u>84,904</u>
	4,712,533	4,680,905
Accumulated depreciation and amortization	<u>(2,339,233)</u>	<u>(2,157,570)</u>
Net property and equipment	<u>\$ 2,373,300</u>	<u>2,523,335</u>

4. FAIR VALUE MEASUREMENTS:

Fair Value Measurements in accordance with GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes that inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets of liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2022 and 2021.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The Capital Region Community Foundation (CRCF) acts under an arrangement as a depository for gifts, conveyances, and other transfers intended to assist the Organization in achieving its goals and purposes.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present by level, within the fair value hierarchy, the Organization investment assets at fair value, as of December 31, 2022 and 2021. As required by GAAP, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

Ingham County Humane Society dba Capital Area Humane Society
Notes to the Financial Statements
December 31, 2022 and 2021

	Fair Value of Measurements at Reporting Date Using:			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2022				
Investments				
Money Markets	\$ 20,449	-	-	20,449
Mutual funds				
Equity	685,322	-	-	685,322
Fixed income	<u>772,821</u>	<u>-</u>	<u>-</u>	<u>772,821</u>
Total investments valued on a recurring basis				
	<u>\$ 1,478,592</u>	<u>-</u>	<u>-</u>	<u>1,478,592</u>
Beneficial interest in assets held at Capital Area Community Foundation				
	<u>\$ -</u>	<u>-</u>	<u>356,434</u>	<u>356,434</u>
December 31, 2021				
Investments				
Mutual funds				
Equity	\$ 747,562	-	-	747,562
Fixed income	<u>820,916</u>	<u>-</u>	<u>-</u>	<u>820,916</u>
Total investments valued on a recurring basis				
	<u>\$ 1,568,477</u>	<u>-</u>	<u>-</u>	<u>1,568,477</u>
Beneficial interest in assets held at Capital Area Community Foundation				
	<u>\$ -</u>	<u>-</u>	<u>440,753</u>	<u>440,753</u>

The following schedule summarizes investment return, net as presented in the statements of activities for the years ending December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Interest, dividend, and capital gain distributions, net of expenses	\$ 62,330	51,926
Realized gain on investment	38,186	73,000
Unrealized loss on investment	(305,486)	(6,830)
Net gain (loss) in beneficial interest in assets held at Capital Region Community Foundation	<u>(84,319)</u>	<u>56,330</u>
Total investment return, net	<u>\$ (289,289)</u>	<u>174,426</u>

5. ENDOWMENT FUNDS:

The Organization's endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as donor restrictions that are perpetual in nature (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Investment income from the donor-restricted endowment is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by the Organization in a manner consistent with the donor stipulated purpose within the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the distributions with acceptable levels of risk. Actual returns in any given year may vary from this amount. Endowment assets are maintained with the Capital Region Community Foundation and are invested in a well diversified asset mix, which includes mutual funds, stocks and bonds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make distributions, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has a policy of appropriating for distributions in support of general operating costs and programming of Capital Area Humane Society while growing the funds if possible. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the endowment fund which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a rate which will enable these distributions. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment assets as of December 31, 2022 are as follows:

	With Donor Restrictions		
	Accumulated Gains and Contributions	Original Gift in Perpetuity by Donor	Total
Endowment assets, beginning of year	\$ 197,697	243,056	440,753
Net investment loss	(69,700)	-	(69,700)
Appropriated for expenditure	(14,619)	-	(14,619)
Endowment assets, end of year	\$ 113,378	243,056	356,434

Changes in endowment assets as of December 31, 2021 are as follows:

	With Donor Restrictions		
	Accumulated Gains and Contributions	Original Gift in Perpetuity by Donor	Total
Endowment assets, beginning of year	\$ 155,206	243,056	398,262
Net investment income	56,330	-	56,330
Appropriated for expenditure	(13,839)	-	(13,839)
Endowment assets, end of year	\$ 197,697	243,056	440,753

6. DEFINED CONTRIBUTION PLAN:

The Organization has a defined contribution plan (the Plan) covering all employees with at least one year of service, who agree to make contributions to the Plan. The Organization matches 50% of participants' contributions to the Plan up to 3% of the individual participant's compensation. In addition, the Organization may elect to contribute an additional discretionary matching contribution in any Plan year. Total expense, net of forfeitures and plan fees for the years ending December 31, 2022 and 2021 was \$22,665 and \$17,261, respectively.

7. DONOR RESTRICTED NET ASSETS:

Donor restricted net assets are available for the following purposes:

