

Friends for Animals of Metro Detroit

Financial Statements

December 31, 2019 and 2018

Friends for Animals of Metro Detroit

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Independent Auditors' Report

To the Board of Directors of
Friends for Animals of Metro Detroit

We have audited the accompanying financial statements of Friends for Animals of Metro Detroit (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, 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.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Southfield, Michigan
September 28, 2020

Friends for Animals of Metro Detroit

Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,782,322	\$ 1,868,912
Accounts receivable, net	120	38,826
Promises to give, net of long-term portion	241,000	30,369
Grants receivable	9,984	17,041
Inventories	4,365	2,183
Prepaid expenses	<u>15,193</u>	<u>28,198</u>
Total current assets	2,052,984	1,985,529
Property and Equipment, Net	<u>4,230,582</u>	<u>4,332,878</u>
Other Assets		
Promises to give, net of current and discount	984	9,737
Investments	<u>559,623</u>	<u>493,290</u>
Total other assets	<u>560,607</u>	<u>503,027</u>
Total assets	<u><u>\$ 6,844,173</u></u>	<u><u>\$ 6,821,434</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 19,232	\$ 430,428
Accrued expenses	22,641	24,108
Deferred revenues	<u>-</u>	<u>30,000</u>
Total current liabilities	41,873	484,536
Net Assets		
Net assets without donor restrictions	5,638,644	5,689,219
Net assets with donor restrictions	<u>1,163,656</u>	<u>647,679</u>
Total net assets	<u>6,802,300</u>	<u>6,336,898</u>
Total liabilities and net assets	<u><u>\$ 6,844,173</u></u>	<u><u>\$ 6,821,434</u></u>

See notes to financial statements

Friends for Animals of Metro Detroit

Statement of Activities

Year Ended December 31, 2019

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenue and Support			
New shelter contributions	\$ -	\$ 531,324	\$ 531,324
Other donations	367,781	-	367,781
Special events, net expenses of \$84,808	349,769	-	349,769
Giving programs	477,233	-	477,233
Adoption fees and animal care	179,129	-	179,129
Donated services	109,783	-	109,783
City of Dearborn revenue	112,500	-	112,500
Grant revenue	17,153	35,000	52,153
Merchandise sales	5,921	-	5,921
Other	17,233	-	17,233
Net assets released from restriction	<u>156,845</u>	<u>(156,845)</u>	<u>-</u>
Total operating revenue and support	<u>1,793,347</u>	<u>409,479</u>	<u>2,202,826</u>
Operating Expenses			
Program	1,530,080	-	1,530,080
Management and general	140,249	-	140,249
Fundraising	<u>181,251</u>	<u>-</u>	<u>181,251</u>
Total operating expenses	<u>1,851,580</u>	<u>-</u>	<u>1,851,580</u>
Excess of operating revenue and support over operating expenses	<u>(58,233)</u>	<u>409,479</u>	<u>351,246</u>
Non Operating Income			
Investment income	-	106,498	106,498
Other income	<u>7,658</u>	<u>-</u>	<u>7,658</u>
Total non operating income	<u>7,658</u>	<u>106,498</u>	<u>114,156</u>
Change in net assets	(50,575)	515,977	465,402
Net Assets, Beginning	<u>5,689,219</u>	<u>647,679</u>	<u>6,336,898</u>
Net Assets, Ending	<u>\$ 5,638,644</u>	<u>\$ 1,163,656</u>	<u>\$ 6,802,300</u>

See notes to financial statements

Friends for Animals of Metro Detroit

Statement of Activities

Year Ended December 31, 2018

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenue and Support			
New shelter contributions	\$ -	\$ 556,666	\$ 556,666
Other donations	354,589	-	354,589
Special events, net expenses of \$129,063	299,362	-	299,362
Giving programs	234,274	-	234,274
Adoption fees and animal care	173,498	-	173,498
Donated services	112,902	-	112,902
City of Dearborn revenue	84,999	-	84,999
Grant revenue	-	27,240	27,240
Merchandise sales	7,854	-	7,854
Other	15,949	-	15,949
Net assets released from restriction	<u>2,951,089</u>	<u>(2,951,089)</u>	<u>-</u>
Total operating revenue and support	<u>4,234,516</u>	<u>(2,367,183)</u>	<u>1,867,333</u>
Operating Expenses			
Program	1,129,926	-	1,129,926
Management and general	236,633	-	236,633
Fundraising	<u>265,820</u>	<u>-</u>	<u>265,820</u>
Total operating expenses	<u>1,632,379</u>	<u>-</u>	<u>1,632,379</u>
Excess of operating revenue and support over operating expenses	<u>2,602,137</u>	<u>(2,367,183)</u>	<u>234,954</u>
Non Operating Income (Expense)			
Investment income (loss)	14,055	(28,218)	(14,163)
Gain on disposal of property and equipment	1,095	-	1,095
Other expense	<u>(5,016)</u>	<u>-</u>	<u>(5,016)</u>
Total non operating income (expense)	<u>10,134</u>	<u>(28,218)</u>	<u>(18,084)</u>
Change in net assets	2,612,271	(2,395,401)	216,870
Net Assets, Beginning, as restated	<u>3,076,948</u>	<u>3,043,080</u>	<u>6,120,028</u>
Net Assets, Ending	<u>\$ 5,689,219</u>	<u>\$ 647,679</u>	<u>\$ 6,336,898</u>

