

Humane Society of Greater Dayton

Financial Statements

December 31, 2021 and 2020



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

Humane Society of Greater Dayton

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December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors
Humane Society of Greater Dayton

Opinion

We have audited the accompanying financial statements of Humane Society of Greater Dayton (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society of Greater Dayton as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humane Society of Greater Dayton and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement of the 2020 Financial Statements

As discussed in Note 15 to the financial statements, during the current year, management determined that the Organization was eligible and had met the conditions for the Employee Retention Tax Credit. Consequently, certain amounts previously reported for receivables and grant revenue as of December 31, 2020 were understated. Accordingly, amounts reported for accounts receivable and grant revenue have been restated in the 2020 financial statements now presented, and an adjustment has been made to net assets without donor restrictions as of December 31, 2020, to correct the error. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Humane Society of Greater Dayton's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Humane Society of Greater Dayton'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 Humane Society of Greater Dayton'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.

Flagel Huber Flagel

Certified Public Accountants

Dayton, Ohio

November 2, 2022

Humane Society of Greater Dayton
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash, cash equivalents, and restricted cash	\$ 1,821,079	\$ 5,019,342
Pledges receivable - capital campaign, net	210,791	46,933
Contributions receivable	573,082	450,307
Other receivable - Employee Retention Credit	385,651	100,844
Investments	999,694	881,639
Prepaid expenses	7,087	8,921
Total Current Assets	<u>3,997,384</u>	<u>6,507,986</u>
Other Assets		
Pledges receivable - capital campaign, net	746,639	955,997
Contributions receivable, net	1,699,648	1,963,552
Property and equipment, net	7,470,607	1,765,104
Deposits	190	190
Investments - permanently restricted	148,416	148,416
Beneficial interest in perpetual trust	848,599	747,835
Total Other Assets	<u>10,914,099</u>	<u>5,581,094</u>
Total Assets	<u>\$ 14,911,483</u>	<u>\$ 12,089,080</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 728,330	\$ 265,081
Accrued expenses	20,136	10,792
Note payable - Paycheck Protection Program	195,317	196,053
Construction loan	1,000,000	0
Total Liabilities	<u>1,943,783</u>	<u>471,926</u>
Net Assets		
Without donor restrictions	8,909,659	4,047,289
With donor restrictions	4,058,041	7,569,865
Total Net Assets	<u>12,967,700</u>	<u>11,617,154</u>
Total Liabilities and Net Assets	<u>\$ 14,911,483</u>	<u>\$ 12,089,080</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Activities
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,083,875	\$ 1,508	\$ 1,085,383
Contributions - capital campaign, net	0	1,020,000	1,020,000
Special events revenue (net of cost of direct benefits totaling \$58,371)	338,173	0	338,173
Grant revenue	324,358	0	324,358
