

ANIMAL HUMANE SOCIETY AND SUBSIDIARIES

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

For The Year Ended June 30, 2024

With Comparative Totals For The Year Ended June 30, 2023

ANIMAL HUMANE SOCIETY AND SUBSIDIARIES
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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, 2024, 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, 2024, 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 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' 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 26, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



REDPATH AND COMPANY, LLC
St. Paul, Minnesota

October 25, 2024

CONSOLIDATED FINANCIAL STATEMENTS

ANIMAL HUMANE SOCIETY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2024
With Comparative Totals For June 30, 2023

Statement 1

	2024	2023
Assets		
Current assets		
Cash and cash equivalents	\$6,124,321	\$5,485,063
Accounts receivable, net	151,210	79,518
Contributions receivable	172,266	50,963
Employee retention credit receivable	-	3,399,862
Pledges receivable, short-term	1,038,533	1,321,492
Inventory	343,302	439,443
Prepaid expenses and other current assets	141,284	193,200
Unemployment funds held by others	82,708	58,853
Total current assets	8,053,624	11,028,394
Investments	19,774,239	16,933,724
Property and equipment, net	18,146,985	18,712,977
Noncurrent assets		
Pledges receivable, long-term, net	1,132,071	2,187,155
Amounts held in trust	1,293,103	1,222,945
Cash surrender value of life insurance	58,558	56,527
Total noncurrent assets	2,483,732	3,466,627
Total assets	\$48,458,580	\$50,141,722
Liabilities and net assets		
Current liabilities		
Accounts payable	\$205,712	\$402,372
Deferred revenue	292,962	285,507
Accrued liabilities	349,835	877,052
Accrued payroll expenses	1,081,490	1,019,006
Gift card liability	332,997	239,648
Notes payable, current, net	9,371,489	612,246
Total current liabilities	11,634,485	3,435,831
Noncurrent liabilities		
Notes payable, long-term, net	-	9,296,420
Gift annuities payable	49,680	51,017
Total noncurrent liabilities	49,680	9,347,437
Total liabilities	11,684,165	12,783,268
Net assets		
Without donor restrictions	20,827,191	22,751,993
With donor restrictions		
Capital campaign restrictions	8,775,333	9,445,775
Donor restrictions - other	7,171,891	5,160,686
Total net assets	36,774,415	37,358,454
Total liabilities and net assets	\$48,458,580	\$50,141,722

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, 2024
With Comparative Totals For The Year Ended June 30, 2023

Statement 2
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	2024		2023	
	Without donor restrictions	With donor restrictions	Total	Total
Support and revenue				
Support				
Contributions - operating	\$8,504,961	\$2,349,699	\$10,854,660	\$9,571,574
Contributions - capital campaign	-	186,678	186,678	1,544,500
In-kind contributions	237,831	-	237,831	323,069
Bequests	5,055,087	343,460	5,398,547	3,620,036
Special events				
Gross revenues	1,182,045	-	1,182,045	987,224
Expenses	(375,631)	-	(375,631)	(276,796)
Total support	<u>14,604,293</u>	<u>2,879,837</u>	<u>17,484,130</u>	<u>15,769,607</u>
Revenue				
Adoption fees	2,466,265	-	2,466,265	2,374,007
Vet center services	2,436,352	-	2,436,352	1,672,202
Other program revenue	1,482,026	-	1,482,026	1,426,942
Merchandise sales				
Merchandise revenue	526,229	-	526,229	487,099
Cost of goods sold	(315,414)	-	(315,414)	(330,022)
COVID-19 government revenue	-	-	-	214,888
Interest and dividend income, net of fees	755,818	-	755,818	631,512
Investment gains	1,074,919	-	1,074,919	442,388
Gain (loss) on disposal of assets	(1,130)	-	(1,130)	39,844
Other revenue	34,018	-	34,018	106,976
Total revenue	<u>8,459,083</u>	<u>-</u>	<u>8,459,083</u>	<u>7,065,836</u>
Net assets released from restrictions	<u>1,613,679</u>	<u>(1,613,679)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>24,677,055</u>	<u>1,266,158</u>	<u>25,943,213</u>	<u>22,835,443</u>
Expenses				
Program services				
Adoption and surrender	13,271,746	-	13,271,746	13,274,056
Rescue	420,349	-	420,349	520,867
Pet services	621,872	-	621,872	644,474
Community engagement	5,512,612	-	5,512,612	4,459,146
Total program services	<u>19,826,579</u>	<u>-</u>	<u>19,826,579</u>	<u>18,898,543</u>
Supporting services				
General and administrative	1,779,799	-	1,779,799	1,832,076
Capital campaign	566,276	-	566,276	543,676
Fundraising	4,274,474	-	4,274,474	4,069,150
Total supporting services	<u>6,620,549</u>	<u>-</u>	<u>6,620,549</u>	<u>6,444,902</u>
Total expenses	<u>26,447,128</u>	<u>-</u>	<u>26,447,128</u>	<u>25,343,445</u>
Change in net assets from operations	<u>(1,770,073)</u>	<u>1,266,158</u>	<u>(503,915)</u>	<u>(2,508,002)</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, 2023

