



ASHEVILLE HUMANE SOCIETY, INC.

Asheville, North Carolina

Financial Statements

Years Ended June 30, 2020 and 2019

ASHEVILLE HUMANE SOCIETY, INC.

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ASHEVILLE HUMANE SOCIETY, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities - 2020	4
Statement of Activities - 2019	5
Statement of Functional Expenses - 2020	6
Statement of Functional Expenses - 2019	7
Statements of Cash Flows	8
Notes to Financial Statements	9-21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Asheville Humane Society, Inc.

We have audited the accompanying financial statements of Asheville Humane Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Directors
Asheville Humane Society, Inc.
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Asheville Humane Society, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CARTER, P.C.

Asheville, North Carolina
December 1, 2020

ASHEVILLE HUMANE SOCIETY, INC.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 1,090,566	\$ 512,421
Designated	223,607	250,394
Short-term investments	256,520	254,871
Accounts receivable	9,978	11,128
Grants receivable	-	40,000
Prepaid expenses	48,099	39,868
Inventories	9,138	2,752
Total current assets	1,637,908	1,111,434
Beneficial interest in endowment funds	46,393	46,904
Property and equipment, net	2,498,600	2,553,711
Total assets	\$ 4,182,901	\$ 3,712,049
Liabilities and net assets		
Current liabilities:		
Current portion of obligation under capital lease	\$ 6,379	\$ 6,058
Current maturities of long-term debt	199,983	-
Accounts payable	31,672	20,638
Accrued liabilities	67,036	48,262
Accrued compensated absences	49,257	38,268
Total current liabilities	354,327	113,226
Obligation under capital lease, net of current portion	-	6,379
Long-term debt, net of current maturities	254,717	-
Total liabilities	609,044	119,605
Net assets:		
Without donor restrictions	3,114,365	3,088,423
With donor restrictions	459,492	504,021
Total net assets	3,573,857	3,592,444
Total liabilities and net assets	\$ 4,182,901	\$ 3,712,049

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions and grants	\$ 2,021,847	\$ 247,398	\$ 2,269,245
Local government contract revenue	973,450	-	973,450
Special events	54,264	-	54,264
Program service revenue	137,669	-	137,669
In-kind contributions	249,874	-	249,874
Sales	114,188	-	114,188
Other income	9,326	-	9,326
Interest income	3,039	-	3,039
Net assets released from restrictions	<u>291,927</u>	<u>(291,927)</u>	<u>-</u>
Total revenues and other support	<u>3,855,584</u>	<u>(44,529)</u>	<u>3,811,055</u>
Expenses			
Program services	3,239,103	-	3,239,103
Supporting services	<u>589,891</u>	<u>-</u>	<u>589,891</u>
Total expenses	<u>3,828,994</u>	<u>-</u>	<u>3,828,994</u>
 Increase (decrease) in net assets before investment activity	 26,590	 (44,529)	 (17,939)
Investment activity			
Net losses on beneficial interest in endowment funds	<u>(648)</u>	<u>-</u>	<u>(648)</u>
 Increase (decrease) in net assets	 25,942	 (44,529)	 (18,587)
Net assets at beginning of year	<u>3,088,423</u>	<u>504,021</u>	<u>3,592,444</u>
Net assets at end of year	<u>\$ 3,114,365</u>	<u>\$ 459,492</u>	<u>\$ 3,573,857</u>

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions and grants	\$ 1,366,289	\$ 260,127	\$ 1,626,416
Local government contract revenue	948,000	-	948,000
Special events	182,258	-	182,258
Program service revenue	158,255	-	158,255
In-kind contributions	255,935	-	255,935
Sales	34,258	-	34,258
Other income	592	-	592
Interest income	4,364	-	4,364
Net assets released from restrictions	<u>384,782</u>	<u>(384,782)</u>	<u>-</u>
Total revenues and other support	<u>3,334,733</u>	<u>(124,655)</u>	<u>3,210,078</u>
Expenses			
Program services	2,907,227	-	2,907,227
Supporting services	<u>601,711</u>	<u>-</u>	<u>601,711</u>
Total expenses	<u>3,508,938</u>	<u>-</u>	<u>3,508,938</u>
Decrease in net assets before investment activity	(174,205)	(124,655)	(298,860)
Investment activity			
Net gains on beneficial interest in endowment funds	<u>845</u>	<u>-</u>	<u>845</u>
Decrease in net assets	(173,360)	(124,655)	(298,015)
Net assets at beginning of year	<u>3,261,783</u>	<u>628,676</u>	<u>3,890,459</u>
Net assets at end of year	<u>\$ 3,088,423</u>	<u>\$ 504,021</u>	<u>\$ 3,592,444</u>

