HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Humane Society of Washington County, Incorporated
Hagerstown, Maryland

We have audited the accompanying financial statements of Humane Society of Washington County, Incorporated (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Humane Society of Washington County, Incorporated as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Rotz & Stonesifer, P.C.

Chambersburg, Pennsylvania
January 5, 2021

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

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HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	575,504
Pledges receivable - current		625
Prepaid expenses and deposits		38,569
Inventory		1,005
TOTAL CURRENT ASSETS		615,703
PROPERTY AND EQUIPMENT		
Land		337,489
Buildings and improvements		4,147,465
Furniture and fixtures		58,791
Equipment		685,804
Vehicles		311,133
Construction in progress		20,914
		5,561,596
Less accumulated depreciation		2,075,258
		3,486,338
OTHER ASSETS		
Beneficial interest in perpetual trust		431,581
Investments		2,958,571
TOTAL OTHER ASSETS		3,390,152
TOTAL ASSETS	$	7,492,193
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of mortgage payable	$	62,059
Current portion of Paycheck Protection Program loan		152,685
Line of credit		65,000
Accounts payable		48,983
Accrued expenses		140,743
TOTAL CURRENT LIABILITIES		469,470
NONCURRENT LIABILITIES		
Long-term portion of mortgage payable less unamortized mortgage closing costs		1,090,190
Long-term portion of Paycheck Protection Program loan		194,115
TOTAL NONCURRENT LIABILITIES		1,284,305
TOTAL LIABILITIES		1,753,775
NET ASSETS		
Without donor restriction		5,106,023
With donor restriction		
Restricted for a specific purpose		200,814
Restricted in perpetuity		431,581
TOTAL NET ASSETS		5,738,418
TOTAL LIABILITIES AND NET ASSETS	$	7,492,193

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contract services	$ 1,411,400	$ -	$ 1,411,400
Program service revenue	218,569	-	218,569
Contributions and grants	539,371	110,753	650,124
Clinic and retail revenue	206,170	-	206,170
Investment income, net	12,971	(18,854)	(5,883)
Other income	20,688	-	20,688
Net assets released from restrictions	124,272	(124,272)	-
	2,533,441	(32,373)	2,501,068
EXPENSES			
Program	2,246,383	-	2,246,383
Supporting services:			-
Management and general	334,168	-	334,168
Fundraising	135,982	-	135,982
	2,716,533	-	2,716,533
CHANGE IN NET ASSETS	(183,092)	(32,373)	(215,465)
NET ASSETS - BEGINNING OF YEAR, as restated	5,289,115	664,768	5,953,883
NET ASSETS - END OF YEAR	$ 5,106,023	$ 632,395	$ 5,738,418

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Fundraising	Management and General	Program Service	Total
Advertising	$ 287	$ 246	$ 1,002	$ 1,535
Bank Fees	-	20,140	148	20,288
Communications	-	-	21,468	21,468
Dues and subscriptions	-	1,751	4,862	6,613
Employee/Client Relations	-	551	288	839
Human resources	125,061	196,808	1,368,832	1,690,701
Insurance	176	271	23,462	23,909
Interest	697	1,072	36,457	38,226
Licenses and permits	-	1,656	470	2,126
Meals & Entertainment	-	170	-	170
Postage and delivery	-	3,329	2,099	5,428
Printing	-	423	1,871	2,294
Professional fees	-	18,822	745	19,567
Programs and services	4,797	58,115	211,670	274,582
Repairs and maintenance	-	12,340	69,715	82,055
Supplies	-	9,440	213,027	222,467
Travel	-	134	3,154	3,288
Utilities	1,925	2,959	100,634	105,518
Vehicle expense	-	1,272	26,824	28,096
Volunteers	-	-	827	827
Depreciation	3,039	4,669	158,828	166,536
	$ 135,982	$ 334,168	$ 2,246,383	$ 2,716,533

HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (215,465)	
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash interest expense associated with mortgage closing costs	1,581	
Depreciation	166,536	
Realized loss on sale of investments	51,053	
Unrealized loss on investments	43,147	
(Increase) decrease in:		
Pledges receivable	50,000	
Prepaid expenses	(1,364)	
Inventory	4,971	
Increase (decrease) in:		
Accounts payable	(10,544)	
Accrued expenses	19,889	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 109,804
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(121,508)	
Distibutions from investment portfolios	230,217	
Purchase of investments	(2,541,820)	
Proceeds from redemption of investments	2,516,145	
NET CASH PROVIDED BY INVESTING ACTIVITIES		83,034
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) on line of credit	(94,000)	
Proceeds from Paycheck Protection Program loan	346,800	
Principal payments on long-term debt	(60,333)	
NET CASH PROVIDED BY FINANCING ACTIVITIES		192,467
NET INCREASE IN CASH		385,305
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		190,199
CASH AND CASH EQUIVALENTS - END OF YEAR		$ 575,504

Supplementary disclosure of cash flow information:	
Cash paid for interest	$ 36,645

Supplementary disclosure of non-cash operating, investing, and financing activities

The Society received $58,423 in donated goods and equipment which are included in revenue in the Statement of Activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Humane Society of Washington County, Inc.** (the Society) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Society's management, who is responsible for their integrity and objectivity.

Principles of consolidation: In conformity with FASB ASC 810, the financial statements include the accounts of Humane Society of Washington County, Inc. and Humane Society of Washington County Holding, LLC, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of operations: The Society was formed in 1921 to improve the quality of life for all animals. Through education, legislation, action and leadership, the Society strives to eliminate overpopulation and to foster an environment of respect, responsibility, and compassion. The Society currently operates a shelter for animals and provides animal control services under a contract with the Board of County Commissioners of Washington County, Maryland.

Humane Society of Washington County Holding, LLC, a wholly owned subsidiary, holds investments and loans for the Society.

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

Basis of presentation: The Society reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restriction. Net assets with donor restrictions are comprised of funds whose use has been limited by donors to a specific time period or purpose or funds in which the principal is held in perpetuity.

Effect of Adopting New Accounting Standard: During the year ended June 30, 2020, the Society adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Made (Topic 958).* This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant/donation. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606), once adopted. If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting for the year ended June 30, 2020 are presented under FASB ASU 2018-08. There was no material impact to the financial statements as a result of the adoption of ASU 2018-08. Accordingly, no adjustment to beginning net assets was recorded.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the Society include fair value determinations provided by the third-party investment companies.

Cash and cash equivalents: The Society considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents.

Contributions and promises to give: 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 future years are recorded at the present value of their estimated future cash flows. Discounts on non-current amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management believes that all unconditional promises to give are fully collectible and no allowance for doubtful collections is required.

Contributions that are restricted by the donor are reported as increases in net assets without restriction if the restrictions are met in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, net assets with restriction are reclassified to net assets without restriction.

Investments: The Society's investments are stated at fair value. The fair values of marketable equity and debt securities are based on quoted prices in active markets. Realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restriction unless their use is restricted by the donor or by law and included in net investment return. Also, included in net investment return is other investment income, such as dividends and interest, which is recognized in the period earned as an increase in net assets without donor restriction unless the use is limited by donor-imposed restrictions. Investment income that is restricted by the donor and subsequently used in the same period is reported as an increase in net assets without donor restriction. Return on investments is shown net of related investment fees.

Fair value measurements: The Society conforms with FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

> **Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.
>
> **Level 2:** Inputs to the valuation methodology include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> If the asset or liability has a specific (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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Inventory: Inventory is stated at the lower of cost or net realizable value, on a first-in, first-out basis and consists of medication.

Beneficial interest in trust: The Society is an irrevocable beneficiary of a split-interest agreement relating to the Margaret E. Stickell Charitable Foundation (the Trust). Under the terms of the agreement, the Society is entitled to an annual distribution of 4% of the fair market value as of December 31. The timing of the distribution is received quarterly, and is to be used for the general welfare of the Society. Accounting principles generally accepted in the United States of America require not-for-profit beneficiaries of such trust to record, as an asset, the present value of the estimated future cash receipts to be received from the Trust, over the life of the Trust. Due to the perpetual nature of this Trust, the future cash flows cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the Society's share of the fair market value of the Trust's assets. Changes in the Trust's fair value fair value are included in the unrealized loss on investments in the statement of activities. The annual distribution of the Society's 4% distributive share of the Trust is recognized as bequest income and are included in contributions and grant income in the accompanying statements of activities.

