

HALIFAX HUMANE SOCIETY, INC.

**Financial Statements And
Independent Auditors' Report**

December 31, 2022 and 2021

Halifax Humane Society, Inc.
December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Halifax Humane Society, Inc.

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Halifax Humane Society, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Halifax Humane Society, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Halifax Humane Society, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Independent Auditors' Report

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Halifax Humane Society, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Halifax Humane Society, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Olivari & Associates
Certified Public Accountants and Consultants
Ormond Beach, Florida
December 8, 2023

Halifax Humane Society, Inc.
Statements Of Financial Position
December 31, 2022 and 2021

	2022	2021
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 429,713	\$ 478,447
Investments	5,837,588	6,296,171
Accounts receivable	30,856	40,868
Contribution and bequests receivables	917,394	295,938
Pledges receivable, net	8,700	2,000
Inventories	58,385	82,235
Prepaid expenses and other assets	25,595	36,237
Total Current Assets	7,308,231	7,231,896
Noncurrent Assets		
Charitable remainder trusts, net	15,283	18,656
Perpetual trust held by third party	789,676	1,010,458
Investments	663,693	663,693
Land, buildings and equipment, net	5,984,098	5,335,814
Refundable deposits	9,965	11,634
Total Noncurrent Assets	7,462,715	7,040,255
Other Assets		
Right of use - operating lease, net	16,493	35,059
Total Other Assets	16,493	35,059
Total Assets	\$ 14,787,439	\$ 14,307,210
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 356,040	\$ 179,686
Deferred revenue	70,100	152,530
Annuity payable	8,300	8,300
Operating lease liability	16,493	18,566
Total Current Liabilities	450,933	359,082
Noncurrent Liabilities		
Operating lease liability, noncurrent	-	16,493
Total Liabilities	450,933	375,575
Net Assets		
Without donor restrictions		
Undesignated without donor restrictions	11,847,727	11,768,877
Designated for the Capital Campaign	50,626	102,931
With donor restrictions	2,438,153	2,059,827
Total Net Assets	14,336,506	13,931,635
Total Liabilities and Net Assets	\$ 14,787,439	\$ 14,307,210

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, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Program service fees	\$ 759,984	\$ -	\$ 759,984	\$ 1,171,267	\$ -	\$ 1,171,267
Board and grooming	258,872	-	258,872	214,609	-	214,609
Legacies and bequests	1,428,409	902,394	2,330,803	547,103	277,453	824,556
Contributions	713,091	-	713,091	508,555	-	508,555
Grants	156,595	-	156,595	112,029	-	112,029
Thrift shop	522,863	-	522,863	464,537	-	464,537
Special events	889,686	-	889,686	589,846	-	589,846
Sale of supplies	24,669	-	24,669	23,762	-	23,762
Newsletter and advertising	50,497	-	50,497	47,751	-	47,751
Investment income/(loss)	(890,153)	26,265	(863,888)	479,365	82,066	561,431
Income from split interest agreements	40,828	-	40,828	28,222	-	28,222
Gains/(losses) in perpetual trusts	-	(220,782)	(220,782)	-	90,691	90,691
Other income	61,413	-	61,413	74,082	-	74,082
Gains/(losses) in charitable remainder trusts	-	(3,374)	(3,374)	-	483	483
Total revenue	4,016,754	704,503	4,721,257	4,261,128	450,693	4,711,821
Net assets released from restrictions	326,177	(326,177)	-	508,466	(508,466)	-
Total Support, Revenue and Net Assets Released From Restrictions	4,342,931	378,326	4,721,257	4,769,594	(57,773)	4,711,821
Operating Expenses						
Program services:						
Animal care	3,558,205	-	3,558,205	2,958,320	-	2,958,320
Board and grooming	241,883	-	241,883	194,515	-	194,515
Supporting services:						
Management and general	75,658	-	75,658	106,256	-	106,256
Thrift shop	312,382	-	312,382	253,200	-	253,200
Fundraising	325,931	-	325,931	208,493	-	208,493
Total Expenses	4,514,059	-	4,514,059	3,720,784	-	3,720,784
Change in net assets from operations	(171,128)	378,326	207,198	1,048,810	(57,773)	991,037
Income from Employee Retention Credit	233,406	-	233,406	-	-	-
Gain on extinguishment of debt	-	-	-	357,500	-	357,500
Other Fees -ERC	(35,733)	-	(35,733)	-	-	-
Change in net assets	26,545	378,326	404,871	1,406,310	(57,773)	1,348,537
Net Assets, Beginning Of Year	11,871,808	2,059,827	13,931,635	10,465,498	2,117,600	12,583,098
Net Assets, End Of Year	\$ 11,898,353	\$ 2,438,153	\$ 14,336,506	\$ 11,871,808	\$ 2,059,827	\$ 13,931,635