	<u>Balance</u> <u>1/1/2022</u>	<u>Revenues</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>12/31/2022</u>
Equipment	\$ 15,000	-	15,000	-
Low income spay/neuter assistance	24,621	20,350	24,621	20,350
Special care	43,664	97,771	40,912	100,523
Foster program	353	-	353	-
Community cats program	12,198	27,205	23,028	16,375
Surgeries at clinic	-	5,000	3,806	1,194
Pets for the elderly	-	7,500	-	7,500
Capital campaign	<u>697,032</u>	<u>347,160</u>	<u>1,044,192</u>	<u>-</u>
	792,868	504,986	1,151,912	145,942
Beneficial interest in assets held at Capital Region Community Foundation	197,697	(84,319)	-	113,378
Perpetually restricted assets held at Capital Region Community Foundation	<u>243,056</u>	<u>-</u>	<u>-</u>	<u>243,056</u>
	<u>\$ 1,233,621</u>	<u>420,667</u>	<u>1,151,912</u>	<u>502,376</u>
			<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>12/31/2021</u>
	<u>Balance</u> <u>1/1/2021</u>	<u>Revenues</u>		
Equipment	\$ -	15,000	-	15,000
Adoptions	-	500	500	-
Low income spay/neuter assistance	15,880	20,250	11,509	24,621
Special care	104,456	39,702	100,494	43,664
Cat benches	146	-	146	-
Foster program	353	-	-	353
Community cats program	13,509	19,751	21,062	12,198
PJ Pups	1,000	-	1,000	-
Capital campaign	<u>732,222</u>	<u>478,231</u>	<u>513,421</u>	<u>697,032</u>
	867,566	573,434	648,132	792,868
Beneficial interest in assets held at Capital Region Community Foundation	155,206	42,491	-	197,697
Perpetually restricted assets held at Capital Region Community Foundation	<u>243,056</u>	<u>-</u>	<u>-</u>	<u>243,056</u>
	<u>\$ 1,265,828</u>	<u>615,925</u>	<u>648,132</u>	<u>1,233,621</u>

8. LEASES:

The Organization entered into a 66-month operating lease on September 1, 2010 for an offsite clinic location with three options to extend the lease for successive additional 5 year terms. The Organization entered into the first extension in February 2016. The Organization entered into the second extension in February 2021. The Organization has the option to purchase the premises at any time during the lease for \$250,000 cash adjusted (upward only) to compensate for any loss in the purchasing power of the USA dollar since September 1, 2010. It is not reasonably certain that the Organization will exercise the third option to extend, so the third option to extend is not included in the calculations that follow. The organization also entered into a 60-month operating lease for copiers on September 18, 2020.

The Organization has elected the option to use the risk-free rate to all classes of leased assets determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable.

The Organization has elected the practical expedient to not separate lease and non-lease components for all classes of leased assets.

Total lease costs for the year ended December 31, 2022 are as follows:

Operating lease cost	\$ 33,060
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The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	\$130,000
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 33,060

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term in years:	
Operating leases	3.03
Weighted-average discount rate:	
Operating leases	1.25%

As of December 31, 2022, maturities of lease liabilities were as follows:

	<u>Operating leases</u>
2023	\$ 33,060
2024	33,060
2025	31,846
2026	2,350
Total lease payments	100,316
Less: imputed interest	(1,932)
Total lease obligations	98,384
Less: current obligations	(32,013)
Long-term lease obligations	\$ <u>66,371</u>

Prior to adoption of ASC 842, the Organization's lease expense amounted to \$38,638 in 2021.

There were no material operating leases that the Organization had entered into and that were yet to commence as of December 31, 2022.

9. CONTRIBUTED NONFINANCIAL ASSETS:

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities as non-cash donations included:

	<u>2022</u>	<u>2021</u>
Leased vehicle	\$ 6,221	4,620
Other	205	2,100
	\$ 6,426	6,720

The Organization recognizes contributed nonfinancial assets within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. The leased vehicle is valued at the estimated cost of leasing the vehicle. The leased vehicle was utilized for general administrative purposes.

10. INCOME TAX STATUS:

The Organization has been classified as an other than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Code requires that tax-exempt organizations must comply with federal tax law to maintain tax-exempt status and avoid penalties. The Organization is subject to a tax on income from any unrelated business. As of December 31, 2022 and 2021, the Organization did not owe any tax on income from any unrelated business.

The Organization evaluates all significant tax positions under a more likely than not threshold as required by U.S. generally accepted accounting principles. As of December 31, 2022, the Organization does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Organization's tax returns are subject to examination by the appropriate taxing jurisdictions. At December 31, 2022, the Organization's federal tax returns generally remain open for the last three years.

11. LIQUIDITY AND AVAILABILITY:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures. The following reflects the Organization's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,848,654	2,692,367
Certificates of deposit	55,959	55,848
Accounts receivable	4,215	3,202
Promises to give due within one year	84,294	251,113
Investments	<u>1,478,592</u>	<u>1,568,477</u>
	3,471,714	4,571,007
Less donor restricted net assets	<u>(145,942)</u>	<u>(792,868)</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u><u>3,325,772</u></u>	<u><u>3,778,139</u></u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Organization is substantially supported by contribution revenue. 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 requirements. Therefore, certain financial assets may not be available for general expenditure within one year. The Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in certificates of deposit and mutual funds.

12. PAYCHECK PROTECTION PROGRAM:

During 2020, the Organization received the first round of the Paycheck Protection Program (PPP) loan for \$335,372 with a maturity date of April 13, 2022, with a 1% interest rate. Under the terms of the loan, all or a portion of the borrowings may be forgiven in accordance with program requirements, including applicable provisions of the Coronavirus Aid, Relief and Economic Security Act. The loan is recorded as a liability in accordance with the debt model and will be reclassified as revenue when forgiven. During 2021, the Organization received notification that the first round of the PPP loan was forgiven in full. Therefore, this amount is recorded as revenue on the statement of activities.

During 2021, the Organization received the second round of the Paycheck Protection Program loan for \$335,370 with maturity date of January 29, 2026, with a 1% interest rate. Under the terms of the loan, all or a portion of the borrowings may be forgiven in accordance with program requirements, including applicable provisions of the Coronavirus Aid, Relief and Economic Security Act. The loan is recorded as a liability in accordance with the debt model and will be reclassified as revenue on the statement of activities when forgiven. During 2022, the organization received notification that their PPP loan was forgiven in full. Therefore, the amount is recorded as revenue on the statement of activities.