

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2023  
(With Comparative Totals For The Year Ended June 30, 2022)

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**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Animal Humane Society and Subsidiaries  
Golden Valley, Minnesota

### **Opinion**

We have audited the accompanying consolidated financial statements of Animal Humane Society (a nonprofit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Animal Humane Society and Subsidiaries as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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 Consolidated Financial Statements section of our report. We are required to be independent of Animal Humane Society and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Animal Humane Society and Subsidiaries' 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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Animal Humane Society and Subsidiaries' 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.

### **Report on Summarized Comparative Information**

We have previously audited Animal Humane Society and Subsidiaries' 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 17, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



REDPATH AND COMPANY, LLC  
St. Paul, Minnesota

October 26, 2023

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## **FINANCIAL STATEMENTS**

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**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
June 30, 2023  
With Comparative Totals For June 30, 2022

**Statement 1**

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$5,485,063	\$4,727,988
Accounts receivable, net	79,518	81,756
Contributions receivable	50,963	118,366
Employee retention credit receivable	3,399,862	4,787,228
Pledges receivable, short-term	1,321,492	1,838,833
Inventory	439,443	409,001
Prepaid expenses and other current assets	193,200	290,612
Unemployment funds held by others	58,853	39,078
Total current assets	<u>11,028,394</u>	<u>12,292,862</u>
Investments	<u>16,933,724</u>	<u>19,106,252</u>
Property and equipment, net	<u>18,712,977</u>	<u>19,202,149</u>
Noncurrent assets		
Pledges receivable, long-term, net	2,187,155	2,902,864
Amounts held in trust	1,222,945	1,211,193
Cash surrender value of life insurance	56,527	54,483
Total noncurrent assets	<u>3,466,627</u>	<u>4,168,540</u>
Total assets	<u><u>\$50,141,722</u></u>	<u><u>\$54,769,803</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$402,372	\$173,201
Deferred revenue, current portion	285,507	373,061
Accrued liabilities	877,052	2,882,597
Accrued payroll expenses	1,019,006	1,022,766
Adoption credit vouchers	239,648	112,977
Notes payable, current, net	612,246	10,433,015
Total current liabilities	<u>3,435,831</u>	<u>14,997,617</u>
Noncurrent liabilities		
Notes payable, long-term, net	9,296,420	-
Gift annuities payable	51,017	59,621
Deferred revenue, long-term	-	23,357
Total noncurrent liabilities	<u>9,347,437</u>	<u>82,978</u>
Total liabilities	<u>12,783,268</u>	<u>15,080,595</u>
Net assets		
Without donor restrictions	22,751,993	25,764,342
With donor restrictions		
Capital campaign restrictions	9,445,775	8,429,583
Donor restrictions - other	5,160,686	5,495,283
Total net assets	<u>37,358,454</u>	<u>39,689,208</u>
Total liabilities and net assets	<u><u>\$50,141,722</u></u>	<u><u>\$54,769,803</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For The Year Ended June 30, 2023  
With Comparative Totals For The Year Ended June 30, 2022

**Statement 2**  
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	2023			2022
	Without donor restrictions	With donor restrictions	Total	Total
Support and revenue				
Support				
Contributions - operating	\$8,933,832	\$637,742	\$9,571,574	\$10,874,373
Contributions - capital campaign	-	1,544,500	1,544,500	1,338,669
In-kind contributions	323,069	-	323,069	311,186
Bequests	3,620,036	-	3,620,036	9,516,831
Special events				
Gross revenues	987,224	-	987,224	730,578
Expenses	(276,796)	-	(276,796)	(218,256)
Total support	13,587,365	2,182,242	15,769,607	22,553,381
Revenue				
Adoption fees	2,374,007	-	2,374,007	2,054,328
Other program revenue	3,099,144	-	3,099,144	2,489,388
Merchandise sales				
Merchandise revenue	487,099	-	487,099	495,761
Cost of goods sold	(330,022)	-	(330,022)	(295,190)
COVID-19 government revenue	214,888	-	214,888	6,809,749
Interest and dividend income, net of fees	631,512	-	631,512	308,205
Investment gains (losses)	442,388	-	442,388	(2,476,778)
Gain on disposal of assets	39,844	-	39,844	1,401
Other revenue	106,976	-	106,976	41,300
Total revenue	7,065,836	-	7,065,836	9,428,164
Net assets released from restrictions	1,519,967	(1,519,967)	-	-
Total support and revenue	22,173,168	662,275	22,835,443	31,981,545
Expenses				
Program services				
Adoption and surrender	13,274,056	-	13,274,056	11,820,617
Rescue	520,867	-	520,867	2,533,611
Pet services	644,474	-	644,474	568,449
Community engagement	4,459,146	-	4,459,146	3,704,330
Total program services	18,898,543	-	18,898,543	18,627,007
Supporting services				
General and administrative	1,832,076	-	1,832,076	2,265,465
Capital campaign	543,676	-	543,676	665,878
Fundraising	4,069,150	-	4,069,150	3,699,802
Total supporting services	6,444,902	-	6,444,902	6,631,145
Total expenses	25,343,445	-	25,343,445	25,258,152
Change in net assets from operations	(3,170,277)	662,275	(2,508,002)	6,723,393

The accompanying notes are an integral part of these consolidated financial statements.