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, 2022 and 2021

	2022					2021						
	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	\$1,981,060	\$146,833	\$ 49,789	\$207,535	\$ 59,679	\$2,444,896	\$1,572,306	\$ 93,940	\$ 79,229	\$ 163,199	\$ 65,951	\$ 1,974,625
Employee benefits	232,195	4,934	5,037	6,296	6,656	255,118	197,071	2,981	13,381	5,401	7,553	226,387
Payroll taxes	113,206	8,377	2,841	11,840	3,405	139,669	96,263	5,509	4,647	9,571	3,868	119,858
	<u>2,326,461</u>	<u>160,144</u>	<u>57,667</u>	<u>225,671</u>	<u>69,740</u>	<u>2,839,683</u>	<u>1,865,640</u>	<u>102,430</u>	<u>97,257</u>	<u>178,171</u>	<u>77,372</u>	<u>2,320,870</u>
Other operating expenses												
Advertising	3,401	345	-	1,753	-	5,499	3,702	437	-	1,892	-	6,031
Animal supplies/services	545,980	-	-	-	-	545,980	447,739	-	-	-	-	447,739
Depreciation and amortization	224,103	22,428	-	11,841	-	258,372	217,216	21,802	-	599	-	239,617
Education and development	7,154	-	-	-	-	7,154	2,607	-	-	-	-	2,607
Grant/Fundraising expenses	-	-	-	-	255,981	255,981	14,126	-	192	-	131,121	145,247
Insurance	42,321	2,087	5,168	3,390	-	52,966	55,045	2,014	-	622	-	57,873
Licenses and permits	6,559	4,469	-	-	-	11,028	3,242	4,615	-	-	-	7,857
Miscellaneous	17,394	-	-	-	-	17,394	10,070	-	-	-	-	10,070
Occupancy	156,151	18,186	6,634	36,620	-	217,591	118,410	20,423	4,687	36,192	-	179,712
Office expenses	70,911	8,916	3,344	-	-	83,171	62,321	9,321	2,652	-	-	74,294
Postage	8,818	-	-	-	-	8,818	7,550	-	-	-	-	7,550
Printing and publications	19,386	-	-	-	-	19,386	17,604	-	-	-	-	17,604
Professional fees	35,798	22,157	1,772	731	210	60,668	21,354	30,757	535	-	-	52,646
Repairs and maintenance	-	2,143	-	2,507	-	4,650	-	736	-	-	-	1,571
Shipping	-	-	-	288	-	288	-	-	-	835	-	190
Supplies - resale	73,381	1,008	-	23,197	-	97,586	93,961	1,980	-	30,234	-	126,175
Telephone	8,462	-	445	2,763	-	11,670	9,765	-	514	2,480	-	12,759
Vehicle expenses	11,925	-	628	3,621	-	16,174	7,968	-	419	1,985	-	10,372
	<u>1,231,744</u>	<u>81,739</u>	<u>17,991</u>	<u>86,711</u>	<u>256,191</u>	<u>1,674,376</u>	<u>1,092,680</u>	<u>92,085</u>	<u>8,999</u>	<u>75,029</u>	<u>131,121</u>	<u>1,399,914</u>
Total Expenses	\$3,558,205	\$241,883	\$ 75,658	\$312,382	\$ 325,931	\$4,514,059	\$2,958,320	\$ 194,515	\$ 106,256	\$ 253,200	\$ 208,493	\$ 3,720,784

