



ASHEVILLE HUMANE SOCIETY, INC.

Asheville, North Carolina

Financial Statements

Years Ended June 30, 2022 and 2021

ASHEVILLE HUMANE SOCIETY, INC.

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ASHEVILLE HUMANE SOCIETY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Asheville Humane Society, Inc.

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years 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 Asheville Humane Society, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Asheville Humane Society, Inc. 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 Asheville Humane Society, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 Asheville Humane Society, Inc.'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 Asheville Humane Society, Inc.'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.

CARTER, P.C.

ASHEVILLE HUMANE SOCIETY, INC.

Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 1,943,105	\$ 1,727,938
Designated	223,708	223,674
Short-term investments	259,440	256,520
Accounts receivable	31,875	4,971
Grants receivable	3,701	
Prepaid expenses	197,897	14,313
Inventories	9,120	11,884
Asset held for sale	104,000	
Total current assets	2,772,846	2,239,300
Beneficial interest in endowment funds	50,532	57,778
Property and equipment, net	2,311,070	2,383,034
Total assets	\$ 5,134,448	\$ 4,680,112
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$	\$ 50,594
Accounts payable	96,374	90,644
Accrued liabilities	105,647	84,665
Accrued compensated absences	60,300	49,817
Total current liabilities	262,321	275,720
Long-term debt, net of current maturities		407,406
Total liabilities	262,321	683,126
Net assets:		
Without donor restrictions	4,436,885	3,391,771
With donor restrictions	435,242	605,215
Total net assets	4,872,127	3,996,986
Total liabilities and net assets	\$ 5,134,448	\$ 4,680,112

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

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Activities
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions and grants	\$ 2,965,681	\$ 93,148	\$ 3,058,829
Local government contract revenue	1,362,667		1,362,667
Special events	89,770		89,770
Program service revenue	212,897		212,897
In-kind contributions	634,825		634,825
Sales	640,840		640,840
Interest income	3,605		3,605
Net assets released from restrictions	<u>263,121</u>	<u>(263,121)</u>	
Total revenues and other support	<u>6,173,406</u>	<u>(169,973)</u>	<u>6,003,433</u>
Expenses			
Program services	4,201,511		4,201,511
Supporting services	<u>851,540</u>		<u>851,540</u>
Total expenses	<u>5,053,051</u>		<u>5,053,051</u>
Increase (decrease) in net assets before other gains (losses)	<u>1,120,355</u>	<u>(169,973)</u>	<u>950,382</u>
Other gains (losses)			
Gain on sale of assets	27,097		27,097
Net losses on beneficial interest in endowment funds	(7,102)		(7,102)
Impairment loss on asset held for sale	<u>(95,236)</u>		<u>(95,236)</u>
Total other losses	<u>(75,241)</u>		<u>(75,241)</u>
Increase (decrease) in net assets	1,045,114	(169,973)	875,141
Net assets at beginning of year	<u>3,391,771</u>	<u>605,215</u>	<u>3,996,986</u>
Net assets at end of year	<u>\$ 4,436,885</u>	<u>\$ 435,242</u>	<u>\$ 4,872,127</u>

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

ASHEVILLE HUMANE SOCIETY, INC.

Statement of Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor 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>	
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>696,311</u>
Total expenses	<u>3,966,259</u>		<u>3,966,259</u>
Increase in net assets before other gains	266,167	145,723	411,890
Other gains			
Net gains on beneficial interest in endowment funds	<u>11,239</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 Functional Expenses
Year Ended June 30, 2022

