

DANVILLE AREA HUMANE SOCIETY, INC.

FINANCIAL REPORT

JUNE 30, 2019

DANVILLE AREA HUMANE SOCIETY, INC.

EXECUTIVE DIRECTOR

Paulette Dean

OFFICERS

President – Kathleen Contratto

First Vice President – Jefferson Smith, D. V. M.

Second Vice President – Deb Merricks

Secretary – Tim Montgomery

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Danville Area Humane Society, Inc.
Danville, Virginia

We have audited the accompanying financial statements of Danville Area Humane Society, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Danville Area Humane Society, Inc. as of June 30, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1, during the year ended June 30, 2019, the Society adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

As discussed in Note 12 to the financial statements, Danville Area Humane Society, Inc. has complied with the requirements of the agreement with the City of Danville, Virginia whereby all funds provided by the City of Danville have been disbursed for expenses incurred in operating the animal shelter.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 20, 2019

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

See Independent Auditors' Report

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 174,699	\$ 185,667
Cash restricted for shelter renovations	-	50,000
Unconditional restricted promises to give	50,000	50,000
Inventories	1,116	2,960
Prepaid expenses	3,043	3,670
	<u>228,858</u>	<u>292,297</u>
TOTAL CURRENT ASSETS		
UNCONDITIONAL RESTRICTED PROMISES TO GIVE, less current maturities	<u>91,280</u>	<u>133,981</u>
BENEFICIAL INTEREST IN CHARITABLE TRUST HELD BY OTHERS	<u>437,158</u>	<u>437,301</u>
PROPERTY AND EQUIPMENT		
Building and runs	1,079,213	848,367
Equipment	65,282	56,883
Vehicle	67,050	102,508
Computer software	283	283
	<u>1,211,828</u>	<u>1,008,041</u>
Less accumulated depreciation	<u>375,596</u>	<u>375,571</u>
	<u>836,232</u>	<u>632,470</u>
	<u>\$ 1,593,528</u>	<u>\$ 1,496,049</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 50,000	\$ -
Accounts payable	10,023	9,282
Accrued expenses:		
Salaries	2,826	3,358
Payroll taxes	4,045	2,959
Interest	331	-
Spay, neuter, and rabies expenses	8,747	8,564
	<u>75,972</u>	<u>24,163</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM DEBT, less current maturities	<u>100,000</u>	<u>-</u>
NET ASSETS		
Without donor restrictions, undesignated	731,357	689,012
With donor restrictions	686,199	782,874
	<u>1,417,556</u>	<u>1,471,886</u>
	<u>\$ 1,593,528</u>	<u>\$ 1,496,049</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2019
See Independent Auditors' Report

	Without Donor Restrictions		With Donor Restrictions		Total
	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Society Fund</u>	<u>Shelter Fund</u>	
Support and revenue:					
Adoption fees	\$ -	\$ 5,937	\$ -	\$ -	\$ 5,937
Other program services	-	4,073	-	-	4,073
City allotment	-	164,850	-	-	164,850
Membership dues	150	-	-	-	150
Donations	101,108	6,091	1,249	-	108,448
Grants	72,299	-	-	-	72,299
Fundraising revenue	11,472	-	-	-	11,472
Interest income	99	-	-	-	99
Split-interest trust income	17,000	-	-	-	17,000
Net (decrease) in value of trust beneficial interest	-	-	(143)	-	(143)
Gain on sale of fixed assets	-	149	-	-	149
Transfers in satisfaction of restrictions	<u>97,781</u>	<u>-</u>	<u>(97,781)</u>	<u>-</u>	<u>-</u>
	<u>299,909</u>	<u>181,100</u>	<u>(96,675)</u>	<u>-</u>	<u>384,334</u>
Gross special events revenue	24,926	-	-	-	24,926
Less cost of direct benefit to donors	<u>(9,319)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,319)</u>
Net special events revenue	<u>15,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,607</u>
Product sales	5,226	-	-	-	5,226
Less cost of products sold	<u>(3,423)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,423)</u>
Net product sales	<u>1,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,803</u>
Total support and revenue	<u>317,319</u>	<u>181,100</u>	<u>(96,675)</u>	<u>-</u>	<u>401,744</u>

