



## **ASHEVILLE HUMANE SOCIETY, INC.**

Asheville, North Carolina

Financial Statements

Years Ended June 30, 2023 and 2022

**ASHEVILLE HUMANE SOCIETY, INC.**

OFFICERS

Carla Henry  
Jacqui Friedrich  
Bryan Smith  
Nan Cole

Chair  
Vice-Chair  
Treasurer  
Secretary

BOARD OF DIRECTORS

Vicki Banks  
Brad Blackburn  
Nan Cole  
Murphy Fletcher  
Jacqui Friedrich  
Chad Halliday  
Carla Henry

Paul Hughart  
Dawn Marie Klug  
Margaret Lancaster  
Bryan Smith  
Amy Staton  
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 - 2023	4
Statement of Activities - 2022	5
Statement of Functional Expenses - 2023	6
Statement of Functional Expenses - 2022	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-27

## 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 1,044,498	\$ 1,943,105
Designated	223,708	223,708
Short-term investments	514,467	259,440
Accounts receivable	32,728	31,875
Grants receivable		3,701
Promises to give	7,007	
Prepaid expenses	60,928	68,744
Inventories	9,004	9,120
Asset held for sale	90,000	104,000
Total current assets	1,982,340	2,643,693
Deposits	212,821	129,153
Beneficial interest in endowment funds	53,622	50,532
Operating lease right-of-use assets	373,005	
Intangible assets, net	20,293	
Property and equipment, net	2,194,145	2,311,070
Total assets	\$ 4,836,226	\$ 5,134,448
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of operating lease liabilities	\$ 106,086	\$
Accounts payable	79,556	96,374
Accrued liabilities	128,407	105,647
Accrued compensated absences	60,651	60,300
Total current liabilities	374,700	262,321
Operating lease liabilities, net of current portion	270,580	
Total liabilities	645,280	262,321
Net assets:		
Without donor restrictions	3,757,710	4,436,885
With donor restrictions	433,236	435,242
Total net assets	4,190,946	4,872,127
Total liabilities and net assets	\$ 4,836,226	\$ 5,134,448

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

**ASHEVILLE HUMANE SOCIETY, INC.**

Statement of Activities  
Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and other support</b>			
Contributions and grants	\$ 2,098,648	\$ 194,113	\$ 2,292,761
Local government contract revenue	1,386,130		1,386,130
Special events	91,353		91,353
Program service revenue	173,192		173,192
In-kind contributions	362,316		362,316
Sales	692,074		692,074
Investment income, net	19,132		19,132
Net assets released from restrictions	<u>196,119</u>	<u>(196,119)</u>	
Total revenues and other support	<u>5,018,964</u>	<u>(2,006)</u>	<u>5,016,958</u>
<b>Expenses</b>			
Program services	4,814,466		4,814,466
Supporting services	<u>874,377</u>		<u>874,377</u>
Total expenses	<u>5,688,843</u>		<u>5,688,843</u>
Decrease in net assets before other gains (losses)	<u>(669,879)</u>	<u>(2,006)</u>	<u>(671,885)</u>
<b>Other gains (losses)</b>			
Net gains on investments	2,778		2,778
Net gains on beneficial interest in endowment funds	3,064		3,064
Loss on sale of assets	(1,138)		(1,138)
Impairment loss on asset held for sale	<u>(14,000)</u>		<u>(14,000)</u>
Total other losses	<u>(9,296)</u>		<u>(9,296)</u>
Decrease in net assets	(679,175)	(2,006)	(681,181)
Net assets at beginning of year	<u>4,436,885</u>	<u>435,242</u>	<u>4,872,127</u>
Net assets at end of year	<u>\$ 3,757,710</u>	<u>\$ 433,236</u>	<u>\$ 4,190,946</u>

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>
<b>Revenues and other support</b>			
Contributions and grants	\$ 2,965,444	\$ 93,148	\$ 3,058,592
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
Investment income, net	3,056		3,056
Net assets released from restrictions	<u>263,121</u>	<u>(263,121)</u>	
Total revenues and other support	<u>6,172,620</u>	<u>(169,973)</u>	<u>6,002,647</u>
<b>Expenses</b>			
Program services	4,201,511		4,201,511
Supporting services	<u>850,991</u>		<u>850,991</u>
Total expenses	<u>5,052,502</u>		<u>5,052,502</u>
Increase (decrease) in net assets before other gains (losses)	<u>1,120,118</u>	<u>(169,973)</u>	<u>950,145</u>
<b>Other gains (losses)</b>			
Gain on sale of assets	27,097		27,097
Net losses on beneficial interest in endowment funds	(7,101)		(7,101)
Impairment loss on asset held for sale	<u>(95,000)</u>		<u>(95,000)</u>
Total other losses	<u>(75,004)</u>		<u>(75,004)</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 Functional Expenses  
Year Ended June 30, 2023