Statement 2
Page 2 of 2

	2024		2023	
	Without donor restrictions	With donor restrictions	Total	Total
Other changes - increase (decrease)				
Change in value of trusts and insurance policies	-	74,605	74,605	19,320
Kasota Holdings, LLC				
Rent revenues and other income	924,052	-	924,052	1,166,085
Expenses	(1,077,430)	-	(1,077,430)	(913,794)
Provision for income taxes	(1,351)	-	(1,351)	(94,363)
Total other changes	<u>(154,729)</u>	<u>74,605</u>	<u>(80,124)</u>	<u>177,248</u>
Change in net assets	(1,924,802)	1,340,763	(584,039)	(2,330,754)
Net assets, beginning of the year	<u>22,751,993</u>	<u>14,606,461</u>	<u>37,358,454</u>	<u>39,689,208</u>
Net assets, end of the year	<u>\$20,827,191</u>	<u>\$15,947,224</u>	<u>\$36,774,415</u>	<u>\$37,358,454</u>

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, 2024
With Comparative Totals For The Year Ended June 30, 2023

	2024				Total Program Services
	Program Services				
	Adoption & Surrender	Rescue	Pet Services	Community Engagement	
Personnel expenses					
Salaries	\$7,880,746	\$264,698	\$419,552	\$3,320,980	\$11,885,976
Payroll taxes	630,888	43,375	38,992	285,226	998,481
Employee benefits	1,193,396	23,565	71,989	454,305	1,743,255
Staff expenses	68,981	3,977	4,568	25,544	103,070
Total personnel expenses	9,774,011	335,615	535,101	4,086,055	14,730,782
Expenses					
Professional fees	9,195	7,186	-	1,725	18,106
Advertising	19,758	-	15,807	47,420	82,985
General program supplies	718,008	2,881	2,481	483,912	1,207,282
Merchandise sales cost of goods sold	217,057	-	-	77,660	294,717
Insurance	88,307	2,514	4,556	28,126	123,503
Office supplies	80,240	1,003	2,614	19,346	103,203
Other outside services	559,106	30,778	11,359	397,797	999,040
Postage	9,199	155	68	1,088	10,510
Printing	36,925	1,439	942	17,955	57,261
Repairs and maintenance	269,508	15,052	6,115	55,132	345,807
Telephone	60,222	1,351	3,854	28,437	93,864
Travel	71,409	4,679	2,880	13,924	92,892
Utilities	388,891	3,577	9,537	67,094	469,099
Interest expense	153,475	-	-	-	153,475
Provision for income taxes	-	-	-	-	-
Miscellaneous expense	141,292	4,565	1,081	18,619	165,557
Total expenses before depreciation, amortization, and impairment loss on property and equipment	12,596,603	410,795	596,395	5,344,290	18,948,083
Depreciation and amortization	681,438	9,554	25,477	245,982	962,451
Impairment loss on property and equipment	210,762	-	-	-	210,762
Total expenses by function	13,488,803	420,349	621,872	5,590,272	20,121,296
Reconciliation to expenses presented on the consolidated statement of activities					
Merchandise sales cost of goods sold	(217,057)	-	-	(77,660)	(294,717)
Special event expenses	-	-	-	-	-
Kasota Holdings, LLC	-	-	-	-	-
Provision for income taxes	-	-	-	-	-
Total expenses included in the expense section on the consolidated statement of activities	\$13,271,746	\$420,349	\$621,872	\$5,512,612	\$19,826,579