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019

See Independent Auditors' Report

	Without Donor Restrictions		With Donor Restrictions		Total
	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Society Fund</u>	<u>Shelter Fund</u>	
Expenses:					
Wages	37,575	112,753	-	-	150,328
Payroll taxes	3,023	9,459	-	-	12,482
Insurance:					
Health and life	15,599	13,773	-	-	29,372
Other	8,062	1,896	-	-	9,958
Employee training	483	-	-	-	483
Vehicle expense	686	1,838	-	-	2,524
Utilities	-	17,842	-	-	17,842
Repairs and maintenance	1,162	4,015	-	-	5,177
Legal and accounting	13,005	10,944	-	-	23,949
Telephone	4,066	1,603	-	-	5,669
Postage	150	651	-	-	801
Printing	283	172	-	-	455
Advertising and program	2,684	2,613	-	-	5,297
Office supplies	2,854	1,093	-	-	3,947
License fees	50	120	-	-	170
Dues and subscriptions	25	-	-	-	25
Animal rescue/cruelty	5,330	-	-	-	5,330
Veterinarian services	-	18,690	-	-	18,690
Food and food supplies	-	10,035	-	-	10,035
Kennel supplies and janitorial	-	36,102	-	-	36,102
Spay and neuter clinic	64,075	-	-	-	64,075
Humane education	1,107	-	-	-	1,107
Fundraising expenses	5,371	-	-	-	5,371
Depreciation	36,804	1,588	-	-	38,392
Travel and meals	538	-	-	-	538
Interest	-	4,308	-	-	4,308
Miscellaneous	3,293	354	-	-	3,647
Total expenses	<u>206,225</u>	<u>249,849</u>	<u>-</u>	<u>-</u>	<u>456,074</u>
Increase (decrease) in net assets	<u>111,094</u>	<u>(68,749)</u>	<u>(96,675)</u>	<u>-</u>	<u>(54,330)</u>
Net assets (deficit), beginning	<u>1,112,939</u>	<u>(423,927)</u>	<u>782,874</u>	<u>-</u>	<u>1,471,886</u>
Net assets (deficit), end of year	<u>\$ 1,224,033</u>	<u>\$ (492,676)</u>	<u>\$ 686,199</u>	<u>\$ -</u>	<u>\$ 1,417,556</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2018

See Independent Auditors' Report

	Without Donor Restrictions		With Donor Restrictions		Total
	Society Fund	Shelter Fund	Society Fund	Shelter Fund	
Support and revenue:					
Adoption fees	\$ -	\$ 9,638	\$ -	\$ -	\$ 9,638
Other program services	-	3,833	-	-	3,833
City allotment	-	155,866	-	-	155,866
Membership dues	1,125	-	-	-	1,125
Donations	106,036	4,189	-	-	110,225
Grants	47,981	-	255,000	-	302,981
Fundraising revenue	7,854	-	-	-	7,854
Interest income	64	-	-	-	64
Split-interest trust income	12,000	-	-	-	12,000
Net decrease in value of trust beneficial interest	-	-	(7,869)	-	(7,869)
Transfers in satisfaction of restrictions	33,536	-	(33,536)	-	-
	<u>208,596</u>	<u>173,526</u>	<u>213,595</u>	<u>-</u>	<u>595,717</u>
Gross special events revenue	18,517	-	-	-	18,517
Less cost of direct benefits to donors	<u>(6,853)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,853)</u>
Net special events revenue	11,664	-	-	-	11,664
Product sales	4,887	-	-	-	4,887
Less cost of products sold	<u>(4,916)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,916)</u>
Net product sales	(29)	-	-	-	(29)
Total support and revenue	<u>220,231</u>	<u>173,526</u>	<u>213,595</u>	<u>-</u>	<u>607,352</u>