See notes to financial statements

Friends for Animals of Metro Detroit

Statements of Cash Flows

Year Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 465,402	\$ 216,870
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	137,296	39,841
Realized and unrealized (gain) loss on investments	(106,498)	14,163
Gain on disposal of property and equipment	-	1,095
Changes in assets and liabilities:		
Accounts receivable	38,706	273,898
Promises to give	(201,878)	(40,106)
Grants receivable	7,057	(17,041)
Inventories	(2,182)	79
Prepaid expenses	13,005	(20,176)
Accounts payable	(411,196)	279,112
Accrued expenses	(1,467)	(51,025)
Deferred revenues	(30,000)	-
Net cash flows from operating activities	<u>(91,755)</u>	<u>696,710</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(35,000)	(2,852,178)
Proceeds from sale of investments	<u>40,165</u>	<u>252,439</u>
Net cash flows from investing activities	<u>5,165</u>	<u>(2,599,739)</u>
Net change in cash and cash equivalents	(86,590)	(1,903,029)
Cash and Cash Equivalents, Beginning	<u>1,868,912</u>	<u>3,771,941</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,782,322</u>	<u>\$ 1,868,912</u>

See notes to financial statements

Friends for Animals of Metro Detroit

Statement of Functional Expenses

Year Ended December 31, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 695,322	\$ 56,094	\$ 138,598	\$ 890,014
Employee benefits	<u>41,953</u>	<u>1,172</u>	<u>10,157</u>	<u>53,282</u>
Total salaries and related expenses	737,275	57,266	148,755	943,296
Accounting	-	31,496	-	31,496
Administration	-	16,534	14,711	31,245
Advertising and promotion	12,599	-	-	12,599
Annual appeals	22,228	-	7,409	29,637
Depreciation	123,566	6,865	6,865	137,296
Information technology	14,738	4,913	-	19,651
Insurance	36,744	3,645	1,258	41,647
Meals and entertainment	-	1,996	-	1,996
Office supplies	5,941	11,955	-	17,896
Pet supplies, housing, and care	150,441	-	-	150,441
Professional dues and fees	10,729	3,576	250	14,555
Special events	42,404	-	42,404	84,808
Utilities and rental	150,990	2,003	2,003	154,996
Vehicle	4,668	-	-	4,668
Veterinary services	248,524	-	-	248,524
Volunteer	<u>11,637</u>	<u>-</u>	<u>-</u>	<u>11,637</u>
Total functional expenses	1,572,484	140,249	223,655	1,936,388
Less special event costs	<u>42,404</u>	<u>-</u>	<u>42,404</u>	<u>84,808</u>
Total operating expenses	<u>\$ 1,530,080</u>	<u>\$ 140,249</u>	<u>\$ 181,251</u>	<u>\$ 1,851,580</u>

See notes to financial statements

Friends for Animals of Metro Detroit

Statement of Functional Expenses

Year Ended December 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 517,864	\$ 172,836	\$ 143,849	\$ 834,549
Employee benefits	<u>39,539</u>	<u>7,055</u>	<u>6,737</u>	<u>53,331</u>
Total salaries and related expenses	557,403	179,891	150,586	887,880
Accounting	3,830	12,417	1,050	17,297
Administration	7,537	882	4,655	13,074
Advertising and promotion	-	-	93,016	93,016
Annual appeals	-	-	11,461	11,461
Depreciation	39,841	-	-	39,841
Information and technology	-	20,872	-	20,872
Insurance	16,824	3,647	1,043	21,514
Meals and entertainment	448	1,888	-	2,336
Office supplies	8,120	7,528	-	15,648
Pet supplies, housing, and care	159,180	-	-	159,180
Professional dues and fees	3,780	7,793	4,009	15,582
Special events	-	-	129,063	129,063
Utilities and rental	93,487	1,410	-	94,897
Vehicle	6,019	-	-	6,019
Veterinary services	227,652	-	-	227,652
Volunteer	<u>5,805</u>	<u>305</u>	<u>-</u>	<u>6,110</u>
Total functional expenses	1,129,926	236,633	394,883	1,761,442
Less special event costs	<u>-</u>	<u>-</u>	<u>129,063</u>	<u>129,063</u>
Total operating expenses	<u>\$ 1,129,926</u>	<u>\$ 236,633</u>	<u>\$ 265,820</u>	<u>\$ 1,632,379</u>