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

2024					2023	
Supporting Services						
General & Administrative	Kasota Holdings, LLC	Capital Campaign	Fundraising	Total Supporting Service	Total Expenses	Total Expenses
\$1,377,370	\$ -	\$311,144	\$2,171,967	\$3,860,481	\$15,746,457	\$15,293,027
120,690	-	30,285	175,233	326,208	1,324,689	1,126,617
29,145	-	28,940	314,489	372,574	2,115,829	1,917,506
44,863	-	2,090	29,243	76,196	179,266	278,115
1,572,068	-	372,459	2,690,932	4,635,459	19,366,241	18,615,265
56,250	-	1,397	13,262	70,909	89,015	106,940
-	-	31,600	280,581	312,181	395,166	289,031
2,349	-	1,277	78,633	82,259	1,289,541	1,301,855
-	-	-	20,697	20,697	315,414	330,022
11,156	57,864	2,645	20,102	91,767	215,270	183,105
3,386	-	539	5,369	9,294	112,497	122,518
30,762	-	120,634	847,641	999,037	1,998,077	1,859,755
2,377	-	297	256,348	259,022	269,532	249,609
992	-	637	116,544	118,173	175,434	188,128
6,115	32,694	1,215	9,103	49,127	394,934	479,592
6,886	-	1,934	15,542	24,362	118,226	109,180
7,447	-	355	8,571	16,373	109,265	117,403
9,537	96,952	1,894	14,200	122,583	591,682	641,872
39,685	491,110	3,613	27,082	561,490	714,965	463,850
-	1,351	-	-	1,351	1,351	94,363
5,312	316,766	20,719	228,262	571,059	736,616	716,052
1,754,322	996,737	561,215	4,632,869	7,945,143	26,893,226	25,868,540
25,477	82,044	5,061	37,933	150,515	1,112,966	1,089,880
-	-	-	-	-	210,762	-
1,779,799	1,078,781	566,276	4,670,802	8,095,658	28,216,954	26,958,420
-	-	-	(20,697)	(20,697)	(315,414)	(330,022)
-	-	-	(375,631)	(375,631)	(375,631)	(276,796)
-	(1,077,430)	-	-	(1,077,430)	(1,077,430)	(913,794)
-	(1,351)	-	-	(1,351)	(1,351)	(94,363)
\$1,779,799	\$ -	\$566,276	\$4,274,474	\$6,620,549	\$26,447,128	\$25,343,445

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, 2024
With Comparative Totals For The Year Ended June 30, 2023

Statement 4

	2024	2023
Cash flows from operating activities		
Change in net assets	(\$584,039)	(\$2,330,754)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation expense	1,112,966	1,089,880
Impairment loss on property and equipment	210,762	-
Deferred financing cost interest	25,422	(33,689)
Net realized and unrealized investment gain	(1,074,919)	(442,388)
Contributions to endowment fund	(10,000)	(10,000)
(Gain) loss on disposal of assets	1,130	(39,844)
Change in assets and liabilities		
Accounts receivable	(71,692)	2,238
Contributions receivable	(121,303)	67,403
Employee retention credit receivable	3,399,862	1,387,366
Pledges receivable	1,338,043	1,233,050
Inventory	96,141	(30,442)
Prepaid expenses and other current assets	51,916	97,412
Unemployment funds held by others	(23,855)	(19,775)
Amounts held in trust	(70,158)	(11,752)
Cash surrender value of life insurance	(2,031)	(2,044)
Accounts payable	(242,824)	229,171
Accrued liabilities	(527,217)	(2,005,545)
Accrued payroll expenses	62,484	(3,760)
Deferred revenue	7,455	(110,911)
Gift card liability	93,349	126,671
Net cash provided by (used in) operating activities	<u>3,671,492</u>	<u>(807,713)</u>
Cash flows from investing activities		
Purchases of property and equipment	(712,702)	(600,864)
Proceeds from the sale of property and equipment	-	40,000
Withdrawals from investment pool	-	6,920,118
Additions to investment pool, including reinvested income	(1,765,596)	(4,305,202)
Net cash (used in) provided by investing activities	<u>(2,478,298)</u>	<u>2,054,052</u>
Cash flows from financing activities		
Principal payments on notes payable	(562,599)	(490,660)
Endowment fund contributions	10,000	10,000
Proceeds from new gift annuities	6,412	-
Payments on gift annuities	(7,749)	(8,604)
Net cash used in financing activities	<u>(553,936)</u>	<u>(489,264)</u>
Net increase in cash and cash equivalents	639,258	757,075
Cash and cash equivalents at beginning of year	<u>5,485,063</u>	<u>4,727,988</u>
Cash and cash equivalents at end of year	<u>\$6,124,321</u>	<u>\$5,485,063</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$693,136</u>	<u>\$414,861</u>
Income tax	<u>(\$73,098)</u>	<u>(\$94,363)</u>
Supplemental disclosure of noncash investing and financing activities		
Disposals of depreciated equipment	<u>\$103,553</u>	<u>\$203,125</u>

