

HALIFAX HUMANE SOCIETY, INC.

**Financial Statements And
Independent Auditors' Report**

December 31, 2019 and 2018

Halifax Humane Society, Inc.
December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

**To the Board Of Directors
Halifax Humane Society, Inc.
Daytona Beach, Florida**

We have audited the accompanying financial statements of Halifax Humane Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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.

Auditor's 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 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 Halifax Humane Society, Inc. as of December 31, 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.

Olivari & Associates
Certified Public Accountants and Consultants
Ormond Beach, Florida
August 20, 2020

Halifax Humane Society, Inc.
Statements Of Financial Position
December 31, 2019 and 2018

| | 2019 | 2018 |
|--|----------------------|----------------------|
| <u>Assets</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 216,152 | \$ 113,681 |
| Investments | 4,314,897 | 5,106,576 |
| Accounts receivable | 73,691 | 52,530 |
| Contribution and bequests receivables | 541,301 | 240,766 |
| Pledges receivable, net | 3,000 | 145,355 |
| Inventories | 91,953 | 122,554 |
| Prepaid expenses and other assets | 35,884 | 48,518 |
| Total Current Assets | 5,276,878 | 5,829,980 |
| Noncurrent Assets | | |
| Charitable remainder trusts, net | 19,157 | 18,021 |
| Perpetual trust held by third party | 821,503 | 685,507 |
| Pledges receivable, net | - | 3,000 |
| Investments | 663,693 | 663,693 |
| Land, buildings and equipment, net | 5,306,194 | 3,923,929 |
| Refundable deposits | 13,412 | 5,897 |
| Total Noncurrent Assets | 6,823,959 | 5,300,047 |
| Total Assets | \$ 12,100,837 | \$ 11,130,027 |
| <u>Liabilities and Net Assets</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 163,557 | \$ 120,401 |
| Deferred revenue | 206,287 | 103,739 |
| Annuity payable | 13,265 | 13,190 |
| Total Current Liabilities | 383,109 | 237,330 |
| Total Liabilities | 383,109 | 237,330 |
| Net Assets | | |
| Without donor restrictions | 9,501,100 | 7,758,970 |
| With donor restrictions | 2,216,628 | 3,133,727 |
| Total Net Assets | 11,717,728 | 10,892,697 |
| Total Liabilities and Net Assets | \$ 12,100,837 | \$ 11,130,027 |

The accompanying independent auditors' report and notes
should be read with these financial statements.

Halifax Humane Society, Inc.
Statements Of Activities
For The Years Ended December 31, 2019 and 2018