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 2,492,415	\$ 5,073	\$ 318,417	\$ 323,490	\$ 2,815,905
Payroll taxes	190,515	4,613	24,764	29,377	219,892
Other benefits	199,398	26,612	45,003	71,615	271,013
Total personnel costs	2,882,328	36,298	388,184	424,482	3,306,810
Program costs:					
Food for animals	176,040		4,130	4,130	180,170
Veterinary services	425,655				425,655
Medical/program supplies	385,390	553		553	385,943
Spay/neuter expense	193,841				193,841
Other program costs	2,506				2,506
Advertising	25,091	102,099	35,426	137,525	162,616
Bank/credit card charges	42,145	9,459	14,065	23,524	65,669
Computer/information services	29,523	3,754	25,797	29,551	59,074
Cost of sales	23,214				23,214
Depreciation and amortization	117,196	4,938	4,938	9,876	127,072
Dues/licenses/permits	3,269	4,339	455	4,794	8,063
Event expenses	350	8,113	22,832	30,945	31,295
Insurance	39,205	9,801		9,801	49,006
Meals and entertainment	13,179	3,150	119	3,269	16,448
Miscellaneous	22,103	6,709	90	6,799	28,902
Occupancy costs	297,170	9,293		9,293	306,463
Office supplies	27,084	3,412	1,975	5,387	32,471
Printing/production/postage	2,230	1,861	117,687	119,548	121,778
Professional services	62,615	23,613	10,681	34,294	96,909
Seminars and education	9,857	1,841	69	1,910	11,767
Staff/donor appreciation	3,140	10,986		10,986	14,126
Telephone/communications	12,730	2,772	3,194	5,966	18,696
Travel mileage	4,517	1,422		1,422	5,939
Vehicle expenses	14,088	240	82	322	14,410
 Total expenses	 \$ 4,814,466	 \$ 244,653	 \$ 629,724	 \$ 874,377	 \$ 5,688,843

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	24,836	13,099	37,935	75,156
Computer/information services	40,816	5,842	11,863	17,705	58,521
Cost of sales	23,860				23,860
Depreciation and amortization	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	\$ 211,645	\$ 639,346	\$ 850,991	\$ 5,052,502

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

**ASHEVILLE HUMANE SOCIETY, INC.**

Statements of Cash Flows  
Years Ended June 30, 2023 and 2022

	2023	2022
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ (681,181)	\$ 875,141
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	116,925	108,951
Amortization expense	10,147	
Amortization of operating lease right-of-use-asset	102,153	
Paycheck Protection Program loan forgiveness		(458,000)
Net gains on investments	(2,778)	
Net (gains) losses on beneficial interest in endowment funds	(3,064)	7,101
Receipt of donated stock	(74,459)	(86,046)
Receipt of donated assets		(479,000)
Gain on sale of donated assets		(29,992)
Loss on sale of assets (	1,138	
Impairment loss on asset held for sale	14,000	95,000
Changes in working capital - sources (uses)		
Accounts receivable	(853)	(26,904)
Grants receivable	3,701	(3,701)
Promises to give	(7,007)	
Prepaid expenses	7,816	(54,431)
Inventories	116	2,764
Deposits	(105,343)	(129,153)
Accounts payable	(16,818)	5,730
Accrued liabilities	22,760	20,982
Accrued compensated absences	351	10,483
Operating lease liabilities	(98,492)	
Net cash used by operating activities	(710,888)	(141,075)
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	324,198	86,046
Proceeds from sale of donated assets		309,756
Change in beneficial interest in endowment funds	(26)	144
Purchase of property and equipment		(36,750)
Purchase of intangible assets	(8,765)	
Purchase of short-term investments	(503,126)	(2,920)
Net cash provided (used) by investing activities	(187,719)	356,276