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2018

See Independent Auditors' Report

	Without Donor Restrictions		With Donor Restrictions		Total
	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Society Fund</u>	<u>Shelter Fund</u>	
Expenses:					
Wages	33,726	103,973	-	-	137,699
Payroll taxes	2,828	8,501	-	-	11,329
Insurance:					
Health and life	12,838	11,439	-	-	24,277
Other	8,911	3,432	-	-	12,343
Employee training	27	-	-	-	27
Vehicle expense	1,464	1,334	-	-	2,798
Utilities	-	11,905	-	-	11,905
Repairs and maintenance	-	3,223	-	-	3,223
Legal and accounting	3,280	17,705	-	-	20,985
Telephone	4,316	1,587	-	-	5,903
Postage	392	877	-	-	1,269
Printing	644	-	-	-	644
Advertising and program	3,567	2,608	-	-	6,175
Office supplies	3,468	502	-	-	3,970
Dues and subscriptions	430	112	-	-	542
Animal rescue/cruelty	6,266	-	-	-	6,266
Veterinarian services	-	20,758	-	-	20,758
Food and food supplies	-	7,520	-	-	7,520
Kennel supplies and janitorial	-	30,947	-	-	30,947
Spay and neuter clinic	39,567	-	-	-	39,567
Humane education	244	-	-	-	244
Fundraising expenses	954	-	-	-	954
Depreciation	37,543	1,273	-	-	38,816
Travel and meals	595	-	-	-	595
Miscellaneous	534	80	-	-	614
Total expenses	<u>161,594</u>	<u>227,776</u>	<u>-</u>	<u>-</u>	<u>389,370</u>
Increase (decrease) in net assets	58,637	(54,250)	213,595	-	217,982
Net assets (deficit), beginning of year	<u>1,054,302</u>	<u>(369,677)</u>	<u>569,279</u>	<u>-</u>	<u>1,253,904</u>
Net assets (deficit), end of year	<u>\$ 1,112,939</u>	<u>\$ (423,927)</u>	<u>\$ 782,874</u>	<u>\$ -</u>	<u>\$ 1,471,886</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

See Independent Auditors' Report

	Program Services		Management and General		Fundraising	Total Expenses
	Society Fund	Shelter	Society Fund	Shelter		
	Services	Fund	Services	Fund		
Wages	\$ 18,787	\$ 90,202	\$ 18,788	\$ 22,551	\$ -	\$ 150,328
Payroll taxes	1,511	7,567	1,512	1,892	-	12,482
Insurance:						
Health and life	7,800	11,017	7,800	2,755	-	29,372
Other	4,031	1,517	4,031	379	250	10,208
Employee training	483	-	-	-	-	483
Vehicle expense	457	1,225	229	613	-	2,524
Utilities	-	16,950	-	892	-	17,842
Repairs and maintenance	1,162	4,015	-	-	-	5,177
Legal and accounting	2,250	-	10,755	10,944	-	23,949
Telephone	3,253	1,282	813	321	-	5,669
Postage	120	521	30	130	-	801
Printing	226	138	57	34	-	455
Advertising and program	2,684	2,613	-	-	-	5,297
Office supplies	-	-	2,854	1,093	-	3,947
License fees	50	120	-	-	-	170
Dues and subscriptions	-	-	25	-	-	25
Animal rescue/cruelty investigations	5,330	-	-	-	-	5,330
Veterinarian services	-	18,690	-	-	-	18,690
Food and food supplies	-	10,035	-	-	-	10,035
Kennel supplies and janitorial	-	36,102	-	-	-	36,102
Spay and neuter clinic	64,075	-	-	-	-	64,075
Humane education	1,107	-	-	-	-	1,107
Product cost of goods sold	-	-	-	-	3,423	3,423
Fundraising expenses	-	-	-	-	14,440	14,440
Depreciation	35,683	1,588	1,121	-	-	38,392
Travel and meals	430	-	108	-	-	538
Interest expense	-	4,093	-	215	-	4,308
Miscellaneous	2,635	283	658	71	-	3,647
Total expenses by function	152,074	207,958	48,781	41,890	18,113	468,816
Less included in support and revenue:						
Cost of product sales	-	-	-	-	(3,423)	(3,423)
Cost of direct benefits to donors	-	-	-	-	(9,319)	(9,319)
	-	-	-	-	(12,742)	(12,742)
Total expenses as presented on Statement of Activities and Changes in Net Assets	<u>\$ 152,074</u>	<u>\$ 207,958</u>	<u>\$ 48,781</u>	<u>\$ 41,890</u>	<u>\$ 5,371</u>	<u>\$ 456,074</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

