

Financial Statements

MIDDLEBURG HUMANE FOUNDATION

December 31, 2022

GENERAL ORGANIZATIONAL DATA

ORGANIZATION AND PURPOSE

Middleburg Humane Foundation was organized and incorporated under the laws of the state of Delaware in 1993 to operate a non-stock, non-profit organization.

Middleburg Humane Foundation (the Foundation) operates a non-profit, 23-acre farm shelter located on the west side of Marshall, Virginia. The Foundation provides a haven for animals in need, large and small.

Middleburg Humane Foundation has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The organization is also recognized as a public charity under IRC Section 107(b)(1)(A)(vi).

OFFICERS

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Stephanie Bates, Secretary
David Rochester, Treasurer

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MITCHELL, BURNS & Co., P.C.

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TONJI M. LEISS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Middleburg Humane Foundation
Marhsall, Virginia

Opinion

We have audited the accompanying financial statements of Middleburg Humane Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middleburg Humane Foundation as of December 31, 2022, 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 Financial Statements section of our report. We are required to be independent of Middleburg Humane Foundation 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 Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Middleburg Humane Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Middleburg Humane Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Leesburg, Virginia
September 11, 2023

Mitchell, Burns & Co., P.C.

MIDDLEBURG HUMANE FOUNDATION

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

ASSETS

Current Assets

Cash and cash equivalents	\$	270,536
Accounts receivable		11,348
Promises to give		10,697
Prepaid expenses		20,411
Inventory		4,819
Other assets		12,460
Total current assets		<u>330,271</u>

Property and equipment, net		5,202,916
Investments		667,263
Beneficial interest in charitable remainder trust		<u>1,021,238</u>

Total assets	\$	<u><u>7,221,688</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	9,767
Accrued payroll and withholding liabilities		27,314
Note payable, current portion		<u>11,391</u>
Total current liabilities		48,472

Note payable, net of current amount		<u>472,233</u>
Total liabilities		<u><u>520,705</u></u>

Net Assets

Without Donor Restriction		5,679,745
With Donor Restriction		<u>1,021,238</u>
Total net assets		<u><u>6,700,983</u></u>

Total liabilities and net assets	\$	<u><u>7,221,688</u></u>
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See Notes to Financial Statements.

MIDDLEBURG HUMANE FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Public Support			
Contributions	\$ 502,856	\$ -	\$ 502,856
Special events, net of expenses \$94,176	401,758	-	401,758
In-kind donations	104,034	-	104,034
Total public support	<u>1,008,648</u>	-	<u>1,008,648</u>
Revenue			
Program service revenues	308,597	-	308,597
Thrift and merchandise sales	80,117	-	80,117
Rental income	3,500	-	3,500
Investment income (loss)	(393)	-	(393)
Interest and dividends	2,100	-	2,100
Other	47	-	47
Total revenue	<u>393,968</u>	-	<u>393,968</u>
Net assets released from restrictions:			
Satisfaction of usage restriction	-	-	-
Total support and revenue	<u>1,402,616</u>	-	<u>1,402,616</u>
EXPENSES			
Program services	1,145,728	-	1,145,728
Supportive services			
Management and general	171,569	-	171,569
Fundraising	130,743	-	130,743
Total expenses	<u>1,448,040</u>	-	<u>1,448,040</u>
Change in net assets from operations	(45,424)	-	(45,424)
NON-OPERATING ACTIVITIES			
Change in value of beneficial interest in trust	-	(7,914)	(7,914)
Change in net assets	(45,424)	(7,914)	(53,338)
Net assets, beginning of year	5,725,169	453,453	6,178,622
Prior period adjustment	-	575,699	575,699
Net assets, end of year	<u>\$ 5,679,745</u>	<u>\$ 1,021,238</u>	<u>\$ 6,700,983</u>

See Notes to Financial Statements.