In-kind contributions	15,389	0	15,389
Direct mail contributions	604,434	0	604,434
Adoption fees	137,583	0	137,583
Owner release fees	13,637	0	13,637
Service fees	59,597	0	59,597
Sales (net of cost of sales totaling \$14,173)	11,570	0	11,570
Miscellaneous income	512	0	512
Net assets released from restrictions	4,634,096	(4,634,096)	0
Total support and revenue	<u>7,223,224</u>	<u>(3,612,588)</u>	<u>3,610,636</u>
Operating Expenses			
Program services	2,076,860	0	2,076,860
Management and general	237,670	0	237,670
Fundraising	382,791	0	382,791
Total operating expenses	<u>2,697,321</u>	<u>0</u>	<u>2,697,321</u>
Operating Change			
in Net Assets	<u>4,525,903</u>	<u>(3,612,588)</u>	<u>913,315</u>
Other Revenue (Expense)			
Interest income - capital campaign	447	0	447
Return on investments, net	141,367	0	141,367
Change in value of beneficial interest in perpetual trust	0	100,764	100,764
Gain on sale of property	(1,400)	0	(1,400)
Forgiveness of PPP loan	196,053	0	196,053
Total other revenue	<u>336,467</u>	<u>100,764</u>	<u>437,231</u>
Change in Net Assets	4,862,370	(3,511,824)	1,350,546
Net Assets - beginning of year	<u>4,047,289</u>	<u>7,569,865</u>	<u>11,617,154</u>
Net Assets - end of year	<u>\$ 8,909,659</u>	<u>\$ 4,058,041</u>	<u>\$ 12,967,700</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Activities
For the Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 409,281	\$ 1,364,654	\$ 1,773,935
Contributions - capital campaign, net	0	983,342	983,342
Special events revenue (net of cost of direct benefits totaling \$2,818)	256,996	0	256,996
Grant revenue	341,800	0	341,800
In-kind contributions	62,107	0	62,107
Direct mail contributions	585,042	0	585,042
Adoption fees	127,469	0	127,469
Owner release fees	11,767	0	11,767
Service fees	78,448	0	78,448
Sales (net of cost of sales totaling \$8,129)	6,067	0	6,067
Net assets released from restrictions	998,329	(998,329)	0
Total support and revenue	<u>2,877,306</u>	<u>1,349,667</u>	<u>4,226,973</u>
Operating Expenses			
Program services	1,575,392	0	1,575,392
Management and general	233,240	0	233,240
Fundraising	312,706	0	312,706
Total operating expenses	<u>2,121,338</u>	<u>0</u>	<u>2,121,338</u>
Operating Change in Net Assets			
	<u>755,968</u>	<u>1,349,667</u>	<u>2,105,635</u>
Other Revenue (Expense)			
Interest income - capital campaign	5,629	0	5,629
Return on investments, net	153,943	0	153,943
Loss on sale of property	(35,334)	0	(35,334)
Total other revenue	<u>124,238</u>	<u>0</u>	<u>124,238</u>
Change in Net Assets	880,206	1,349,667	2,229,873
Net Assets - beginning of year	<u>3,167,083</u>	<u>6,220,198</u>	<u>9,387,281</u>
Net Assets - end of year	<u>\$ 4,047,289</u>	<u>\$ 7,569,865</u>	<u>\$ 11,617,154</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 803,472	\$ 126,289	\$ 195,272	\$ 1,125,033
Payroll taxes	62,803	11,077	16,377	90,257
Health insurance	37,015	2,642	6,467	46,124
Employee development	13,109	1,553	1,002	15,664
Professional services	198,980	44,556	61,554	305,090
Animal supplies	46,663	0	0	46,663
Shelter services	3,877	0	0	3,877
Veterinarian services	44,783	0	0	44,783
Veterinarian supplies	226,442	0	0	226,442
Auto expense	5,133	621	0	5,754
Facility maintenance	81,751	9,335	5,694	96,780
Liability insurance	19,735	3,407	0	23,142
Communications	52,135	7,204	6,905	66,244
Utilities	55,400	192	0	55,592
