

# **Friends for Animals of Metro Detroit**

Financial Statements

December 31, 2022 and 2021

# 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

### **Opinion**

We have audited the financial statements of Friends for Animals of Metro Detroit (the Organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, cash flow and functional expenses for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization 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 (GAAP).

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 GAAP, 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

*Baker Tilly US, LLP*

Southfield, Michigan  
December 4, 2023

# Friends for Animals of Metro Detroit

Statements of Financial Position  
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,325,219	\$ 2,906,692
Grants receivable	10,000	-
Promises to give	152,000	305,000
Employee retention credit receivable	90,864	429,686
Inventories	3,770	3,770
Prepaid expenses and other current assets	38,996	14,401
Asset held for sale	218,300	-
	<u>3,839,149</u>	<u>3,659,549</u>
Total current assets	3,839,149	3,659,549
<b>Property and Equipment, Net</b>	3,861,755	3,923,938
<b>Investments</b>	<u>542,307</u>	<u>622,291</u>
Total assets	<u>\$ 8,243,211</u>	<u>\$ 8,205,778</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 62,302	\$ 299
Accrued expenses	56,182	38,049
Current maturities of long-term debt	<u>2,171</u>	<u>1,990</u>
Total current liabilities	120,655	40,338
<b>Long-Term Liabilities</b>		
Long-term debt, net of current maturities	<u>4,760</u>	<u>180,896</u>
Total liabilities	<u>125,415</u>	<u>221,234</u>
<b>Net Assets</b>		
Net assets without donor restrictions	4,902,697	5,431,068
Net assets with donor restrictions	<u>3,215,099</u>	<u>2,553,476</u>
Total net assets	<u>8,117,796</u>	<u>7,984,544</u>
Total liabilities and net assets	<u>\$ 8,243,211</u>	<u>\$ 8,205,778</u>

See notes to financial statements

# Friends for Animals of Metro Detroit

## Statement of Activities

Year Ended December 31, 2022

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating Revenue and Support</b>			
New shelter contributions	\$ -	\$ 780,573	\$ 780,573
Other donations	363,587	-	363,587
Special events, net of expenses	394,776	-	394,776
Giving programs	155,966	-	155,966
Adoption fees and animal care	157,687	-	157,687
Donated services, in-kind contributions and contributed facilities	84,890	-	84,890
City of Dearborn revenue	264,804	-	264,804
Grant revenue	323,192	-	323,192
Merchandise sales	5,772	-	5,772
Other	34,707	-	34,707
Net assets released from restriction	39,816	(39,816)	-
Total operating revenue and support	<u>1,825,197</u>	<u>740,757</u>	<u>2,565,954</u>
<b>Operating Expenses</b>			
Program	1,845,253	-	1,845,253
New shelter	43,527	-	43,527
Management and general	163,866	-	163,866
Fundraising	300,922	-	300,922
Total operating expenses	<u>2,353,568</u>	<u>-</u>	<u>2,353,568</u>
(Deficit) excess of operating revenue and support over operating expenses	<u>(528,371)</u>	<u>740,757</u>	<u>212,386</u>
<b>Nonoperating Income</b>			
Investment income (loss), net	<u>-</u>	<u>(79,134)</u>	<u>(79,134)</u>
Change in net assets	(528,371)	661,623	133,252
<b>Net Assets, Beginning</b>	<u>5,431,068</u>	<u>2,553,476</u>	<u>7,984,544</u>
<b>Net Assets, Ending</b>	<u>\$ 4,902,697</u>	<u>\$ 3,215,099</u>	<u>\$ 8,117,796</u>