See Independent Auditors' Report

	Program Services		Management and General			Total Expenses
	Society	Shelter	Society	Shelter	Fundraising	
	Fund	Fund	Fund	Fund		
Wages	\$ 16,863	\$ 83,178	\$ 16,863	\$ 20,795	\$ -	\$ 137,699
Payroll taxes	1,414	6,801	1,414	1,700	-	11,329
Insurance:						
Health and life	6,419	9,151	6,419	2,288	-	24,277
Other	4,455	2,746	4,456	686	-	12,343
Employee training	27	-	-	-	-	27
Vehicle expense	976	889	488	445	-	2,798
Utilities	-	11,905	-	-	-	11,905
Repairs and maintenance	-	3,223	-	-	-	3,223
Legal and accounting	-	-	3,280	17,705	-	20,985
Telephone	3,453	1,270	863	317	-	5,903
Postage	314	702	78	175	-	1,269
Printing	515	-	129	-	-	644
Advertising and program	3,567	2,608	-	-	-	6,175
Office supplies	-	-	3,468	502	-	3,970
Dues and subscriptions	-	-	430	112	-	542
Animal rescue/cruelty investigations	6,266	-	-	-	-	6,266
Veterinarian services	-	20,758	-	-	-	20,758
Food and food supplies	-	7,520	-	-	-	7,520
Kennel supplies and janitorial	-	30,947	-	-	-	30,947
Spay and neuter clinic	39,567	-	-	-	-	39,567
Humane education and programs	244	-	-	-	-	244
Product cost of goods sold	-	-	-	-	4,916	4,916
Fundraising expenses	-	-	-	-	7,807	7,807
Depreciation	30,034	1,273	7,509	-	-	38,816
Travel and meals	476	-	119	-	-	595
Miscellaneous	428	64	106	16	-	614
Total expenses by function	115,018	183,035	45,622	44,741	12,723	401,139
Less included in support and revenue:						
Cost of product sales	-	-	-	-	(4,916)	(4,916)
Cost of direct benefits to donors	-	-	-	-	(6,853)	(6,853)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,769)</u>	<u>(11,769)</u>
Total expenses as presented on Statement of Activities and Changes in Net Assets	<u>\$ 115,018</u>	<u>\$ 183,035</u>	<u>\$ 45,622</u>	<u>\$ 44,741</u>	<u>\$ 954</u>	<u>\$ 389,370</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2019 and 2018
 See Independent Auditors' Report

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (54,330)	\$ 217,982
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	38,392	38,816
(Gain) on disposal of equipment	(149)	-
Decrease in beneficial interest in perpetual trust	143	7,869
Change in operating assets and liabilities:		
(Increase) decrease in assets:		
Unconditional restricted promises to give	42,701	(183,981)
Inventories	1,844	1,301
Prepaid expenses	627	1,120
Increase (decrease) in liabilities:		
Accounts payable	741	5,044
Accrued expenses	1,068	3,397
Deferred revenue	-	(12,954)
Net cash provided by operating activities	<u>31,037</u>	<u>78,594</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,000	-
Advances for renovation in progress	-	(21,750)
Purchase of property and equipment	<u>(243,005)</u>	<u>(2,142)</u>
Net cash (used in) investing activities	<u>(242,005)</u>	<u>(23,892)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Construction loan proceeds	200,000	-
Construction loan repayments	<u>(50,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>150,000</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(60,968)	54,702
Cash and cash equivalents:		
Beginning	<u>235,667</u>	<u>180,965</u>
Ending	<u>\$ 174,699</u>	<u>\$ 235,667</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	<u>\$ 3,977</u>	<u>\$ -</u>
Noncash investment and financing transactions:		
Vehicle traded in acquisition of new vehicle	<u>\$ 25,182</u>	<u>\$ -</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Reporting Entity and Significant Accounting Policies