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Functional Expenses
Year Ended June 30, 2020

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 1,659,911	\$ 57,532	\$ 225,691	\$ 283,223	\$ 1,943,134
Payroll taxes	118,133	3,629	19,246	22,875	141,008
Other benefits	181,598	1,440	42,262	43,702	225,300
Total personnel costs	1,959,642	62,601	287,199	349,800	2,309,442
Program costs:					
Food for animals	196,976	-	-	-	196,976
Veterinary services	268,181	-	-	-	268,181
Medical/program supplies	255,390	-	-	-	255,390
Spay/neuter expense	25,582	-	-	-	25,582
Other program costs	2,202	-	-	-	2,202
Advertising	13,322	6,600	4,071	10,671	23,993
Bank/credit card charges	11,134	4,108	10,638	14,746	25,880
Computer/information services	21,370	1,555	32,350	33,905	55,275
Cost of sales	7,710	-	-	-	7,710
Depreciation	104,538	15,797	5,614	21,411	125,949
Dues/licenses/permits	730	450	1,638	2,088	2,818
Event expenses	-	-	11,885	11,885	11,885
Insurance	37,696	7,394	1,514	8,908	46,604
Meals and entertainment	1,549	179	262	441	1,990
Miscellaneous	16,782	4,223	-	4,223	21,005
Occupancy costs	230,783	10,531	624	11,155	241,938
Office supplies	22,803	4,667	27	4,694	27,497
Printing/production/postage	971	793	79,479	80,272	81,243
Professional services	33,092	29,310	-	29,310	62,402
Seminars and education	3,743	285	-	285	4,028
Staff/donor appreciation	2,020	973	-	973	2,993
Telephone/communications	13,786	2,042	2,287	4,329	18,115
Travel mileage	1,164	34	758	792	1,956
Vehicle expenses	7,937	-	3	3	7,940
Total expenses	\$ 3,239,103	\$ 151,542	\$ 438,349	\$ 589,891	\$ 3,828,994

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Functional Expenses
Year Ended June 30, 2019

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Supporting Services	
Salaries and wages	\$ 1,493,773	\$ 26,869	\$ 239,929	\$ 266,798	\$ 1,760,571
Payroll taxes	114,112	932	17,861	18,793	132,905
Other benefits	168,820	6,070	34,979	41,049	209,869
Total personnel costs	1,776,705	33,871	292,769	326,640	2,103,345
Program costs:					
Food for animals	113,425	-	-	-	113,425
Veterinary services	284,057	-	-	-	284,057
Medical/program supplies	264,186	-	-	-	264,186
Spay/neuter surgery	34,286	-	-	-	34,286
Advertising	18,275	2,099	11,261	13,360	31,635
Bank/credit card charges	13,003	975	7,503	8,478	21,481
Computer/information services	11,810	1,728	37,949	39,677	51,487
Cost of sales	28,209	544	-	544	28,753
Depreciation	111,755	14,003	6,002	20,005	131,760
Dues/licenses/permits	1,959	907	455	1,362	3,321
Event expenses	266	-	54,982	54,982	55,248
Insurance	42,805	2,783	1,719	4,502	47,307
Meals and entertainment	2,942	1,183	1,377	2,560	5,502
Miscellaneous	11,055	218	641	859	11,914
Occupancy costs	80,868	391	708	1,099	81,967
Office supplies	3,981	9,613	1,199	10,812	14,793
Printing/production/postage	653	1,162	84,362	85,524	86,177
Professional services	66,478	14,962	-	14,962	81,440
Seminars and education	8,836	3,117	4,626	7,743	16,579
Staff/donor appreciation	2,876	1,206	-	1,206	4,082
Telephone/communications	13,098	215	3,376	3,591	16,689
Travel mileage	7,120	798	2,968	3,766	10,886
Vehicle expenses	8,579	-	39	39	8,618
Total expenses	\$ 2,907,227	\$ 89,775	\$ 511,936	\$ 601,711	\$ 3,508,938