See notes to financial statements

# Friends for Animals of Metro Detroit

## Statement of Activities

Year Ended December 30, 2021

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating Revenue and Support</b>			
New shelter contributions	\$ -	\$ 1,149,910	\$ 1,149,910
Other donations	423,773	-	423,773
Special events, net of expenses	298,384	-	298,384
Giving programs	94,285	-	94,285
Adoption fees and animal care	111,227	-	111,227
Donated services, in-kind contributions and contributed facilities	131,530	-	131,530
City of Dearborn revenue	182,500	-	182,500
Grant revenue	235,678	-	235,678
Other grant revenue	429,686	-	429,686
Merchandise sales	2,750	-	2,750
Other	23,814	-	23,814
Net assets released from restriction	138,315	(138,315)	-
Total operating revenue and support	<u>2,071,942</u>	<u>1,011,595</u>	<u>3,083,537</u>
<b>Operating Expenses</b>			
Program	1,449,806	-	1,449,806
New Shelter	43,810	-	43,810
Management and general	154,318	-	154,318
Fundraising	160,524	-	160,524
Total operating expenses	<u>1,808,458</u>	<u>-</u>	<u>1,808,458</u>
Excess of operating revenue and support over operating expenses	<u>263,484</u>	<u>1,011,595</u>	<u>1,275,079</u>
<b>Nonoperating Income</b>			
Investment income, net	<u>-</u>	<u>71,271</u>	<u>71,271</u>
Change in net assets	263,484	1,082,866	1,346,350
<b>Net Assets, Beginning</b>	<u>5,167,584</u>	<u>1,470,610</u>	<u>6,638,194</u>
<b>Net Assets, Ending</b>	<u>\$ 5,431,068</u>	<u>\$ 2,553,476</u>	<u>\$ 7,984,544</u>

See notes to financial statements

# Friends for Animals of Metro Detroit

## Statements of Cash Flows

Year Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 133,252	\$ 1,346,350
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	145,290	146,838
Realized and unrealized loss/(gain) on investments	79,134	(71,271)
Forgiveness of Paycheck Protection Program loan	(173,182)	(186,239)
Noncash contribution	(218,300)	-
Changes in assets and liabilities:		
Grants receivable	(10,000)	-
Promises to give	153,000	(189,000)
Employee retention credit receivable	338,822	(429,686)
Inventories	-	100
Prepaid expenses and other current assets	(24,595)	(3,180)
Accounts payable	62,003	(6,731)
Accrued expenses	18,133	5,115
Net cash flows from operating activities	<u>503,557</u>	<u>612,296</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(83,107)	-
Proceeds from sale of investment	850	103,203
Purchases of investments	<u>-</u>	<u>(21,718)</u>
Net cash flows from investing activities	<u>(82,257)</u>	<u>81,485</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from long-term debt	-	173,182
Payments on debt obligations	<u>(2,773)</u>	<u>(1,157)</u>
Net cash flows from financing activities	<u>(2,773)</u>	<u>172,025</u>
Net change in cash and cash equivalents	418,527	865,806
<b>Cash and Cash Equivalents, Beginning</b>	<u>2,906,692</u>	<u>2,040,886</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 3,325,219</u>	<u>\$ 2,906,692</u>

See notes to financial statements



## Friends for Animals of Metro Detroit

### Statement of Functional Expenses

Year Ended December 31, 2022

	<u>Program</u>	<u>New Shelter</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 927,506	\$ -	\$ 73,655	\$ 90,023	\$ 1,091,184
Employee benefits	<u>58,856</u>	<u>-</u>	<u>10,617</u>	<u>7,980</u>	<u>77,453</u>
Total salaries and related expenses	986,362	-	84,272	98,003	1,168,637
Accounting	45,022	-	23,062	2,550	70,634
Administration	27,793	2,165	4,471	15,472	49,901
Advertising and promotion	3,339	460	-	1,397	5,196
Annual appeals	24,395	36,263	-	148,136	208,794
Depreciation	130,760	-	7,265	7,265	145,290
Information technology	9,053	-	4,638	513	14,204
Insurance	20,693	1,909	2,175	1,514	26,291
Meals and entertainment	261	-	46	698	1,005
Office supplies	5,595	1,300	2,397	17,153	26,445
Pet supplies, housing and care	179,736	-	-	1,708	181,444
Professional dues and fees	64,036	1,109	32,801	3,627	101,573
Utilities and rental	151,077	321	2,739	2,724	156,861
Vehicle	6,097	-	-	-	6,097
Veterinary services	185,728	-	-	-	185,728
Volunteer	<u>5,306</u>	<u>-</u>	<u>-</u>	<u>162</u>	<u>5,468</u>
Total operating expenses	<u>\$ 1,845,253</u>	<u>\$ 43,527</u>	<u>\$ 163,866</u>	<u>\$ 300,922</u>	<u>\$ 2,353,568</u>

