



ASHEVILLE HUMANE SOCIETY, INC.

Asheville, North Carolina

Financial Statements

Years Ended June 30, 2021 and 2020

ASHEVILLE HUMANE SOCIETY, INC.

OFFICERS

Jacqui Friedrich
Carla Henry
Bryan Smith
Nan Cole

Chair
Vice-Chair
Treasurer
Secretary

BOARD OF DIRECTORS

Nan Cole
Bray Creech
Murphy Fletcher
Jacqui Friedrich
Chad Halliday
Carla Henry

Dawn Marie Klug
Bryan Smith
Linda Solomon
Dr. Anne Peden Symonds
Theresa Trebon
Jill Vargo

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 - 2021	4
Statement of Activities - 2020	5
Statement of Functional Expenses - 2021	6
Statement of Functional Expenses - 2020	7
Statements of Cash Flows	8
Notes to Financial Statements	9-22

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, 2021 and 2020, 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, 2021 and 2020, 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
January 26, 2022

ASHEVILLE HUMANE SOCIETY, INC.

Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 1,727,938	\$ 1,090,566
Designated	223,674	223,607
Short-term investments	256,520	256,520
Accounts receivable	4,971	9,978
Prepaid expenses	14,313	48,099
Inventories	11,884	9,138
Total current assets	2,239,300	1,637,908
Beneficial interest in endowment funds	57,778	46,393
Property and equipment, net	2,383,034	2,498,600
Total assets	\$ 4,680,112	\$ 4,182,901
Liabilities and net assets		
Current liabilities:		
Current portion of obligation under capital lease	\$ -	\$ 6,379
Current maturities of long-term debt	50,594	199,983
Accounts payable	90,644	31,672
Accrued liabilities	84,665	67,036
Accrued compensated absences	49,817	49,257
Total current liabilities	275,720	354,327
Long-term debt, net of current maturities	407,406	254,717
Total liabilities	683,126	609,044
Net assets:		
Without donor restrictions	3,391,771	3,114,365
With donor restrictions	605,215	459,492
Total net assets	3,996,986	3,573,857
Total liabilities and net assets	\$ 4,680,112	\$ 4,182,901

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

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Activities
Year Ended June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions and grants	\$ 1,973,697	\$ 467,645	\$ 2,441,342
Local government contract revenue	1,221,004	-	1,221,004
Program service revenue	200,811	-	200,811
In-kind contributions	143,318	-	143,318
Sales	370,688	-	370,688
Other income	210	-	210
Interest income	776	-	776
Net assets released from restrictions	<u>321,922</u>	<u>(321,922)</u>	<u>-</u>
Total revenues and other support	<u>4,232,426</u>	<u>145,723</u>	<u>4,378,149</u>
Expenses			
Program services	3,269,948	-	3,269,948
Supporting services	<u>696,311</u>	<u>-</u>	<u>696,311</u>
Total expenses	<u>3,966,259</u>	<u>-</u>	<u>3,966,259</u>
 Increase in net assets before investment activity	 266,167	 145,723	 411,890
Investment activity			
Net gains on beneficial interest in endowment funds	<u>11,239</u>	<u>-</u>	<u>11,239</u>
 Increase in net assets	 277,406	 145,723	 423,129
 Net assets at beginning of year	 <u>3,114,365</u>	 <u>459,492</u>	 <u>3,573,857</u>
 Net assets at end of year	 <u>\$ 3,391,771</u>	 <u>\$ 605,215</u>	 <u>\$ 3,996,986</u>

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	\$ 2,030,847	\$ 247,398	\$ 2,278,245
Local government contract revenue	973,450	-	973,450
Special events	45,264	-	45,264
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>	
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 Functional Expenses
Year Ended June 30, 2021