Rent	15,762	36	5,355	21,153
Technology	8,950	2,649	0	11,599
Depreciation	137,118	10,917	0	148,035
Special events	50,212	0	58,160	108,372
Capital campaign costs	137,563	7,361	7,301	152,225
Bank charges	35,752	5,435	0	41,187
General printing	13,494	224	4,174	17,892
Advertising	11,572	281	2,611	14,464
Postage	9,072	168	2,697	11,937
Licenses/permits	1,326	234	0	1,560
Organization dues	2,458	2,591	1,935	6,984
Meals and entertainment	2,283	898	2,287	5,468
Bad debt expense	0	0	5,000	5,000
Total operating expenses	<u>\$ 2,076,860</u>	<u>\$ 237,670</u>	<u>\$ 382,791</u>	<u>\$ 2,697,321</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 643,299	\$ 128,660	\$ 147,040	\$ 918,999
Payroll taxes	30,311	6,062	6,928	43,301
Health insurance	28,961	2,633	6,018	37,612
Employee development	6,519	592	1,498	8,609
Professional services	176,774	40,906	61,819	279,499
Animal supplies	46,033	0	0	46,033
Shelter services	5,639	0	326	5,965
Veterinarian services	44,853	0	0	44,853
Veterinarian supplies	160,502	75	25	160,602
Auto expense	3,168	438	192	3,798
Facility maintenance	59,820	4,312	2,616	66,748
Liability insurance	17,171	3,127	1,042	21,340
Communications	24,806	3,644	3,251	31,701
Utilities	43,140	533	178	43,851
Rent	19,961	58	19	20,038
Technology	8,270	4,068	71	12,409
Depreciation	70,766	13,269	4,423	88,458
Special events	38,089	0	33,564	71,653
Capital campaign costs	35,110	15,819	16,770	67,699
Bank charges	24,612	5,387	1,378	31,377
General printing	20,369	689	5,323	26,381
Advertising	48,082	0	12,682	60,764
Postage	14,078	0	5,014	19,092
Licenses/permits	2,734	183	61	2,978
Organization dues	1,525	2,166	1,533	5,224
Meals and entertainment	800	619	935	2,354
Total operating expenses	<u>\$ 1,575,392</u>	<u>\$ 233,240</u>	<u>\$ 312,706</u>	<u>\$ 2,121,338</u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,350,546	\$ 2,229,873
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	148,035	88,458
Realized gain on investments	(7,039)	(1,167)
Unrealized gain on investments	(90,642)	(116,426)
Loss on sale of property and equipment	1,400	35,334
Change in beneficial interest in perpetual trust	(100,764)	(747,835)
Forgiveness of PPP loan	(196,053)	0
Changes in assets and liabilities:		
Pledges receivable - capital campaign	45,500	79,490
Contributions receivable	141,129	(221,932)
Other receivable - Employee Retention Credit	(284,807)	(100,844)
Prepaid expenses	1,834	(1,690)
Accounts payable	463,249	148,350
Accrued expenses	9,344	(31,573)
Net Cash Provided by Operating Activities	<u>1,481,732</u>	<u>1,360,038</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(5,855,488)	(567,990)
Proceeds from the sale of property and equipment	550	0
Proceeds from sale of investments	55,265	42,821
Purchase of investments	(75,639)	(74,501)
Net Cash Used in Investing Activities	<u>(5,875,312)</u>	<u>(599,670)</u>
Cash Flows From Financing Activities:		
Proceeds from note payable	195,317	196,053
Proceeds from construction loan	1,000,000	0
Net Cash Provided by Financing Activities	<u>1,195,317</u>	<u>196,053</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(3,198,263)	956,421
Cash, Cash Equivalents, and Restricted Cash - beginning of year	<u>5,019,342</u>	<u>4,062,921</u>
Cash, Cash Equivalents, and Restricted Cash - end of year	<u><u>\$ 1,821,079</u></u>	<u><u>\$ 5,019,342</u></u>