See notes to financial statements

## Friends for Animals of Metro Detroit

### Statement of Functional Expenses

Year Ended December 30, 2021

	<u>Program</u>	<u>New Shelter</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 661,864	\$ 617	\$ 16,411	\$ 99,837	\$ 778,729
Employee benefits	<u>72,475</u>	<u>-</u>	<u>19</u>	<u>15,676</u>	<u>88,170</u>
Total salaries and related expenses	734,339	617	16,430	115,513	866,899
Accounting	-	-	98,703	-	98,703
Administration	-	-	-	-	-
Advertising and promotion	2,665	36,722	-	-	39,387
Annual appeals	98,489	5,532	-	32,829	136,850
Depreciation	132,154	-	7,342	7,342	146,838
Information technology	2,243	-	748	-	2,991
Insurance	22,674	-	2,384	1,658	26,716
Office supplies	9,573	939	21,751	-	32,263
Pet supplies, housing and care	105,619	-	-	-	105,619
Professional dues and fees	17,468	-	4,000	222	21,690
Special events	-	-	-	-	-
Utilities and rental	163,863	-	2,960	2,960	169,783
Vehicle	2,621	-	-	-	2,621
Veterinary services	156,204	-	-	-	156,204
Volunteer	<u>1,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,894</u>
Total operating expenses	<u>\$ 1,449,806</u>	<u>\$ 43,810</u>	<u>\$ 154,318</u>	<u>\$ 160,524</u>	<u>\$ 1,808,458</u>

See notes to financial statements

# Friends for Animals of Metro Detroit

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Notes to Financial Statements  
December 31, 2022 and 2021

## 1. Summary of Significant Accounting Policies

### Nature of Activities

Friends for Animals of Metro Detroit (the Organization) is dedicated to the rescue, protection and adoption 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. The Organization maintains some of its deposits in financial institutions, which at times may exceed the federally insured limits. Management does not believe the Organization is exposed to any significant interest rate or other financial risk as a result of these deposits and accounts.

### Promises to Give

Unconditional promises to give made to the Organization are recorded in the year the pledge is made. There were no promises to give due from board members as of December 31, 2022. There were promises to give of \$100,000 due from board members as of December 31, 2021. All promises to give as of December 31, 2022 and 2021 are expected to be collected within one year, therefore no discount was recorded.

### 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 is included in the statements of activities as an increase in net assets without donor restriction unless the income or loss is restricted by donor or law.

### 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 (deficit) excess of operating revenue and support over operating expenses.

## Friends for Animals of Metro Detroit

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Notes to Financial Statements  
December 31, 2022 and 2021

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.

### Assets Held for Sale

The Organization received a contribution of real estate in 2022. The property is recorded at the lower of carrying value or the fair value less costs to sell. The real estate is expected to be sold within the next year.

### 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, 2022 and 2021, there were \$372,034 of board designated net assets from the recent capital campaign without donor restriction.

### 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.

The Organization is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the consolidated financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

# Friends for Animals of Metro Detroit

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Notes to Financial Statements  
December 31, 2022 and 2021

## Revenue Recognition

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. 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 \$37,905 and \$59,425 in December 31, 2022 and 2021, 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 5,017 and 17,225 volunteer hours for fundraising activities, administrative support and various committee assignments for the years ended December 31, 2022 and 2021, respectively. Many volunteers also foster animals in their home and donated approximately 27,659 and 27,282 hours for the care of those animals for the years ended December 31, 2022 and 2021, respectively. No amounts have been reflected in the financial statements for the volunteer or foster hours.

## 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, 2022 and 2021, the Organization included as contributions \$985 and \$26,105 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 other donations for both the years ended December 31, 2022 and 2021. There was no lease in place for this location as of both December 31, 2022 and 2021.

## 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.

# Friends for Animals of Metro Detroit

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Notes to Financial Statements  
December 31, 2022 and 2021

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.