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For The Year Ended June 30, 2023  
With Comparative Totals For The Year Ended June 30, 2022

**Statement 2**  
**Page 2 of 2**

	2023			2022
	Without donor restrictions	With donor restrictions	Total	Total
Other changes - increase (decrease)				
Change in value of trusts and insurance policies	\$ -	\$19,320	\$19,320	(\$318,180)
Kasota Holdings, LLC				
Rent revenues and other income	1,166,085	-	1,166,085	1,084,991
Expenses	(913,794)	-	(913,794)	(881,284)
Provision for income taxes	(94,363)	-	(94,363)	(67,857)
Total other changes	157,928	19,320	177,248	(182,330)
Change in net assets	(3,012,349)	681,595	(2,330,754)	6,541,063
Net assets, beginning of the year	25,764,342	13,924,866	39,689,208	33,148,145
Net assets, end of the year	\$22,751,993	\$14,606,461	\$37,358,454	\$39,689,208

The accompanying notes are an integral part of these consolidated financial statements.

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
For The Year Ended June 30, 2023  
With Comparative Totals For The Year Ended June 30, 2022

	2023				
	Program Services				
	Adoption & Surrender	Rescue	Pet Services	Community Engagement	Total Program Services
Personnel expenses					
Salaries	\$8,002,657	\$329,994	\$454,209	\$2,706,940	\$11,493,800
Payroll taxes	589,707	24,309	33,505	199,094	846,615
Employee benefits	1,098,808	28,051	68,444	370,701	1,566,004
Staff expenses	112,555	7,567	5,440	41,609	167,171
Total personnel expenses	9,803,727	389,921	561,598	3,318,344	14,073,590
Expenses					
Professional fees	3,792	14,080	1,811	1,024	20,707
Advertising	14,452	-	11,561	34,684	60,697
General program supplies	954,004	5,053	5,119	275,306	1,239,482
Merchandise sales cost of goods sold	219,492	-	351	93,917	313,760
Insurance	79,736	2,927	4,461	21,885	109,009
Office supplies	87,950	982	2,344	22,105	113,381
Outside services - ERC services	-	-	-	-	-
Other outside services	526,297	28,558	10,918	320,797	886,570
Postage	6,431	295	103	1,562	8,391
Printing	46,242	4,203	932	20,693	72,070
Repairs and maintenance	318,995	13,930	7,235	65,153	405,313
Telephone	54,789	1,895	3,931	25,409	86,024
Travel	60,054	3,303	1,571	25,018	89,946
Utilities	393,383	3,900	10,400	72,162	479,845
Interest expense	122,635	-	-	-	122,635
Bad debt expense	-	-	-	-	-
Provision for income taxes	-	-	-	-	-
Miscellaneous expense	118,307	43,907	1,390	16,151	179,755
Total expenses before depreciation and amortization	12,810,286	512,954	623,725	4,314,210	18,261,175
Depreciation and amortization	683,262	7,913	21,100	238,853	951,128
Total expenses by function	13,493,548	520,867	644,825	4,553,063	19,212,303
Reconciliation to expenses presented on the consolidated statement of activities					
Merchandise sales cost of goods sold	(219,492)	-	(351)	(93,917)	(313,760)
Special event expenses	-	-	-	-	-
Kasota Holdings, LLC	-	-	-	-	-
Provision for income taxes	-	-	-	-	-
Total expenses included in the expense section on the consolidated statement of activities	<u>\$13,274,056</u>	<u>\$520,867</u>	<u>\$644,474</u>	<u>\$4,459,146</u>	<u>\$18,898,543</u>

The accompanying notes are an integral part of these consolidated financial statements.

## Statement 3

2023						2022
Supporting Services						
General & Administrative	Kasota Holdings, LLC	Capital Campaign	Fundraising	Total Supporting Service	Total Expenses	Total Expenses
\$1,433,593	\$ -	\$297,308	\$2,068,326	\$3,799,227	\$15,293,027	\$13,295,602
107,681	-	22,185	150,136	280,002	1,126,617	1,157,552
32,507	-	39,321	279,674	351,502	1,917,506	1,657,501
70,941	-	2,976	37,027	110,944	278,115	198,061
1,644,722	-	361,790	2,535,163	4,541,675	18,615,265	16,308,716
55,350	14,045	1,087	15,751	86,233	106,940	171,150
-	-	-	228,334	228,334	289,031	296,094
395	-	2,448	59,530	62,373	1,301,855	1,199,516
-	-	-	16,262	16,262	330,022	298,669
10,873	43,707	2,346	17,170	74,096	183,105	160,817
3,621	-	541	4,975	9,137	122,518	94,854
-	-	-	-	-	-	718,084
13,875	-	138,427	820,883	973,185	1,859,755	3,710,752
4,163	-	391	236,664	241,218	249,609	246,224
1,009	-	206	114,843	116,058	188,128	152,028
7,235	54,836	1,467	10,741	74,279	479,592	402,729
6,861	-	1,631	14,664	23,156	109,180	98,906
17,031	-	2,335	8,091	27,457	117,403	81,971
10,400	134,077	2,110	15,440	162,027	641,872	577,353
26,775	289,913	2,949	21,578	341,215	463,850	366,803
-	-	-	-	-	-	91,688
-	94,363	-	-	94,363	94,363	67,857
8,666	295,172	21,667	210,792	536,297	716,052	565,907
1,810,976	926,113	539,395	4,330,881	7,607,365	25,868,540	25,610,118
21,100	82,044	4,281	31,327	138,752	1,089,880	1,110,621
1,832,076	1,008,157	543,676	4,362,208	7,746,117	26,958,420	26,720,739
-	-	-	(16,262)	(16,262)	(330,022)	(295,190)
-	-	-	(276,796)	(276,796)	(276,796)	(218,256)
-	(913,794)	-	-	(913,794)	(913,794)	(881,284)
-	(94,363)	-	-	(94,363)	(94,363)	(67,857)
\$1,832,076	\$ -	\$543,676	\$4,069,150	\$6,444,902	\$25,343,445	\$25,258,152