Nature of reporting entity:

The Danville Area Humane Society, Inc. is a nonprofit corporation organized under the laws of the Commonwealth of Virginia for the purpose of promoting the welfare and humane treatment of all animals. The Society seeks to prevent cruelty to animals and promote kindness and respect for all forms of life. It hopes to provide for the rescue and temporary maintenance of lost, strayed, or abandoned animals. To this end, the Society also provides educational programs to distribute the principles of humaneness.

A summary of the Society's significant accounting policies follows:

Basis of accounting:

The financial statements of the Society have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources or items be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and revenue recognition:

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Reporting Entity and Significant Accounting Policies (Continued)

Promises to give:

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Contributions:

The Society accounts for contributions in accordance with the recommendations of authoritative United States accounting and reporting standards under which the Society is required to record contributions received as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions.

All donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. When the restriction expires in the same year the contribution is received, it is the policy of the Society to report the contribution as support without donor restrictions.

Contributed services and in-kind contributions:

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed series because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Society records donated professional services at the respective fair values of the services received.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Reporting Entity and Significant Accounting Policies (Continued)

Cash and cash equivalents:

For purposes of reporting cash flows, the Society includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of 90 days or less as cash and cash equivalents on the accompanying statements of financial position. Certificates of deposit with original maturities greater than 90 days are considered to be short-term investments. There were no certificates of deposit held at June 30, 2019 or 2018. At June 30, 2018, cash in the amount of \$50,000 is restricted for the purpose of repaying a future loan for upcoming shelter renovations.

Inventory:

Inventory is stated at the lower of cost or market (first-in, first-out) and consists of pet food, tee shirts, and other pet related items.

Reclassifications:

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Property and equipment:

Property and equipment acquisitions are recorded at cost or fair value when received. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. It is the Society's policy to capitalize property and equipment over \$500. Lesser amounts are expensed.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Functional allocation of expenses:

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, payroll taxes, travel, interest expense, telephone, postage, printing, and miscellaneous, which are allocated on the basis of estimates of time and effort. Occupancy and building depreciation are allocated based on square footage.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Reporting Entity and Significant Accounting Policies (Continued)

Advertising costs:

The Society expenses advertising costs as incurred.

Income taxes:

The Society is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. The organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income derived from business activities that are unrelated to its exempt purpose. Management has determined that the organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Financial instruments and credit risk:

The Society manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investment in money market mutual funds. To date, the Society has not experienced losses in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because the outstanding amounts are due from a charitable trust that is supportive of the Society's mission.

Recent accounting guidance:

During the year ended June 30, 2019, the Society implemented ASU 2016-14, Financial Statements of Not-for-Profit Entities. Accordingly, the beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, with donor restrictions. The ASU requires disclosure of the Society's liquidity which is presented in Note 2. Other disclosures required by the ASU are not applicable to the Society.

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the Statement of Financial Position, consist of cash and cash equivalents in the amount of \$174,699.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Unconditional Restricted Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount was computed using an interest rate of 5% and amounted to \$8,720. Amortization of the discount is included in contribution revenue. Unconditional promises to give as of June 30, 2019 amounted to \$141,280. The pledge is restricted for the purpose of repaying a promissory note dated August 7, 2018 that financed the cat wing renovation.