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

**ASHEVILLE HUMANE SOCIETY, INC.**

Statements of Cash Flows (continued)  
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Increase (decrease) in cash and equivalents	(898,607)	215,201
Cash and equivalents at beginning of year	<u>2,166,813</u>	<u>1,951,612</u>
Cash and cash equivalents at end of year	<u>\$ 1,268,206</u>	<u>\$ 2,166,813</u>
<b>Schedule of noncash investing and financing activities</b>		
Operating lease right-of-use asset obtained in exchange for operating lease liability	<u>\$ 475,158</u>	<u>\$</u>

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

## ASHEVILLE HUMANE SOCIETY, INC.

Notes to Financial Statements  
June 30, 2023 and 2022

### **Note 1 - Nature of Organization and 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 - Nature of Organization and 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 gains and losses on investments and beneficial interest in endowment funds and gains and losses on the sale of assets. 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 short-term investments, beneficial interest in endowment funds, operating lease right-of-use assets, and operating lease liabilities approximates fair value due to the relatively short-term nature of the financial instruments.

Fair value of short-term investments and beneficial interest in endowment funds is discussed in Note 5.

Amounts recognized for operating lease right-of-use assets and operating lease liabilities approximate fair value as determined by the Organization's incremental borrowing rate.

### 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 - Nature of Organization and 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.

### Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Management has determined that all promises to give will be collected in the next fiscal year, thus a net present value adjustment was not computed. An allowance for uncollectible promises to give was not recorded as it is management's belief that all amounts are collectible.

### 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.

## **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)**

### **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.

### **Intangible Assets**

Intangible assets consist of website design and are carried at cost. The Organization determines the useful lives of identifiable assets after considering the specific facts and circumstances related to each intangible asset. Intangible assets are amortized using the straight-line method over their estimated useful life of three years.



## **Note 1 - Nature of Organization and 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. 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 10.

### 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 10.

### 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 10.

### 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.

## **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)**

### Revenue Recognition (continued)

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, 2023.

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, 2023 and 2022, amounts charged to expense were \$162,616 and \$32,079, respectively.

### Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Certain categories of expenses are attributable to program services and management and general. The majority of expenses are allocated based on estimates of time and effort. Veterinary services, spay/neuter expenses, other program costs, and cost of sales are directly related to program services.

### 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 with the presentation in the current year's financial statements.

## **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)**

### Newly Adopted Accounting Pronouncements

During the year ended June 30, 2023, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB):

Accounting Standards Update (ASU) No. 2018-15, *Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (ASU 2018-15) set by the Financial Accounting Standards Board (FASB). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 did not materially impact the Organization’s financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, (ASU 2016-02) which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position.

The Organization elected to adopt this ASU effective July 1, 2022. The Organization did not adjust the prior period statement of financial position.

An election has been made to apply the short-term lease exception to all leases with a term of 12 months or less. Short-term lease costs do not reflect ongoing short-term lease commitments which are described in Note 9.

The Organization applied the package of practical expedients allowed by the standard, upon adoption of ASU 2016-02. The Organization did not reassess:

- Whether any expired or existing contracts are or contain leases under the new definition;
- The lease classification of any expired or existing leases; or
- Whether previously capitalized costs continue to qualify as initial direct costs.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Organization recognized an operating lease liability of \$475,158, which represents the present value of the remaining operating lease payments, discounted using the Organization’s incremental borrowing rate of 5.25%. A right-of-use asset in the amount of \$475,158 was also recorded at that time.

## **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)**

### **Recently Issued Accounting Pronouncement**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 is intended to improve financial reporting about credit losses on certain receivable balances. The new standard will be effective beginning July 1, 2023. 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>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Undesignated	\$ 840,721	\$ 1,225,613
Investment in property and equipment	2,194,145	2,311,070
Board designated:		
Program	499,136	676,494
Operating reserves	173,708	173,708
Capital reserves	50,000	50,000
Total board designated	<u>722,844</u>	<u>900,202</u>
Net assets without donor restrictions	<u>3,757,710</u>	<u>4,436,885</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purposes:		
Animal food		1,726
Animal supplies	121	6,925
Animal welfare	13,801	13,801
ASPCA - other		1,316
Behavior program	270	5,530
Building maintenance	102,758	110,035
Disaster relief		2,412
Donor designated	64,211	19,833
Endowment - AHS Adoption Center Fund	23,556	23,556
Grey Muzzle	6,922	9,103
Grooming supplies and equipment	154	1,129
Lily Grace	19,298	
Medical	1,616	30,027
Pet adoptions	1,500	15,568
Petco grant	30,784	18,489
Petco Love - Return to home challenge	4,375	