Property and equipment: Property and equipment is stated at cost, if purchased, or fair market value, if donated. Maintenance and repairs are charged to expense as incurred; major improvements over $1,000 that increase the useful lives of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income in the period realized. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets ranging from three to forty years.

Contributed services and goods: A substantial number of unpaid volunteers have made significant contributions of time to develop the Society's programs. The Society also receives various donated goods to be used in its operations. Donations of services are recorded at their estimated fair values at the date of donation given that the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. Donations of goods and equipment are also recorded at their estimated fair market values at date of donation.

Functional allocation of expenses: Certain costs have been allocated among the programs and supporting services benefited. Allocations of costs by function are based principally on specific identification of costs to program, management and general, or fundraising. Non-specifically identified costs are based on management's allocation of time requirements for the various functions based on its analysis of historical activities.

Advertising: The Society's policy is to expense advertising costs as the costs are incurred.

Income tax status: The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore, has made no provision for federal income taxes in the accompanying financial statements. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Society complies with ASC 740-10, which establishes a threshold for determining when an income tax benefit of a tax position can be recognized. Under ASC 740-10, a tax position includes, among other things, (a) a decision not to file a tax return (b) an allocation or a shift of income between jurisdictions (c) the characterization of income or a decision to exclude reporting taxable income in a tax return (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt and (e) an entity's status, including its status as a tax-exempt not-for-profit entity. Based on its interpretation of the requirements of ASC 740-10, management believes that the Society has no uncertain tax positions that qualify for either recognition or disclosure. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Society is no longer subject to income tax examinations for years prior to 2017.

Mortgage closing costs: The Society incurred mortgage closing costs associated with obtaining financing. These costs are being amortized using the straight-line method over the life of the related debt. Amortization of mortgage closing costs is reported as a component of interest expense and is computed using the straight line method which is not materially different than the effective interest method. The unamortized amount is recorded as a direct deduction from the carrying amount of the related obligation on the statement of financial position.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In May 2020, the FASB deferred the effective date of ASU 2014-09 one year making it effective for the Society as of July 1, 2020.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Society beginning July 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Society is currently evaluating the effect that the standard will have on the financial statements.

2. RISKS AND UNCERTAINTIES

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society's management considers those circumstances to be a normal business risk.

From time to time, the Society is involved in litigation and proceedings arising in the ordinary course of business. The Society does not anticipate any material losses to arise from these legal proceedings.

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or shut down of operations for some businesses and created many economic uncertainties. These uncertainties include, but are not limited to, disruption of supply chains, customers, and the Society's workforce. These events could impact our financial condition and operating results. However, the financial impact and duration cannot be reasonably estimated at this time.

Investments of the Society are exposed to various risks, such as interest rate, market, currency, and credit risks. In addition, economic uncertainty and market events have led to volatility in currency, commodity, credit, and equity markets. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

3. PLEDGES RECEIVABLE

Pledges receivable consist of $625 receivable in one year as of June 30, 2020 and are measured at net realizable value.

4. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Society is the beneficiary of the Margaret E. Stickell Charitable Trust (the Trust) held and administered by independent trustees. Under the terms of the trust, the Society has the right to receive the income earned on trust assets in perpetuity. The fair value of the beneficial interest in a trust is recognized as an asset and as a contribution restricted in perpetuity at the date the trust is established. The Society's estimate of fair value at each reporting date is based on fair value information received from the trustees. These assets are not subject to control or discretion by the Society. Market values are determined based on quoted market prices.