Unconditional restricted promised to give:	
Receivable in less than one year	\$ 50,000
Receivable in one to three years	<u>100,000</u>
	150,000
Less discount to net present value	<u>(8,720)</u>
	<u>\$141,280</u>

Note 4. Beneficial Interest in Perpetual Charitable Trust

The Society is the beneficiary of a fifty percent interest in the Sam S. Pruitt and Frances J. Pruitt Perpetual Charitable Trust. The assets of the trust are held and administered by an independent trustee. Under the terms of the trust, the Society has the irrevocable right to receive fifty percent of the income earned on trust assets in perpetuity. The fair value of the beneficial interest in the trust was recognized as an asset and as a contribution with donor restrictions at the date the trust was established. The Society's estimate of fair value at each reporting date is based on fair value information received from the trustee. Trust assets consist of, but are not limited to, cash, equity, and debt securities. The assets are not subject to control or direction by the Society. Net realized and unrealized gains (losses) related to the beneficial interest are reported as changes in net assets with donor restrictions. The fair value of the beneficial interest at June 30, 2019 and 2018, respectively, was \$437,158 and \$437,301.

Note 5. Fair Value Measurements

As of June 30, 2019, fair value measurements for assets reported at fair value on a recurring basis were determined based on:

	Fair Value	Quoted Prices in Active Markets		
		for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in perpetual trust	<u>\$ 437,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 437,158</u>

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Fair Value Measurements (continued)

As of June 30, 2018, fair value measurements for assets reported at fair value on a recurring basis were determined based on:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in perpetual trust	\$ 437,301	\$ -	\$ -	\$ 437,301

Fair value for the beneficial interest in the perpetual trust is measured using the fair value of the assets held in the trust reported by the trustee as of June 30, 2019 and 2018, respectively. In accordance with the terms of the charitable perpetual trust agreement, the trustee makes annual distributions equal to net realized income on trust investments annually or in more frequent installments as is convenient. The Society considers the measurement of its beneficial interest in the perpetual charitable trust to be a Level 3 measurement within the fair value measurement hierarchy because, even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Society will never receive those assets or have the ability to direct the trustee to redeem them.

Following is the reconciliation of activity in 2019 and 2018 for assets measured at fair value based on significant unobservable (non-market) information:

Beneficial interest in perpetual trust:

June 30, 2017	\$ 445,170
Net realized and unrealized gain on beneficial interest	<u>(7,869)</u>
June 30, 2018	437,301
Net realized and unrealized loss on beneficial interest	<u>(143)</u>
June 30, 2019	<u>\$ 437,158</u>

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Land, Buildings, and Equipment

A summary of property and equipment at June 30, 2019, follows:

	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Total</u>
Building and runs	\$ 1,079,213	\$ -	\$ 1,079,213
Equipment	27,559	37,723	65,282
Vehicles	67,050	-	67,050
Computer software	<u>-</u>	<u>283</u>	<u>283</u>
	1,173,822	38,006	1,211,828
Less accumulated depreciation	<u>347,930</u>	<u>27,666</u>	<u>375,596</u>
	<u>\$ 825,892</u>	<u>\$ 10,340</u>	<u>\$ 836,232</u>

A summary of property and equipment at June 30, 2018, follows:

	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Total</u>
Building and runs	\$ 848,367	\$ -	\$ 848,367
Equipment	27,559	29,324	56,883
Vehicles	102,508	-	102,508
Computer software	<u>-</u>	<u>283</u>	<u>283</u>
	978,434	29,607	1,008,041
Less accumulated depreciation	<u>348,471</u>	<u>27,100</u>	<u>375,571</u>
	<u>\$ 629,963</u>	<u>\$ 2,507</u>	<u>\$ 632,470</u>

Depreciation expenses totaled \$38,392 and \$38,816 for the years ended June 30, 2019 and 2018, respectively.