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Decrease in net assets	\$ (18,587)	\$ (298,015)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	125,949	131,760
Net (gains) losses on beneficial interest in endowment funds	648	(845)
Receipt of donated stock	(193,848)	(62,408)
Gain on reduction of capital lease obligation	(6,058)	(5,746)
Changes in working capital - sources (uses)		
Accounts receivable	1,150	688
Promises to give	-	10,650
Grants receivable	40,000	40,000
Prepaid expenses	(8,231)	(196)
Inventories	(6,386)	3,841
Accounts payable	11,034	(11,754)
Accrued liabilities	18,774	9,834
Accrued compensated absences	10,989	5,498
Net cash used by operating activities	(24,566)	(176,693)
Cash flows from investing activities		
Proceeds from sale of investments	193,848	62,408
Change in beneficial interest in endowment funds	(137)	(142)
Purchase of property and equipment	(70,838)	(11,322)
Purchase of short-term investments	(1,649)	(2,863)
Net cash provided by investing activities	121,224	48,081
Cash flows from financing activities		
Proceeds from long-term debt	454,700	-
Increase (decrease) in cash and equivalents	551,358	(128,612)
Cash and equivalents at beginning of year	762,815	891,427
Cash and cash equivalents at end of year	\$ 1,314,173	\$ 762,815

The accompanying notes are an integral part of the financial statements.

ASHEVILLE HUMANE SOCIETY, INC.

Notes to Financial Statements
June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies

Organization

Asheville Humane Society, Inc. (the Organization) is a non-profit corporation organized under the laws of the State of North Carolina. The organization is dedicated to promoting compassionate treatment of animals in Buncombe County and the Asheville, North Carolina community through education, sheltering, and adoption. Formed in 1984 as Buncombe County Friends for Animals, the organization operated as the governing body for the County Pet Adoption Center and Animal Shelter, previously operated by the County. The Organization has operated the Shelter since 1990. In 2010, the Organization, in partnership with Buncombe County, opened the Animal Care Campus. The Campus comprises two facilities: Asheville Humane Society Adoption and Education Center and the Buncombe County Animal Shelter. The two facilities operate side by side in a public-private partnership working collaboratively to eradicate animal homelessness.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization has also been classified as a publicly-supported charitable organization and is exempt from state taxes under North Carolina General Statute 105-130.11(a).

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Organization's management and Board of Directors.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- *Net assets with donor restrictions:* Net assets subject to donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Organization has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions, grants, and promises to give. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or the passage of time, the expiration of the restrictions is reported as net assets released from restrictions. The Organization has adopted a policy to classify donor restricted support as without donor restrictions to the extent that restrictions were met in the reporting period the support was recognized.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Non-operating activities are earnings, including gains and losses, on investments and beneficial interest in endowment funds. These activities are considered to be more unusual or nonrecurring in nature.

Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than beneficial interest in endowment funds, obligation under capital lease, and long-term debt approximates fair value due to the relatively short-term nature of the financial instruments.

Fair value of beneficial interest in endowment funds is discussed in Note 6.

Amounts recognized for the obligation under capital lease approximate fair value due to the market rate of interest charged to outstanding balances.

Amounts recognized for long-term debt approximates fair value due to the market rate of interest charged at borrowing.

Cash and Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Designated cash consists of cash held for operating and capital reserves which is to be used as directed by the Board of Directors.

Note 1 - Summary of Significant Accounting Policies (continued)

Short-term Investments

Short-term investments consist of certificates of deposit with initial maturities exceeding three months.

Grants Receivable

Grants receivable consist of amounts awarded by supporting entities but not yet received as of year-end. An allowance for doubtful accounts has not been established as management believes all amounts are collectible.

Inventories

Inventories consist of pet supplies sold in retail operations. All inventories are valued at lower of cost or net realizable value as determined by the first-in first-out method.

Beneficial Interest in Endowment Funds

The beneficial interest in endowment funds is recorded at fair market value. The Organization created the Asheville Humane Society Adoption Center Fund with the Community Foundation of Western North Carolina, Inc. (the Foundation) specifically for major expenses (over \$5,000) for the preservation and maintenance of the Adoption Center. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from sales are reflected in the statements of activities.