| | 2019 | | | 2018 | | |
|--|----------------------------|-------------------------|---------------|----------------------------|-------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| <u>Public Support and Revenue</u> | | | | | | |
| Program service fees | \$ 1,164,311 | \$ - | \$ 1,164,311 | \$ 1,233,808 | \$ - | \$ 1,233,808 |
| Board and grooming | 147,128 | - | 147,128 | 116,099 | - | 116,099 |
| Legacies and bequests | 244,668 | 540,674 | 785,342 | 1,046,419 | 140,714 | 1,187,133 |
| Contributions | 395,386 | - | 395,386 | 244,439 | - | 244,439 |
| Grants | 89,089 | - | 89,089 | 123,322 | - | 123,322 |
| Thrift shop | 363,903 | - | 363,903 | 327,021 | - | 327,021 |
| Special events | 508,378 | - | 508,378 | 427,831 | - | 427,831 |
| Sale of supplies | 23,172 | - | 23,172 | 36,413 | - | 36,413 |
| Newsletter and advertising | 46,573 | - | 46,573 | 8,006 | - | 8,006 |
| Investment income | 531,987 | 15,783 | 547,770 | (140,860) | 23,067 | (117,793) |
| Income from split interest agreements | 16,581 | - | 16,581 | 30,334 | - | 30,334 |
| Gains/(losses) in perpetual trusts | - | 135,996 | 135,996 | - | (106,070) | (106,070) |
| Other income | 47,218 | - | 47,218 | 44,962 | - | 44,962 |
| Gains/(losses) in charitable remainder trusts | - | 1,137 | 1,137 | - | (2,746) | (2,746) |
| Total revenue | 3,578,394 | 693,590 | 4,271,984 | 3,497,794 | 54,965 | 3,552,759 |
| Net assets released from restrictions | 1,675,970 | (1,675,970) | - | 936,535 | (936,535) | - |
| Total Support, Revenue and Net Assets Released From Restrictions | 5,254,364 | (982,380) | 4,271,984 | 4,434,329 | (881,570) | 3,552,759 |
| <u>Operating Expenses</u> | | | | | | |
| Program services: | | | | | | |
| Animal care | 2,618,739 | - | 2,618,739 | 2,513,115 | - | 2,513,115 |
| Board and grooming | 167,614 | - | 167,614 | 139,300 | - | 139,300 |
| Supporting services: | | | | | | |
| Management and general | 214,694 | - | 214,694 | 226,644 | - | 226,644 |
| Thrift shop | 247,534 | - | 247,534 | 220,039 | - | 220,039 |
| Fundraising | 263,653 | - | 263,653 | 237,314 | - | 237,314 |
| Total Expenses | 3,512,234 | - | 3,512,234 | 3,336,412 | - | 3,336,412 |
| Change in net assets from operations | 1,742,130 | (982,380) | 759,750 | 1,097,917 | (881,570) | 216,347 |
| Capital campaign revenues | - | 86,258 | 86,258 | - | 343,544 | 343,544 |
| Capital campaign expenses | - | (20,977) | (20,977) | - | (18,048) | (18,048) |
| Change in net assets | 1,742,130 | (917,099) | 825,031 | 1,097,917 | (556,074) | 541,843 |
| Net Assets, Beginning Of Year | 7,758,970 | 3,133,727 | 10,892,697 | 6,661,053 | 3,689,801 | 10,350,854 |
| Net Assets, End Of Year | \$ 9,501,100 | \$ 2,216,628 | \$ 11,717,728 | \$ 7,758,970 | \$ 3,133,727 | \$ 10,892,697 |

The accompanying independent auditor's report and notes should be read with these financial statements.



Halifax Humane Society, Inc.
Statements Of Functional Expenses
For The Years Ended December 31, 2019 and 2018