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Supporting Services	
Salaries and wages	\$ 2,193,996	\$ 25,707	\$ 346,034	\$ 371,741	\$ 2,565,737
Payroll taxes	168,888	4,367	25,355	29,722	198,610
Other benefits	189,891	33,206	35,808	69,014	258,905
Total personnel costs	2,552,775	63,280	407,197	470,477	3,023,252
Program costs:					
Food for animals	119,400		1,000	1,000	120,400
Veterinary services	351,320				351,320
Medical/program supplies	330,718	243	66	309	331,027
Spay/neuter expense	177,909				177,909
Other program costs	10,027				10,027
Advertising	18,076	2,280	11,723	14,003	32,079
Bank/credit card charges	37,221	25,385	13,099	38,484	75,705
Computer/information services	40,816	5,842	11,863	17,705	58,521
Cost of sales	23,860				23,860
Depreciation	99,238	4,857	4,856	9,713	108,951
Dues/licenses/permits	3,714	5,085	2,026	7,111	10,825
Event expenses	115	705	11,185	11,890	12,005
Insurance	39,294	9,812		9,812	49,106
Meals and entertainment	5,019	1,168	136	1,304	6,323
Miscellaneous	19,821	24,665		24,665	44,486
Occupancy costs	252,647	13,475		13,475	266,122
Office supplies	22,982	2,588	3,403	5,991	28,973
Printing/production/postage	1,067	1,287	164,142	165,429	166,496
Professional services	50,988	34,911	5,284	40,195	91,183
Seminars and education	6,175	675	201	876	7,051
Staff/donor appreciation	1,721	7,541		7,541	9,262
Telephone/communications	13,020	1,601	2,900	4,501	17,521
Travel mileage	4,788	6,243		6,243	11,031
Vehicle expenses	18,800	551	265	816	19,616
Total expenses	\$ 4,201,511	\$ 212,194	\$ 639,346	\$ 851,540	\$ 5,053,051

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
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.

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Increase in net assets	\$ 875,141	\$ 423,129
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	108,951	119,548
Paycheck Protection Program loan forgiveness	(458,000)	(454,700)
Net (gains) losses on beneficial interest in endowment funds	7,102	(11,239)
Receipt of donated stock	(86,046)	(112,211)
Receipt of donated assets	(479,000)	
Gain on sale of donated assets	(29,992)	
Impairment loss on asset held for sale	95,236	
Gain on reduction of capital lease obligation		(6,379)
Changes in working capital - sources (uses)		
Accounts receivable	(26,904)	5,007
Grants receivable	(3,701)	
Prepaid expenses	(183,584)	33,786
Inventories	2,764	(2,746)
Accounts payable	5,730	58,972
Accrued liabilities	20,982	17,629
Accrued compensated absences	10,483	560
Net cash provided (used) by operating activities	(140,838)	71,356
Cash flows from investing activities		
Proceeds from sale of investments	86,046	112,211
Proceeds from sale of donated assets	309,756	
Change in beneficial interest in endowment funds	144	(146)
Purchase of property and equipment	(36,987)	(3,982)
Purchase of short-term investments	(2,920)	
Net cash provided by investing activities	356,039	108,083
Cash flows from financing activities		
Proceeds from long-term debt		458,000
Increase in cash and equivalents	215,201	637,439
Cash and equivalents at beginning of year	1,951,612	1,314,173
Cash and cash equivalents at end of year	\$ 2,166,813	\$ 1,951,612

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

ASHEVILLE HUMANE SOCIETY, INC.

Notes to Financial Statements
June 30, 2022 and 2021

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

Cash and Equivalents

For purposes of the statements 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.

Accounts and Grants Receivable

Accounts receivable consist of reimbursements expected to be received from Buncombe County for the Low Income Voucher Program and Buncombe County Adoption Program.

Grants receivable are the remaining contract payments due from Buncombe County at year end.

All accounts and grants receivable are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded.

Prepaid Expenses

Prepaid expenses largely consist of deposits for website development and various property and equipment. Additionally, the Organization prepaid for various insurance, software, and service expenses.

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.

Asset Held for Sale

Asset held for sale is a donated plot of land received by the Organization. This lot is recorded at appraised value, less an impairment loss. Management intends to sell the lot and use the proceeds to benefit the Organization.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed. 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 property and equipment are described in Note 9.

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Assets

Donated marketable securities are recorded as contributions at their estimated fair value at the date of donation. Donated materials and equipment are reflected as in-kind contributions at their estimated fair value at the date of donation. Noncash donated assets are described in Note 9.

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. Donated services are described in Note 9.

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.

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, 2022.

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, 2022 and 2021, amounts charged to expense were \$32,079 and \$11,118, respectively.

Note 1 - Summary of Significant Accounting Policies (continued)

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 medical/program supplies, spay/neuter surgeries, and other program costs 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.

Newly Adopted Accounting Pronouncement

During the year ended June 30, 2022, the Organization adopted the requirements of Accounting Standards Update (ASU) No. 2020-07 (ASU 2020-07), *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 clarifies and expands the presentation and disclosure requirements of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. These additional note disclosures are included in Note 9, In-kind Contributions.

