

Humane Society of Greater Dayton

Financial Statements

December 31, 2022 and 2021



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

Humane Society of Greater Dayton

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December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

September 26, 2023

Humane Society of Greater Dayton
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash, cash equivalents, and restricted cash	\$ 1,766,131	\$ 1,821,079
Accounts receivable	40,546	0
Pledges receivable - capital campaign, net	214,540	210,791
Contributions receivable	768,664	573,082
Other receivable - Employee Retention Credit	0	385,651
Investments	774,036	999,694
Prepaid expenses	11,540	7,087
Total Current Assets	<u>3,575,457</u>	<u>3,997,384</u>
Other Assets		
Pledges receivable - capital campaign, net	724,890	746,639
Contributions receivable, net	1,001,916	1,699,648
Property and equipment, net	7,333,346	7,470,607
Deposits	190	190
Investments - endowment	148,416	148,416
Beneficial interest in perpetual trust	691,877	848,599
Right-of-use lease assets	54,227	0
Total Other Assets	<u>9,954,862</u>	<u>10,914,099</u>
Total Assets	<u>\$ 13,530,319</u>	<u>\$ 14,911,483</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 111,005	\$ 728,330
Accrued expenses	39,611	20,136
Note payable - Paycheck Protection Program	0	195,317
Construction loan	0	1,000,000
Current portion of notes payable	339,481	0
Short-term operating lease liabilities	18,919	0
Total Current Liabilities	<u>509,016</u>	<u>1,943,783</u>
Long-Term Liabilities		
Notes payable	1,078,086	0
Long-term operating lease liability	35,308	0
Total Long-Term Liabilities	<u>1,113,394</u>	<u>0</u>
Total Liabilities	<u>1,622,410</u>	<u>1,943,783</u>
Net Assets		
Without donor restrictions	8,526,489	8,909,659
With donor restrictions	3,381,420	4,058,041
Total Net Assets	<u>11,907,909</u>	<u>12,967,700</u>
Total Liabilities and Net Assets	<u>\$ 13,530,319</u>	<u>\$ 14,911,483</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 1,344,218	\$ 18,845	\$ 1,363,063
Contributions - Summers fund contra	0	(450,198)	(450,198)
Contributions - capital campaign, net	0	191,200	191,200
Special events revenue (net of cost of direct benefits totaling \$47,510)	431,107	0	431,107
Grant revenue	330,348	0	330,348
In-kind contributions	56,474	0	56,474
Direct mail contributions	555,055	0	555,055
Adoption fees	170,235	0	170,235
Owner release fees	14,355	0	14,355
Service fees	441,098	0	441,098
Sales (net of cost of sales totaling \$21,524)	7,618	0	7,618
Miscellaneous income	8,437	0	8,437
Net assets released from restrictions	279,746	(279,746)	0
Total support and revenue	3,638,691	(519,899)	3,118,792
Operating Expenses			
Program services	3,211,215	0	3,211,215
Management and general	253,377	0	253,377
Fundraising	494,595	0	494,595
Total operating expenses	3,959,187	0	3,959,187
Operating Change in Net Assets	(320,496)	(519,899)	(840,395)
Other Revenue (Expense)			
Interest income - capital campaign	144	0	144
Interest income - ERTC	6,534	0	6,534
Interest expense - notes payable	(44,340)	0	(44,340)
Return on investments, net	(220,329)	0	(220,329)
Change in value of beneficial interest in perpetual trust	0	(156,722)	(156,722)
Forgiveness of PPP loan	195,317	0	195,317
Total other revenue (expense)	(62,674)	(156,722)	(219,396)
Change in Net Assets	(383,170)	(676,621)	(1,059,791)
Net Assets - beginning of year	8,909,659	4,058,041	12,967,700
Net Assets - end of year	\$ 8,526,489	\$ 3,381,420	\$ 11,907,909

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	2,069,735	0	2,069,735
Management and general	237,670	0	237,670
Fundraising	382,791	0	382,791
Total operating expenses	<u>2,690,196</u>	<u>0</u>	<u>2,690,196</u>
Operating Change in Net Assets	<u>4,533,028</u>	<u>(3,612,588)</u>	<u>920,440</u>
Other Revenue (Expense)			
Interest income - capital campaign	447	0	447
Interest expense - construction loan	(7,125)	0	(7,125)
Return on investments, net	141,367	0	141,367
Change in value of beneficial interest in perpetual trust	0	100,764	100,764
Loss on sale of property	(1,400)	0	(1,400)
Forgiveness of PPP loan	196,053	0	196,053
Total other revenue	<u>329,342</u>	<u>100,764</u>	<u>430,106</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>