## **Note 2 - Net Assets (continued)**

Net assets are described as follows:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purposes (continued):		
Petsmart Charities	\$	\$ 15,337
Petsmart Charities - Incubator grant	79,973	
River Ridge		1,031
Safety net	48,897	111,063
Wellness Clinic - Community solutions		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>433,236</u>	<u>435,242</u>
 Total net assets	 \$ 4,190,946	 \$ 4,872,127

## **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.

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

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

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and equivalents	\$ 1,268,206	\$ 2,166,813
Short-term investments	514,467	259,440
Accounts receivable	32,728	31,875
Grants receivable		3,701
Promises to give	7,007	
Beneficial interest in endowment funds	<u>53,622</u>	<u>50,532</u>
Total financial assets	<u>1,876,030</u>	<u>2,512,361</u>
Amounts not available for general expenditure:		
Board designated reserves	(722,844)	(900,202)
Net assets with donor restrictions	(433,236)	(435,424)
Add back: promises to give	<u>7,007</u>	<u></u>
Total amounts not available for general expenditure	<u>(1,149,073)</u>	<u>(1,335,626)</u>
Net financial assets available to meet cash needs <u>for general expenditures within one year</u>	<u>\$ 726,957</u>	<u>\$ 1,176,735</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 bears interest rate at the bank's prime rate plus 0.5%, with a floor of 4%. The terms require monthly interest payments. As of June 30, 2023 and 2022, there was no balance outstanding on this line of credit.

### **Note 4 - Contract Assets and Liabilities**

Accounts receivable, grants receivable, and promises to give represent the Organization's contract assets with an unconditional right to receive consideration from customers. Receivables and promises to give 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>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable:			
Program receivables	\$ 19,737	\$ 19,218	\$
Sales tax receivables	<u>12,991</u>	<u>12,657</u>	<u>4,971</u>
Accounts receivable	32,728	31,875	4,971
Grants receivable	<u>                    </u>	<u>3,701</u>	<u>                    </u>
Promises to give	<u>7,007</u>	<u>                    </u>	<u>                    </u>
<b>Total contract assets</b>	<b>\$ 39,735</b>	<b>\$ 35,576</b>	<b>\$ 4,971</b>

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 goods or service to the customer at a future date. The Organization has no contract liabilities.

#### **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:

## **Note 6 - Fair Value Measurements (continued)**

### *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, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments:				
Certificates of deposit	\$	\$ 514,467	\$	\$ 514,467
Beneficial interest in endowment funds			53,622	53,622
<u>Total</u>	<u>\$</u>	<u>\$ 514,467</u>	<u>\$ 53,622</u>	<u>\$ 568,089</u>

<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</u>	<u>\$</u>	<u>\$ 259,440</u>	<u>\$ 50,532</u>	<u>\$ 309,972</u>

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

<u>Years Ended June 30</u>	<u>2023</u>	<u>2022</u>
Level 3 inputs, beginning of year	\$ 50,532	\$ 57,778
Investment income	503	276
Net gains (losses)	3,064	(7,101)
Fees	(477)	(421)
<u>Level 3 inputs, end of year</u>	<u>\$ 53,622</u>	<u>\$ 50,532</u>



## **Note 7 - Property and Equipment**

Property and equipment consist of the following:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Buildings	\$ 2,988,862	\$ 2,988,862
Land	186,000	186,000
Furniture and fixtures	280,540	280,540
Vehicles	166,918	166,918
Computers and equipment	<u>88,532</u>	<u>88,532</u>
	3,710,852	3,710,852
Less, accumulated depreciation	<u>(1,516,707)</u>	<u>(1,399,782)</u>
<u>Property and equipment</u>	<u>\$ 2,194,145</u>	<u>\$ 2,311,070</u>

Depreciation expense for the years ended June 30, 2023 and 2022, was \$116,925 and \$108,951, respectively.

## **Note 8 - Intangible Assets**

Intangible assets include website design. The Organization evaluates intangible assets for potential impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. No impairment loss was recorded as of June 30, 2023. Amortization expense for the year ended June 30, 2023, was \$10,147.

Intangible assets are described as follows:

<u>At June 30</u>	<u>2023</u>
Website design	\$ 30,440
Less, accumulated amortization	<u>(10,147)</u>
<u>Intangible assets</u>	<u>\$ 20,293</u>

The following is the estimated future amortization expense for intangibles:

<u>Years Ending June 30</u>	
2024	\$ 10,147
2025	10,146
2026	
2027	
2028	<u>                    </u>
<u>Total</u>	<u>\$ 20,293</u>

## Note 9 - Leases

The Organization has operating leases for office space and office equipment. The leases have remaining lease terms through 2027, with renewal options from five to ten years. The exercise of lease renewal is at the Organization's sole discretion and uncertain at this time.