5. INVESTMENTS

The fair value of investments by major category consisted of the following as of June 30:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Money market funds	$ 237,129	$ -	$ -	$ 237,129
Fixed income	-	373,864	-	373,864
Mutual funds	1,984,344	-	-	1,984,344
Equities	363,234	-	-	363,234
	$ 2,584,707	**$ 373,864**	**$ -**	**$ 2,958,571**

The schedule below summarizes the activity for the year ended June 30, 2020 for the beneficial interest in perpetual trust which has been classified as a level 3 investment:

	2020
	LEVEL 3
Beginning balance	$ 450,435
Net (loss)	(18,854)
	$ 431,581

Net investment return consisted of the following as of June 30:

	2020
	WITHOUT DONOR RESTRICTION
Interest and dividends	$ 112,392
Realized (losses) on investment	(51,053)
Unrealized (losses) on investment	(24,294)
	37,045
Investment expense	(24,074)
	$ 12,971

The Society invests in a portfolio that contains a variety of investment types. Such investments are exposed to various risks, such as market, credit and interest rate risk. Due to the level of risk associated with such investments, it is at least reasonably possible that such risk may change in the near term and that such changes could materially affect the fair values of those investments as reported in the Society's financial statements. In addition, recent economic uncertainty and market events have led to unprecedented volatility in the currency, commodity, debt and equity markets that have resulted in the bankruptcy and/or failure of some financial institutions. Such events have highlighted the level of risk inherent in any investment portfolio. Management believes that there has been no significant other-than-temporary reduction of fair value since June 30, 2020.

6. LONG-TERM DEBT

At June 30, 2020, the Society had a mortgage payable, collateralized by the building, totaling $1,176,762. The mortgage is payable in monthly installments of $7,743 including interest at a rate of 2.65% through the first reset date of December 22, 2020. At the reset date (which subsequently occurs every five years after the initial rest date), the interest rate will adjust to the reset rate, which is calculated as 67% of the sum of the 5-year FHLB rate (FHLB Pittsburgh's five year amortizing fixed rates in effect as published in the Weekly Financial Summary) and 2.65%. with final payment due December 2035. Total interest expense for the mortgage was $32,584 for the year ended June 30, 2020.

Maturities by year are as follows:

2021	$ 62,059
2022	63,747
2023	65,481
2024	67,193
2025	69,090
Thereafter	849,192
	$ 1,176,762

7. LINE OF CREDIT

The Society has available a $250,000 line of credit, secured by the Society's building, that automatically renews on a year by year basis in November. Interest is payable at a variable rate equal to the Prime Rate plus 50 basis points (3.75% at June 30, 2020). The line provides operating cash when needed during slower cash flow periods. As of June 30, 2020, $65,000 was outstanding. Total interest expense incurred on the line of credit was $4,060 for the year ended June 30, 2020.

8. RETIREMENT PLAN

The Society sponsors a Saving Incentive Match Plan Individual Retirement Account (Simple IRA) covering all eligible full-time personnel. At the discretion of the Board of Trustees, the Society contributed three percent of each eligible participant's salary to the plan. Total contributions to the plan were $27,251 for the year ended June 30, 2020, and are included in human resources in the statement of functional expenses.

9. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions that are restricted in perpetuity are not available for use by the Society, but income derived from the investment is expendable for general support. Net assets restricted in perpetuity total $431,581 as of June 30, 2020.

Net assets with donor restrictions that are restricted for a specific purpose consist of the following as of June 30, 2020, and were available for the following purposes:

	2020			
	BALANCE June 30, 2019	ADDITIONS	SATISFACTION OF RESTRICTIONS	BALANCE June 30, 2020
ASPCA Programs	$ 2,894	$ 5,000	$ (240)	$ 7,654
Catsnip/Dogsnip Programs	2,542	12,100	(5,664)	8,978
Forrest Freedom Fund	100,000	275	(2,858)	97,417
Foster Care	8,780	5,654	(2,469)	11,965
SNAP Program	7,506	19,537	(9,546)	17,497
TNR Program	9,512	58,337	(37,149)	30,700
Promises to give receivable	50,625	-	(50,000)	625
Various	32,474	9,850	(16,346)	25,978
	$ 214,333	**$ 110,753**	**$ (124,272)**	**$ 200,814**

10. ENDOWMENT NET ASSETS

As of June 30, endowment net assets consisted of the following:

	2020
Endowment fund	$ 2,651,117
Capital investment fund	307,454
	$ 2,958,571

The Board of Trustees of the Society has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gifts instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted for a specific purpose until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds: (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

The endowment net assets are included as part of net assets without donor restriction and are not board-designated. Activity in the Society's endowment fund consisted of the following for the year ended June 30:

		2020
Endowment net assets, beginning of the year	$	3,238,450
Investment return:		
Interest and dividends		112,392
Net depreciation (realized and unrealized)		(75,347)
Release of endowment assets:		
Approved expenditures		(292,850)
Investment expenses		(24,074)
Endowment net assets, end of year	**$**	**2,958,571**

The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as the capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix.