MIDDLEBURG HUMANE FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Program Services	Supportive Services		Total
		Management and General	Fundraising	
Salaries	\$ 462,487	\$ 108,916	\$ 67,408	\$ 638,811
Payroll taxes	34,903	8,294	5,254	48,451
Employee benefits	28,468	331	1,103	29,902
Total salaries and related expenses	525,858	117,541	73,765	717,164
Bank fees	2,614	1,185	6,590	10,389
Cost of goods sold	-	-	725	725
Depreciation	170,406	2,027	-	172,433
Dues and subscriptions	2,193	4,165	5,429	11,787
Feed	36,411	-	-	36,411
Fundraising	1,013	-	2,324	3,337
Grooming	-	-	20,667	20,667
Insurance	4,747	15,360	-	20,107
Interest	-	15,727	-	15,727
Supplies	113,150	1,878	-	115,028
Miscellaneous	7,477	2,058	1,969	11,504
Office expenses	11,762	2,738	1,244	15,744
Outreach	33	1,869	1,940	3,842
Professional fees	-	7,000	-	7,000
Other program	8,614	-	-	8,614
Rent	-	-	15,216	15,216
Repairs and maintenance	43,417	-	-	43,417
Staff education and travel	263	21	-	284
Utilities	48,783	-	874	49,657
Vet costs	168,987	-	-	168,987
	619,870	54,028	56,978	730,876
Total expenses	\$ 1,145,728	\$ 171,569	\$ 130,743	\$ 1,448,040

See Notes to Financial Statements.

MIDDLEBURG HUMANE FOUNDATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022

Cash Flows Provided by Operating Activities

Change in net assets	\$ (53,338)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	172,433
Change in value of beneficial interest in trust	7,914
Realized and unrealized investment (gain) loss	393
Donated assets capitalized	(8,900)
(Increase) decrease in assets:	
Accounts receivable	(2,554)
Promises to give	10,050
Prepaid expenses	1,272
Inventory	(1,819)
Other assets	(12,460)
Increase (decrease) in liabilities:	
Accounts payable	(3,989)
Accrued interest	(3,529)
Accrued payroll and withholding liabilities	27,194
Deferred revenue	(16,100)
Net cash flow provided by operations	<u>116,567</u>

Cash Flows Provided by Financing Activities

Proceeds from erosion and sediment control bond	50,000
Payments on notes payable	(16,376)
Net cash flow provided by financing activities	<u>33,624</u>

Cash Flows From Investing Activities

Property and equipment purchases	(18,224)
Purchase of investments	(640,415)
Net cash (used in) investing activities	<u>(658,639)</u>

Net (decrease) in cash and cash equivalents (508,448)

Cash and Cash Equivalents

Beginning of year	778,984
End of year	<u>\$ 270,536</u>

Supplemental Disclosures of Cash Flow Information

Interest paid	<u>\$ 15,727</u>
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See Notes to Financial Statements.

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

Nature of Activities

Middleburg Humane Foundation (MHF) is a non-stock, not-for-profit Foundation which specializes in the rescue and rehabilitation of animals that come to our shelter from a vast variety of abusive situations. After much needed nurturing and medical care, the animals are placed up for adoption.

Significant Accounting Policies

The financial statements of MHF have been prepared in accordance with policies followed by nonprofit organizations. The significant accounting policies that follow are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting: The financial statements of MHF have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation: Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restriction: Net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restriction: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents: For purposes of reporting cash flows, MHF considers all cash on demand deposits, money market deposits, and certificates of deposit with maturities of three months or less to be cash equivalents.

Promises to Give: MHF records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. MHF determines the allowance for uncollectible accounts based on historical experience, as assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2022, management deemed all promises to give fully collectible.

Inventory: As an additional means of supporting its mission, MHF operates the Middleburg Humane Foundation Boutique. Inventory for the shop comprises donated clothing and other personal property items. Due to the items being hard to value, and sales being uncertain, MHF records inventory based on the following month's sales.

Investments: MHF records investments purchased at cost, or if donated, at the fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income (loss) is reported in the statement of activities and consists of realized and unrealized capital gains (losses), less direct investment expenses. Interest and dividends are reported separately.

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies (Continued)

Property and Equipment: Expenditures for the acquisition of property and equipment are capitalized at cost. The fair value of donated furniture and equipment is similarly capitalized. Depreciation is provided over the estimated useful lives of furniture and equipment using the straight-line method.