See notes to financial statements

Friends for Animals of Metro Detroit

Notes to Financial Statements
December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Nature of Activities

Friends for Animals of Metro Detroit (the Organization) is dedicated to the rescue and protection of animals in the community, while inspiring healthy relationships between people and their companion animals. As animal advocates, the Organization is committed to saving all adoptable animals, providing high quality animal care and adoption services. They are also focused on delivering innovative outreach programs and activities that promote education, animal welfare legislation and embracing environmental responsibility with earth-friendly practices and facilities.

Cash and Cash Equivalents

The Organization defines cash equivalents as highly liquid, short-term deposits with a maturity at the date of acquisition of three months or less not held in the Organization's investment accounts. During the normal course of business, the Organization may maintain cash-on-deposit with financial institutions in excess of the federally insured limit of \$250,000.

Accounts Receivable

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary as of both December 31, 2019 and 2018.

Promises to Give

Unconditional promises to give made to the Organization are recorded in the year the pledge is made. Amounts that are expected to be collected after one year have been discounted at a rate of 1.59 and 2.63 percent as of December 31, 2019 and 2018, respectively, and are reflected in the financial statements at their net present value. Discounts on long-term promises to give as of December 31, 2019 and 2018 were \$16 and \$263, respectively. An allowance for uncollectible promises to give is determined based on experience. No allowance was considered necessary for both the years ended December 31, 2019 and 2018.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out basis.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Organization records the change of ownership of fixed-income securities and equities on the day a trade is made. Net investment income (loss) is included in the statements of activities as an increase or decrease in net assets without donor restriction unless the income or loss is restricted by donor or law.

Friends for Animals of Metro Detroit

Notes to Financial Statements
December 31, 2019 and 2018

Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of the gift if donated. All acquisitions of property and equipment in excess of \$2,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in operating income.

Donated property and equipment are recorded as increases in net assets without donor restriction at their estimated fair market value as of the date received. Contributions of cash that must be used to acquire property and equipment are reported as donor restricted contributions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Revenues

Sponsorship donations for special events applying to events to occur in future periods are recorded as deferred revenues when received and reflected as special event revenue in the year when the event is held thereon.

Net Assets

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or are required to be maintained permanently by the Organization.

Board Designated Net Assets

The Organization's Board of Directors (Board) has the ability to designate identified amounts of net assets without donor restriction to be used by management for specific future projects and activities. These designations can be modified or removed by the Board at any time. As of both December 31, 2019 and 2018, there were \$421,015 of board designated net assets from the recent capital campaign without donor restriction.

Friends for Animals of Metro Detroit

Notes to Financial Statements
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Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501 (c)(3) of the U.S. Internal Revenue Code and corresponding provisions of state law and, accordingly, is not subject to federal or state income taxes.

Revenue Recognition

On January 1, 2019, the Organization adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts (Agreements) with Customers (Topic 606)*, and all related amendments using the modified retrospective transition method. Under the modified retrospective transition method, the Organization's 2018 financial statements continue to be accounted for under the FASB's *Topic 605, Revenue Recognition* and have not been adjusted. This ASU replaces previous recognition guidance under GAAP and also requires expanded financial statement disclosures relating to the nature of its agreements with its grantors, contributors, and donors. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration at which the Organization expects to be entitled in exchange for those goods or services. Based on the Organization's evaluation process and review of its agreements, the adoption of this ASU did not have an affect on the Organization's financial statements.

Revenue is recognized when the Organization satisfies its performance obligation(s) under the agreement by transferring the promised service to its customers. A performance obligation is a promise in an agreement to transfer a distinct product or service to its customers and is identified at the inception of an agreement. In accordance with the ASU, an agreement's transaction price is allocated to each distinct performance obligation, however, substantially all of the Organization's agreements have only a single performance obligation. The Organization's revenues are substantially comprised of the following: City of Dearborn revenue, adoption fees, and animal care services. For the City of Dearborn revenue, transfer of control occurs over time, with recognition based on an input method of time elapsed. For adoption fees and animal care services, control transfers at a point in time, upon receipt of the service or product.