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

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, St. 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.

Each 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 nearly 90% of the animals entrusted to its care, up from 59% 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.

In the year ended June 30, 2024:

- 12,875 companion animals came into AHS facilities.
- 11,053 of those animals – more than 86% – were placed in homes, reunited with owners, or released to other organizations.
- The average length of stay for animals in shelter was 10.9 days.

In fiscal year 2024 AHS took in more animals from cruelty cases than ever before — more than double the number in fiscal year 2023 and nearly four times as many as fiscal year 2022. Unfortunately, many of these large cases involved advanced illness and incredible suffering, and humane euthanasia was the compassionate outcome for 369 of the 844 animals from these cases. This contributed to the decrease in our overall placement rate, which fell below 90% for the first time in more than a decade.

Overall placements included 8,957 animals adopted, 823 animals reunited with owners, 1,162 cats returned to field, and 111 animals transferred to partner organizations.

Robust medical and behavioral programs contribute to this continued success:

- 7,209 animals received spay/neuter surgeries before adoption.
- AHS veterinarians diagnosed and treated 11,389 conditions.
- AHS Shelter Behavior programs readied 3,161 cats and dogs for placement.

Affordable Veterinary Care

AHS's Veterinary Centers in St. Paul and Golden Valley 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 the year ended June 30, 2024, AHS's vet centers provided 13,577 services to the public, including 5,895 medical and wellness appointments, 1,131 dental and specialty surgeries, and 6,551 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 30 tons of cat and dog food and 7 tons of cat litter to Minnesota families in need.
- Temporary pet housing that provided foster care for 99 animals from 63 families experiencing temporary hardship.
- Education programs that foster humane values and compassion for animals, including day camps, a youth club, and other activities for kids and families serving 5,391 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 1,162 cats.
- A partnership with the Wildlife Rehabilitation Center of Minnesota that provided emergency care for 13 injured and orphaned wild animals.
- A robust volunteer program that enlists 711 active volunteers in providing animal enrichment, foster care, shelter support, and other assistance. In addition, 218 volunteers provided foster care for 1,006 animals before adoption.

Pet Services

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

- More than 45 family-friendly pet training classes each week, along with one-on-one training and socialization sessions, therapy animal courses, playgroups, and rabbit agility classes. 1,286 pets attended classes and private training sessions through AHS's training programs.
- A free Pet Helpline (952-HELP-PET) that handled 75,161 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 1,203 pets and a weekly pet loss support group.
- Online resources for pet owners, including a pet resource library at animalhumanesociety.org.

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, 2024, AHS's Humane Investigations unit received 1,492 requests for assistance and opened 1,197 formal cases. Follow-up investigation and forensics of these cases took AHS agents into 80 of Minnesota's 87 counties. Those investigations impacted the lives of 8,823 animals.

AHS took in 2,655 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, 2023, 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.

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 consolidated 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 AND ALLOWANCE FOR CREDIT LOSSES

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. The Organization also considers current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant. 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, 2024 and 2023.

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, 2024 and 2023. Promises to give are recorded after being discounted to estimated net present value of future cash flows.

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, 2024 and 2023.