The accompanying notes are an integral part of these consolidated financial statements.

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For The Year Ended June 30, 2023  
With Comparative Totals For The Year Ended June 30, 2022

**Statement 4**

	2023	2022
Cash flows from operating activities		
Change in net assets	(\$2,330,754)	\$6,541,063
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation expense	1,089,880	1,110,621
PPP loan forgiveness	-	(2,000,000)
Deferred financing cost interest	(33,689)	14,209
Net realized and unrealized investment (gain) loss	(442,388)	2,476,778
Contributions to endowment fund	(10,000)	(135,613)
(Gain) loss on disposal of assets	(39,844)	(1,401)
Change in assets and liabilities		
Accounts receivable	2,238	82,927
Contributions receivable	67,403	(58,638)
Employee retention credit receivable	1,387,366	(4,787,228)
Pledges receivable	1,233,050	242,369
Inventory	(30,442)	64,839
Prepaid expenses and other current assets	97,412	(137,296)
Unemployment funds held by others	(19,775)	(39,078)
Amounts held in trust	(11,752)	325,320
Cash surrender value of life insurance	(2,044)	(2,105)
Accounts payable	229,171	(39,941)
Accrued liabilities	(2,005,545)	2,790,132
Accrued payroll expenses	(3,760)	(279,885)
Deferred revenue	(110,911)	185,309
Adoption credit vouchers	126,671	42,755
Net cash (used in) provided by operating activities	(807,713)	6,395,137
Cash flows from investing activities		
Purchases of property and equipment	(600,864)	(343,047)
Proceeds from the sale of property and equipment	40,000	2,000
Withdrawals from investment pool	6,920,118	-
Additions to investment pool, including reinvested income	(4,305,202)	(9,894,778)
Net cash provided by (used in) investing activities	2,054,052	(10,235,825)
Cash flows from financing activities		
Principal payments on notes payable	(490,660)	(368,820)
Endowment fund contributions	10,000	135,613
Payments on gift annuities	(8,604)	(14,575)
Net cash used in financing activities	(489,264)	(247,782)
Net increase (decrease) in cash and cash equivalents	757,075	(4,088,470)
Cash and cash equivalents at beginning of year	4,727,988	8,816,458
Cash and cash equivalents at end of year	\$5,485,063	\$4,727,988
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$414,861	\$330,239
Income tax	(\$94,363)	(\$67,857)
Supplemental disclosure of noncash investing and financing activities		
Disposals of depreciated equipment	\$203,125	\$161,757

The accompanying notes are an integral part of these consolidated financial statements.



**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2023  
With Comparative Amounts as of June 30, 2022

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**NOTE 1 SUMMARY OF ORGANIZATION**

**A. ORGANIZATION AND PURPOSE**

Animal Humane Society (AHS) – established in 1878 and incorporated as a nonprofit charitable organization in 1891 – works to engage the hearts, hands, and minds of the community to help animals. AHS’s vision is to compassionately and responsibly create a more humane world for animals. Three core values guide AHS as an organization: be good to animals, partner with people, and lead responsibly with compassion.

AHS is primarily supported through donations, fees for adoption and other services to the community, and sales of pet care supplies. AHS has locations in Golden Valley, Coon Rapids, Saint Paul, and Woodbury, Minnesota.

AHS maintains two wholly owned subsidiaries:

- Animal Humane Society Veterinary Centers, P.C., a nonprofit subsidiary that provides high-quality, low-cost veterinary services to the public.
- Kasota Holdings, LLC, a nonprofit single-member limited liability company that maintains rental units in St. Paul, Minnesota. AHS is the single-member owner of Kasota Holdings, LLC.

Although the COVID-19 pandemic and a nationwide shortage of veterinarians and veterinary technicians have temporarily reduced AHS’s program capacity, in a typical year, AHS provides programs and services that positively impact the lives of nearly 100,000 animals across Minnesota.

**Adoption and Surrender**

AHS helps thousands of dogs, cats, and critters in need find loving homes each year. AHS’s commitment to open admission guarantees safe refuge to every animal that comes to us for help. Innovations and investments in medical treatment and behavioral rehabilitation ensure that we can help animals with even the most significant challenges. As a result, AHS now places more than 90 percent of the animals entrusted to its care, up from 59 percent in 2008.