| | 2019 | | | | | 2018 | | | | | | |
|----------------------------------|--------------------|--------------------|------------------------|------------------|-------------------|--------------------|--------------------|--------------------|------------------------|-------------------|-------------------|---------------------|
| | Animal Care | Board and Grooming | Management and General | Thrift Shop | Fundraising | Total Expenses | Animal Care | Board and Grooming | Management and General | Thrift Shop | Fundraising | Total Expenses |
| Compensation and benefits | | | | | | | | | | | | |
| Compensation | \$1,337,394 | \$ 76,604 | \$ 170,773 | \$154,480 | \$ 77,725 | \$1,816,976 | \$1,269,218 | \$ 64,818 | \$ 177,761 | \$ 138,387 | \$ 72,256 | \$ 1,722,440 |
| Employee benefits | 243,785 | 6,217 | 24,492 | 11,236 | 10,821 | 296,551 | 231,439 | 4,183 | 23,401 | 7,854 | 10,734 | 277,611 |
| Payroll taxes | 80,662 | 4,388 | 9,783 | 8,849 | 4,452 | 108,134 | 80,506 | 1,199 | 13,380 | 1,259 | 5,343 | 101,687 |
| | <u>1,661,841</u> | <u>87,209</u> | <u>205,048</u> | <u>174,565</u> | <u>92,998</u> | <u>2,221,661</u> | <u>1,581,163</u> | <u>70,200</u> | <u>214,542</u> | <u>147,500</u> | <u>88,333</u> | <u>2,101,738</u> |
| Other operating expenses | | | | | | | | | | | | |
| Advertising | 3,206 | 1,975 | - | 3,847 | - | 9,028 | 722 | 5,224 | - | 3,592 | - | 9,538 |
| Animal supplies/services | 396,004 | - | - | - | - | 396,004 | 376,219 | - | - | - | - | 376,219 |
| Bad debt | - | - | - | - | - | - | - | - | - | - | - | - |
| Depreciation and amortization | 156,777 | 21,024 | - | 489 | - | 178,290 | 123,544 | 20,302 | - | 489 | - | 144,335 |
| Education and development | 4,112 | - | - | - | 7,072 | 11,184 | 6,754 | - | - | - | 9,403 | 16,157 |
| Grant/Fundraising expenses | 13,279 | - | - | - | 163,583 | 176,862 | 10,884 | - | - | - | 139,578 | 150,462 |
| Insurance | 48,773 | 2,729 | 210 | 1,346 | - | 53,058 | 43,979 | 3,039 | 2,216 | 1,441 | - | 50,675 |
| Licenses and permits | 2,589 | 2,012 | - | - | - | 4,601 | 2,845 | 1,868 | - | - | - | 4,713 |
| Miscellaneous | 10,705 | - | - | - | - | 10,705 | 7,193 | - | - | - | - | 7,193 |
| Occupancy | 124,434 | 19,600 | 4,955 | 34,001 | - | 182,990 | 131,712 | 16,554 | 5,299 | 33,462 | - | 187,027 |
| Office expenses | 53,728 | 7,996 | 1,609 | - | - | 63,333 | 56,834 | 5,185 | 1,481 | - | - | 63,500 |
| Postage | 8,899 | - | - | - | - | 8,899 | 10,283 | - | - | - | - | 10,283 |
| Printing and publications | 17,375 | - | - | - | - | 17,375 | 17,178 | - | - | - | - | 17,178 |
| Professional fees | 23,074 | 20,295 | 1,655 | - | - | 45,024 | 24,089 | 15,117 | 739 | - | - | 39,945 |
| Repairs and maintenance | - | 3,348 | - | 501 | - | 3,849 | - | 1,811 | - | 416 | - | 2,227 |
| Shipping | - | - | - | 987 | - | 987 | - | - | - | 260 | - | 260 |
| Supplies - resale | 70,827 | 1,426 | - | 28,003 | - | 100,256 | 95,287 | - | - | 25,808 | - | 121,095 |
| Telephone | 8,067 | - | 425 | 1,712 | - | 10,204 | 8,730 | - | 1,541 | 1,621 | - | 11,892 |
| Vehicle expenses | 15,049 | - | 792 | 2,083 | - | 17,924 | 15,699 | - | 826 | 5,450 | - | 21,975 |
| | <u>956,898</u> | <u>80,405</u> | <u>9,646</u> | <u>72,969</u> | <u>170,655</u> | <u>1,290,573</u> | <u>931,952</u> | <u>69,100</u> | <u>12,102</u> | <u>72,539</u> | <u>148,981</u> | <u>1,234,674</u> |
| Total Expenses | \$2,618,739 | \$167,614 | \$ 214,694 | \$247,534 | \$ 263,653 | \$3,512,234 | \$2,513,115 | \$ 139,300 | \$ 226,644 | \$ 220,039 | \$ 237,314 | \$ 3,336,412 |

The accompanying independent auditors' report and notes should be read with these financial statements