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. The Organization determined that certain property and equipment were impaired during the year ended June 30, 2024, and has recorded an impairment loss of \$210,762 (Note 6).

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.

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.

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

	<u>2024</u>	<u>2023</u>
Revenue recognized at a point in time		
Intake and other services to the community	\$538,319	\$522,945
Other revenue	193,554	158,893
Revenue recognized over time		
Training and education	<u>750,153</u>	<u>745,104</u>
 Total other program revenue	 <u><u>\$1,482,026</u></u>	 <u><u>\$1,426,942</u></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 2024.

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.

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

	<u>2024</u>	<u>2023</u>
Pharmaceutical supplies	\$82,057	\$90,833
Food and litter supplies	143,774	220,236
Advertising	<u>12,000</u>	<u>12,000</u>
 Total in-kind contributions	 <u><u>\$237,831</u></u>	 <u><u>\$323,069</u></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, 2024 and 2023 was \$395,166 and \$289,031, respectively.

U. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Organization adopted the provisions of FASB Accounting Standards Codification (FASB ASC) 326: *Financial Instruments – Credit Losses* as of July 1, 2023, which replaced the incurred loss impairment method with a method that reflects lifetime expected credit losses. Adoption of the new standard did not materially impact the Organization’s consolidated financial statements.

V. RECLASSIFICATIONS

Certain reclassifications have been made to the June 30, 2023 presentation to provide comparability to the June 30, 2024 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>2024</u>	<u>2023</u>
Cash and cash equivalents	\$3,945,411	\$5,136,601
Investments	9,469,632	7,407,315
Accounts receivable	151,210	79,518
Contributions receivable	172,266	50,963
Employee Retention Credit receivable	-	3,399,862
Unemployment funds held by others	<u>82,708</u>	<u>58,853</u>
 Total	 <u><u>\$13,821,227</u></u>	 <u><u>\$16,133,112</u></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>2024</u>	<u>2023</u>
Mutual funds		
Bond / fixed income	\$5,504,346	\$7,770,683
Equity	3,709,229	2,911,114
Exchange traded funds (ETFs)		
Bond / fixed income	3,539,406	2,627,454
Equity	2,757,600	1,817,047
Corporate stock	2,253,678	1,807,426
Alternatives	<u>2,009,980</u>	<u>-</u>
 Total investments	 <u><u>\$19,774,239</u></u>	 <u><u>\$16,933,724</u></u>

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Investment income consists of the following:

	<u>2024</u>	<u>2023</u>
Dividends and interest	\$849,269	\$747,926
Change in fair value	1,074,919	442,388
Investment fees	<u>(93,451)</u>	<u>(116,414)</u>
Total investment income	<u><u>\$1,830,737</u></u>	<u><u>\$1,073,900</u></u>

NOTE 4 PLEDGES RECEIVABLE

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

	<u>2024</u>	<u>2023</u>
Less than one year	\$1,038,533	\$1,321,492
One to five years	<u>1,281,300</u>	<u>2,459,242</u>
Total pledges receivable	2,319,833	3,780,734
Less: Discount to present value	<u>(149,229)</u>	<u>(272,087)</u>
Net pledges receivable	<u><u>\$2,170,604</u></u>	<u><u>\$3,508,647</u></u>

A discount rate of 4.33% – 4.71% was used as of June 30, 2024 and a discount of 4.13% – 4.87% was used as of June 30, 2023 based upon treasury yield curve rates. At June 30, 2024, 75% of pledges receivable were due from two donors. At June 30, 2023, 75% of pledges receivable were due from four donors.

NOTE 5 AMOUNTS HELD IN TRUST

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

	<u>2024</u>	<u>2023</u>
Charitable remainder trusts	\$1,293,103	\$1,218,497
Charitable lead annuity trust	<u>-</u>	<u>4,448</u>
Total amounts held in trust	<u><u>\$1,293,103</u></u>	<u><u>\$1,222,945</u></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 terminated, and remaining trust assets were distributed to others.

