

DANVILLE AREA HUMANE SOCIETY, INC.

FINANCIAL REPORT

JUNE 30, 2021

DANVILLE AREA HUMANE SOCIETY, INC.

EXECUTIVE DIRECTOR

Paulette Dean

OFFICERS

President – Kathleen Contratto

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

Second Vice President – Ann Evans

Secretary – Jane White

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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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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
December 15, 2021

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

See Independent Auditors' Report

ASSETS	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 303,297	\$ 213,522
Unconditional restricted promises to give	50,000	50,000
Inventories	5,884	5,221
Prepaid expenses	3,404	1,862
	<hr/>	<hr/>
Total current assets	362,585	270,605
	<hr/>	<hr/>
UNCONDITIONAL RESTRICTED PROMISES TO GIVE, less current maturities		
	-	46,687
	<hr/>	<hr/>
BENEFICIAL INTEREST IN CHARITABLE TRUST HELD BY OTHERS		
	456,530	412,294
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Building and runs	1,079,766	1,079,213
Equipment	59,972	66,644
Vehicle	67,050	67,050
Computer software	283	283
	<hr/>	<hr/>
	1,207,071	1,213,190
Less accumulated depreciation	443,437	416,996
	<hr/>	<hr/>
	763,634	796,194
	<hr/>	<hr/>
	\$ 1,582,749	\$ 1,525,780
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 50,000	\$ 50,000
Accounts payable	8,664	13,334
Accrued expenses:		
Salaries	4,912	3,707
Payroll taxes	2,838	5,085
Interest	110	273
Spay, neuter, and rabies expenses	12,654	10,206
	<hr/>	<hr/>
Total current liabilities	79,178	82,605
	<hr/>	<hr/>
LONG-TERM DEBT, less current maturities		
	-	81,700
	<hr/>	<hr/>
NET ASSETS		
Without donor restrictions, undesignated	867,119	752,079
With donor restrictions	636,452	609,396
	<hr/>	<hr/>
	1,503,571	1,361,475
	<hr/>	<hr/>
	\$ 1,582,749	\$ 1,525,780
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See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2021
See Independent Auditors' Report

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Society Fund</u>	<u>Shelter Fund</u>	
Support and Revenue:					
Adoption fees	\$ -	\$ 12,425	\$ -	\$ -	\$ 12,425
Other program services	-	2,622	-	-	2,622
City allotment	-	188,587	-	-	188,587
Membership dues	970	-	-	-	970
Contributions	115,230	17,496	78,895	-	211,621
Grants received	78,113	-	-	-	78,113
Fundraising revenue	534	-	-	-	534
Interest income	331	2	-	-	333
Split-interest trust income	16,000	-	-	-	16,000
Net increase in value of trust beneficial interest	-	-	44,236	-	44,236
Loss on disposal of assets	-	(1,849)	-	-	(1,849)
PPP Loan Forgiveness	31,700	-	-	-	31,700
Transfers in satisfaction of restrictions	<u>96,075</u>	<u>-</u>	<u>(96,075)</u>	<u>-</u>	<u>-</u>
	<u>338,953</u>	<u>219,283</u>	<u>27,056</u>	<u>-</u>	<u>585,292</u>
Gross special events revenue	7,626	-	-	-	7,626
Less cost of direct benefit to donors	<u>(7,583)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,583)</u>
Net special events revenue	<u>43</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43</u>
Product sales	5,338	-	-	-	5,338
Less cost of products sold	<u>(3,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,739)</u>
Net product sales	<u>1,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,599</u>
Total support and revenue	<u>340,595</u>	<u>219,283</u>	<u>27,056</u>	<u>-</u>	<u>586,934</u>
Expenses:					
Program services	113,903	242,119	-	-	356,023
Supporting services:					
Management and general	31,525	53,659	-	-	85,184
Fundraising	<u>3,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,631</u>
Total expenses	<u>149,060</u>	<u>295,778</u>	<u>-</u>	<u>-</u>	<u>444,838</u>
Increase (decrease) in net assets	<u>191,535</u>	<u>(76,495)</u>	<u>27,056</u>	<u>-</u>	<u>142,096</u>
Net assets (deficit), beginning of year	<u>1,334,881</u>	<u>(582,802)</u>	<u>609,396</u>	<u>-</u>	<u>1,361,475</u>
Net assets (deficit), end of year	<u>\$ 1,526,416</u>	<u>\$ (659,297)</u>	<u>\$ 636,452</u>	<u>\$ -</u>	<u>\$ 1,503,571</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020