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, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ 404,871	\$ 1,348,537
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation & amortization	258,372	239,617
Donated assets	(43,990)	(99,758)
Net unrealized and realized (gain) on investments	1,037,528	(370,135)
(Gain) loss in charitable remainder trusts	3,374	(483)
(Gain) loss in perpetual trusts	220,782	(90,691)
Loss (gain) on disposal of equipment	3,836	233
(Gain) on extinguishment of debt	-	(357,500)
Decreases (increases) in certain assets:		
Accounts receivable	10,012	10,702
Contributions and bequests receivable	(621,456)	163,542
Pledges receivable	(6,700)	-
Inventory	23,850	11,269
Prepaid expenses	10,642	4,420
Refundable deposits	1,669	-
Increases (decreases) in certain liabilities:		
Accounts payable and accrued liabilities	176,353	(73,405)
Deferred revenue	(82,430)	67,060
Total Adjustments	991,842	(495,129)
Net Cash Provided by Operating Activities	1,396,713	853,408
Cash Flows From Investing Activities		
Purchase of land, buildings and equipment	(915,293)	(212,763)
Sale of property	-	4,800
Sale of investments	2,015,496	1,509,050
Purchase of investments	(2,545,650)	(2,115,123)
Net Cash Used In Investing Activities	(1,445,447)	(814,036)
Net (decrease) increase in cash and cash equivalents	(48,734)	39,372
Cash And Cash Equivalents, Beginning Of Year	478,447	439,075
Cash And Cash Equivalents, End Of Year	\$ 429,713	\$ 478,447

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

Halifax Humane Society, Inc.
Notes To Financial Statements
December 31, 2022 And 2021

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 presents 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, 2022 And 2021

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

E. Revenue Recognition

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.

Program revenues, which include adoption and service fees, and portions of other income are derived from contracts with customers as defined by ASC 606, further described in Accounting Pronouncements adopted disclosure below. In accordance with ASC 606, the Society's revenue is measured based on consideration specified in contracts with customers. The Society recognizes such revenues when it satisfies a performance obligation by transferring control over an animal, product, or service to a customer. Most of these transactions involve either a single performance obligation or multiple obligations where only one is considered material to the contract. For these contracts, the Society has determined that revenue should be recognized at a point in time as control is transferred, generally at the point of adoption or delivery of goods or services. Within the contract price, the Society includes an assurance-type warranty that provides limited guarantee regarding an adopted pet's health and the quality of goods for a reasonable period after delivery.

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.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

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

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.

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 Society files tax returns in the U.S. federal jurisdiction. With few exceptions, the Society is no longer subject to U.S. federal income tax examinations by taxing authorities for years before December 31, 2019.

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, 2022 And 2021

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

O. Advertising Costs

All costs relating to marketing and advertisement of the Society's services are expensed as incurred. Total advertising expenses for the years ended December 31, 2022 and 2021 were \$5,499 and \$6,031, respectively.

P. Recent Accounting Pronouncement Adopted

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, 2021. The Society implemented this ASU which did not have a material effect on the 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.

NOTE 2 – Contributions And Bequests Receivable

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ <u>917,394</u>	\$ <u>295,938</u>

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 3 – Pledge Contributions Receivable

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

	2022	2021
Pledge contributions receivable	\$ 8,700	\$ 2,000
Less estimated discount	(-)	(-)
Pledge receivable, net	8,700	2,000
Less current portion	8,700	2,000
Pledge receivable, net, non-current	\$ -	\$ -

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.