Humane Society of Greater Dayton
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,276,660	\$ 151,221	\$ 231,294	\$ 1,659,175
Payroll taxes	105,508	14,911	18,393	138,812
Health insurance	68,690	5,112	4,668	78,470
Employee development	18,182	2,212	526	20,920
Professional services	267,302	41,115	68,113	376,530
Animal supplies	124,198	0	7	124,205
Shelter services	8,766	0	0	8,766
Veterinarian services	48,603	0	0	48,603
Veterinarian supplies	323,506	0	0	323,506
Auto expense	6,708	444	82	7,234
Facility maintenance	144,216	13,028	480	157,724
Liability insurance	43,161	3,867	0	47,028
Communications	36,962	6,513	19,547	63,022
Utilities	83,591	3,444	0	87,035
Rent	26,574	0	12,946	39,520
Technology	1,442	5,670	0	7,112
Depreciation	383,851	0	0	383,851
Special events	72,613	0	94,719	167,332
Capital campaign costs	64,230	1,130	5,280	70,640
Bank charges	61,269	1,650	2,545	65,464
General printing	28,008	336	6,709	35,053
Advertising	8,757	72	9,845	18,674
Postage	1,253	314	16,032	17,599
Licenses/permits	193	0	0	193
Organization dues	4,974	698	2,331	8,003
Meals and entertainment	1,998	1,640	1,078	4,716
Total operating expenses	<u>\$ 3,211,215</u>	<u>\$ 253,377</u>	<u>\$ 494,595</u>	<u>\$ 3,959,187</u>

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	130,438	7,361	7,301	145,100
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>\$ 2,069,735</u>	<u>\$ 237,670</u>	<u>\$ 382,791</u>	<u>\$ 2,690,196</u>

Humane Society of Greater Dayton
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,059,791)	\$ 1,350,546
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	383,851	148,035
Realized gain on investments	(3,636)	(7,039)
Unrealized loss/(gain) on investments	248,467	(90,642)
Loss on sale of property and equipment	0	1,400
Change in beneficial interest in perpetual trust	156,722	(100,764)
Forgiveness of PPP loan	(195,317)	(196,053)
Noncash rent expense	18,884	0
Changes in assets and liabilities:		
Accounts receivable	(40,546)	0
Pledges receivable - capital campaign	18,000	45,500
Contributions receivable	502,150	141,129
Other receivable - Employee Retention Credit	385,651	(284,807)
Prepaid expenses	(4,453)	1,834
Accounts payable	(617,325)	463,249
Accrued expenses	19,475	9,344
Operating lease liabilities	(18,884)	0
Net Cash Provided by (Used in) Operating Activities	<u>(206,752)</u>	<u>1,481,732</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(246,590)	(5,855,488)
Proceeds from the sale of property and equipment	0	550
Proceeds from sale of investments	13,785	55,265
Purchase of investments	(32,958)	(75,639)
Net Cash Used in Investing Activities	<u>(265,763)</u>	<u>(5,875,312)</u>
Cash Flows From Financing Activities:		
Proceeds from note payable	0	195,317
Proceeds from construction loan	750,000	1,000,000
Payments on notes payable	(332,433)	0
Net Cash Provided by Financing Activities	<u>417,567</u>	<u>1,195,317</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(54,948)	(3,198,263)
Cash, Cash Equivalents, and Restricted Cash - beginning of year	<u>1,821,079</u>	<u>5,019,342</u>
Cash, Cash Equivalents, and Restricted Cash - end of year	<u>\$ 1,766,131</u>	<u>\$ 1,821,079</u>

Humane Society of Greater Dayton
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 44,553	\$ 7,125
Noncash Investing and Financing Activities		
Acquisition of operating lease right-of-use assets through the assumption of operating lease liabilities	\$ 73,111	\$ 0
Reduction of construction loan through assumption of note payable	\$ 1,750,000	\$ 0