Halifax Humane Society, Inc.
Statements Of Cash Flows
For The Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|-------------|-------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 825,031 | \$ 541,843 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation & amortization | 178,291 | 144,336 |
| Donated assets | - | (15,280) |
| Net unrealized and realized (gain) loss on investments | (400,637) | 271,371 |
| Loss in charitable remainder trusts | (1,137) | 2,746 |
| Loss in perpetual trusts | (135,996) | 106,070 |
| <i>Decreases (increases) in certain assets:</i> | | |
| Accounts receivable | (21,161) | 52,766 |
| Contributions and bequests receivable | (300,535) | (80,497) |
| Pledges receivable | 145,355 | (38,413) |
| Inventory | 30,602 | 2,723 |
| Prepaid expenses | 12,634 | (4,319) |
| Refundable deposits | (7,515) | 1,364 |
| <i>Increases (decreases) in certain liabilities:</i> | | |
| Accounts payable and accrued liabilities | 43,156 | (107,880) |
| Deferred revenue | 102,548 | 5,005 |
| Annuity payable | 75 | - |
| Total Adjustments | (354,320) | 339,992 |
| Net Cash Provided by Operating Activities | 470,711 | 881,835 |
| Cash Flows From Investing Activities | | |
| Purchase of land, buildings and equipment | (469,381) | (922,534) |
| Sale of property | - | - |
| Sale of investments | 370,186 | 1,146,577 |
| Purchase of investments | (269,045) | (1,202,814) |
| Net Cash Used In Investing Activities | (368,240) | (978,771) |
| Net increase (decrease) in cash and cash equivalents | 102,471 | (96,936) |
| Cash And Cash Equivalents, Beginning Of Year | 113,681 | 210,617 |
| Cash And Cash Equivalents, End Of Year | \$ 216,152 | \$ 113,681 |

The accompanying independent auditors report and notes
should be read with these financial statements.

Halifax Humane Society, Inc.
Notes To Financial Statements
December 31, 2019 And 2018

NOTE 1 – Organization And Summary Of Significant Accounting Policies

A. Organization Activities

The Halifax Humane Society, Inc. (The Society) was established in 1937 as a not-for-profit organization to provide an animal shelter for care, remedial treatment, cruelty prevention, pet spay/neuter surgery, humane education programs, humane and animal bonding events, and other activities that promote the wellbeing and proper care of companion animals. The Society is supported primarily through donor contributions and fees for services.

The Boarding, Grooming & Travel Center was established in 2017 to provide pet services in the form of boarding, grooming and pet travel information to local residents and travelers. This program is supported through fees for services and the profits are designed to support the shelter operations and assist with sustainability.

B. Basis Of Accounting

The Society follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

C. Cash And Cash Equivalents

The Society considers all highly liquid cash instruments with a maturity of three months or less to be cash equivalents.

D. Basis of Presentation

The Society present resources for accounting and reporting purposes based on the existence or absence of donor-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 (or certain grantor) restrictions. The governing board can designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated assets and liabilities of the Society. Revenue and support received by the Society without explicit donor restrictions are reported as without donor restrictions to the Society.

In general, net assets without donor restrictions of the Society may be used at the discretion of the Society's management and the board of Directors to support the Society's purposes and operations.

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 be maintained in perpetuity.

When the donor stipulated the investment of the gift corpus in perpetuity, the income generated from the investment of corpus is available for the Society's operations in accordance with the donor restrictions. Appreciation related to the net assets with donor restrictions, if not specifically restricted otherwise, follows the donor's income restriction and is included in the appropriate net asset class based on existence or absence of donor-imposed restrictions.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 1 – Organization And Summary Of Significant Accounting Policies (continued)

E. Contributions

Contributions, including unconditional promises to give, are recorded as received. All contributions are considered to be available for the general programs of the Society unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are reflected as short-term contributions receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term contributions receivable and are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

F. Investments

Investments are stated at fair value. To calculate realized gain or loss on the disposition of investments and unrealized gains and losses, cost is determined by specific identification. All gains and losses and ordinary income from investments are accounted for as unrestricted revenue unless it is restricted for a specified purpose by the donor of the related investment.

G. Accounts Receivable

The accounts receivable arise from fees charged to local municipalities for animal care and shelter. Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

H. Inventories

Inventories, which consist of animal supplies for resale, are carried at the lower of cost or market determined on the first-in, first-out basis.

I. Land, Buildings and Equipment

Purchases of land, buildings and equipment having a unit cost of \$1,000 or more and an estimated useful life of five years or more are capitalized at cost. Donated assets are capitalized at the estimated fair-market value at the time of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 5 to 39 years. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted contributions.