The success of AHS’s shelter program is reflected in three key measures: the total number of animals admitted for rehoming, the percentage of animals with live placements (placement rate), and the average length of stay in shelter. Although AHS’s adoption and surrender programs were curtailed by COVID-19, AHS continued to achieve strong results across all three metrics.

In the year ended June 30, 2023:

- 13,013 companion animals came into AHS facilities.
- 11,904 of those animals – more than 90% – were placed in homes, reunited with owners, or released to other organizations.
- The average length of stay for animals in shelter was 11.5 days.

Placements included 9,433 animals adopted, 822 animals reunited with owners, 1,465 cats returned to field, and 184 animals transferred to partner organizations.

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2023  
With Comparative Amounts as of June 30, 2022

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Robust medical and behavioral programs contribute to this continued success:

- AHS veterinarians diagnosed and treated 12,105 conditions.
- AHS Shelter Behavior programs readied 2,523 cats and dogs for placement.

**Affordable Veterinary Care**

AHS's Veterinary Centers provide low-cost spay/neuter surgeries and full-service veterinary care on a sliding fee scale, expanding care to animals whose options would otherwise be limited. In September 2020, AHS opened a new public veterinary center in St. Paul, MN to expand these efforts.

In the year ended June 30, 2023, AHS's vet centers provided 11,377 services to the public, including 4,515 medical and wellness appointments, 1,064 dental and specialty surgeries, and 5,798 spay/neuter surgeries.

**Community Engagement**

AHS works with individuals and organizations across Minnesota to create a more humane world for animals, including:

- Outreach to under-engaged communities, including education programs and free or low-cost services that empower low-income pet owners and improve the lives of pets.
- A pet food pantry that distributed more than 37,402 pounds of cat and dog food to Minnesota families in need.
- Education programs that foster humane values and compassion for animals, including day camps, a youth club, and other activities for kids and families serving 4,827 participants.
- A Community Cats program focused on reducing euthanasia and providing alternative solutions for feral and free-roaming cats through return-to-field and trap-neuter-return programs. This program served 1,465 cats.
- A partnership with the Wildlife Rehabilitation Center of Minnesota that provided emergency care for 12 injured and orphaned wild animals.
- A robust volunteer program that enlists 571 active volunteers in providing animal enrichment, foster care, shelter support, and other assistance. In addition, 225 volunteers provided foster care for 847 animals before adoption.

**Pet Services**

AHS offers programs to serve all stages of an animal's life, including:

- More than 70 family-friendly pet training classes each week, along with one-on-one training and socialization sessions, therapy animal courses, playgroups, and rabbit agility classes. 1,289 pets attended classes and private training sessions through AHS's training programs.
- A free Pet Helpline (952-HELP-PET) that handled 58,555 incoming calls, providing caring, compassionate advice and resources to help with everything from solving behavior problems to finding pet-friendly housing.
- Compassionate end-of-life services, including owner-requested euthanasia for 1,266 pets and a weekly pet loss support group.
- Online resources for pet owners, including a behavior resource library at [animalhumanesociety.org](http://animalhumanesociety.org).

**ANIMAL HUMANE SOCIETY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2023  
With Comparative Amounts as of June 30, 2022

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**Rescue**

Aiding animals in critical situations is core to AHS's work. AHS's humane agents respond to reports of possible animal cruelty or neglect throughout Minnesota. They receive reports about animals that are lacking proper food, water, and shelter. They also participate in larger, more complex cases involving cruelty, with on-site investigations, forensics, and seizures aiding law enforcement agencies that seek AHS assistance.

During the year ended June 30, 2023, AHS's Humane Investigations unit received 1,800 requests for assistance and opened 844 formal cases. Follow-up investigation and forensics of these cases took AHS agents into 79 of Minnesota's 87 counties. Those investigations impacted the lives of 7,567 animals.

AHS took in 2,895 animals from other animal welfare organizations throughout Minnesota and other states, finding homes for animals that would otherwise face euthanasia in overcrowded facilities.

**B. PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of AHS and its wholly owned subsidiaries, Animal Humane Society Veterinary Centers, P.C., and Kasota Holdings, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the "Organization."

**C. COMPARATIVE FINANCIAL INFORMATION**

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived.

**D. BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP.

**E. NET ASSETS AND RESTRICTIONS**

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

*Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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*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 resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

**F. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those consolidated financial instruments.

The Organization maintains cash balances with banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may, from time to time, exceed the balances insured by the FDIC.

**G. INVESTMENTS**

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by the donor or law.

**H. ACCOUNTS RECEIVABLE**

Accounts receivable are reported at the amount the Organization expects to collect on balances outstanding at the end of the period. The Organization monitors outstanding balances and periodically writes off amounts that management determines to be uncollectible. Generally, interest is not charged on past-due accounts. The Organization expects all accounts receivable to be collected, therefore, there is no allowance for bad debt as of June 30, 2023 and 2022.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying consolidated statement of financial position. Contract liabilities are reported as deferred revenue in the accompanying consolidated statement of financial position.

**I. PROMISES TO GIVE**

Promises to give consist of contributions and pledges receivable, which are recorded at the amount the Organization expects to collect from outstanding balances at the end of the period. The Organization expects all contributions and pledges receivable to be collected, therefore, there is no allowance for uncollectible amounts as of June 30, 2023 and 2022. Promises to give are recorded after being discounted to estimated net present value of future cash flows.