See Independent Auditors' Report

	Without Donor Restrictions		With Donor Restrictions		Total
	Society Fund	Shelter Fund	Society Fund	Shelter Fund	
Support and Revenue:					
Adoption fees	\$ -	\$ 10,919	\$ -	\$ -	\$ 10,919
Other program services	-	3,711	-	-	3,711
City allotment	-	164,850	-	-	164,850
Membership dues	75	-	-	-	75
Contributions	123,205	15,419	8,566	-	147,190
Grants received	76,907	-	-	-	76,907
Fundraising revenue	2,357	-	-	-	2,357
Interest income	154	-	-	-	154
Split-interest trust income	18,000	-	-	-	18,000
Net (decrease) in value of trust beneficial interest	-	-	(24,865)	-	(24,865)
(Loss) on disposal of assets	-	(1,048)	-	-	(1,048)
Transfers in satisfaction of restrictions	60,504	-	(60,504)	-	-
	<u>281,202</u>	<u>193,851</u>	<u>(76,803)</u>	<u>-</u>	<u>398,250</u>
Gross special events revenue	16,118	-	-	-	16,118
Less cost of direct benefits to donors	(7,338)	-	-	-	(7,338)
Net special events revenue	8,780	-	-	-	8,780
Product sales	7,501	-	-	-	7,501
Less cost of products sold	(5,164)	-	-	-	(5,164)
Net product sales	2,337	-	-	-	2,337
Total support and revenue	<u>292,319</u>	<u>193,851</u>	<u>(76,803)</u>	<u>-</u>	<u>409,367</u>
Expenses:					
Program services	142,008	232,379	-	-	374,387
Supporting services:					
Management and general	33,440	51,598	-	-	85,038
Fundraising	6,023	-	-	-	6,023
Total expenses	<u>181,471</u>	<u>283,977</u>	<u>-</u>	<u>-</u>	<u>465,448</u>
Increase (decrease) in net assets	<u>110,848</u>	<u>(90,126)</u>	<u>(76,803)</u>	<u>-</u>	<u>(56,081)</u>
Net assets (deficit), beginning of year	<u>1,224,033</u>	<u>(492,676)</u>	<u>686,199</u>	<u>-</u>	<u>1,417,556</u>
Net assets (deficit), end of year	<u>\$ 1,334,881</u>	<u>\$ (582,802)</u>	<u>\$ 609,396</u>	<u>\$ -</u>	<u>\$1,361,475</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