The accompanying notes are an integral part of these statements.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

1. Organization

The Humane Society of Greater Dayton (the Society) is a nonprofit organization that has been serving the Dayton, Ohio area since 1902. Since its inception, the Society's respect for animals has been unconditional. The Society is in the business of saving animal lives and has been a "no-kill" facility for many years. As the area's oldest, most established animal-advocate center, the Society works with and helps all types of animals. Services include pet adoptions, spay & neuter services, cruelty prevention and investigations, school education programs, offsite adoptions, community outreach programs, information referral, lost and found pet directory, education outreach, pet therapy and the sale of dog licenses. Each program is designed to help create a community where animals are valued, and life is enhanced through relationships with pets.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations.

Basis of Presentation

The Society is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. A description of each class as it pertains to the Society is as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

For financial statement purposes, the Society considers all checking accounts, money market accounts, and certificates of deposit to be cash equivalents. Restricted cash represents amounts restricted by donors.

The Society may maintain a portion of this cash in commercial bank accounts which, at times, could exceed federally insured limits. The Society has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Restricted Cash (Continued)

Cash, cash equivalents, and restricted cash as of December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Cash	\$ 799,571	\$ 1,611,916
Cash – with donor restrictions	<u>1,021,508</u>	<u>3,407,426</u>
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 1,821,079</u>	<u>\$ 5,019,342</u>

Contributions Receivable

Contributions receivable represent unconditional donor promises to contribute cash to the Society which are not related to the capital campaign. Contributions receivable are recognized at the time the promise is made, at the net present value of the amounts expected to be collected.

Pledges Receivable - Capital Campaign

Pledges receivable represent unconditional promises to give from donors as part of the Society's capital campaign and have been restricted for the construction of a new building. These pledges are recognized when received at the net present value of their estimated future cash flows.

The Society utilizes the allowance method to account for uncollectible amounts. An allowance is made for possible losses on collection of pledges receivable based upon a periodic review of risk. When receivables are determined to be uncollectible, they are charged off against the allowance. Management deems an account to be uncollectible when all internal collection efforts have been exhausted. Management has evaluated its pledges receivable and recorded an allowance for uncollectible amounts of \$52,531 at December 31, 2021 and 2020.

Investments

Investments are stated at fair value in the statements of financial position. Investment return includes interest, dividends, realized and unrealized gains and losses, and other investment income and is included in the statements of activities.

Property and Equipment

Property and equipment are stated at cost when purchased, and fair value when donated, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives ranging from five to forty years.

Impairment of Long-Lived Assets

The Society reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended December 31, 2021 and 2020.

Reclassifications

Certain amounts for the prior year have been reclassified to conform with the current year's presentation.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Society recognizes revenue based on the existence or absence of an exchange transaction.

Revenues from exchange type transactions are recognized as revenue as the Society satisfies its performance obligations by providing a service or transferring control over a product to its customers. This type of transaction can be recognized at “a point in time” or “over a period of time” depending on various factors.

The Society recognizes revenue from the sale of goods and services at a point in time, when the goods are sold, or the service is performed. There are no formal written contracts with customers for these goods or services as the contract is implicit in the exchange for payment.

Revenues from non-exchange type transactions, including contributions and reimbursement type grants, which are classified as conditional contributions, are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

Contributions and support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donated Services and Materials

Donated services are recognized as contributions only if the services create or enhance nonfinancial assets or require specialized skills, are performed by people possessing those skills, and would otherwise be purchased by the Society. Donated services and materials are recorded as contributions at their fair value at the date of donation. The value of substantial donated volunteer services has not been reflected in the accompanying financial statements since these criteria are not met.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs incurred during 2021 and 2020 were \$14,464 and \$60,764, respectively.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are not directly related to a single program or activity but are indispensable to the conduct of the Society’s programs or existence are charged to management and general. Expenses relating to activities undertaken to induce contributions are charged to fundraising. Certain administrative costs including salaries and wages, payroll taxes, and employee benefits are allocated on the basis of estimates of personnel time related to each activity. Costs related to occupancy and maintenance of the building are allocated based upon a space utilization schedule.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Tax Status

A favorable determination letter has been obtained from the Internal Revenue Service exempting the Society from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is included in these statements. However, any income from certain activities not directly related to the Society's tax-exempt purpose may be subject to taxation as unrelated business income.

The Society determines the recognition of uncertain tax positions, if applicable, that may subject the entity to unrelated business income tax necessary by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Society does not have any materially uncertain tax positions, including any position that would place the Society's exempt status in jeopardy at December 31, 2021. The Society believes it is no longer subject to income tax examination for tax years prior to 2018.