A contract's transaction price is allocated to each distinct performance obligation within the contract. Substantially all of the Organization's contracts have a single performance obligation.

Donated Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such services, the majority of which were for veterinary services, totaled \$109,783 and \$112,902 in December 31, 2019 and 2018, respectively, and are reflected within the statements of activities.

In addition, numerous individuals volunteer their time and perform a variety of tasks that assist the Organization with daily operations. The Organization received approximately 14,400 and 14,700 volunteer hours for fundraising activities, administrative support and various committee assignments for the years ended December 31, 2019 and 2018, respectively. Many volunteers also foster animals in their home and donated approximately 20,100 hours for the care of those animals for both years ended December 31, 2019 and 2018. No amounts have been reflected in the financial statements for the volunteer or foster hours.

Friends for Animals of Metro Detroit

Notes to Financial Statements
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In-Kind Contributions

The Organization reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

For the years ended December 31, 2019 and 2018, the Organization included as contributions \$32,026 and \$46,650 for pet, event and office supplies donated by businesses and individuals, respectively.

Contributed Facilities

The Organization occupies, without charge, premises owned by the City of Dearborn. The fair rental value of \$46,000 is recognized in the accompanying statement of functional expenses under utilities and rental expenses, and statement of activities under donations for both the years ended December 31, 2019 and 2018. There was no lease in place for this location as of both December 31, 2019 and 2018.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses are allocated based on a wage allocation percentage calculated by department. The Organization allocated employee expenses, building, maintenance, and office expenses, and professional fees utilizing the wage allocation percentage. Other expenses are program specific and not allocated based upon wage.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Financial Accounting Standard Board's Accounting Standards Update

In 2019, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Based on the Organization's evaluation process and review of its agreements, the adoption of this ASU did not have an affect on the Organization's financial statements.

Friends for Animals of Metro Detroit

Notes to Financial Statements
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Subsequent Events

The Organization has evaluated events through September 28, 2020, which is the date the financial statements were approved and available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. During 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to geographic locations in which the Organization operates. As of the date above, the Organization's evaluation of the effects of these events is ongoing; however, during the first half of 2020, the Organization began to experience a decrease in donations and animal adoptions. The duration and full extent of this disruption cannot be estimated; however, for the first six months of 2020, donations, animal adoptions and in-takes decreased by more than 30 percent.

The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

2. Promises to Give

The Organization expects payment for unconditional promises to give as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 241,000	\$ 30,369
One to five years	1,000	10,000
Less discount to present value	<u>(16)</u>	<u>(263)</u>
Total promises to give	<u>\$ 241,984</u>	<u>\$ 40,106</u>

At both December 31, 2019 and 2018, no allowance for doubtful accounts was deemed necessary.

3. Property and Equipment

The major categories of property and equipment at December 31 are as follows:

	<u>Useful lives</u>	<u>2019</u>	<u>2018</u>
Land	N/A	\$ 300,000	\$ 300,000
Building	39 years	3,736,061	3,736,061
Vehicles	5 - 7 years	44,556	44,556
Computer equipment	5 - 7 years	49,064	49,064
Furniture and fixtures	5 - 10 years	78,023	78,023
Animal housing	5 - 10 years	168,273	133,273
Appliances	5 - 7 years	51,233	51,233
Other	5 years	<u>44,170</u>	<u>44,170</u>
Total		4,471,380	4,436,380
Less accumulated depreciation		<u>(240,798)</u>	<u>(103,502)</u>
Property and equipment, net		<u>\$ 4,230,582</u>	<u>\$ 4,332,878</u>

Depreciation expense was \$137,296 and \$39,841 for the years ended December 31, 2019 and 2018, respectively.

Friends for Animals of Metro Detroit

Notes to Financial Statements
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4. Endowment Funds

The Organization's endowments consist of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows accounting standards that provide a framework for classifying net assets with donor restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of that framework is a requirement to classify the portion of donor restricted endowment funds net assets with donor restriction until appropriated for expenditure. Another key component is a requirement for expanded disclosures about all endowment funds

Interpretation of Relevant Law

The Board of Directors of the Organization have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction is classified as without donor restriction until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	Earnings with Donor Restriction	Principal with Donor Restriction	Total
Donor-restricted endowment funds	\$ 4,162	\$ 555,461	\$ 559,623

Friends for Animals of Metro Detroit

Notes to Financial Statements
December 31, 2019 and 2018

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019:

	Earnings with Donor Restriction	Principal with Donor Restriction	Total
Endowment net assets - Beginning of year	\$ (62,171)	\$ 555,461	\$ 493,290
Investment return	106,498	-	106,498
Appropriation of endowment assets for expenditure	<u>(40,165)</u>	<u>-</u>	<u>(40,165)</u>
Endowment net assets - End of year	<u>\$ 4,162</u>	<u>\$ 555,461</u>	<u>\$ 559,623</u>

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	Earnings with Donor Restriction	Principal with Donor Restriction	Total
Donor-restricted endowment funds	\$ (62,171)	\$ 555,461	\$ 493,290

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018:

	Earnings with Donor Restriction	Principal with Donor Restriction	Total
Endowment net assets - Beginning of year	\$ 41,708	\$ 555,461	\$ 597,169
Investment return	(28,218)	-	(28,218)
Appropriation of endowment assets for expenditure	<u>(75,661)</u>	<u>-</u>	<u>(75,661)</u>
Endowment net assets - End of year	<u>\$ (62,171)</u>	<u>\$ 555,461</u>	<u>\$ 493,290</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to generate income in the form of investment earnings that can be used to support the annual operating budget and to provide a financial resource to the Organization in perpetuity. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a portfolio mix between money market securities, and equities and may vary greatly during market cycles.

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Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Decisions to appropriate funds from each endowment for expenditures or to accumulate such funds shall be made by the Board. The Board may authorize a committee of the Board to make recommendations to the Board in carrying out its responsibilities with respect to the expenditure of Organization's endowment funds. Such committee and the Board must act in good faith, and must consider the uses, benefits, purposes and duration for which the endowment fund was established.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. As of December 31, 2018 donor restricted funds with original gift values of \$555,461, fair values of \$493,290 and deficiencies of \$62,171, were reported in net assets with donor restrictions. These deficiencies resulted from continued appropriation for certain programs that was deemed prudent by the governing board. There were no funding deficiencies as of December 31, 2019.

5. Fair Value Measurements

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Beneficial interests and investments are recorded at fair value on a recurring basis. Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis, such as property held for sale and other long lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure consolidated financial assets recorded at fair value. The fair value hierarchy is categorized into three levels as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Valuations based on inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measure, based on assumptions of prices and inputs considered from the perspective of a market participant that are current as of the measurement date, rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset at the measurement date.

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The Organization's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of fair value hierarchy during both the years ended December 31, 2019 and 2018.

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2019 based upon the three-level hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 16,280	\$ -	\$ -	\$ 16,280
Mutual funds	<u>543,343</u>	<u>-</u>	<u>-</u>	<u>543,343</u>
Total	<u>\$ 559,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 559,623</u>

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2018 based upon the three-level hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 19,673	\$ -	\$ -	\$ 19,673
Mutual funds	<u>473,617</u>	<u>-</u>	<u>-</u>	<u>473,617</u>
Total	<u>\$ 493,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 493,290</u>

6. Net Assets with Donor Restrictions

Net assets with donor restrictions are comprised of the following at December 31:

	<u>Restriction</u>	<u>2019</u>	<u>2018</u>
New shelter	Purpose/Time	\$ 577,469	\$ 154,389
Endowment funds	Purpose	559,623	493,290
Adoption preparation expenses	Purpose	5,000	-
Adoption workshops and adoption vouchers	Purpose	<u>21,564</u>	<u>-</u>
Total		<u>\$ 1,163,656</u>	<u>\$ 647,679</u>

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7. Liquidity and Availability

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses and fixed asset additions not financed with debt are as follows as of December 31:

Financial assets:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,782,322	\$ 1,868,912
Accounts receivable	120	38,826
Pledges receivable	241,000	30,369
Grants receivable	9,984	17,041
Investments	<u>559,623</u>	<u>493,290</u>
Financial assets available	2,593,049	2,448,438
Less net assets with donor restrictions	<u>(1,163,656)</u>	<u>(647,679)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,429,393</u>	<u>\$ 1,800,759</u>

Net assets with Board restrictions totaling \$421,015 represent a Board-directed reserve fund raised through the Organization's most recent capital campaign. The reserve fund balance is free of donor restrictions and can be utilized by the Organization with Board approval on general expenditures, liabilities, and on other obligations as they come due. Additionally, \$26,564 of the net assets with donor restrictions is restricted for adoption related expenses and will be expected to be used in the following year.

8. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its statement of financial position and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2022, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Organization is currently evaluating the impact on its financial statements upon the adoption of this guidance.