See Independent Auditors' Report

	Program Services		Management and General		Fundraising	Total
	Society	Shelter	Society	Shelter		
	Fund	Fund	Fund	Fund		
Wages	\$ 22,171	\$ 85,370	\$ 22,172	\$ 21,343	\$ -	\$ 151,056
Payroll taxes	1,501	6,990	1,502	1,747	-	11,741
Insurance:						
Health and life	754	12,465	754	3,117	-	17,091
Other	2,699	2,854	2,699	713	-	8,965
Employee training	45	-	-	-	-	45
Vehicle expense	204	562	102	281	-	1,149
Utilities	-	16,744	-	881	-	17,625
Repairs and maintenance	-	8,067	-	-	-	8,067
Legal and accounting	1,060	-	-	23,865	-	24,925
Telephone	1,683	2,281	421	570	-	4,955
Postage	74	850	18	213	-	1,155
Printing	-	875	-	219	-	1,094
Advertising and program	3,535	1,627	-	-	-	5,162
Office supplies	-	-	910	445	-	1,355
License fees	-	120	-	-	-	120
Dues and subscriptions	-	-	725	-	-	725
Animal rescue/cruelty investigations	4,618	-	-	-	-	4,618
Veterinarian services	-	31,598	-	-	-	31,598
Food and food supplies	-	14,308	-	-	-	14,308
Kennel supplies and janitorial	-	51,282	-	-	-	51,282
Spay and neuter clinic	39,651	-	-	-	-	39,651
Product cost of goods sold	-	-	-	-	3,739	3,739
Fundraising expenses	-	-	-	-	11,214	11,214
Depreciation	34,228	1,949	1,801	-	-	37,978
Travel and meals	744	-	186	-	-	930
Interest expense	-	3,954	-	208	-	4,162
Miscellaneous	937	224	233	56	-	1,450
Total expenses by function	113,903	242,119	31,525	53,659	14,953	456,160
Less included in support and revenue:						
Cost of product sales	-	-	-	-	(3,739)	(3,739)
Cost of direct benefits to donors	-	-	-	-	(7,583)	(7,583)
	-	-	-	-	(11,322)	(11,322)
Total expenses as presented on Statement of Activities and Changes in Net Assets	<u>\$ 113,903</u>	<u>\$ 242,119</u>	<u>\$ 31,525</u>	<u>\$ 53,659</u>	<u>\$ 3,631</u>	<u>\$ 444,838</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

See Independent Auditors' Report

	Program Services		Management and General		Fundraising	Total Expenses
	Society	Shelter	Society	Shelter		
	Fund	Fund	Fund	Fund		
Wages	\$ 18,314	\$ 91,537	\$ 18,315	\$ 22,884	\$ -	\$ 151,050
Payroll taxes	1,516	7,038	1,517	1,760	-	11,831
Insurance:						
Health and life	6,089	8,309	6,089	2,078	-	22,565
Other	3,726	937	3,727	234	-	8,624
Employee training	45	-	-	-	-	45
Vehicle expense	631	1,006	316	503	-	2,456
Utilities	-	17,112	-	901	-	18,013
Repairs and maintenance	200	4,310	-	-	-	4,510
Legal and accounting	2,250	-	160	21,825	-	24,235
Telephone	2,424	2,306	606	576	-	5,912
Postage	132	645	33	161	-	971
Printing	-	222	-	56	-	278
Advertising and program	1,733	3,141	-	-	-	4,874
Office supplies	-	-	762	286	-	1,048
License fees	300	90	-	-	-	390
Dues and subscriptions	-	-	500	-	-	500
Animal rescue/cruelty investigations	4,354	-	-	-	-	4,354
Veterinarian services	-	20,538	-	-	-	20,538
Food and food supplies	-	15,489	-	-	-	15,489
Kennel supplies and janitorial	-	51,062	-	-	-	51,062
Spay and neuter clinic	60,529	-	-	-	-	60,529
Humane education and programs	285	-	-	-	-	285
Product cost of goods sold	-	-	-	-	5,164	5,164
Fundraising expenses	-	-	-	-	13,361	13,361
Depreciation	38,300	2,291	1,121	-	-	41,712
Travel and meals	956	-	239	-	-	1,195
Interest expense	-	6,346	-	334	-	6,680
Miscellaneous	224	-	55	-	-	279
Total expenses by function	142,008	232,379	33,440	51,598	18,525	477,950
Less included in support and revenue:						
Cost of product sales	-	-	-	-	(5,164)	(5,164)
Cost of direct benefits to donors	-	-	-	-	(7,338)	(7,338)
	-	-	-	-	(12,502)	(12,502)
Total expenses as presented on Statement of Activities and Changes in Net Assets	<u>\$ 142,008</u>	<u>\$ 232,379</u>	<u>\$ 33,440</u>	<u>\$ 51,598</u>	<u>\$ 6,023</u>	<u>\$ 465,448</u>

See Notes to Financial Statements

DANVILLE AREA HUMANE SOCIETY, INC.

STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2021 and 2020
 See Independent Auditors' Report

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 142,096	\$ (56,081)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	37,978	41,712
Loss on disposal of equipment	1,849	1,048
Paycheck Protection Program loan forgiven	(31,700)	-
(Increase) decrease in beneficial interest in perpetual trust	(44,236)	24,864
Change in operating assets and liabilities:		
(Increase) decrease in assets:		
Unconditional restricted promises to give	46,687	44,593
Inventories	(663)	(4,105)
Prepaid expenses	(1,542)	1,181
Increase (decrease) in liabilities:		
Accounts payable	(4,670)	3,311
Accrued expenses	1,243	3,322
Net cash provided by operating activities	<u>147,042</u>	<u>59,845</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(7,267)</u>	<u>(2,722)</u>
Net cash (used in) investing activities	<u>(7,267)</u>	<u>(2,722)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	-	31,700
Loan repayments	<u>(50,000)</u>	<u>(50,000)</u>
Net cash (used in) financing activities	<u>(50,000)</u>	<u>(18,300)</u>
Increase in cash and cash equivalents	89,775	38,823
Cash and cash equivalents:		
Beginning	<u>213,522</u>	<u>174,699</u>
Ending	<u>\$ 303,297</u>	<u>\$ 213,522</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	<u>\$ 4,325</u>	<u>\$ 6,738</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 services 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, 2021 or 2020.

Inventory:

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

Reclassifications:

Certain reclassifications have been made to the 2020 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 costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

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 \$303,297.

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 for the year ended June 30, 2020 was computed using an interest rate of 5% and amounted to \$3,313. Amortization of the discount was included in contribution revenue. Unconditional promises to give as of June 30, 2021 amounted to \$50,000 and are expected to be received within one year. The pledge is restricted for the purpose of repaying a promissory note dated August 7, 2018 that financed the cat wing renovation.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020, respectively, was \$456,530 and \$412,294.

Note 5. Fair Value Measurements

As of June 30, 2021, 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	\$ 456,530	\$ -	\$ -	\$ 456,530

As of June 30, 2020, 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	\$ 412,294	\$ -	\$ -	\$ 412,294

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Fair Value Measurements (Continued)

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, 2021 and 2020, 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 2021 and 2020 for assets measured at fair value based on significant unobservable (non-market) information:

Beneficial interest in perpetual trust:

June 30, 2019	\$ 437,158
Net realized and unrealized loss on beneficial interest	<u>(24,864)</u>
June 30, 2020	412,294
Net realized and unrealized gain on beneficial interest	<u>44,236</u>
June 30, 2021	<u><u>\$ 456,530</u></u>

Note 6. Land, Buildings, and Equipment

A summary of property and equipment at June 30, 2021, follows:

	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Total</u>
Building and runs	\$ 1,079,766	\$ -	\$ 1,079,766
Equipment	22,291	37,681	59,972
Vehicles	67,050	-	67,050
Computer software	<u>-</u>	<u>283</u>	<u>283</u>
	1,169,107	37,964	1,207,071
Less accumulated depreciation	<u>411,975</u>	<u>31,462</u>	<u>443,437</u>
	<u><u>\$ 757,132</u></u>	<u><u>\$ 6,502</u></u>	<u><u>\$ 763,634</u></u>

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Land, Buildings, and Equipment (Continued)

A summary of property and equipment at June 30, 2020, follows:

	<u>Society Fund</u>	<u>Shelter Fund</u>	<u>Total</u>
Building and runs	\$ 1,079,213	\$ -	\$ 1,079,213
Equipment	27,559	39,085	66,644
Vehicles	67,050	-	67,050
Computer software	<u>-</u>	<u>283</u>	<u>283</u>
	1,173,822	39,368	1,213,190
Less accumulated depreciation	<u>387,351</u>	<u>29,645</u>	<u>416,996</u>
	<u>\$ 786,471</u>	<u>\$ 9,723</u>	<u>\$ 796,194</u>

Depreciation expenses totaled \$37,978 and \$41,712 for the years ended June 30, 2021 and 2020, respectively.