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

1. Organization

The Humane Society of Greater Dayton (HSGD) is a 501(c)(3) nonprofit organization that has proudly served the people and pets in the Dayton, Ohio area since 1902. As the area's most-established no-kill animal welfare agency, HSGD extends its compassionate support to all types of animals including cats, dogs, horses, rabbits, farm animals, pocket pets, birds, reptiles and exotics. The organization focuses on four main pillars of care including Pet Adoptions, Spay & Neuter Programs, Animal Health & Wellness, and Cruelty & Neglect Investigations. Under these pillars, the Society provides a broad range of services including a full-service veterinary hospital, school education programs, volunteering and fostering opportunities, trap-neuter-return, community outreach initiatives, a lost and found service, animal rehabilitation, pet therapy, microchipping, senior citizen resources, and pet food distribution. Each program is thoughtfully designed to advance the health, welfare and safety of animals and people in our community.

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.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (Continued)

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. Cash, cash equivalents, and restricted cash as of December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,538,086	\$ 799,571
Cash – with donor restrictions	<u>228,045</u>	<u>1,021,508</u>
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 1,766,131</u>	<u>\$ 1,821,079</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, 2022 and 2021.

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.

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, 2022 and 2021.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (Continued)

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.

Lease Commitments

Effective January 1, 2022, the Society adopted FASB ASC 842, *Leases*, which among other things, requires the recognition of right-of-use lease assets and lease liabilities on the statement of financial position of lessees for operating leases, along with the disclosure of key information about leasing arrangements. All nonprofit organizations with fiscal years beginning after December 15, 2021 were required to adopt this new standard. A lessee is required to record lease assets and lease liabilities for all leases with a term of greater than 12 months. The Society determines if an arrangement contains a lease at inception based on whether the Society has the right to control the asset during the contract period and other facts and circumstances.

As part of the implementation, the Society elected the following practical expedients related to the adoption of this new standard:

1. The Society elected the transition method to retroactively adopt the new standard at the beginning of the period of adoption through a cumulative-effect adjustment. Under this transition method, the application date shall be the beginning of the reporting period in which the entity first applies the new standard (January 1, 2022).
2. An entity need not reassess whether any expired or existing contracts are or contain leases.
3. An entity need not reassess the lease classification for any expired or existing leases.
4. An entity need not reassess initial direct costs for any existing leases.
5. Account for lease and non-lease components as a single combined lease component.

The new standard requires that leases with a lease term of more than 12 months be classified as either finance or operating leases. Leases are classified as finance leases when the Society expects to consume a major part of the economic benefits of the leased assets over the remaining lease term. Conversely, leases are classified as operating leases when the Society is not expected to consume a major part of the economic benefits of the leased assets. The lease classification affects both the pattern and presentation of expense recognized in the statement of activities, the categorization of assets and liabilities in the statement of financial position, and classification of cash flows in the statement of cash flows.

Operating lease cost consists of two components; amortization expense related to the write-off of right-of-use assets, and interest expense from lease obligations.

Lease obligations are measured and recorded at the present value of future lease payments using a discount rate. Because the Society generally does not have access to the rate implicit in each lease, the Society has elected to measure its lease obligations using a risk-free rate of return as the discount rate, which is permitted for non-public entities. The Society elected to use the US Treasury rate at the lease commencement date for the computation of its lease obligation, determined by using a period comparable with that of the lease term.

Right-of-use assets are generally measured and recorded at the sum of the lease obligation, any initial direct costs to consummate the lease, and any lease payments made on or before the commencement date.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

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.

During the year ended December 31, 2022, the Society adopted new accounting guidance, ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This update requires the Society to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by the category of contributed nonfinancial assets (goods and services) and provide additional disclosures and valuation techniques used for each category. The Society has retrospectively adjusted the presentation of these statements and notes accordingly. See Note 12.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs incurred during 2022 and 2021 were \$18,674 and \$14,464, respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (Continued)

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.

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, 2022. The Society believes it is no longer subject to income tax examination for tax years prior to 2019.