J. Donated Services

A substantial number of volunteers donate significant amounts of their time to the Society's programs and supporting services. Such services have not been reflected in the accompanying financial statements because these services do not meet the criteria for recognition as contributed services.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 1 – Organization And Summary Of Significant Accounting Policies (continued)

K. Income Taxes

The Society qualifies for exemption from federal income taxation under Internal Revenue Code (IRC) Section 501(c)(3) and is not classified as a private foundation under IRC Section 509 (a)(2). Accordingly, the accompanying financial statements do not reflect a provision for income taxes.

Management reviews its tax position annually and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

The Organization files tax returns in the U.S. federal jurisdiction. With few exceptions, the Organization is no longer subject to U.S. federal income tax examinations by taxing authorities for years before December 31, 2016.

L. Use of Estimates

The preparation of financial statements in accordance 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.

M. Functional Allocation of Expenses

Expenses are charged directly to program, management or fundraising in general categories based on specific identification. Indirect expenses are allocated based on program revenue or other bases, as determined by management. Although methods of allocation used are considered reasonable and appropriate, other methods could be used that would produce different results.

N. Fair Value of Financial Instruments

The following methods and assumptions were used by the Society to estimate the fair market values of financial instruments as disclosed herein:

Cash and cash equivalents, investments and short-term contributions receivable:

The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Charitable remainder trusts:

The fair value is estimated by discounting the future cash flows using a current risk-free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection periods.

Perpetual trust held by third party:

The fair value of the Society's interest in perpetual trust assets is based on quoted market prices of the trust assets or similar investments.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 1 – Organization And Summary Of Significant Accounting Policies (continued)

O. Accounting Pronouncement Adopted

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Society implemented ASU 2016-14 during the fiscal year ended December 31, 2018 and is reflected in the presentation of these financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and are reflected in the presentation of these financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: Topic 958*. This ASU provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional and unconditional contributions. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and are reflected in the presentation of these financial statements.

P. Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02 *Leases: Topic 842*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

Q. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 2 – Contribution And Bequests Receivables

Contributions and bequests receivable consist of amounts donated under trust agreements due within the next fiscal year are reflected at present value of estimated future cash flows using a discount rate of 5.0%. Differences between the amounts allocated and collected have historically been insignificant. Accordingly, no provision is made for uncollectible amounts.

The Society anticipates collection of outstanding receivables as follows at December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|-------------|-------------|
| Receivable in less than one year | \$ 541,301 | \$ 240,766 |

NOTE 3 – Pledge Contributions Receivable

The pledge contributions receivable balance consists of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|--------------|-----------------|
| Pledge contributions receivable | \$ 3,000 | \$ 148,861 |
| Less estimated discount due over four years | (-) | (506) |
| Pledge receivable, net | 3,000 | 148,355 |
| Less current portion | <u>3,000</u> | <u>145,355</u> |
| Pledge receivable, net, non-current | <u>\$ -</u> | <u>\$ 3,000</u> |

NOTE 4 – Fair Value Measurements

Fair values for short-term investments and perpetual trusts are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of the charitable remainder trusts are estimated as the present value of expected future cash inflows.

The fair value measurements and levels within the fair value hierarchy of those investments are carried at market value and consist of the following:

- Level 1 inputs are quoted prices for identical investments in active markets.
- Level 2 inputs are quoted prices for similar instruments in active markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 inputs are model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 4 – Fair Value Measurements (continued)

In determining the fair value, the Organization utilizes valuation techniques that minimize the use of unobservable inputs and maximize the use of observable inputs. Inputs used to measure the fair value of an asset or liability may result in the asset or liability falling into more than one level of the hierarchy. In this case, the classification is based on the least determinate input that is significant to the fair value measurement.