Note 7. Note Payable

At June 30, 2019, the Society had note indebtedness to American National Bank and Trust Company in the amount of \$150,000. The original amount borrowed was \$200,000 for the purpose of funding a building addition. The note bears interest at a fixed rate of 5.29% per annum with interest payable monthly. Annual principal payments in the amount of \$50,000 are due by December 15 each year with the last payment due on December 15, 2021. The collateral for the note is an assignment of the designated and future grant funds receivable on an annual basis from the E. Stuart James Grant Charitable Trust through December 15, 2021.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Note Payable (Continued)

Balance at June 30, 2019	\$ 150,000
Less current portion	(50,000)
Long-term debt	<u>\$ 100,000</u>

The future schedule maturities of long-term debt are as follows:

Years ending June 30:

2020	\$ 50,000
2021	50,000
2022	50,000
	<u>\$ 150,000</u>

Note 8. Accrued Spay, Neuter, and Rabies Expenses

The accrual for spay, neuter, and rabies expenses consists of amounts accrued and/or due to veterinarians for rabies inoculation and for sterilization of adopted animals. The amount of the liability was \$8,747 and \$8,564 at June 30, 2019 and 2018, respectively.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Spay and neuter program grant	\$ 84,425	\$ 98,500
Shelter upgrade grant	147,328	222,339
Vehicle grant	4,002	8,728
Smith Scholarship Fund	50	-
Small critter	263	263
Older adoptable pets	2,240	2,240
Cruelty	3,505	3,505
Katie's Fund	-	219
Cat Fund	-	442
Chewie Louie Fund	300	300
Reward Fund	425	375
Puppy transfer program	-	1,750
Keller Pit Bull Buddy Fund	1,195	1,195
Veterinary emergency care	1,208	239
Rescue equipment	284	284
Foster Fund	1,200	1,200
Critter Camp	318	1,425
Dog lots	2,298	2,569
Beneficial interest in perpetual charitable trust	<u>437,158</u>	<u>437,301</u>
Total net assets with donor restrictions	<u>\$686,199</u>	<u>\$782,874</u>

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, or by occurrence of the passage of time, or other events specified by the donors as follows for the years ended June 30, 2019 and 2018:

Satisfaction of purpose restrictions:

	<u>2019</u>	<u>2018</u>
Magnet School Fund	\$ -	\$ 69
Hurricane Animals	-	113
Small Critters	-	60
Cruelty	-	1,495
Katie's Fund	219	-
Cat Fund	442	-
Puppy Transfer Program	1,750	2,247
Vet Emergency Care	180	1,396
Dog Lots	271	2,431
Critter Camp	1,107	-
Spay and Neuter	14,075	18,713
Shelter Expansion	75,011	7,012
Purchase of vehicle	4,726	-
	<u>\$ 97,781</u>	<u>\$ 33,536</u>

Note 10. Concentrations

The Society's market is concentrated in the Danville, Virginia geographical area. Grants in the amount of \$60,000 were provided by one major contributor, the E. Stuart James Grant Charitable Trust, during each of the years ended June 30, 2019 and 2018. In addition, E. Stuart James Grant Charitable Trust paid \$50,000 as the second installment of a five-year pledge. The Grant Charitable Trust pledge promise provides for \$150,000 to be received over the next three years. The Society received \$164,850 and \$155,866 from the City of Danville, Virginia for the years ended June 30, 2019 and 2018, respectively. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11. Donated Professional Services and Materials

The following donated professional services and items were received during the year ended June 30, 2019:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Legal services	\$ -	\$ 2,250	\$ -	\$ 2,250
Food	2,400	-	-	2,400
Yard sale items	-	-	3,000	3,000
	<u>\$ 2,400</u>	<u>\$ 2,250</u>	<u>\$ 3,000</u>	<u>\$ 7,650</u>

For the year ended June 30, 2018, donations of food were recorded in the amount of \$2,200.

Note 12. Compliance with Grant Agreement

The Society received \$164,850 and \$155,866 from the City of Danville, Virginia for the years ended June 30, 2019 and 2018, respectively, and is in compliance with the requirements of the agreement with the City of Danville whereby all funds provided have been disbursed for expenses incurred in operating the animal shelter.

Note 13. Subsequent Events

Management has evaluated subsequent events through November 20, 2019, the date which the financial statements were available for issue.