Reclassifications

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

3. Pledges Receivable - Capital Campaign

Pledges receivable consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Expected to be collected in:		
Less than one year	\$ 214,540	\$ 210,791
One to five years	803,072	824,821
Total	<u>1,017,612</u>	<u>1,035,612</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>\$ 939,430</u>	<u>\$ 957,430</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 5.2% to 0.6% as of December 31, 2022 and 2021, respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

4. Contributions Receivable

Contributions receivable consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Expected to be collected in:		
Less than one year	\$ 768,664	\$ 573,082
One to five years	909,913	1,170,554
Greater than five years	259,924	625,599
Total	<u>1,938,501</u>	<u>2,369,235</u>
Less: discounts to net present value	<u>(167,921)</u>	<u>(96,505)</u>
Net	<u>\$ 1,770,580</u>	<u>\$ 2,272,730</u>

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 \$1,187,763 and \$1,810,483 at December 31, 2022 and 2021, 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 \$101,791 and \$204,033 at December 31, 2022 and 2021, 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 5.2% and 1.6% at December 31, 2022 and 2021, respectively. The total amount of the discount at December 31, 2022 and 2021 was \$167,055 and \$96,032, respectively.

The remaining contributions receivable included above are for stated cash amounts totaling \$481,026 and \$258,214 as of December 31, 2022 and 2021, 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 5.2% and 1.6% at December 31, 2022 and 2021, respectively. The total amount of the discount at December 31, 2022 and 2021 was \$866 and \$473, respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

5. Employee Retention Credit Receivable

The Society qualified for the Employee Retention Credit under the CARES Act. At December 31, 2022 and 2021, the Society had a receivable labeled “Other receivable - Employee Retention Credit” on the statements of financial position totaling \$0 and \$385,651, respectively. The Society recorded grant revenue of \$284,807 for the year ended December 31, 2021 and \$100,844 for the year ended December 31, 2020 on the statements of activities.

6. Investments

Investments are stated at fair value and are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Money market accounts	\$ 8,755	\$ 13,484
Equity securities	120,327	153,920
Fixed income securities	24,892	32,044
Alternative investments	16,546	16,775
Real estate securities	11,714	10,681
Mutual funds	740,218	921,206
	<u>\$ 922,452</u>	<u>\$ 1,148,110</u>

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

	<u>2022</u>	<u>2021</u>
Unrealized gains (losses)	\$ (248,467)	\$ 90,642
Realized gains	3,636	7,039
Interest and dividend income	31,454	52,694
Investment fees	(6,952)	(9,008)
	<u>\$ (220,329)</u>	<u>\$ 141,367</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

7. Property and Equipment

The following is a summary of property and equipment at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Estimated Life in Years</u>
Land	\$ 332,382	\$ 332,382	NA
Building	6,509,108	6,492,929	40
Building improvements	108,360	108,360	10 - 15
Community dog park	152,677	53,244	15
Animal vehicles	116,368	109,468	5
Furniture and equipment	1,268,915	1,105,312	7 - 10
Construction in progress	355,614	401,595	NA
Total	<u>8,843,424</u>	<u>8,603,290</u>	
Less accumulated depreciation	<u>(1,510,078)</u>	<u>(1,132,683)</u>	
Net book value	<u>\$ 7,333,346</u>	<u>\$ 7,470,607</u>	

Depreciation expense for the years ended December 31, 2022 and 2021 was \$383,851 and \$148,035, respectively.

8. 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, see Note 9. As of December 31, 2022 and 2021 the construction loan balance was \$0 and \$1,000,000, respectively.

9. Note Payable

During 2022 the construction loan converted to a term note payable with an original principal amount of \$1,750,000. This note bears interest at 2.85% with payments of principal and interest due quarterly over a 60-month period. As of December 31, 2022 and 2021 the balance was \$1,417,567 and \$0, respectively.

Maturities of the note payable for each of the four years succeeding December 31, 2022 are as follows:

	<u>Amount</u>
2023	\$ 339,481
2024	349,311
2025	359,602
2026	369,173
	<u>\$ 1,417,567</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

10. Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Cash restricted for specific purpose:		
Capital campaign	\$ 209,200	\$ 1,020,000
Hospital urgent care	18,845	0
Furry Skurry	0	508
Fore Paws	0	1,000
	<u>228,045</u>	<u>1,021,508</u>
Pledges and contributions receivable restricted for specific programs:		
Capital campaign pledges	1,012,000	10,000
General spay/neuter	1,187,763	1,810,483
	<u>2,199,763</u>	<u>1,820,483</u>
Total net assets with purpose restrictions	<u>2,427,808</u>	<u>2,841,991</u>
Contributions receivable with time restrictions	<u>113,319</u>	<u>219,035</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	691,877	848,599
	<u>840,293</u>	<u>997,015</u>
Total net assets with donor restrictions	<u>\$ 3,381,420</u>	<u>\$ 4,058,041</u>