Recently Issued Accounting Pronouncement

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.

Note 2 - Net Assets

Net assets are described as follows:

<u>At June 30</u>	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
Undesignated	\$ 1,225,613	\$ 785,063
Investment in property and equipment	2,311,070	2,383,034
Board designated:		
Program	676,494	
Operating reserves	173,708	173,674
Capital reserves	50,000	50,000
Total board designated	<u>900,202</u>	<u>223,674</u>
Net assets without donor restrictions	<u>4,436,885</u>	<u>3,391,771</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	13,801
ASPCA - other	1,316	1,316
Behavior program	5,530	5,000
Building maintenance	110,035	131,277
Disaster relief	2,412	2,412
Donor designated	19,833	19,378
Endowment - AHS Adoption Center Fund	23,556	23,289
Grey Muzzle	9,103	
Grooming supplies and equipment	1,129	1,860
Lily Grace		84,047
Medical	30,027	
No project		440
Pet adoptions	15,568	7,856
Petco grant	18,489	
Petsmart Charities	15,337	
River Ridge	1,031	42,848
Safety net	111,063	214,679
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>435,242</u>	<u>605,215</u>
<u>Total net assets</u>	<u>\$ 4,872,127</u>	<u>\$ 3,996,986</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, 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.

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

<u>At June 30</u>	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and equivalents	\$ 2,166,813	\$ 1,951,612
Short-term investments	259,440	256,520
Accounts receivable	31,875	4,971
Grants receivable	3,701	
Beneficial interest in endowment funds	<u>50,532</u>	<u>57,778</u>
Total financial assets	<u>2,512,361</u>	<u>2,270,881</u>
Amounts not available for general expenditure:		
Board designated reserves	(900,202)	(223,674)
Net assets with donor restrictions	<u>(435,424)</u>	<u>(605,215)</u>
Total amounts not available for general expenditure	<u>(1,335,626)</u>	<u>(828,889)</u>
Net financial assets available to meet cash needs <u>for general expenditures within one year</u>	<u>\$ 1,176,735</u>	<u>\$ 1,441,992</u>

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, 2022 and 2021, there was no balance outstanding on this line of credit.

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.

The following provides information about contract assets:

<u>At June 30</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts receivable:			
Program receivables	\$ 19,218	\$	\$ 3,732
Sales tax receivables	<u>12,657</u>	<u>4,971</u>	<u>6,246</u>
Accounts receivable	31,875	4,971	9,978
Grants receivable	<u>3,701</u>	<u> </u>	<u> </u>
<u>Total contract assets</u>	<u>\$ 35,576</u>	<u>\$ 4,971</u>	<u>\$ 9,978</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, 2022.

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.

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, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments:				
Certificates of deposit	\$	\$ 259,440	\$	\$ 259,440
Beneficial interest in endowment funds			50,532	50,532
<u>Total fair value measurements</u>	<u>\$</u>	<u>\$ 259,440</u>	<u>\$ 50,532</u>	<u>\$ 309,972</u>

<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>

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

<u>Years Ended June 30</u>	<u>2022</u>	<u>2021</u>
Level 3 inputs, beginning of year	\$ 57,778	\$ 46,393
Investment income	276	430
Net gains (losses)	(7,102)	11,239
Fees	(420)	(284)
<u>Level 3 inputs, end of year</u>	<u>\$ 50,532</u>	<u>\$ 57,778</u>

Note 7 - Property and Equipment

Property and equipment consists of the following:

<u>At June 30</u>	<u>2022</u>	<u>2021</u>
Buildings	\$ 2,988,862	\$ 2,968,316
Land	186,000	186,000
Furniture and fixtures	280,540	272,602
Vehicles	166,918	166,918
Computers and equipment	<u>88,532</u>	<u>80,029</u>
	3,710,852	3,673,865
Less, accumulated depreciation	<u>(1,399,782)</u>	<u>(1,290,831)</u>
<u>Property and equipment</u>	<u>\$ 2,311,070</u>	<u>\$ 2,383,034</u>

Depreciation expense for the years ended June 30, 2022 and 2021, was \$108,951 and \$119,548, respectively.