3. Pledges Receivable - Capital Campaign

Pledges receivable consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Expected to be collected in:		
Less than one year	\$ 210,791	\$ 46,933
One to five years	824,821	834,179
Greater than five years	0	200,000
Total	<u>1,035,612</u>	<u>1,081,112</u>
Less: discounts to net present value	(25,651)	(25,651)
Less: allowance for uncollectible amounts	<u>(52,531)</u>	<u>(52,531)</u>
Net	<u>\$ 957,430</u>	<u>\$ 1,002,930</u>

Pledges receivable due in more than one year are discounted at the federal rate applicable at the time of the pledge, which range from 1.6% to 2.0% as of December 31, 2021 and 2020, respectively.

4. Contributions Receivable

Contributions receivable consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Expected to be collected in:		
Less than one year	\$ 573,082	\$ 450,307
One to five years	1,170,554	1,145,909
Greater than five years	625,599	864,546
Total	<u>2,369,235</u>	<u>2,460,762</u>
Less: discounts to net present value	<u>(96,505)</u>	<u>(46,903)</u>
Net	<u>\$ 2,272,730</u>	<u>\$ 2,413,859</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

4. Contributions Receivable (Continued)

During 2019 the Society was notified that they were one of five charitable organizations named to receive a ten-year gift from a charitable fund held at a local foundation. The terms of the gift specify that the Society will receive 20% of the total yearly distribution available, which is determined in September each year according to a specified calculation based on the value of the underlying investments. Contributions receivable included above from this donation total \$1,810,483 and \$1,957,157 at December 31, 2021 and 2020, respectively.

During 2019 the Society was notified that they were one of six charitable organizations named to receive 5% of an investment account over a three-year period beginning in 2021. Contributions receivable included above from this donation total \$204,033 and \$282,878 at December 31, 2021 and 2020, respectively.

The Society recorded contributions receivable for its portion of the gifts described above, discounted to present value using the applicable federal rate (AFR) in effect for the reporting year, which was 1.6% and 0.6% at December 31, 2021 and 2020, respectively. The total amount of the discount at December 31, 2021 and 2020 was \$96,032 and \$46,631, respectively.

The remaining contributions receivable included above are for stated cash amounts totaling \$258,214 and \$173,824 as of December 31, 2021 and 2020, respectively. Those amounts due in more than one year are discounted to present value using the applicable federal rate (AFR) in effect at the time of the contribution, which was 1.6% and 0.6% at December 31, 2021 and 2020, respectively. The total amount of the discount at December 31, 2021 and 2020 was \$473 and \$272, respectively.

5. Property and Equipment

The following is a summary of property and equipment at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Estimated Life in Years</u>
Land	\$ 332,382	\$ 332,382	NA
Building	6,492,929	1,146,683	40
Building improvements	108,360	108,360	10 - 15
Community dog park	53,244	28,136	15
Animal vehicles	109,468	109,468	5
Furniture and equipment	1,105,312	215,642	7 - 10
Construction in progress	401,595	861,995	NA
Total	<u>8,603,290</u>	<u>2,802,666</u>	
Less accumulated depreciation	<u>(1,132,683)</u>	<u>(1,037,562)</u>	
Net book value	<u>\$ 7,470,607</u>	<u>\$ 1,765,104</u>	

Depreciation expense for the years ended December 31, 2021 and 2020 was \$148,035 and \$88,458, respectively.

Humane Society of Greater Dayton

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December 31, 2021 and 2020

6. Construction Loan

The Society entered into a construction loan with a bank in February 2021. The maximum draw amount was \$1,750,000 and the draw period expired in February 2022. During the draw period, the note bore interest at 2.85% and interest only payments were due quarterly. Upon maturity of the draw period, the loan converted to a term note payable and bears interest at 2.85% with payments of principal and interest due quarterly over a 60-month period. As of December 31, 2021 and 2020 the loan balance was \$1,000,000 and \$0, respectively.