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>2022</u>	<u>2021</u>
Purpose restrictions accomplished:		
Capital campaign	\$ 0	\$ 4,144,571
Furry Skurry	508	0
Fore Paws Golf	1,000	0
Pet Afflaire	0	7,734
General spay/neuter expenses	172,522	253,051
Total purpose restrictions accomplished	<u>174,030</u>	<u>4,405,356</u>
Time restrictions expired:		
Passage of specified time	<u>105,716</u>	<u>228,740</u>
Total net assets released from restriction	<u>\$ 279,746</u>	<u>\$ 4,634,096</u>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

11. 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, 2022.

Cash and cash equivalents	\$	1,766,131
Pledges receivable		939,430
Contributions receivable		1,770,580
Hospital and clinic accounts receivable		40,546
Investments and beneficial interest		<u>1,614,329</u>
Total financial assets at December 31, 2022		6,131,016
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions		<u>(3,381,420)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>2,749,596</u></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.

12. Contributed Nonfinancial Assets

The Society's contributed nonfinancial assets consisted of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>	<u>Usage</u>
Animal supplies	\$ 48,019	\$ 12,647	Shelter
Raffle items	<u>8,455</u>	<u>2,742</u>	Fundraising
Total	<u><u>\$ 56,474</u></u>	<u><u>\$ 15,389</u></u>	

Donated animal supplies and raffle items are recorded at their fair value at the date of donation. Fair value is determined by comparison to the price of similar items available for sale in local areas markets.

13. 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, 2022 and 2021. 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.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

13. Endowment Funds (Continued)

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 as of December 31, 2022 and 2021. 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.

14. 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, 2022 and 2021 was \$691,877 and \$848,599, 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, 2022 and 2021 was \$6,569 and \$15,175, respectively.

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, 2022 and 2021 was \$544,090 and \$677,841, 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. For the years ended December 31, 2022 and 2021, the Society received \$22,169 and \$0 from these funds, respectively.

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

15. 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, 2022. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2022 and 2021. 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

Notes to Financial Statements

December 31, 2022 and 2021

15. 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, 2022 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market accounts	\$ 8,755	\$ 0	\$ 0	\$ 8,755
Equity securities	120,327	0	0	120,327
Fixed income securities	24,892	0	0	24,892
Alternative investments	0	0	16,546	16,546
Real estate securities	11,714	0	0	11,714
Mutual funds	740,218	0	0	740,218
Beneficial interest in trust	0	0	691,877	691,877
Total assets at fair value	<u>\$ 905,906</u>	<u>\$ 0</u>	<u>\$ 708,423</u>	<u>\$ 1,614,329</u>

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>

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

16. 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. 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 accounted for the PPP loans according to the guidance found in FASB *ASC 470, Debt*. As such, the original loan amount was recorded as a note payable and remained a liability until formal forgiveness of the loan was received from the lender. At the time forgiveness of the loan was granted, the Society recognized a gain on extinguishment of debt for the amount of loan forgiveness.

17. Lease Commitments

The Society leases office space and office equipment under operating leases with terms expiring in 2023 and 2027, respectively. There are no renewal options on any lease agreements. Only lease options that the Society believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

The lease agreements do not include any material residual value guarantees or restrictive covenants. The Society uses the risk-free rate at each lease commencement date as the discount rate for each lease.

The components of operating lease expenses that are included in expenses in the statement of functional expenses for the year ended December 31, 2022 were as follows:

Operating lease expense	\$	19,165
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The following summarizes the cash flow, weighted average lease term, and discount rate information related to operating leases for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$	18,360
Noncash transactions:		
Right of use assets obtained in exchange for new operating lease liabilities	\$	72,306
Weighted-average remaining lease term in years for operating leases		4.06
Weighted-average discount rate for operating leases		3.15%

Humane Society of Greater Dayton

Notes to Financial Statements

December 31, 2022 and 2021

17. Lease Commitments (Continued)

The maturities of operating lease liabilities as of December 31, 2022 are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 20,374
2024	9,664
2025	9,664
2026	9,664
2027	8,860
Thereafter	0
Total undiscounted cash flows	58,226
Less: present value discount	(3,999)
Total lease liabilities	<u>\$ 54,227</u>

18. Subsequent Events

Management has evaluated the activity of the Society through September 26, 2023 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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