Fair Value Measurements and Disclosures

U.S. GAAP provides a framework for measuring fair value. Assets and liabilities that are required to be recorded at fair value in the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets 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 market 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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements and Disclosures (continued)

Assets and liabilities within the fair value hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Organization's assessment of the significance of an input requires judgment, which may affect the valuation and classification within the fair value hierarchy.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized as incurred. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed as incurred. The Organization has adopted an accounting practice to capitalize all property and equipment with a cost greater than \$2,500. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from three to thirty-nine years.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as contributions 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 and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

Donated Assets

Donated marketable securities are recorded as contributions at their estimated fair value at the date of donation.

Donated materials and supplies are reflected as in-kind contributions at their estimated fair value at the date of donation. For the years ended June 30, 2020 and 2019, the Organization received in-kind materials, supplies, and advertising in the amount of \$120,362 and \$113,094, respectively.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization received \$94,732 and \$142,841 in donated veterinary services during the years ended June 30, 2020 and 2019, respectively. Volunteers also provided a variety of tasks that assist the Organization with specific objectives throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Note 1 - Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2020 and 2019, amounts charged to expense were \$23,993 and \$31,635, respectively.

Functional Allocation of Expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. Expenses for food for animals, veterinary services, medical supplies, and spay/neuter surgeries are directly related to program services. All other expenses are allocated based on estimates of time and effort.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

During the year ended June 30, 2020, management combined certain restricted projects with similar purposes. As a result, the Safety Net program in Note 2 below increased by \$119,587 and the Life Saving program was removed from the amounts reported as of June 30, 2019.

New Accounting Pronouncements

During the year ended June 30, 2020, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB). The implementation of each of these standards did not materially impact the Organization's financial statements.

- Accounting Standards Update No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 changes certain aspects of recognition, measurement, presentation, and disclosure of financial instruments.

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

- Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). This ASU clarifies and improves the guidance about the distinction between contributions and exchange transactions and determine whether a contribution is conditional.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. In May 2020, the FASB voted to extend the effective date for nonpublic entities and nonprofit organizations to fiscal years ending after December 15, 2020, with early adoption permitted. The Organization is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 is intended to improve financial reporting about leasing transactions. This ASU will require lessees to recognize a lease liability and right-of-use asset for most leases, including operating leases. The standard will be effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Organization is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

Note 2 - Net Assets

Net assets are described as follows:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Undesignated	\$ 398,537	\$ 296,755
Investment in property and equipment	2,492,221	2,541,274
Board designated:		
Operating reserves	173,607	200,394
Capital reserves	<u>50,000</u>	<u>50,000</u>
Total board designated	<u>223,607</u>	<u>250,394</u>
Net assets without donor restrictions	<u>3,114,365</u>	<u>3,088,423</u>

Note 2 - Net Assets (continued)

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purposes:		
Animal food	\$ 1,726	\$ 1,726
Animal supplies	6,925	8,169
Animal welfare	14,069	-
ASPCA - other	1,916	1,916
Behavior program	1,030	500
Board expenses	-	308
Building maintenance	143,913	175,599
Community pets	32,414	67,994
Disaster relief	2,411	2,411
Endowment - AHS Adoption Center Fund	11,903	11,903
Foster program	-	1,710
Grooming supplies and equipment	2,111	3,015
Lilly Grace	12,110	-
Pet adoptions	7,695	-
Safety net	153,529	177,408
Spay/neuter	19,379	1,491
Wellness Clinic - Community solutions	13,361	14,871
Not subject to spending policy or appropriation:		
Investment in perpetuity - endowments	<u>35,000</u>	<u>35,000</u>
Net assets with donor restrictions	<u>459,492</u>	<u>504,021</u>
Total net assets	<u>\$ 3,573,857</u>	<u>\$ 3,592,444</u>

Note 3 - Liquidity and Availability of Financial Assets

The Organization receives significant contributions and grants restricted by donors or grantors, and these funds are ongoing, major, and central to its operations. As a result, the Organization considers these contributions and grants to be available to meet cash needs for general expenditures.

The Organization manages liquidity and reserves utilizing three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets to fund near-term operating needs,
- Monitoring expenses closely

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization invests cash in excess of daily requirements in insured cash sweep accounts and money market funds.

Note 3 - Liquidity and Availability of Financial Assets (continued)

The Organization maintains a line of credit with maximum borrowings of \$100,000 to meet short-term working capital needs if necessary.