## Reclassification

For comparability, certain 2021 amounts have been reclassified to conform with classifications adopted in 2022. The reclassifications have no effect on reported amounts of net assets or change in net assets.

## Measure of Operations

The Organization's operating revenues and expenses include activities that are an integral part of their programs and supporting activities. The Organization does not consider investment income related to the endowment to be integral to its operations.

## 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.

## Adopted Accounting Pronouncements

During 2022, the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The Organization has included enhanced disclosures in the financial statements.

In 2022, the Organization adopted FASB ASU No. 2016-02, *Leases (Topic 842)* that amended the treatment for leases under the modified retrospective method. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. Adopting ASU No. 2016-02 did not have a significant impact on the financial statements of the Organization.

## New Accounting Pronouncement

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. FASB has issued subsequent standards to clarify and correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022 (2023). Early adoption is permitted. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its financial statements.

## Friends for Animals of Metro Detroit

Notes to Financial Statements  
December 31, 2022 and 2021

### 2. Employee Retention Credit

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA) and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Organization qualified for the ERC as it experienced a significant decline in gross receipts (for 2020, defined as a 50% decline in gross receipts when compared to the same calendar quarter in 2019, and for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Organization averaged less than 100 full-time employees (FTEs) during 2019, therefore, it was considered a small employer during 2020 and 2021. As a small employer, all of the Organization's otherwise qualified wages were eligible for the ERC. For 2020, the ERC equaled 50% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit for each employee of \$5,000. For 2021, the ERC equaled 70% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee.

The Organization accounts for its portion of this federal funding in accordance with FASB Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. The Organization claimed credits of \$429,686 on amended forms 941 which are included in other grant revenue in the statement of activities for the year ended December 31, 2021. As of December 31, 2022 and 2021, the Organization had an employee retention credit receivable of \$90,864 and \$429,686 presented on the statements of financial position.

### 3. Property and Equipment

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

	<u>Useful Lives</u>	<u>2022</u>	<u>2021</u>
Land	N/A	\$ 300,000	\$ 300,000
Building	39 years	3,736,062	3,736,062
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	168,273
Appliances	5-7 years	51,233	51,234
Other	5 years	46,054	46,054
Construction in progress	N/A	<u>83,108</u>	<u>-</u>
Total		4,556,373	4,473,265
Less accumulated depreciation		<u>(694,618)</u>	<u>(549,327)</u>
Property and equipment, net		<u>\$ 3,861,755</u>	<u>\$ 3,923,938</u>

Depreciation expense was \$145,290 and \$146,838 for the years ended December 31, 2022 and 2021, respectively.

## Friends for Animals of Metro Detroit

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### 4. Long-Term Debt

The Organization participated and received loan proceeds under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA) in the amounts of \$197,100, in May 2020 and a Second Draw PPP loan (PP2) in the amount of \$173,182 in March 2021, under the Economic Aid to Hard-Hit Small Business, Nonprofits and Venues Act (Economic Aid). The PPP and PPP2 are designed to provide a direct financial incentive for small businesses to keep their workers on the payroll. The program will forgive loan balances to the extent employees are kept on the payroll and the loan principal is used for payroll, rent, mortgage interest, or utilities among other expenses during the eight or twenty-four week period following receipt. Any portion of the loan that is not forgiven will carry interest of 1% and is due to be paid back within two or five years. The first payment can be deferred until ten months after the end of the covered period, which is either eight or twenty-four weeks.

As of December 31, 2021, the Organization recorded PPP2 proceeds of \$173,182 as debt on the statements of financial position and no revenue was recorded for PPP2 proceeds for the year ended December 31, 2021. The Organization received legal release of PPP from the SBA, and therefore recorded the amount forgiven, \$186,239, as grant revenue on the statement of activities for the year ended December 31, 2021. The remaining balance will be payable over a five year term. On July 12, 2022, the Organization received legal release of PPP2 from the SBA and the full amount was forgiven, \$173,182 and was recorded as grant revenue on the statement of activities for the year ended December 31, 2022.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audit or reviews by the SBA would have a material impact on the financial statements.