Note 7. Notes Payable

At June 30, 2021, the Society had the following note indebtedness:

The Society is indebted on a note payable to American National Bank and Trust Company in the amount of \$50,000. 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.

The Society borrowed \$31,700 under the Payroll Protection Program in May 2020. The loan proceeds were forgiven on March 12, 2021 for the full amount of \$31,700. Since this loan's proceeds were fully forgiven before the issuance of these financial statements, the total amount of \$31,700 is shown as income as of June 30, 2021.

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$12,654 and \$10,206 at June 30, 2021 and 2020, respectively.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 were available for the following purposes:

	<u>2021</u>	<u>2020</u>
Spay and neuter program grant	\$ 84,319	\$73,970
Shelter upgrade grant	47,328	97,328
Vehicle grant	4,002	4,002
Smith Scholarship Fund	550	300
Small critter	413	263
Older adoptable pets	2,240	2,240
Cruelty	3,505	3,505
April Hyler Hogan Fund	19,187	3,340
Puppy Transfer Program	7,500	-
Cat Fund	100	100
Chewie Louie Fund	300	300
Reward Fund	425	425
Mary Dean Fund	1,660	1,660
Keller Pit Bull Buddy Fund	595	1,195
Veterinary emergency care	1,738	2,374
Rescue equipment	284	284
Foster Fund	1,200	1,200
Critter Camp	318	318
Dog lots	4,258	4,298
Beneficial interest in perpetual charitable trust	<u>456,530</u>	<u>412,294</u>
Total net assets with donor restrictions	<u>\$636,452</u>	<u>\$609,396</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, by occurrence of the passage of time, or other events specified by the donors as follows for the years ended June 30, 2021 and 2020:

Satisfaction of purpose restrictions:

	<u>2021</u>	<u>2020</u>
Vet Emergency Care	\$ 636	\$ -
Dog Lots	3,040	-
Pit Bull Buddy Fund	600	-
April Hyler Hogan Fund	2,148	-
Spay and Neuter	39,651	10,504
Shelter Expansion	50,000	50,000
	<u>\$ 96,075</u>	<u>\$ 60,504</u>

DANVILLE AREA HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020. In addition, E. Stuart James Grant Charitable Trust paid \$50,000 as the fourth installment of a five-year pledge. The Grant Charitable Trust pledge promise provides for \$50,000 to be received during the next year. The Society received \$188,587 and \$164,850 from the City of Danville, Virginia for the years ended June 30, 2021 and 2020, respectively. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term.

Note 11. Donated Professional Services and Materials

The following donated professional services and items were received during the year ended June 30, 2021:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Legal services	\$ -	\$ 1,000	\$ -	\$ 1,000
Food	7,200	-	-	7,200
Yard sale items	-	-	6,000	6,000
	<u>\$ 7,200</u>	<u>\$ 1,000</u>	<u>\$ 6,000</u>	<u>\$ 14,200</u>

The following donated professional services and items were received during the year ended June 30, 2020:

	<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>

Note 12. Compliance with Grant Agreement

The Society received \$188,587 and \$164,850 from the City of Danville, Virginia for the years ended June 30, 2021 and 2020, 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. Functional 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 14. Subsequent Events

Management has evaluated subsequent events through December 15, 2021, the date which the financial statements were available for issue.

The World Health Organization declared COVID-19 as a pandemic on March 11, 2020. The effects of COVID-19 continue to cause challenges for businesses and charitable organizations. The Society is following best practice guidelines for safety, physical distancing, and enhanced cleaning and disinfection. Future potential impacts may include continued disruptions or restrictions on the ability to operate the facility and employees' ability and willingness to work. Additional possible effects may include impairment of the ability to obtain contributions, to hold fundraising events, and secure volunteers. The future effects of these issues are unknown.