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 1,751,018	\$ 68,112	\$ 259,633	\$ 327,745	\$ 2,078,763
Payroll taxes	136,735	5,101	19,753	24,854	161,589
Other benefits	199,490	17,150	34,506	51,656	251,146
Total personnel costs	2,087,243	90,363	313,892	404,255	2,491,498
Program costs:					
Food for animals	123,224	-	-	-	123,224
Veterinary services	214,647	43,780	-	43,780	258,427
Medical/program supplies	257,610	-	-	-	257,610
Spay/neuter expense	30,336	-	-	-	30,336
Other program costs	5,493	773	-	773	6,266
Advertising	9,788	540	790	1,330	11,118
Bank/credit card charges	23,072	2,597	12,459	15,056	38,128
Computer/information services	33,995	4,994	21,285	26,279	60,274
Cost of sales	9,567	-	-	-	9,567
Depreciation	108,891	5,329	5,328	10,657	119,548
Dues/licenses/permits	789	514	4,236	4,750	5,539
Event expenses	-	-	3,718	3,718	3,718
Insurance	40,211	9,529	-	9,529	49,740
Meals and entertainment	188	-	29	29	217
Miscellaneous	15,025	2,277	53	2,330	17,355
Occupancy costs	230,454	4,777	-	4,777	235,231
Office supplies	13,280	1,974	545	2,519	15,799
Printing/production/postage	1,065	936	118,364	119,300	120,365
Professional services	32,390	36,484	-	36,484	68,874
Seminars and education	5,315	2,859	237	3,096	8,411
Staff/donor appreciation	1,073	1,913	-	1,913	2,986
Telephone/communications	13,176	2,484	2,268	4,752	17,928
Travel mileage	2,976	-	-	-	2,976
Vehicle expenses	10,140	-	984	984	11,124
	10,140	-	984	984	11,124
Total expenses	\$ 3,269,948	\$ 212,123	\$ 484,188	\$ 696,311	\$ 3,966,259

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	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.

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 423,129	\$ (18,587)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	119,548	125,949
Paycheck Protection Program loan forgiveness	(454,700)	
Net (gains) losses on beneficial interest in endowment funds	(11,239)	648
Receipt of donated stock	(112,211)	(193,848)
Gain on reduction of capital lease obligation	(6,379)	(6,058)
Changes in working capital - sources (uses)		
Accounts receivable	5,007	1,150
Grants receivable	-	40,000
Prepaid expenses	33,786	(8,231)
Inventories	(2,746)	(6,386)
Accounts payable	58,972	11,034
Accrued liabilities	17,629	18,774
Accrued compensated absences	560	10,989
Net cash provided (used) by operating activities	71,356	(24,566)
Cash flows from investing activities		
Proceeds from sale of investments	112,211	193,848
Change in beneficial interest in endowment funds	(146)	(137)
Purchase of property and equipment	(3,982)	(70,838)
Purchase of short-term investments	-	(1,649)
Net cash provided by investing activities	108,083	121,224
Cash flows from financing activities		
Proceeds from long-term debt	458,000	454,700
Increase in cash and equivalents	637,439	551,358
Cash and equivalents at beginning of year	1,314,173	762,815
Cash and cash equivalents at end of year	\$ 1,951,612	\$ 1,314,173

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

ASHEVILLE HUMANE SOCIETY, INC.

Notes to Financial Statements
June 30, 2021 and 2020

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 and interest and dividends on investments. Non-operating activities are limited to 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 5.

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.

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

The Organization applies U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

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.

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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 policy 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, 2021 and 2020, the Organization received in-kind materials, supplies, and advertising in the amount of \$80,357 and \$155,142, 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 \$62,961 and \$94,732 in donated veterinary services during the years ended June 30, 2021 and 2020, 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.

Revenue Recognition

Program service revenue is generated from animal adoption and service fees. Program service revenue is recognized at the amount of consideration to which the Organization expects to be entitled in exchange for providing goods and services. Performance obligations are generally at a point in time and received and consumed by customers at the time payment is received.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

The Organization generates revenue from sale of merchandise to customers. Those sales contain a single performance obligation and revenue is recognized at a single point in time when ownership, risks, and rewards transfer to customers.

Contributions are recognized when cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return of the asset or right of release of the obligation - are not recognized until the conditions on which they depend have been met. The Organization received no conditional contributions as of June 30, 2021.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2021 and 2020, amounts charged to expense were \$11,118 and \$23,993, 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.

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

During the year ended June 30, 2021, 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. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). This Update amended the previous accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additional disclosures have been added as a result of ASU 2014-09, which are included in Note 1, Revenue Recognition and Note 4, Contract Assets and Liabilities.
- Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. (ASU 2018-13). ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures.
- Accounting Standards Update No. 2020-03, *Codification Improvements to Financial Instruments*. (ASU 2020-03). ASU 2020-03 made additional clarifications to disclosure requirements of financial instruments.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under the new standard, lessees will recognize a right-of-use asset and lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments. For statement of activities purposes, leases continue to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in accelerated expense recognition, comparable to current capital leases. Classification will be based on criteria similar to those applied to current lease accounting. Additional disclosures will be required to provide details of revenue and expense recognized and expected to be recognized from existing agreements. The new standard will be effective beginning July 1, 2022. The Organization is currently evaluating the effect this ASU will have on its financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 provides for additional requirements regarding the presentation and disclosure of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. The new standard will be effective beginning July 1, 2022.