When the assets are sold or disposed, the cost and corresponding accumulated depreciation are removed from the accounts with any gain or loss reported in the statements of activities. Maintenance and repairs that do not improve or extend the lives of property and equipment are expensed as incurred.

Revenue Recognition: Program fees primarily consist of adoption, clinic, and trap-and-neuter fees. Program service revenues are reported as income in the period the service is performed and the fee is earned. Any fees received in advance are deferred and subsequently recognized as income when the service has been performed.

Contributions: Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted use by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realized value. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Donated Noncash Assets: Contributions of donated noncash assets are recorded at their fair values in the period received.

Donated Services: Donated services are recognized as contributions in accordance with ASC Topic 958, Not-For-Profit Entities. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amount of support, revenue and expenses during the reporting period. Actual results may differ from those estimates.

Income Taxes: MHF was granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(3) in 1994. The Organization adopted the guidance under ASC Topic 740, *Income Taxes*. Management has evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax provisions that would require adjustment to, or disclosure in, the financial statements to comply with the provisions of the guidance.

Advertising Cost: Advertising costs are expensed as incurred.

Measure of Operations: The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to MHF's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature. Non-operating activities are presented separately on the statement of activities for 2022.

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies (Continued)

Functional Expenses: The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Management allocates all costs directly when possible. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on based on their natural cost driver. The expenses that are allocated include the following:

Description	Allocation Method
Personnel costs	Time and effort
Occupancy and related	Square footage
Program costs	Direct
Other	Estimated usage

Note 2. Cash and Cash Equivalents

Composition of cash and cash equivalents at December 31, 2022 is as follows:

Account	Balances	
	Bank	Book
Petty cash	\$ -	\$ 81
Truist Bank	22,502	22,502
Atlantic Union Bank	201,670	214,169
Charles Schwab	33,784	33,784
	<u>\$ 257,956</u>	<u>\$ 270,536</u>

Individual bank combined cash account deposits up to \$250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2022 all bank balances were fully insured.

Note 3. Investments

A summary of investment holdings at December 31, 2022 is as follows:

Description	Cost Basis	Fair Market Value	Unrealized Gain (Loss)
Treasury bills and notes	\$ 225,000	\$ 218,998	\$ (6,002)
Federal housing loan bank bonds	115,000	114,747	(253)
Certificates of deposit	300,000	300,314	314
Equity securities	26,112	33,204	7,092
	<u>\$ 666,112</u>	<u>\$ 667,263</u>	<u>\$ 1,151</u>

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements

FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MHF has the ability to access.
- Level 2:* Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
- Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair values of all investments held as of December 31, 2022 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs).

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31, 2022:

Description	Level 1	Level 2	Level 3	Total
Treasury bills and notes	\$ 218,998	\$ -	\$ -	\$ 218,998
Federal housing loan bank bonds	114,747	-	-	114,747
Certificates of deposit	300,314	-	-	300,314
Equity securities	33,204	-	-	33,204
Total investment holdings	667,263	-	-	667,263
Beneficial interest in charitable remainder trust	-	-	1,021,238	1,021,238
	\$ 667,263	\$ -	\$ 1,021,238	\$ 1,688,501

A summary of the change in fair value of the Level 3 assets are as follows:

Description	Amount
Beginning balance	\$ 453,453
Prior period adjustment	575,699
Beginning balance - restated	1,029,152
Change in value of trust	(7,914)
Ending balance	\$ 1,021,238

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment

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

Description	Amount
Land	\$ 1,137,494
Land improvements	326,624
Buildings and improvements	4,112,372
Equipment	159,029
Vehicles and trailers	127,926
	<u>5,863,445</u>
Less accumulated depreciation and amortization	(660,529)
	<u>\$ 5,202,916</u>

Note 6. Note Payable

Notes payable as of December 31, 2022 consist of the following:

Description	Amount
\$500,000 note payable dated April 26, 2020 to the Small Business Administration. 30 year term maturing on May 4, 2050. Interest rate at 2.75%	\$ 483,624
Less: current portion	(11,391)
Long-term portion	<u>\$ 472,233</u>

Principal amounts are due as follows:

Year	Amount
2023	\$ 11,391
2024	11,708
2025	12,034
2026	12,369
2027	12,714
Thereafter	423,408
	<u>\$ 483,624</u>

Note 7. Split-Interest Agreement and Net Assets with Donor Restriction

MHF is the named beneficiary of a split-interest agreement. MHF records the present value of their remainder interest when the terms of the agreement are irrevocable and the value can be readily determined. Amortization of the discount associated with the contribution and other changes in the actuarial assumptions or life expectancies are recognized as change in value of beneficial interest in trust on the statement of activities. For the year ended December 31, 2022, the change in value amounted to \$(7,914).