Certain lease agreements include variable payments based on usage rates which are not determinable at lease commencement and are not included in the measurement of lease assets and liabilities.

The following summarizes the line items in the accompanying statement of financial position which includes amounts for leases.

At June 30	2023
<b>Operating lease</b>	
Operating lease right-of-use assets	\$ 373,005
Operating lease liabilities	\$ 376,666

The following summarizes the weighted average remaining lease term and discount rate on lease obligations:

At June 30	2023
<b>Weighted Average Remaining Lease Term</b>	
Operating leases	3.3 years
<b>Weighted Average Discount Rate</b>	
Operating leases	5.25%

The following is a schedule of future minimum lease payments under operating lease agreements:

Years Ending June 30	
2024	\$ 122,806
2025	125,127
2026	127,477
2027	94,230
2028	
Total payments	469,640
Less, imputed interest	(92,974)
Total	\$ 376,666

### **Note 9 - Leases (continued)**

The following summarize the line items in the accompanying consolidated statement of functional expenses which include the components of lease costs:

<u>Year Ended June 30</u>	<u>2023</u>
Short-term and immaterial operating leases included in rent and leases	\$ 2,407
Operating lease costs:	
Occupancy costs	<u>124,235</u>
<u>Total lease costs</u>	<u>\$ 126,642</u>

The Organization also leases a copier and postage machine. The Organization assessed whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) during the year ended June 30, 2023, when FASB ASU 2016-02, *Leases* was adopted. The Organization has elected to apply the short-term lease exception to all leases with a term of 12 months or less. Leases with a remaining term of 12 months or less, or those that are considered immaterial, are not recorded in the consolidated statements of financial position. Management has determined all remaining operating leases meet this criterion and has not recognized operating lease agreements as operating lease liabilities. Lease expense is recognized for these leases on a straight-line basis over the lease term. These leases require various monthly payments and expire through May 2025.

The following is a schedule of future minimum lease payments under lease agreements:

<u>Years Ending June 30</u>	
2024	\$ 2,407
2025	1,415
2026	
2027	
2028	
<u>Total</u>	<u>\$ 3,822</u>

The following summarizes cash flow information related to leases:

<u>Year Ended June 30</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating lease	<u>\$ 120,574</u>
Assets obtained in exchange for lease obligations:	
Operating lease	<u>\$ 475,158</u>

## Note 10 - In-kind Contributions

In-kind gifts are acknowledged for the furtherance of the various programs and mission of the Organization. Donated services consist of veterinary medical and surgical services provided by AB Tech for shelter animals. Donated assets include shelter supplies and advertising. 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.

In-kind contributions are summarized as follows:

---

### Year Ended June 30, 2023

---

	<u>Fair value</u>	<u>Usage in Program</u>	<u>Donor restriction</u>
Donated services	\$ 118,530	Program services	None
Supplies	117,535	Program services	None
Advertising	116,358	Program services	None
Other	<u>9,893</u>	Management & general	None
Total contributions of nonfinancial assets	<u>\$ 362,316</u>		

---

### Year Ended June 30, 2022

---

	<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>	Program services	None
Total contributions of nonfinancial assets	<u>\$ 634,825</u>		

### **Note 10 - 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 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, 2023 and 2022, the Organization contributed \$29,151 and \$37,903 respectively.

### **Note 12 - Uninsured Cash Balances**

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Generally, cash balances will exceed the FDIC insurance limits or be partially uninsured.

### **Note 13 - Commitments and Contingencies**

#### **Risk Management**

The Organization is exposed to various risks of loss related to torts; theft or, 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 23% and 28% of total revenues and other support from this source for the years ended June 30, 2023 and 2022, respectively.

### **Note 14 - Related Party Transactions**

During the years ended June 30, 2023 and 2022, the Organization received contributions from members of the Board of Directors and employees totaling \$37,874 and \$43,834, 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, 2022, 2021, 2020 are subject to examination by the IRS, generally for three years after they were filed.

**Note 16 - Subsequent Events**

Management has evaluated subsequent events through October 4, 2023, the date on which the financial statements were available to be issued.

In September 2023 the asset held for sale was sold for \$70,000 resulting in a \$20,000 loss on the sale.