The following represents assets measured at fair value on a recurring basis at December 31, 2019:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> |
|-------------------------------------|---------------------|---------------------|-------------------|
| Cash and cash equivalents | \$ 216,152 | \$ 216,152 | \$ - |
| Investments: | | | |
| Equities | 886,748 | 886,748 | - |
| Fixed Income -Other | 887,774 | 887,774 | - |
| Money Market Funds | 52,765 | 52,765 | - |
| Mutual Funds | 3,078,379 | 3,078,379 | - |
| Preferreds | <u>72,924</u> | <u>72,924</u> | <u>-</u> |
| | 4,978,590 | 4,978,590 | - |
| Charitable remainder trusts, net | 19,157 | - | 19,157 |
| Perpetual trust held by third party | <u>821,503</u> | <u>-</u> | <u>821,503</u> |
| | <u>\$ 6,035,402</u> | <u>\$ 5,194,742</u> | <u>\$ 840,660</u> |

The following represents assets measured at fair value on a recurring basis at December 31, 2018:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> |
|-------------------------------------|---------------------|---------------------|-------------------|
| Cash and cash equivalents | \$ 113,681 | \$ 113,681 | \$ - |
| Investments: | | | |
| Equities | 690,732 | 690,732 | - |
| Fixed Income - Other | 1,661,279 | 1,661,279 | - |
| Money Market Funds | 87,974 | 87,974 | - |
| Mutual Funds | 3,231,448 | 3,231,448 | - |
| Preferreds | <u>98,836</u> | <u>98,836</u> | <u>-</u> |
| | 5,770,269 | 5,770,269 | - |
| Charitable remainder trusts, net | 18,021 | - | 18,021 |
| Perpetual trust held by third party | <u>685,507</u> | <u>-</u> | <u>685,507</u> |
| | <u>\$ 6,587,478</u> | <u>\$ 5,883,950</u> | <u>\$ 703,528</u> |

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 5 – Investments

Investments consist of the following at December 31, 2019:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain (Loss)</u> |
|----------------------|---------------------|---------------------|-------------------------------|
| Equities | \$ 512,766 | \$ 886,748 | \$ 373,982 |
| Fixed Income - Other | 853,850 | 887,774 | 33,924 |
| Money Market Funds | 52,765 | 52,765 | - |
| Mutual Funds | 3,050,858 | 3,078,379 | 27,521 |
| Preferreds | 69,731 | 72,924 | 3,193 |
| Total Investments | <u>\$ 4,539,970</u> | <u>\$ 4,978,590</u> | <u>\$ 438,620</u> |

Investments consist of the following at December 31, 2018:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain (Loss)</u> |
|----------------------|---------------------|---------------------|-------------------------------|
| Equities | \$ 502,278 | \$ 690,732 | \$ 188,454 |
| Fixed Income - Other | 1,665,366 | 1,661,279 | (4,087) |
| Money Market Funds | 87,974 | 87,974 | - |
| Mutual Funds | 3,372,250 | 3,231,448 | (140,802) |
| Preferreds | 98,540 | 98,836 | 296 |
| Total Investments | <u>\$ 5,726,408</u> | <u>\$ 5,770,269</u> | <u>\$ 43,861</u> |

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risk, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position as of December 31, 2019. However, the Organization has adopted policies to mitigate the risk through diversification of invested assets.

Investment return for the years ended December 31, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|---------------------|
| Realized and unrealized gains / (losses) - net | \$ 400,637 | \$(271,371) |
| Interest and dividends | 155,133 | 155,432 |
| Other Income | - | 4,135 |
| Investment fees | (8,000) | (5,989) |
| | 547,770 | (117,793) |
| Operating interest | - | - |
| Investment income | <u>\$ 547,770</u> | <u>\$(117,793)</u> |

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 6 – Split-Interest Agreements

Charitable Remainder Trusts – The Society is the beneficiary of a charitable remainder unitrust, held and administered by a local financial institution. Under the terms of the trust, the primary beneficiaries received quarterly distributions from the trust and income earned on the trust’s assets must remain in the trust until the death of the primary beneficiaries. At that time, the remaining assets of the trust are to be distributed to the Society. The asset, long-term contributions receivable, represents the recognition of an amount receivable for the present value of the estimated future benefits to be received when the assets are distributed. The contributions receivable are reported at the present value of their net realizable value, using interest rates applicable to the years in which the promises are to be received (currently 5.0%).