Board designated operating and capital reserves are available, if necessary, for expenditure by appropriation by the Board.

The following reflects the liquidity and availability of the Organization's financial assets:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and equivalents	\$ 1,314,173	\$ 762,815
Short-term investments	256,520	254,871
Accounts receivable	9,978	11,128
Grants receivable		40,000
Beneficial interest in endowment funds	<u>46,393</u>	<u>46,904</u>
Total financial assets	<u>1,627,064</u>	<u>1,115,718</u>
Amounts not available for general expenditure:		
Board designated reserves	(223,607)	(250,394)
Net assets with donor restrictions	(459,492)	(504,021)
Add back: grants receivable, current portion	<u>-</u>	<u>40,000</u>
Total amounts not available for general expenditure	<u>(683,099)</u>	<u>(714,415)</u>
Net financial assets available to meet cash needs <u>for general expenditures within one year</u>	<u>\$ 943,965</u>	<u>\$ 401,303</u>

Note 4 - Accounts Receivable

Accounts receivable are described as follows:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Customer receivables	\$ 3,456	\$ 2,479
Employee advance	276	546
Sales tax receivable	<u>6,246</u>	<u>8,103</u>
<u>Accounts receivable</u>	<u>\$ 9,978</u>	<u>\$ 11,128</u>

Note 5 - Beneficial Interest in Endowment Funds

The beneficial interest in endowment funds is managed by the Community Foundation of Western North Carolina (Foundation). The fund agreements grant variance power to the Foundation. This power allows the Board of Directors of the Foundation to modify any condition or restriction on the distribution of funds if, in its sole judgment (without the approval of any trustee, custodian, or agent), such condition or restriction becomes in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by the Foundation. The Organization's beneficial interest in endowment funds is presented in the financial statements in the aggregate at fair value. These funds are invested in an allocated investment pool at the Foundation.

Note 6 - Fair Value Measurements

Short-term investments and beneficial interest in endowment funds are reported in the accompanying financial statements at estimated fair value in accordance with the fair value hierarchy. The following is a description of the valuation methodologies used for assets measured at fair value:

Short-term Investments

Amounts consist of certificates of deposit with a local bank that are valued at fair market value and are categorized as Level 2.

Beneficial Interest in Endowment Funds

The fair value of the beneficial interest in endowment funds is provided by the Foundation. Due to the inputs being unobservable, the instruments are categorized as Level 3.

The following tables set forth estimated fair values of financial instruments:

<u>At June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments:				
Certificates of deposit	\$	\$ 256,520	\$	\$ 256,520
Beneficial interest in endowment funds			46,393	46,393
<u>Total fair value measurements</u>	<u>\$</u>	<u>\$ 256,520</u>	<u>\$ 46,393</u>	<u>\$ 302,913</u>

<u>At June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments:				
Certificates of deposit	\$	\$ 254,871	\$	\$ 254,871
Beneficial interest in endowment funds			46,904	46,904
<u>Total fair value measurements</u>	<u>\$</u>	<u>\$ 254,871</u>	<u>\$ 46,904</u>	<u>\$ 301,775</u>

Note 6 - Fair Value Measurements (continued)

A reconciliation of changes in Level 3 inputs is as follows.

<u>Year Ended June 30</u>	<u>2020</u>	<u>2019</u>
Level 3 inputs, beginning of year	\$ 46,904	\$ 45,917
Investment income	490	453
Net appreciation (depreciation)	(648)	845
Fees	<u>(353)</u>	<u>(311)</u>
<u>Level 3 inputs, end of year</u>	<u>\$ 46,393</u>	<u>\$ 46,904</u>

Note 7 - Property and Equipment

Property and equipment consists of the following:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Buildings	\$ 2,968,316	\$ 2,945,788
Land	186,000	186,000
Furniture and fixtures	279,574	268,720
Vehicles	165,346	139,162
Computers and equipment	<u>86,992</u>	<u>75,721</u>
	3,686,228	3,615,391
Less, accumulated depreciation	<u>1,187,628</u>	<u>1,061,680</u>
<u>Property and equipment</u>	<u>\$ 2,498,600</u>	<u>\$ 2,553,711</u>

Depreciation expense for the years ended June 30, 2020 and 2019, was \$125,949 and \$131,760, respectively.