Maturities of the loan upon conversion to the term note payable for each of the five years succeeding December 31, 2021 are as follows:

	<u>Amount</u>
2022	\$ 189,753
2023	193,996
2024	199,598
2025	205,362
2026	211,291
	<u>\$ 1,000,000</u>

7. Investments

Investments are stated at fair value and are comprised of the following:

	<u>2021</u>	<u>2020</u>
Money market accounts	\$ 13,484	\$ 8,422
Equity securities	153,920	136,552
Fixed income securities	32,044	29,545
Alternative investments	16,775	14,369
Real estate securities	10,681	16,415
Mutual funds	921,206	824,752
	<u>\$ 1,148,110</u>	<u>\$ 1,030,055</u>

A summary of investment return includes the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Unrealized gains	\$ 90,642	\$ 116,426
Realized gains	7,039	1,167
Interest and dividend income	52,694	43,890
Investment fees	(9,008)	(7,540)
	<u>\$ 141,367</u>	<u>\$ 153,943</u>

Humane Society of Greater Dayton

Notes to Financial Statements

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8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Cash restricted for specific purpose:		
Capital campaign	\$ 1,020,000	\$ 3,151,641
Furry Skurry	508	0
Fore Paws	1,000	0
Pet Afflaire	0	2,734
General spay/neuter	0	253,051
	<u>1,021,508</u>	<u>3,407,426</u>
Pledges and contributions receivable restricted for specific programs:		
Capital campaign pledges	10,000	1,002,930
General spay/neuter	1,810,483	1,957,156
Pet Afflaire	0	5,000
	<u>1,820,483</u>	<u>2,965,086</u>
Total net assets with purpose restrictions	<u>2,841,991</u>	<u>6,372,512</u>
Contributions receivable with time restrictions	<u>219,035</u>	<u>301,102</u>
Subject to the Society's spending policy and appropriation:		
Investment of donor restricted funds held in perpetuity		
Endowment	148,416	148,416
Beneficial interest in perpetual trust	848,599	747,835
	<u>997,015</u>	<u>896,251</u>
Total net assets with donor restrictions	<u>\$ 4,058,041</u>	<u>\$ 7,569,865</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2021 and 2020

8. Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time specified by donors as follows:

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Capital campaign	\$ 4,144,571	\$ 926,836
Furry Skurry	0	2,735
Fore Paws Golf	0	2,610
Pet Afflaire	7,734	0
General spay/neuter expenses	253,051	45,248
Spay/Neuter grant	0	20,900
Total purpose restrictions accomplished	<u>4,405,356</u>	<u>998,329</u>
Time restrictions expired:		
Passage of specified time	<u>228,740</u>	<u>0</u>
Total net assets released from restriction	<u>\$ 4,634,096</u>	<u>\$ 998,329</u>

9. Liquidity and Availability

The following reflects the Society's financial assets reduced by amounts not available for general use because of contractual or donor-imposed restrictions, or board designations, within one year of December 31, 2021.

Cash and cash equivalents	\$ 1,821,079
Pledges receivable	957,430
Contributions receivable	2,272,730
ERTC receivable	385,651
Investments and beneficial interest	<u>1,996,709</u>
Total financial assets at December 31, 2021	7,433,599
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	<u>(4,058,041)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,375,558</u>

The Society is substantially supported by contributions, which may contain donor restrictions. Because donor restrictions require resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet these restrictions. Consequently, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management policies, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. It is the policy of the Society to regularly review and assess the need for funds to meet operating obligations and to ensure the availability of cash or collateral to fulfill those requirements.