The Society’s charitable remainder trusts for years ended December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|----------------------------------|-------------|-------------|
| Charitable remainder trusts | \$ 72,673 | \$ 67,682 |
| Discount | (53,516) | (49,661) |
| Charitable remainder trusts, net | \$ 19,157 | \$ 18,021 |

During the years ended December 31, 2019 and 2018, the Society recognized unrealized gain/(loss) of \$1,137 and \$(2,746), respectively.

Perpetual Trust Held by Third Party – The Society is a 17% beneficiary of the Rogers Perpetual Trust held by a local financial institution. Under the terms of the trust, the Society has the irrevocable right to receive their share of the income earned on the trust assets in perpetuity, but never receives the assets held in trust. Income from the trust is unrestricted and expendable to support general operations. The Society’s beneficial interest in perpetual trust assets is recognized at the fair value of the trust assets.

At December 31, 2019 and 2018 the Society’s beneficial interest in the perpetual trust’s asset is as follows:

| | 2019 | 2018 |
|-------------------------------------|-------------|-------------|
| Perpetual trust held by third party | \$ 821,503 | \$ 685,507 |

During the years ended December 31, 2019 and 2018, the Society recognized unrealized gain/(loss) of \$135,996 and \$(106,070) respectively.

Charitable Gift Annuities – The Society has entered into irrevocable agreements with donors whereby in exchange for the gift from the donor, the Society is obligated to provide an annuity to the donor for the remainder of their lives.

A liability is recognized for the estimated present value of the annuity obligation and the assets are recorded at their gross market value for the agreement where the Society is the trustee. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 6 – Split-Interest Agreements (continued)

Assets of the Society that are derived from the charitable gift annuities are as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------|-------------------|-------------------|
| Investments | \$ <u>142,665</u> | \$ <u>132,325</u> |

NOTE 7 – Land, Buildings And Equipment

Land, buildings and equipment for the Society consists of the following:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|---------------------|
| Land and improvements | \$ 849,066 | \$ 846,565 |
| Building and improvements | 5,632,878 | 3,334,709 |
| Equipment and vehicles | 630,497 | 518,278 |
| Construction in progress | <u>-</u> | <u>862,284</u> |
| | 7,112,441 | 5,561,836 |
| Less: Accumulated depreciation | <u>(1,806,247)</u> | <u>(1,637,907)</u> |
| Land, buildings, and equipment, net | <u>\$ 5,306,194</u> | <u>\$ 3,923,929</u> |

Construction in progress includes the costs of renovation of existing facilities. There is no capitalized interest during the years ended December 31, 2019 or 2018, as construction in progress is financed by pledges and contributions.

Depreciation expense for the years ended December 31, 2019 and 2018 was \$178,291 and \$144,336, respectively.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Restricted for specified purposes: | | |
| Program | | |
| Grant & contributions – cash | \$ 12,669 | \$ 16,685 |
| Bequest receivable | 540,674 | 240,714 |
| Charitable remainder trusts, net | <u>19,157</u> | <u>18,021</u> |
| | 572,500 | 275,420 |
| Capital expenditure | | |
| Capital campaign | 158,930 | 1,509,106 |
| Restricted in perpetuity: | | |
| Tignor Perpetual Trust | 240,156 | 240,156 |
| Ciri Perpetual Trust | 423,537 | 423,537 |
| Rodgers Perpetual Trust | <u>821,505</u> | <u>685,508</u> |
| | <u>1,485,198</u> | <u>1,349,201</u> |
| Total net assets with donor restrictions | <u>\$ 2,216,628</u> | <u>\$ 3,133,727</u> |

Net assets with donor restrictions that are perpetual in nature consist of the Society's interest in perpetual trust assets, which are to be held indefinitely, the income from which is expendable to support general operations.