Note 2 - Net Assets

Net assets are described as follows:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Undesignated	\$ 785,063	\$ 398,537
Investment in property and equipment	2,383,034	2,492,221
Board designated:		
Operating reserves	173,674	173,607
Capital reserves	<u>50,000</u>	<u>50,000</u>
Total board designated	<u>223,674</u>	<u>223,607</u>
Net assets without donor restrictions	<u>3,391,771</u>	<u>3,114,365</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purposes:		
Animal food	1,726	1,726
Animal supplies	6,925	6,925
Animal welfare	13,801	14,069
ASPCA - other	1,316	1,916
Behavior program	5,000	1,030
Building maintenance	131,277	143,913
Community pets	-	32,414
Disaster relief	2,412	2,411
Endowment - AHS Adoption Center Fund	23,289	11,903
Grooming supplies and equipment	1,860	2,111
Lilly Grace	84,047	12,110
Pet adoptions	7,856	7,695
River Ridge	42,848	-
Safety net	215,119	153,529
Spay/neuter	19,378	19,379
Wellness Clinic - Community solutions	13,361	13,361
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>605,215</u>	<u>459,492</u>
Total net assets	<u>\$ 3,996,986</u>	<u>\$ 3,573,857</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.

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

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, and
- 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.

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

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, 2021 and 2020, there was no balance outstanding on this line of credit.

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

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and equivalents	\$ 1,951,612	\$ 1,314,173
Short-term investments	256,520	256,520
Accounts receivable	4,971	9,978
Beneficial interest in endowment funds	57,778	46,393
Total financial assets	<u>2,270,881</u>	<u>1,627,064</u>
Amounts not available for general expenditure:		
Board designated reserves	(223,674)	(223,607)
Net assets with donor restrictions	<u>(605,215)</u>	<u>(459,492)</u>
Total amounts not available for general expenditure	<u>(828,889)</u>	<u>(683,099)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,441,992</u>	<u>\$ 943,965</u>

Note 4 - Contract Assets and Liabilities

Accounts receivable and grants receivable represent the Organization's contract assets with an unconditional right to receive consideration from customers. Accounts receivable and grants receivable are recorded at invoiced amounts or amounts expected to be receivable based on contract terms without conditions.

Note 4 - Contract Assets and Liabilities (continued)

The following provides information about contract assets:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accounts receivable:			
Program receivables	\$ -	\$ 3,732	\$ 3,025
Sales tax receivables	<u>4,971</u>	<u>6,246</u>	<u>8,103</u>
Accounts receivable	4,971	9,978	11,128
Grants receivable	<u>-</u>	<u>-</u>	<u>40,000</u>
<u>Total contract assets</u>	<u>\$ 4,971</u>	<u>\$ 9,978</u>	<u>\$ 51,128</u>

Contract liabilities are recorded when a customer pays consideration, or the Organization has a right to an amount of consideration that is unconditional, before the transfer of a good or performance of a service to the customer. Thus, the Organization has an obligation to transfer the good or service to the customer at a future date. The Organization has no contract liabilities at June 30, 2021.

Note 5 - Beneficial Interest in Endowment Funds

The beneficial interest in endowment funds is managed by the Community Foundation of Western North Carolina, Inc. (Foundation). The fund agreements grant variance power to the Foundation. This power allows the Board of Directors of the Foundation to modify or institute court action to modify any condition or restriction on the use and distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgement of the Foundation's Board of Directors (without the approval of any trustee, custodian, guardian, or agent), such condition or restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the region served by the Foundation.

Under the terms of the agreements, the Organization can withdraw a portion of the original principal provided the governing board of the Organization and the Foundation approve the withdrawal. The Organization's beneficial interest in endowment funds is invested in an allocated investment pool at the Foundations and is presented in the financial statements in the aggregate at fair value.

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 presented at fair market value and are categorized as Level 2.

Note 6 - Fair Value Measurements (continued)*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, 2021</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	-	-	57,778	57,778
<u>Total fair value measurements</u>	<u>\$ -</u>	<u>\$ 256,520</u>	<u>\$ 57,778</u>	<u>\$ 314,298</u>

<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>

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

<u>Years Ended June 30</u>	<u>2021</u>	<u>2020</u>
Level 3 inputs, beginning of year	\$ 46,393	\$ 46,904
Investment income	430	490
Net gains (losses)	11,239	(648)
Fees	(284)	(353)
<u>Level 3 inputs, end of year</u>	<u>\$ 57,778</u>	<u>\$ 46,393</u>

Note 7 - Property and Equipment

Property and equipment consists of the following:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Buildings	\$ 2,968,316	\$ 2,968,316
Land	186,000	186,000
Furniture and fixtures	272,602	279,574
Vehicles	166,918	165,346
Computers and equipment	<u>80,029</u>	<u>86,992</u>
	3,673,865	3,686,228
Less, accumulated depreciation	<u>1,290,831</u>	<u>1,187,628</u>
<u>Property and equipment</u>	<u>\$ 2,383,034</u>	<u>\$ 2,498,600</u>

Depreciation expense for the years ended June 30, 2021 and 2020, was \$119,548 and \$125,949, respectively.