Note 8 - Long-term Debt

Long-term debt is described as follows:

<u>At June 30</u>	<u>2022</u>	<u>2021</u>
PPP note payable due in 50 monthly installments of \$9,434, including 1% interest, beginning January 2022, unsecured	\$	\$ 458,000
Less, current maturities	<u> </u>	<u>(50,594)</u>
<u>Long-term debt, net of current maturities</u>	<u>\$</u>	<u>\$ 407,406</u>

PPP funds were used for allowable expenses and full forgiveness was received during the year ended June 30, 2022. Forgiveness of \$458,000 funds is reported as grant income in the accompanying statements of activities.

Note 9 - In-kind Contributions

In-kind gifts are acknowledged for the furtherance of the various programs and mission of the Organization. During the year ended June 30, 2022, the Organization received \$479,000 in donated real estate. The Organization inherited a house, which was sold in April 2022. Funds received from the sale totaled \$280,000. A flood zone lot appraised at \$199,000 was also donated, which is recorded as an asset held for sale in the statements of financial position. This lot incurred an impairment loss of \$95,000, as management determined the fair value was less than the carrying value.

Note 9 - In-kind Contributions (continued)

Donated services consist of veterinary medical and surgical services provided by AB Tech for shelter animals. Volunteers also donated a significant amount of time for 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. The Organization received approximately 74,400 and 74,100 volunteer hours during the years ended June 30, 2022 and June 30, 2021, respectively.

In-kind contributions are summarized as follows:

<u>Year Ended June 30, 2022</u>			
	<u>Fair value</u>	<u>Usage in Program</u>	<u>Donor restriction</u>
Real estate donations	\$ 479,000	Allocated to program services and management & general	None
Donated services	87,749	Program services	None
Supplies	57,653	Program services	None
Advertising	9,220	Program services	None
Other	<u>1,203</u>	Management & general	None
Total contributions of nonfinancial assets	<u>\$ 634,825</u>		
<u>Year Ended June 30, 2021</u>			
	<u>Fair value</u>	<u>Usage in Program</u>	<u>Donor restriction</u>
Donated services	\$ 62,961	Program services	None
Supplies	79,277	Program services	None
Advertising	<u>1,080</u>	Program services	None
Total contributions of nonfinancial assets	<u>\$ 143,318</u>		

Note 9 - In-kind Contributions (continued)

Fair valuation techniques - Donated services are valued at the fair value of the services, which is provided by the service provider. Supplies and other in-kind contributions are valued at the donor provided amount, price that would be paid to purchase a comparable item, or current sales price of the item as sold by the donating vendor. Advertising is valued at the price that would be paid to purchase similar advertising spots. Donated real estate is valued using an appraisal from a qualified appraiser, as defined by the IRS.

Note 10 - 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, 2022 and 2021, the Organization contributed \$30,436 and \$29,151 respectively, to the plan.

Note 11 - 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, 2022 and 2021, were \$1,748,549 and \$1,426,591, respectively.

Note 12 - Commitments and Contingencies

Leases

The Organization leases office space and equipment under operating leases. The leases require various monthly payment amounts and expire through September 2026. Rent expense for the years ended June 30, 2022 and 2021, for all operating leases was \$131,013 and \$131,918, respectively.

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

<u>Years Ending June 30</u>	
2023	\$ 115,706
2024	117,939
2025	119,539
2026	120,202
2027	<u>30,198</u>
<u>Total minimum lease payments</u>	<u>\$ 503,584</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.

Note 12 - Commitments and Contingencies (continued)

Concentration of Revenues

The Organization maintains a contract with Buncombe County to provide shelter services. The Organization received approximately 23% and 28% of total revenues and other support from this source for the years ended June 30, 2022 and 2021, respectively.

Note 13 - Related Party Transactions

During the years ended June 30, 2022 and 2021, the Organization received contributions from members of the Board of Directors and employees totaling \$43,834 and \$25,726, respectively.

Note 14 - 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, 2021, 2020, 2019 are subject to examination by the IRS, generally for three years after they were filed.

Note 15 - Subsequent Events

Management has evaluated subsequent events through December 15, 2022, the date on which the financial statements were available to be issued.

From July 2022 through the audit report date, the Organization's beneficial interest in endowment fund continues to experience declines in fair value. While recovery is uncertain and material adverse impacts could occur, the decline is expected to be temporary.