Humane Society of Greater Dayton

Notes to Financial Statements

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10. Endowment Funds

The Society's endowment consists of an investment fund which was established to provide support to the Society. The endowment includes only donor-restricted funds for the year ended December 31, 2021 and 2020. As required by accounting principles generally accepted in the United States of America, 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 Society follows the State Prudent Management of Institutional Funds Act (SPMIFA) and its own governing documents. The Society has interpreted SPMIFA 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. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under SPMIFA. The Society's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

All endowment funds are administered by a third-party organization on which the Society relies for prudent investment policies. The primary objective for the investment of these assets is to generate sufficient long-term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real purchasing power of the investments. The objectives shall be accomplished utilizing a balanced strategy of equities and fixed income based upon a mix which is intended to provide real growth, net of inflation and investment fees.

The endowment consists of donor-restricted funds totaling \$148,416 for the years ended December 31, 2021 and 2020. All endowment earnings are available for distribution and are immediately appropriated for expenditure; accordingly, they are recorded in net assets without donor restrictions. Endowment earnings with donor restrictions, of which there are none, would be recorded in net assets with donor restrictions.

11. Beneficial Interest in Perpetual Trust

During 2020 the Society became the beneficiary of a perpetual trust held by Park National Bank (PNB). The trust assets are not in the possession of the Society and are administered and managed by PNB. Under the terms of the trust, the Society has the irrevocable right to receive 25% of the income earned on the endowment assets in perpetuity. Accordingly, the Society has recorded an asset entitled "beneficial interest in perpetual trust" equivalent to the present value of the expected future cash flows from the trust. In this case, the present value is estimated at an amount equal to the fair market value of 25% of the assets of the trust. The fair market value of these trust assets at December 31, 2021 and 2020 was \$848,599 and \$747,835, respectively. The asset value is adjusted annually and any change in the value is recognized as a gain or loss with donor restriction on the statements of activities each year. The annual distributions from the trust are restricted for direct animal care and are reported as investment income with donor restrictions, unless those restrictions are met in the same period in which the distribution is recorded, in which case they are recorded as without donor restriction. Income received from the trust and reported as investment income for the years ended December 31, 2021 and 2020 was \$15,175 and \$14,336, respectively.

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11. Beneficial Interest in Perpetual Trust (Continued)

The Society is also the beneficiary of various other funds established by donors. These funds are held by a third-party organization which has variance power over the funds and, accordingly, the Society has not included its interest in these funds in the accompanying financial statements. The total value of these funds at December 31, 2021 and 2020 was \$677,841 and \$601,810, respectively. The Society will receive a portion of income or principal from these funds when certain conditions are met as stipulated in the fund agreements. No amounts were received from these funds during the years ended December 31, 2021 and 2020.

12. Fair Value Measurements

The Society applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets.
- Level 2 - 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 Society has determined that the only material financial assets and liabilities that are measured at fair value on a recurring basis and categorized using the fair value hierarchy are investments. There have been no changes from the prior year in the methodologies used at December 31, 2021. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2021 and 2020. The following is a description of the valuation methodologies the Society uses for assets measured on a recurring basis at fair value.

Financial assets whose fair value has been measured using level 1 inputs:

Money market accounts: Carrying value is equal to the fair value determined by quoted prices in active exchange markets.

Equity securities, fixed income securities, alternative strategies securities, real estate securities, and mutual funds: Reference to quoted market prices, net asset values per share and other relevant information generated by market transactions.

Humane Society of Greater Dayton

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12. Fair Value Measurements (Continued)

Financial assets whose fair value has been measured using level 3 inputs:

Alternative investments: Valued at the equity (pro rata interest) in the net assets of the hedge fund of funds, based on valuations provided by respective fund managers. The fair values reported by the fund managers are based on quoted market prices, if available, or other valuation methods.

Beneficial interest in a perpetual trust: Measured at the fair value of assets comprising the trust at year-end as reported by the Trustee of the trust.