The Society's spending policy will be the previous year's spending for operations plus a 6.5% increase (at the Board's discretion). For the year ended June 30, 2020, the Board elected not to increase the annual distribution from the endowment. Total distributions for the year ended June 30, 2020 were $144,000. Distributions from the endowment to the Society are made quarterly.

The asset allocation target guideline is as follows:

Type of Investment	Range	Target
Large Cap Equities	25-45%	35.0%
Mid Cap Equities	5-15%	10.0%
Small Cap Equities	2.5-12.5%	5.0%
Fixed Income	25-35%	30.0%
Domestic Equities (Developed)	2.5-10%	5.0%
Emerging Markets Equity	2.5-10%	5.0%
Cash	0-5%	2.5%
Alternative Investments	0-10%	7.5%

11. COMMITMENTS

In June 2018, the Society entered into a lease for a copier. The lease requires 60 monthly payments of $110 plus taxes. Future minimum lease payments under the agreement are as follows:

2021	$	1,320
2022		1,320
2023		1,210
	$	**3,850**

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

		2020
Cash and cash equivalents	$	368,634
	$	368,634

The Society regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Society has various sources of liquidity at its disposal, including cash and cash equivalents and pledges receivable. Total cash of $6,681 is excluded due to being restricted by a donor to pay the Society's mortgage payable. Additional cash of $200,189 and pledges receivable of $625 are excluded due to being restricted by donors for specific purposes as described in Note 9.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Society considers all expenditures related to its ongoing activities of operating an animal shelter and providing animal control services to Washington County, Maryland, as well as the types of services undertaken to support this activity, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Society operates with a Board-approved budget and anticipates collecting sufficient revenue to cover general expenditures. Included in the budget are annual withdrawals from the investment portfolio in the amount of $144,000.

In the event of an unanticipated liquidity need, the Society could draw upon its investment balance of $2,958,571.

As discussed in Note 7, the Society also has a $250,000 line of credit that can be drawn upon if necessary. The Society draws on the line regularly for cash flow purposes.

13. PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, the Society obtained a Paycheck Protection Program (PPP) loan through the Small Business Administration (SBA) in the amount of $346,800. Per the terms of the original agreement, the loan requires monthly principal and interest payments with a fixed rate of 1.00% starting November 2020 and maturing April 2022. However, if the Society submits a loan forgiveness application within ten months of the completion of the covered period (as defined by the SBA), they are not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. Full or partial forgiveness of the loan is contingent on the Society meeting certain requirements of the loan program regarding the use of funds.

Principal maturities of the PPP loan according to the original loan agreement are as follows:

2021	$	152,685
2022		194,115
	$	**346,800**

14. Restatement

During the year ended June 30, 2020, the Society corrected an error in recording accrued compensated absences. As a result of this correction, the Society adjusted beginning net assets accordingly, with only the current year impact being reflected in the current year statement of activities. Following is the impact of the adjustment to beginning net assets:

Net assets at June 30, 2019, as originally reported	$	6,001,991
Impact of recording accrued compensated absences		(48,108)
Net assets at June 30, 2019, as restated	$	5,953,883

Change in net assets at June 30, 2019, as originally reported	$	1,475,092
Impact of recording accrued compensated absences		(48,108)
Change in net assets at June 30, 2019, as restated	$	1,426,984

15. Subsequent events

Management has evaluated events and transactions subsequent to June 30, 2020 through January 5, 2021, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified one event that occurred subsequent to June 30, 2020 and through January 5, 2021 that requires recognition or disclosure in the financial statements.

In January 2021, the Society received notification from the Small Business Administration that their Paycheck Protection Program loan (see Note 13) had been forgiven in its entirety. As a result, no repayment of principal or interest is due and the Society will recognize the liability as income in its financial statements ending June 30, 2021.