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>2024</u>	<u>2023</u>
Land	\$5,720,823	\$5,720,823
Buildings and leasehold improvements	23,923,720	23,421,916
Equipment and vehicles	1,651,689	1,532,629
Office equipment and furnishings	1,133,436	1,085,707
Construction in process	<u>352,328</u>	<u>577,503</u>
Total property and equipment	32,781,996	32,338,578
Less: Accumulated depreciation	<u>(14,635,011)</u>	<u>(13,625,601)</u>
Net property and equipment	<u><u>\$18,146,985</u></u>	<u><u>\$18,712,977</u></u>

During the year ended June 30, 2024, AHS recognized a \$210,762 impairment loss on its property and equipment, related to construction in process at one of its facilities.

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 consolidated 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, 2024 and 2023.

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.

Alternative Investments: Alternative investments are valued at net asset value (NAV) per share as a practical expedient to estimate the fair value, in accordance with ASC 820-10, and are not classified within the Level 1-3 hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.

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The AHS's assets that are measured at fair value on a recurring bases, except those measured at cost or by using NAV per share as a practical expedient as identified in the following table, are as follows:

June 30, 2024	Total	Level 1	Level 3	Net Asset Value
Investments:				
Mutual funds	\$9,213,575	\$9,213,575	\$ -	\$ -
Exchange traded funds (ETFs)	6,297,006	6,297,006	-	-
Corporate stock	2,253,678	2,253,678	-	-
Alternatives	2,009,980	-	-	2,009,980
Total investments	<u>\$19,774,239</u>	<u>\$17,764,259</u>	<u>\$ -</u>	<u>\$2,009,980</u>
Amounts held in trust	<u>\$1,293,103</u>	<u>\$1,293,103</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2023	Total	Level 1	Level 3	Net Asset Value
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>\$16,933,724</u>	<u>\$ -</u>	<u>\$ -</u>
Amounts held in trust	<u>\$1,222,945</u>	<u>\$1,218,497</u>	<u>\$4,448</u>	<u>\$ -</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, 2022	\$12,017
Payment, net of discount	<u>(7,569)</u>
Annuity trust balance June 30, 2023	4,448
Payment, net of discount	<u>(4,448)</u>
Annuity trust balance June 30, 2024	<u>\$ -</u>

Alternative investments that are measured at fair value using NAV per share as a practical expedient are as follows at June 30, 2024:

Brookfield Infrastructure Income Fund Inc - The Fund is a continuously offered, non-diversified, unlisted closed-end management investment company that is structured as a "tender offer fund". The Fund invest primarily in a portfolio of private infrastructure equity and debt investments. Shares may be redeemable quarterly subject to certain limitations and thus shares may not be available to redeem each quarter.

Oaktree Strategic Credit Fund - The Fund is a perpetually offered, non-listed business development company which primarily invests in privately negotiated loans to U.S. companies. The Fund will also strategically invest in discounted, high-quality public investments to enhance total return and provide liquidity in times of market dislocation. Shares may be redeemable monthly subject to certain limitations and thus shares may not be available to redeem each quarter.

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North Haven Private Income Fund LLC - The Fund is a perpetually offered, non-listed business development company which primarily invests primarily in directly originated senior secured term loans issued by U.S. middle market companies backed by private equity sponsors. Shares may be redeemable quarterly subject to certain limitations and thus shares may not be available to redeem each quarter.

North Haven Net REIT - The REIT investment is a private real estate credit strategy structured as a non-listed, perpetual-life Real Estate Investment Trust. The REIT invests in commercial real estate assets that are primarily long-term leased under net lease structures to tenants for whom the properties are mission critical, meaning essential to the continuance of their business operations. Shares may be redeemable quarterly subject to certain limitations and thus shares may not be available to redeem each quarter

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, 2024, 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 March 1, 2025. On September 30, 2024, the line of credit agreement was modified to extend the maturity date to September 30, 2025. The line of credit bears interest at the prime rate, is secured by the assets of AHS and is subject to certain financial and nonfinancial covenants. The effective interest rate at June 30, 2024 was 8.50%. The credit line was not used during the year and there were no outstanding balances as of June 30, 2024 and 2023.

AHS was not in compliance with the debt service coverage ratio covenant at June 30, 2024, but obtained a bank waiver dated September 30, 2024.