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7. Split-Interest Agreement and Net Assets with Donor Restriction (Continued)

A split-interest agreement (or charitable remainder unitrust) provides for the payment of distributions to the grantor or other non-charitable beneficiary for the term of years or designated beneficiary's lifetime. At the end of the trust term, the remaining assets are paid to MHF. This agreement is administered by a third-party trustee. The portion of the trust attributable to the present value of the remainder interest is recorded in the statement of activities as net assets with donor restriction. The remainder value of these agreements as of December 31, 2022 was \$468,683 and is recorded on the statement of financial position as beneficial interest in remainder trust.

Note 8. Liquidity

MHF's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Description	Amount
Cash and cash equivalents	\$ 270,536
Accounts receivable and promises to give	22,045
Less: accounts payable, accrued payroll and withholding liabilities	(37,081)
	<u>\$ 255,500</u>

Note 9. In-kind Donations

The fair value of in-kind donations included as contributions in the financial statements and the corresponding expenses or fixed assets additions. Contributed goods and services are used for both program and supporting services and are allocated based on the nature of the natural driver of the cost as described in Note 1. For the year ended December 31, 2022, in-kind contributions consist of the following:

Description	Amount
Horse trailer	\$ 8,900
Cat litter	16,277
Botique and Furchandise shop inventory	1,819
Other operating supplies	48,433
Vet and other professional services	28,605
	<u>\$ 104,034</u>

Donated goods: contributions of donated assets are recorded at the estimated fair value based on the cost it would be to purchase the good.

Donated services: contributions of donated services are recognized if the service is considered to be a specialized skill. The donation is recorded at the amount it would cost MHF to pay for the services.

In addition, a substantial number of unpaid volunteers have made significant contributions of their time in MHF's administrative and operating activities.

MIDDLEBURG HUMANE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 10. Leases

On December 15, 2017, MHF entered into a lease agreement for the Foundation's thrift shop premises. The lease was renewed in 2022 for a two year period, and again in 2022 for a one year period expiring December 31, 2023. During the year ended December 31, 2022, monthly rent payments were \$1,350. MHF receives rent abatements for the year ending December 31, 2022 totaling \$984. Because of the short-term nature of the lease and no stated renewal option, there is no effect of implementation of the new accounting standard described in Note 12.

Note 11. Rental Income

MHF leases space on a month-to-month basis. Monthly rent at December 31, 2022 was \$500. Because of the short-term nature and lease termination option, there is no future minimum rental income, or effect of implementation of the new accounting standard described in Note 12.

Note 12. Implementation of New Accounting Standard

Effective January 1, 2022, MHF changed its accounting method for leases as a result of implementing requirements in the Financial Accounting Standard's Board Accounting Standard Codification 842, *Leases* (FASB ASC 842). The New standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into occupancy expense on a straight-line basis over the lease term.

The adoption of *FASB ASC 842* had no impact on the December 31, 2022 financial statements due to the short term nature of all leases held.

Note 13. Prior Period Adjustment

There was a prior period adjustment of \$575,699 made to December 31, 2021 to adjust the value of the beneficial interest in the remainder trust. The effect of this adjustment resulted in a \$575,699 increase in change in net assets with donor restriction.

Note 14. Subsequent Events

MHF has evaluated events and transactions subsequent to December 31, 2022 through September 11, 2023, the date these financial statements were available to be issued. Based on the definitions and requirements of the U.S. generally accepted accounting principles, management has determined no material subsequent events requiring disclosure in the financial statements for the year ended December 31, 2022.