Fair values of assets measured on a recurring basis at December 31, 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 13,484	\$ 0	\$ 0	\$ 13,484
Equity securities	153,920	0	0	153,920
Fixed income securities	32,044	0	0	32,044
Alternative investments	0	0	16,775	16,775
Real estate securities	10,681	0	0	10,681
Mutual funds	921,206	0	0	921,206
Beneficial interest in trust	0	0	848,599	848,599
Total assets at fair value	<u>\$ 1,131,335</u>	<u>\$ 0</u>	<u>\$ 865,374</u>	<u>\$ 1,996,709</u>

Fair values of assets measured on a recurring basis at December 31, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 8,422	\$ 0	\$ 0	\$ 8,422
Equity securities	136,552	0	0	136,552
Fixed income securities	29,545	0	0	29,545
Alternative investments	0	0	14,369	14,369
Real estate securities	16,415	0	0	16,415
Mutual funds	824,752	0	0	824,752
Beneficial interest in trust	0	0	747,835	747,835
Total assets at fair value	<u>\$ 1,015,686</u>	<u>\$ 0</u>	<u>\$ 762,204</u>	<u>\$ 1,777,890</u>

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December 31, 2021 and 2020

13. COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak” or “COVID”) and the health risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In addition to complying with local health mandates, management took appropriate actions to mitigate the spread of the virus by altering its protocols to minimize personal contact within its office. However, given the continuing evolution of the COVID-19 outbreak, the Society is not able to fully estimate the effects of COVID-19 on its results of operations, financial condition, or liquidity for fiscal year 2022 or beyond. Management believes that adaptive changes in operations, in addition to receiving funds from the Payroll Protection Plan Program, have been sufficient to protect the Society from the near-term negative impact related to the COVID-19 outbreak through the date of this report.

14. Note Payable – Paycheck Protection Program

In May 2020, the Society received approval and funding for a loan under the Paycheck Protection Program (PPP) as provided for by the CARES Act. The loan was issued through Huntington Bank in connection with the Small Business Administration (SBA) for a total of \$196,053. The PPP program allows for a portion of the loan (up to the full amount) to be forgiven based on qualifying expenses. Any unforgiven amount of the PPP loan would be required to be repaid over a two-year term with interest at 1%. In April 2021, the Society was granted full forgiveness of its original PPP loan. In April 2021, the Society received approval and funding for a second PPP loan. The loan was issued through Huntington Bank in connection with the Small Business Administration (SBA) and totaled \$195,317. This loan was fully forgiven during 2022.

The Society is accounting for the PPP loans according to the guidance found in FASB *ASC 470, Debt*. As such, the original loan amount is recorded as a note payable and remains a liability until formal forgiveness of the loan is received from the lender or until the Society has repaid the balance in full. At the time forgiveness of the loan is granted, the Society recognizes a gain on extinguishment of debt for the amount of loan forgiveness.

15. Restatement - Employee Retention Credit

The CARES Act provides an employee retention credit (“CARES ERC”), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through the end of the third quarter, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. The Society qualifies for the tax credit under the CARES Act and expects to receive tax credits under the additional relief provisions for qualified wages through the third quarter, 2021. As of December 31, 2021 and 2020, the Society has a receivable balance totaling \$385,651 and \$100,844, respectively related to the CARES ERC recorded in “other receivable - Employee Retention Credit” on the statements of financial position. The related revenue was recognized as grant revenue on the statements of activities for the years ended December 31, 2021 and 2020.

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15. Restatement - Employee Retention Credit (Continued)

The credit resulted in a prior period adjustment as detailed in the table below:

	<u>As Originally Presented</u>	<u>Adjustment</u>	<u>Restated Balance</u>
Other receivable - Employee Retention Credit	\$ 0	\$ 100,844	\$ 100,844
Net assets without donor restrictions	\$ 3,946,445	\$ 100,844	\$ 4,047,289
Grant revenue	\$ 240,956	\$ 100,844	\$ 341,800

16. Subsequent Events

In January 2022, the Society was granted full forgiveness of its second PPP loan. See Note 14.

Management has evaluated the activity of the Society through November 2, 2022 (the date the financial statements were available to be issued) and concluded that, other than the above, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



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