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NOTE 10 NOTES PAYABLE

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

	<u>2024</u>	<u>2023</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.	\$2,925,788	\$3,102,110
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.	6,464,625	6,850,902
Deferred financing costs, net	(18,924)	(44,346)
Total notes payable	<u>9,371,489</u>	<u>9,908,666</u>
Less: Amounts due within one year	<u>(9,371,489)</u>	<u>(612,246)</u>
Long-term portion	<u>\$ -</u>	<u>\$9,296,420</u>

As of June 30, 2024, all outstanding debt has been classified as current due to a balloon payment required upon maturity in March 2025. On September 30, 2024, the note payable agreements were modified to extend the maturity date to September 30, 2025.

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, 2024, but obtained a bank waiver dated September 30, 2024.

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NOTE 11 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 October 31, 2025.

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

	<u>2024</u>	<u>2023</u>
Rental income	\$923,552	\$1,166,085
Less:		
Direct management fees	(18,511)	(17,201)
Property tax	(316,766)	(294,497)
Depreciation	(82,044)	(82,044)
Mortgage interest	(474,677)	(275,148)
Loan fee interest	<u>(16,433)</u>	<u>(14,765)</u>
Net lease income	<u>\$15,121</u>	<u>\$482,430</u>

Future minimum lease payments expected to be received over the remaining term of the leases is \$455,600 for the year ended June 30, 2024.

NOTE 12 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 \$371,096 and \$358,137 for the years ended June 30, 2024 and 2023, respectively.

NOTE 13 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 \$82,708 and \$58,853 as of June 30, 2024 and 2023, respectively. The Organization's unemployment claims liability balance was \$114,222 and \$0 as of June 30, 2024 and 2023, respectively. The unemployment claims liability is included within the Organization's accrued liabilities.

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NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2024</u>	<u>2023</u>
Subject to expenditure for specified purpose:		
Capital campaign	\$8,775,333	\$9,445,775
Whole family outreach grant	1,210,891	-
Accelerator phase 2 grant	298,219	-
Perpetual care fund	528,168	190,713
Asset purchases	104,298	3,700
Companions for the elderly	54,097	54,097
Animal care and other	37,535	53,650
	<u>11,008,541</u>	<u>9,747,935</u>
Subject to the passage of time:		
Future years' operations	544,860	544,860
Charitable remainder trust	326,011	320,716
Charitable lead annuity trust	-	4,448
	<u>870,871</u>	<u>870,024</u>
Permanent in nature:		
Endowment fund	2,923,921	2,913,921
Charitable remainder trust	967,091	897,781
Building maintenance fund	166,800	166,800
Perpetual care fund	10,000	10,000
	<u>4,067,812</u>	<u>3,988,502</u>
Total net assets with donor restrictions	<u>\$15,947,224</u>	<u>\$14,606,461</u>

NOTE 15 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, 2022	\$3,955,244
Contributions	10,000
Increase/(decrease) in trust value	<u>23,258</u>
Balance June 30, 2023	3,988,502
Contributions	10,000
Increase/(decrease) in trust value	<u>69,310</u>
Balance June 30, 2024	<u><u>\$4,067,812</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 \$4,067,812 and \$3,988,502 at June 30, 2024 and 2023, 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 16 GRANT CONTINGENCIES

A. PAYCHECK PROTECTION PROGRAM LOAN

On April 14, 2021 AHS received a \$2,842,800 forgivable loan, pursuant to the Paycheck Protection Program (PPP). On February 8, 2022, AHS received a second draw PPP loan for \$2,000,000. AHS recognized the full amounts as revenue in prior years upon receiving notification of full forgiveness by the SBA. The expenditures under the PPP loan program are subject to review and audit by the SBA for six years from the date the loans were forgiven. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

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B. EMPLOYEE RETENTION CREDIT

During the year ended June 30, 2022, the Organization recognized Employee Retention Credit 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. The Organization collected the full outstanding ERC receivable on July 31, 2023. ERC is subject to review and audit by the IRS for a three-to-five-year period. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

NOTE 17 SUBSEQUENT EVENTS

As described in Notes 9 and 10, subsequent to year end the Organization obtained amended agreements to its line of credit and notes payable.

In preparing these consolidated financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through October 25, 2024, the date the consolidated financial statements were available to be issued.