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Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give as of June 30, 2023 and 2022.

**J. INVENTORIES**

Inventories, consisting primarily of pet care supplies, are stated at lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) basis.

**K. PROPERTY AND EQUIPMENT**

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (3 to 55 years). Generally, acquisitions of property and equipment of \$1,000 or more are capitalized, with the exception of certain IT equipment under \$1,000 that is also capitalized.

The Organization reviews property and equipment for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the Organization's operations to which the assets relate to the carrying amount. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset.

**L. GIFT ANNUITIES PAYABLE**

Under gift annuity contracts, AHS receives irrevocable title to contributed assets and agrees to make fixed period payments to the donor(s) for life or a specified period of time. Contributed assets are recorded at fair value at the date of receipt, and a liability is established for the present value of future annuity payments. To calculate the present value of the charitable gift annuities, the life expectancy tables in effect in the year of donation (published by the National Center of Health Statistics) and discount rates ranging from 1.4% to 9.4% were used. The excess of contributed assets over the annuity liability is recorded as revenue without donor restrictions. Any actuarial gain or loss resulting from the computation of the liability for the present value of future annuity payments is recorded as changes in the value of split-interest agreements. Upon the donor's death, the remaining liability is recognized as revenue.

**M. REVENUE AND REVENUE RECOGNITION**

Adoption and surrender fees, training and education revenue, boarding fees, merchandise sales, vet center services, rent revenue, and other program revenue are exchange transactions for services provided or goods sold to customers. Revenue from adoption and surrender fees, merchandise sales, and vet center services are recognized at a point in time when the service is provided, or goods are sold. Revenue from training and education sales, and boarding fees are recognized over time, as the underlying services are provided to customers. Rental revenue is recognized over the term of the lease agreement as it becomes receivable, per ASC 840.

Special event revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place and the contribution element of the special event revenue immediately, unless there is a right of return if the special event does not take place.

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Contributions and bequests are recognized as revenue when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The following represents the Organization's disaggregated other program revenue as of June 30:

	2023	2022
Revenue recognized at a point in time		
Intake and other services to the community	\$522,945	\$520,106
Vet center services	1,672,202	1,389,797
Other revenue	158,893	68,434
Revenue recognized over time		
Training and education	745,104	511,051
Total other program revenue	<u>\$3,099,144</u>	<u>\$2,489,388</u>

**N. DEFERRED REVENUE**

Program service fees received in advance are deferred to the applicable period in which the related services are performed.

**O. IN-KIND CONTRIBUTIONS AND DONATED SERVICES**

The Organization reports gifts of non-cash assets 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 restricted support. No in-kind contributions were reported as contributions with donor restrictions in 2023.

GAAP requires that donated services be recognized only if they would typically need to be purchased, require a specialized skill, and are performed by an individual possessing that skill, or if they create or enhance a nonfinancial asset. In addition to its recorded donated services, the Organization has a large and dedicated team of volunteers that perform a variety of tasks that assist the Organization with specific programs and supporting services. These services are not recognized in the consolidated financial statements since the criteria for recording the services were not met.

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation, based on the estimated US wholesale prices of identical or similar products or services using pricing data under a 'like-kind' methodology considering the goods or services condition and utility for use at the time of the contribution.

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The following represents the Organization's in-kind contributions recognized within the statement of activities as of June 30:

	2023	2022
Pharmaceutical supplies	\$90,833	\$77,338
Food and litter supplies	220,236	219,343
Advertising	12,000	14,505
Total in-kind contributions	<u>\$323,069</u>	<u>\$311,186</u>

**P. USE OF ESTIMATES**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Q. ALLOCATION OF FUNCTIONAL EXPENSES**

Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related payroll expenses, that are not directly identifiable by program or support service, are allocated based on management estimates. Expense allocations include shared administrative costs and shared support services costs, which are allocated on a variety of methods, including administrative time spent to each program/support service (based on salary), total salary allocations, facility locations, contributions to adoption revenue ratios, square footage, and time allocation.

**R. TAX STATUS**

AHS and Animal Humane Society Veterinary Centers, P.C are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. Kasota Holdings, LLC is a Minnesota limited liability company solely owned by AHS. These entities are considered public charities, and as a result, contributions received may be deductible by the donor for tax purposes.

**S. DEFERRED FINANCING COSTS**

Finance fees related to obtaining financing are deferred and amortized to interest expense over the term of the related debt using the straight-line method. Notes payable has been presented net of these deferred financing costs.

**T. ADVERTISING COSTS**

The Organization uses advertising to promote special fundraising events among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ending June 30, 2023 and 2022 was \$289,031 and \$296,094, respectively.

**U. RECLASSIFICATION**

Certain reclassifications have been made to the June 30, 2022 presentation to provide comparability to the June 30, 2023 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

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**NOTE 2 LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$5,136,601	\$4,028,581
Investments	7,407,315	11,833,682
Accounts receivable	79,518	81,756
Contributions receivable	50,963	118,366
Employee retention credit receivable	3,399,862	4,787,228
Unemployment funds held by others	<u>58,853</u>	<u>39,078</u>
Total	<u>\$16,133,112</u>	<u>\$20,888,691</u>

Due to the nature of the restrictions from contributions received from donors, the Organization has omitted all net assets with donor restrictions.

The Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of their liquidity management plan, the Organization invests operating cash in excess of daily requirements in short-term investments. Operating surpluses are invested in fixed income and equities pursuant to the Organization's investment policy. As described in Note 9, the Organization has one committed lines of credit in the amount of \$750,000 which could be drawn upon in the event of an unanticipated liquidity need.

**NOTE 3 INVESTMENTS**

AHS held the following investments at June 30:

	<u>2023</u>	<u>2022</u>
Mutual funds		
Bond / fixed income	\$7,770,683	\$8,951,267
Equity	2,911,114	4,295,433
Exchange traded funds (ETFs)		
Bond / fixed income	2,627,454	3,722,251
Equity	1,817,047	625,683
Corporate stock	<u>1,807,426</u>	<u>1,511,618</u>
Total investments	<u>\$16,933,724</u>	<u>\$19,106,252</u>



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Investment income (loss) consists of the following:

	<u>2023</u>	<u>2022</u>
Dividends and interest	\$747,926	\$410,436
Change in fair value	442,388	(2,476,778)
Investment fees	<u>(116,414)</u>	<u>(102,231)</u>
Total investment income	<u>\$1,073,900</u>	<u>(\$2,168,573)</u>

**NOTE 4 PLEDGES RECEIVABLE**

The balance of pledges receivable are due as follows at June 30:

	<u>2023</u>	<u>2022</u>
Less than one year	\$1,321,492	\$1,838,833
One to five years	<u>2,459,242</u>	<u>3,174,951</u>
Total pledges receivable	3,780,734	5,013,784
Less: Discount to present value	<u>(272,087)</u>	<u>(272,087)</u>
Net pledges receivable	<u>\$3,508,647</u>	<u>\$4,741,697</u>

A discount rate of 4.13% – 4.87% was used as of June 30, 2023 and a discount of 2.92% – 3.01% was used as of June 30, 2022 based upon treasury yield curve rates. At June 30, 2023, 75% of pledges receivable were due from four donors. At June 30, 2022, 74% of pledges receivable were due from three donors.

**NOTE 5 AMOUNTS HELD IN TRUST**

Amounts held in trust consisted of the following for June 30:

	<u>2023</u>	<u>2022</u>
Charitable remainder trusts	\$1,218,497	\$1,199,176
Charitable lead annuity trust	<u>4,448</u>	<u>12,017</u>
Total amounts held in trust	<u>\$1,222,945</u>	<u>\$1,211,193</u>

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**Charitable Remainder Trusts** - AHS is a beneficiary of three charitable remainder trusts in which it receives one-seventh of the income from assets held by a trustee in perpetuity. Net realized and unrealized gains (losses) related to AHS's beneficial interest in this trust are reported as changes in permanently restricted net assets based on donor stipulations. AHS is the beneficiary of a second charitable remainder trust in which it receives 20% of the annual income from assets held by a trustee. AHS is a remainder beneficiary of a third charitable remainder trust in which it will receive one-third of the principal and any remaining residual income from assets held by the trustees once the income beneficiaries pass away. The recorded value of this third charitable remainder trust is based on its estimated present value of the expected future benefits.

**Charitable Lead Annuity Trust** - AHS is one of six beneficiaries of a charitable lead annuity trust. Under terms of the split-interest agreement, AHS is to receive \$8,290 annually for its unrestricted use for eighteen years, with a final payment of \$4,717 in July 2023. At that time, the trust is to terminate, and remaining trust assets are to be distributed to others. A discount rate of 6% has been used to calculate the present value of the expected future benefits.

Under FASB ASC 958, *Not-for-Profit Entities*, the Organization periodically remeasures its rights under these split-interest agreements using current market conditions for estimating present value calculations. The estimation of the net present value is subjective and requires significant judgment. Due to uncertainties inherent in the estimation process, it is possible that future events in either the near or long term could materially affect the amounts reported on the statement of financial position.

**NOTE 6    PROPERTY AND EQUIPMENT**

Property and equipment at June 30 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$5,720,823	\$5,720,823
Buildings and leasehold improvements	23,421,916	23,245,945
Equipment and vehicles	1,532,629	1,488,348
Office equipment and furnishings	1,085,707	1,007,064
Construction in process	<u>577,503</u>	<u>478,561</u>
Total property and equipment	32,338,578	31,940,741
Less: Accumulated depreciation	<u>(13,625,601)</u>	<u>(12,738,592)</u>
Net property and equipment	<u>\$18,712,977</u>	<u>\$19,202,149</u>

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**NOTE 7 FAIR VALUE MEASUREMENTS**

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in an active market that the Organization has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

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

*Corporate Stock and Exchange traded funds (ETFs):* Valued at the daily closing price of the underlying stock and ETF. The stocks and ETFs held by the Organization are deemed to be actively traded.

*Amounts Held in Trust:* Valued at the present value of expected receipts for the duration of the trust where stated. Where the trust is perpetual, valuation is the Organization's proportionate share of the fair value of the trust investments as reported by the trustee. Additional information on amounts held in trust can be found in Note 5.