Note 8 - Obligation Under Capital Lease

A description of the capital lease is as follows:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Capital lease obligation on equipment at 5.2% interest, with a cost of \$33,744, less accumulated depreciation of \$33,744	\$ 6,379	\$ 12,437
Less, current portion of capital lease obligation	<u>6,379</u>	<u>6,058</u>
<u>Obligation under capital lease, net of current portion</u>	<u>\$ -</u>	<u>\$ 6,379</u>

Note 8 - Obligation Under Capital Lease (continued)

Scheduled payments on capital lease obligation are \$6,560 for the year ending June 30, 2021. This payment includes \$181 of interest.

Note 9 - Line of Credit

The organization maintains a \$100,000 unsecured line of credit with a local bank to be used for operational needs. The line renews annually in January and the interest rate is the bank's prime rate plus 0.5%, with a floor of 4%. The terms require monthly interest payments. As of June 30, 2020 and 2019, there was no balance outstanding on this line of credit.

Note 10 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Paycheck Protection Program (PPP) loan payable in 18 monthly installments of \$25,462, including interest at 1%, beginning November 2020 and due April 2022, unsecured	\$ 454,700	\$
Less, current maturities	<u>199,983</u>	<u> </u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 254,717</u>	<u>\$</u>

If PPP funds are used for certain expenses, predominantly salaries and related costs, all or a portion of the balance could be forgiven. Repayments for PPP loans have been deferred until an application for forgiveness has been filed and the amount forgiven known. There was no interest expense related to long-term debt for the year ended June 30, 2020.

Principal repayments on long-term debt are as follows:

<u>Years Ending June 30</u>	<u>Principal Payments</u>
2021	\$ 199,983
2022	254,717
2023	
2024	
2025	<u> </u>
<u>Principal payments on long-term debt</u>	<u>\$ 454,700</u>

Note 11 - In-kind Contributions

In-kind contributions are summarized as follows:

<u>At June 30</u>	<u>2020</u>	<u>2019</u>
Animal food and supplies	\$ 112,802	\$ 90,245
Veterinary services	94,732	142,841
General supplies	34,780	4,269
Advertising	7,560	6,980
Fundraisers	<u>-</u>	<u>11,600</u>
<u>In-kind contributions</u>	<u>\$ 249,874</u>	<u>\$ 255,935</u>

Note 12 - Lease Commitments

The Organization leases office space and equipment under operating leases. The leases require various monthly payment amounts and expire through 2025. Rent expense for the years ended June 30, 2020 and 2019, was \$96,297 and \$8,148, respectively. Future minimum payments under all operating leases are as follows:

<u>Years Ending June 30</u>	
2021	\$ 108,694
2022	33,197
2023	2,407
2024	2,407
2025	<u>1,685</u>
<u>Total minimum lease payments</u>	<u>\$ 148,390</u>

Note 13 - Retirement Plan

The Organization maintains a SIMPLE IRA plan for eligible employees. The Organization matches employee contributions up to 3% of eligible compensation. During the years ended June 30, 2020 and 2019, the Organization contributed \$29,132 and \$27,395, respectively, to the plan.

Note 14 - Uninsured Cash Balances

The Organization maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The uninsured cash balances at June 30, 2020 and 2019, were \$896,278 and \$286,828, respectively.

Note 15 - Summary Disclosure of Significant Contingencies

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and volunteers; and natural disasters. The Organization carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any year since inception.

Revenues

The Organization maintains a contract with Buncombe County to provide shelter services. The Organization received approximately 26% and 30% of total revenues and other support from this source for the years ended June 30, 2020 and 2019, respectively.

Note 16 - Related Party Transactions

During the years ended June 30, 2020 and 2019, the Organization received contributions from members of the Board of Directors and employees totaling \$26,065 and \$45,549, respectively.

Note 17 - Income Taxes

Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax provision taken and, as such, does not have any uncertain tax positions material to the financial statements.

Open Tax Years

The Organization's Return of Organization Exempt from Income Tax (Form 990) for the tax years ended June 30, 2019, 2018, 2017 are subject to examination by the IRS, generally for three years after they were filed.

Note 18 - Subsequent Events

Management has evaluated subsequent events through December 1, 2020, the date on which the financial statements were available to be issued.

In November 2020, the Organization was notified of full forgiveness of the PPP loan. Grants in the amount of \$454,700 were recorded at that time.