### 5. 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



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## 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, 2022 is as follows:

	<b>Earnings With Donor Restriction</b>	<b>Principal With Donor Restriction</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (13,154)	\$ 555,461	\$ 542,307

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022:

	<b>Earnings With Donor Restriction</b>	<b>Principal With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 66,830	\$ 555,461	\$ 622,291
Investment return	(79,134)	-	(79,134)
Appropriation of endowment assets for expenditure	(850)	-	(850)
Endowment net assets, end of year	<u>\$ (13,154)</u>	<u>\$ 555,461</u>	<u>\$ 542,307</u>

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Endowment net asset composition by type of fund as of December 30, 2021 is as follows:

	<b>Earnings With Donor Restriction</b>	<b>Principal With Donor Restriction</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ 66,830</u>	<u>\$ 555,461</u>	<u>\$ 622,291</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 30, 2021:

	<b>Earnings With Donor Restriction</b>	<b>Principal With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 77,044	\$ 555,461	\$ 632,505
Investment return	71,271	-	71,271
Appropriation of endowment assets for expenditure	<u>(81,485)</u>	<u>-</u>	<u>(81,485)</u>
Endowment net assets, end of year	<u>\$ 66,830</u>	<u>\$ 555,461</u>	<u>\$ 622,291</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.

### 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.

# Friends for Animals of Metro Detroit

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## 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, 2022 donor restricted funds with original gift values of \$555,461, fair values of \$542,307 and deficiencies of \$13,154, 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, 2021.

## 6. 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.

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, 2022 and 2021.

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2022 based upon the three-level hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 63,132	\$ -	\$ -	\$ 63,132
Mutual funds	<u>479,175</u>	<u>-</u>	<u>-</u>	<u>479,175</u>
Total	<u>\$ 542,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 542,307</u>

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The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2021 based upon the three-level hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 54,113	\$ -	\$ -	\$ 54,113
Mutual funds	<u>568,178</u>	<u>-</u>	<u>-</u>	<u>568,178</u>
Total	<u>\$ 622,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 622,291</u>

The Organization has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets that are measured at the lower of cost of market and had a fair value below carrying value at the end of the period summarized below.

The following table presents assets that are measured at fair value on a non-recurring basis at December 31, 2022:

	<u>Assets Measure at Fair Value on a Non-Recurring Basis</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset held for sale	<u>\$ -</u>	<u>\$ 218,300</u>	<u>\$ -</u>	<u>\$ 218,300</u>

The following is a description of the valuation methodologies used for the Organization's financial assets that are measured at fair value, including the general classification of such assets pursuant to the valuation hierarchy:

### Mutual Funds

The Organization's common stock and equity mutual funds are classified as Level 1 in the fair value hierarchy, as quoted prices are available for these securities in an active market.

### Money Market Funds

Money market funds are classified as Level 1 in the fair value hierarchy and are valued at closing quoted prices reported in an active market.

### Asset Held for Sale

This asset is measured at fair value which is based on the offer price obtained from a third party and is considered a Level 2 item.

## 7. Net Assets With Donor Restrictions

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

	<u>Restriction</u>	<u>2022</u>	<u>2021</u>
New shelter	Purpose/Time	\$ 2,601,485	\$ 1,916,185
Endowment Fund	Purpose/Time	542,307	622,291
Adoption preparation expenses	Purpose	<u>71,307</u>	<u>15,000</u>
Total		<u>\$ 3,215,099</u>	<u>\$ 2,553,476</u>

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### 8. 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:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 3,325,219	\$ 2,906,692
Grants receivable	10,000	-
Promises to give	152,000	305,000
Employee retention credit receivable	90,864	429,686
Investments	<u>542,307</u>	<u>622,291</u>
Financial assets available	4,120,390	4,263,669
Less net assets with donor restrictions	<u>(3,215,099)</u>	<u>(2,553,476)</u>
Financial assets available for general expenditures within one year	<u>\$ 905,291</u>	<u>\$ 1,710,193</u>

Net assets with Board restrictions totaling \$372,034 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.

### 9. Subsequent Events

The Organization has evaluated events through December 4, 2023, which is the date the financial statements were approved and available to be issued.