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The Organization's assets that are measured at fair value on a recurring bases are as follows:

June 30, 2023	Level 1	Level 3	Total
Investments:			
Mutual funds	\$10,681,797	\$ -	\$10,681,797
Exchange traded funds (ETFs)	4,444,501	-	4,444,501
Corporate stock	1,807,426	-	1,807,426
Total investments	<u>\$16,933,724</u>	<u>\$ -</u>	<u>\$16,933,724</u>
Amounts held in trust	<u>\$1,218,497</u>	<u>\$4,448</u>	<u>\$1,222,945</u>
June 30, 2022	Level 1	Level 3	Total
Investments:			
Mutual funds	\$13,246,700	\$ -	\$13,246,700
Exchange traded funds (ETFs)	4,347,934	-	4,347,934
Corporate stock	1,511,618	-	1,511,618
Total investments	<u>\$19,106,252</u>	<u>\$ -</u>	<u>\$19,106,252</u>
Amounts held in trust	<u>\$1,199,176</u>	<u>\$12,017</u>	<u>\$1,211,193</u>

The following sets forth the summary of changes in the fair value of Level 3 assets as of the years ended:

Annuity trust balance June 30, 2021	\$19,157
Payment, net of discount	<u>(7,140)</u>
Annuity trust balance June 30, 2022	12,017
Payment, net of discount	<u>(7,569)</u>
Annuity trust balance June 30, 2023	<u>\$4,448</u>

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**NOTE 8     INCOME TAXES**

Animal Humane Society files informational returns in the United States federal jurisdiction and in the Minnesota state jurisdiction. In addition, AHS files tax returns in relation to their unrelated business income. As a wholly-owned, non-profit subsidiary, Animal Humane Society Veterinary Centers, P.C files separate informational returns in the United States federal jurisdiction and in the Minnesota state jurisdiction. Kasota Holding, LLC is a limited liability company that is wholly owned by AHS and is considered a disregarded entity. As such, Kasota Holding, LLC activity is reported on Animal Humane Society's Form 990.

As of June 30, 2023, there were no material amounts of income tax related accrued interest or penalties recognized in either the statement of financial position or statement of activities for AHS, Animal Humane Society Veterinary Centers, P.C., or Kasota Holdings, LLC.

Income taxes are provided for the tax effects of unrelated business transactions for AHS reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, measured by enacted tax rates for years in which taxes are expected to be paid or recovered. Deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on available evidence.

**NOTE 9     LINE OF CREDIT**

The Organization has a line of credit with a bank for \$750,000 maturing December 31, 2023. The line of credit bears interest at the prime rate, is secured by the assets of AHS and is subject to certain nonfinancial covenants. The effective interest rate at June 30, 2023 was 8.25%. The credit line was not used during the year and there were no outstanding balances as of June 30, 2023 and 2022.

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**NOTE 10 NOTES PAYABLE**

The Organization has the following notes payable as of June 30:

	<u>2023</u>	<u>2022</u>
Note payable to Old National Bank entered into in March 2023 to replace a previous loan, at an interest rate of 7.04 %, with quarterly installments of \$47,686. A balloon payment is due upon maturity in March 2025. The note is secured by real property and is subject to restrictive covenants pertaining to financial and operational requirements of the Organization.	\$3,102,110	\$3,253,550
Note payable to Old National Bank entered into in March 2023 to replace a previous loan for the purchase of the Kasota Holdings property, at an interest rate of 7.04%, with quarterly installments of \$105,338. A balloon payment is due upon maturity in March 2025. The note is secured by real property and is subject to restrictive covenants pertaining to financial and operational requirements of the Organization.	6,850,902	7,190,122
Deferred financing costs, net	<u>(44,346)</u>	<u>(10,657)</u>
Total notes payable	9,908,666	10,433,015
Less: Amounts due within one year	<u>(612,246)</u>	<u>(10,433,015)</u>
Long-term portion	<u>\$9,296,420</u>	<u>\$ -</u>

Approximate scheduled future principal payments due under the agreement are as follows:

<u>Year ended June 30,</u>	<u>Notes payable</u>	<u>Deferred Financing</u>	<u>Total</u>
2024	\$612,246	(\$25,351)	\$586,895
2025	<u>9,340,766</u>	<u>(18,995)</u>	<u>9,321,771</u>
Total	<u>\$9,953,012</u>	<u>(\$44,346)</u>	<u>\$9,908,666</u>

The notes payable are subject to certain financial and non-financial covenants. AHS was not in compliance with the debt service coverage ratio covenant at June 30, 2023, but obtained a bank waiver dated October 24, 2023.

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**NOTE 11 PPP LOANS AND LOAN FORGIVENESS**

On April 14, 2021 AHS received a \$2,842,800 forgivable loan from the US Small Business Administration (SBA) under the Paycheck Protection Program (PPP) created by Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

AHS received notification from the SBA of the loan’s full forgiveness on May 27, 2022. Upon notification, the Organization recognized COVID-19 government revenue of \$2,842,800 for the forgiveness of debt.

On February 8, 2022, AHS received a second draw PPP loan for \$2,000,000. AHS received notification from the SBA of the loan’s full forgiveness on March 28, 2022. Upon notification, the Organization recognized COVID-19 government revenue of \$2,022,521 for the forgiveness of debt, including accrued interest.