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|-------------------|
| Programs | | |
| Bequest receivable | \$ 240,714 | \$ 58,324 |
| Emergency medical funds | 8,895 | 5,360 |
| Investment income | <u>10,904</u> | <u>8,557</u> |
| | 260,513 | 72,241 |
| Expenditures for capital projects | <u>1,415,457</u> | <u>864,294</u> |
| Total donor restricted net assets released from restrictions | <u>\$ 1,675,970</u> | <u>\$ 936,535</u> |

NOTE 9 – Commitments

The Society leases storefront space for the thrift shop in Ormond Beach. The lease is for a period of three years commencing on August 1, 2015. The initial rent is \$2,060 per month which includes taxes, insurance, common area maintenance, and sales tax and increases 1.5% annually. The lease was amended on August 6, 2018 to extend the term an additional three years commencing on August 1, 2018 with rent per month of \$2,513.20 and increasing 2.3% annually.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 9 – Commitments (continued)

The Society leases storefront space for the clinic in Daytona Beach. The lease is for a period of three years commencing on October 15, 2017. The initial rent is \$1,637 per month which includes taxes, insurance, common area maintenance, and sales tax and increases 5% annually

Subsequent to the year ended December 31, 2019, the lease was renewed for three additional years at a rate of \$1,702.65 per month.

Rent expense for the years ended December 31, 2019 and 2018 was \$51,364 and \$49,218, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2019:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2020 | \$ 52,214 |
| 2021 | 38,859 |
| 2022 | 20,432 |
| 2023 | <u>15,324</u> |
| | <u>\$ 126,829</u> |

NOTE 10 – Retirement Plan

The Society maintains a SIMPLE retirement plan for the benefit of its full-time employees. The plan covers all full-time employees after 90 days of employment, subject to the eligibility requirements in the SIMPLE Plan Adoption Agreement. For employee contributions up to 3% of their eligible pay, the Society is obligated to make a matching contribution. Employer contributions to this plan for the years ended December 31, 2019 and 2018 was \$26,021 and \$22,621, respectively.

NOTE 11 – Contingency

Restrictive Covenants

The Society was granted the ECHO Grant in May 2014 in the amount of \$400,000. As grantee, the Society is obligated to maintain the facility in a clean working order and maintain and/or replace equipment, furnishings, and items described in the grant and/or purchased as part of the grant project. The project shall remain open and in operation for a period of 40 years.

If the restrictions are violated within the 40-year period, the County of Volusia shall be entitled to liquidated damages pursuant to the following schedule:

1. If the violation occurs within the first half of the effective time of these covenants, the County shall be entitled to return of the entire grant amount.
2. If the violation occurs after the first half of the effective time period, the County shall be entitled to return of the entire grant amount, less the quotient of 2 divided by the number of years in the time period times each year past the mid period of the effective time period times the grant amount.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2019 And 2018

NOTE 12 – Concentration Of Credit Risk

Cash deposits in banks are covered by the FDIC up to \$250,000. For the year ended December 31, 2019, the Organization’s cash and cash equivalents exceeded federally insured limits by \$46,280.

NOTE 13 – Liquidity and Availability of Resources

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

| | <u>2019</u> |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 216,152 |
| Investments | 4,158,967 |
| Accounts receivable | 73,691 |
| Pledges receivable, net | <u>3,000</u> |
| | <u>\$ 4,451,810</u> |

NOTE 14 – Supplemental Cash Flow Information

For the years ended December 31, 2019 and 2018, there were no interest or income taxes paid.

NOTE 15 – Subsequent Events

Subsequent Events were evaluated as of August 20, 2020 which is prior to the financial statement availability date of August 25, 2020.

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (“COVID-19”) as a pandemic. There have been mandates from international, federal, state, and local authorities requiring forced shut downs of business, facilities and organizations. These forced closures and limitations are expected to be temporary. The duration of this disruption, and related financial impact, cannot be estimated at this time. Should the closures continue for an extended period of time or should the effects of the coronavirus continue to spread, the impact could have a material adverse effect on the Company’s financial position, results of operations and cash flows.

On April 22, 2020, the Society was granted a loan (the “Loan”) from CenterState Bank in the amount of \$357,500, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The Loan bears an interest rate of 1.00% per annum, principal and interest are payable monthly commencing November 22, 2020. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, rent, utilities, and interest on debt obligations incurred before February 15, 2020. The Society intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.