Note 8 - Obligation Under Capital Lease

A description of the capital lease is as follows:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Capital lease obligation on equipment at 5.2% interest, with a cost of \$33,744, less accumulated depreciation of \$33,744	\$ -	\$ 6,379
Less, current portion of capital lease obligation	<u>-</u>	<u>6,379</u>
<u>Obligation under capital lease, net of current portion</u>	<u>\$ -</u>	<u>\$ -</u>

Note 9 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Paycheck Protection Program (PPP) note payable obtained April 2020, forgiven in full in November 2020	\$ -	\$ 454,700
PPP note payable due in 50 monthly installments of \$9,434, including 1% interest, beginning January 2022, unsecured	458,000	-
Less, current maturities	<u>50,594</u>	<u>199,983</u>
<u>Long-term debt, net of current maturities</u>	<u>\$ 407,406</u>	<u>\$ 254,717</u>

Note 9 - Long-term Debt (continued)

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, 2021.

Principal repayments on long-term debt are as follows:

<u>Years Ending June 30</u>	<u>Principal Payments</u>
2022	\$ 50,594
2023	109,635
2024	110,736
2025	111,849
2026	<u>75,186</u>
<u>Principal payments on long-term debt</u>	<u>\$ 458,000</u>

Note 10 - In-kind Contributions

In-kind contributions are summarized as follows:

<u>At June 30</u>	<u>2021</u>	<u>2020</u>
Animal food and supplies	\$ 78,777	\$ 112,802
Veterinary services	62,961	94,732
General supplies	500	34,780
Advertising	<u>1,080</u>	<u>7,560</u>
<u>In-kind contributions</u>	<u>\$ 143,318</u>	<u>\$ 249,874</u>

Note 11 - 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, 2021 and 2020, the Organization contributed \$32,267 and \$29,132 respectively, to the plan.

Note 12 - 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, 2021 and 2020, were \$1,426,591 and \$896,278, respectively.

Note 13 - Commitments and Contingencies

Leases

The Organization leases office space and equipment under operating leases. The leases require various monthly payment amounts and expire through May 2025. Rent expense for the years ended June 30, 2021 and 2020, for all operating leases was \$131,918 and \$96,297, respectively.

The future minimum payments under all operating leases are as follows:

<u>Years Ending June 30</u>	
2022	\$ 118,925
2023	115,706
2024	117,939
2025	119,539
2026	120,202
Thereafter	<u>30,198</u>
<u>Total minimum lease payments</u>	<u>\$ 622,509</u>

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.

Concentration of Revenues

The Organization maintains a contract with Buncombe County to provide shelter services. The Organization received approximately 28% and 26% of total revenues and other support from this source for the years ended June 30, 2021 and 2020, respectively.

Note 14 - Related Party Transactions

During the years ended June 30, 2021 and 2020, the Organization received contributions from members of the Board of Directors and employees totaling \$25,726 and \$26,065, respectively.

Note 15 - 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.

Note 15 - Income Taxes (continued)

Open Tax Years

The Organization's Return of Organization Exempt from Income Tax (Form 990) for the tax years ended June 30, 2020, 2019, 2018 are subject to examination by the IRS, generally for three years after they were filed.

Note 16 - Coronavirus Pandemic Impact

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused unprecedented business and economic disruption through mandated closings of certain businesses and industries.

The Organization was deemed an essential business and COVID-19 did not have a significant impact on the Organization's ability to operate. Government grants received as a result of COVID-19 consist of \$432,700 in U.S. Small Business Administration Paycheck Protection Program loan forgiveness for the year ended June 30, 2021. The Organization received a second Paycheck Protection Program Loan for \$458,000

The extent of the impact of COVID-19 will depend on certain developments, including the duration and spread of the outbreak. At this point, it is unclear to what extent COVID-19 will impact the Organization's financial condition or results of operations.

Note 17 - Subsequent Events

Management has evaluated subsequent events through January 26, 2022, the date on which the financial statements were available to be issued.

The Organization received full forgiveness for the second PPP loan in November 2021.