The expenditures under the PPP loan program are subject to review and audit by the SBA for six years from the date the loan was forgiven. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

**NOTE 12 EMPLOYEE RETENTION CREDIT**

On March 27, 2020, the CARES Act was signed into law providing numerous tax provisions and other stimulus measures, including an employee retention credit (“ERC”), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC. An entity is eligible for the employee retention credit (ERC) if it either (1) fully or partially suspended operations during any calendar quarter due to orders from an appropriate government authority limiting business activities due to COVID-19; or (2) experienced a significant decline in gross receipts during the calendar quarter.

The Organization accounted for the Employee Retention Credit as a conditional contribution under FASB ASC 958-605. During the year ended June 30, 2022, the Organization recognized COVID-19 government revenue of \$4,787,228 related to third and fourth calendar year quarters in 2020, and first, second, and third calendar year quarters in 2021. A current receivable in the amount of \$3,399,862 and \$4,787,228 is included in the statement of financial position as of June 30, 2023 and 2022, respectively. The Organization collected the full outstanding ERC receivable on July 31, 2023.

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**NOTE 13 LEASE INCOME**

The Organization leases its property to various businesses which were acquired upon the purchase of Kasota Holdings, LLC. The lease payments include monthly fees to cover payment of the real estate taxes and mortgage insurance premiums. Lease agreements expire on May 31, 2024.

The total net lease income for the years ended June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Rental income	\$1,166,085	\$1,084,991
Less:		
Direct management fees	(17,201)	(13,464)
Property tax	(294,497)	(264,536)
Depreciation	(82,044)	(82,044)
Mortgage interest	(275,148)	(169,250)
Loan fee interest	<u>(14,765)</u>	<u>(14,209)</u>
Net lease income	<u>\$482,430</u>	<u>\$541,488</u>

Future minimum lease payments expected to be received over the remaining term of the leases is \$629,850 for the year ended June 30, 2024.

**NOTE 14 EMPLOYEE BENEFIT PLANS**

AHS sponsors a 401(k) plan for all employees meeting certain eligibility requirements regarding age and length of service. AHS may make discretionary matching contributions which are immediately vested. Employer contributions were \$358,137 and \$319,367 for the years ended June 30, 2023 and 2022, respectively.

**NOTE 15 UNEMPLOYMENT TRUST**

The Organization is self-insured for Minnesota unemployment via the Unemployment Services Trust. The Unemployment Trust balance per contract would be fully refunded to the Organization upon payment of all outstanding unemployment claims. The balance of the unemployment trust is based on the amount contributed net of the Organization's prorated share of income and expenses incurred by the trust and actual unemployment claims paid. The reserve balance was \$58,853 and \$39,078 as of June 30, 2023 and 2022, respectively. The reserve balance was recorded net of unemployment claims liability of \$0 as of June 30, 2023 and 2022.



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**NOTE 16 NET ASSETS WITH DONOR RESTRICTIONS**

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

	2023	2022
Subject to expenditure for specified purpose		
Capital campaign	\$9,445,775	\$8,429,583
Asset purchases	3,700	9,105
Perpetual care fund	190,713	208,543
Vet center support	-	304,194
Companions for the elderly	54,097	54,097
Animal care and other	53,650	82,573
	<u>9,747,935</u>	<u>9,088,095</u>
Subject to the passage of time		
Future years' operations	544,860	544,860
Charitable remainder trust	320,716	324,650
Charitable lead annuity trust	4,448	12,017
	<u>870,024</u>	<u>881,527</u>
Permanent in nature		
Endowment fund	2,913,921	2,903,918
Charitable remainder trust	897,781	874,526
Building maintenance fund	166,800	166,800
Perpetual care fund	10,000	10,000
	<u>3,988,502</u>	<u>3,955,244</u>
Total net assets with donor restrictions	<u>\$14,606,461</u>	<u>\$13,924,866</u>

**NOTE 17 ENDOWMENT FUNDS**

The Organization holds certain funds in net assets with donor restrictions which are permanent in nature. These investments are for the future support of staff, programs, building maintenance and other activities of the Organization as determined by the Organization's Board of Directors.

**Interpretation of Relevant Law**

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument.

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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 Composition and Changes in Endowment Net Assets**

The composition of endowment funds includes donor-restricted funds only, and the changes in endowment net assets are as follows:

Balance June 30, 2021	\$4,064,858
Contributions	135,613
Increase/(decrease) in trust value	<u>(245,227)</u>
Balance June 30, 2022	3,955,244
Contributions	13,938
Increase/(decrease) in trust value	<u>19,320</u>
Balance June 30, 2023	<u><u>\$3,988,502</u></u>

According to the donor restrictions, the portion of restricted funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA is \$3,988,502 and \$3,955,244 at June 30, 2023 and 2022, respectively. All earnings and investment gains and losses are included within net assets without donor restrictions.

**Spending Policy and how the Investment Objectives Relate to Spending Policy**

The Board of Directors has sole discretion as to the investment and reinvestment of the assets of endowment funds. The primary investment objective of these accounts is capital preservation.

**NOTE 18 SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through October 26, 2023, the date the consolidated financial statements were available to be issued.