In determining the fair value, the Society 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.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 4 – Fair Value Measurements (continued)

The following represents assets measured at fair value on a recurring basis at December 31, 2022:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 429,713	\$ 429,713	\$ -
Investments:			
Equities	1,844,412	1,844,412	-
Fixed Income - Other	2,445,622	2,445,622	-
Money Market Funds	617,219	617,219	-
Mutual Funds	<u>1,594,027</u>	<u>1,594,027</u>	-
	6,501,280	6,501,280	-
Charitable remainder trusts, net	15,283	-	15,283
Perpetual trust held by third party	<u>789,676</u>	-	<u>789,676</u>
	<u>\$ 7,735,952</u>	<u>\$ 6,930,993</u>	<u>\$ 804,959</u>

The following represents assets measured at fair value on a recurring basis at December 31, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 478,447	\$ 478,447	\$ -
Investments:			
Equities	2,268,781	2,268,781	-
Fixed Income -Other	1,870,194	1,870,194	-
Money Market Funds	988,144	988,144	-
Mutual Funds	<u>1,832,745</u>	<u>1,832,745</u>	-
	6,959,864	6,959,864	-
Charitable remainder trusts, net	18,646	-	18,646
Perpetual trust held by third party	<u>1,010,458</u>	-	<u>1,010,458</u>
	<u>\$ 8,467,415</u>	<u>\$ 7,438,311</u>	<u>\$ 1,029,104</u>

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 5 – Investments

Investments consist of the following at December 31, 2022:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Equities	\$ 1,615,486	\$ 1,844,412	\$ 228,926
Fixed Income - Other	2,631,895	2,445,622	(186,273)
Money Market Funds	617,219	617,219	-
Mutual Funds	<u>1,666,252</u>	<u>1,594,027</u>	<u>(72,225)</u>
Total Investments	<u>\$ 6,530,852</u>	<u>\$ 6,501,280</u>	<u>\$(29,572)</u>

Investments consist of the following at December 31, 2021:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Equities	\$ 1,541,145	\$ 2,268,781	\$ 727,636
Fixed Income - Other	1,859,124	1,870,194	11,070
Money Market Funds	988,144	988,144	-
Mutual Funds	<u>1,597,882</u>	<u>1,832,745</u>	<u>234,863</u>
Total Investments	<u>\$ 5,986,295</u>	<u>\$ 6,959,864</u>	<u>\$ 973,569</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, 2022. However, the Society has adopted policies to mitigate the risk through diversification of invested assets.

Investment return for the years ended December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Realized and unrealized gains / (losses) - net	\$(1,037,529)	\$ 370,135
Interest and dividends	188,790	206,289
Other income (expense)	(34)	-
Investment fees	<u>(15,115)</u>	<u>(14,993)</u>
Investment income	<u>\$(863,888)</u>	<u>\$ 561,431</u>

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

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, 2022 and 2021 are as follows:

	2022	2021
Charitable remainder trusts	\$ 56,999	\$ 71,077
Discount	(41,716)	(52,421)
Charitable remainder trusts, net	\$ 15,283	\$ 18,656

During the years ended December 31, 2022 and 2021, the Society recognized unrealized (loss)/gain of \$(3,374) and \$483, 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, 2022 and 2021 the Society’s beneficial interest in the perpetual trust’s asset is as follows:

	2022	2021
Perpetual trust held by third party	\$ 789,676	\$ 1,010,458

During the years ended December 31, 2022 and 2021, the Society recognized unrealized (loss)/gain of \$(220,782) and \$90,691 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, 2022 And 2021

NOTE 6 – Split-Interest Agreements (continued)

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

	<u>2022</u>	<u>2021</u>
Investments	\$ 124,822	\$ 150,950

NOTE 7 – Land, Buildings And Equipment

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

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 1,052,788	\$ 850,815
Building and improvements	6,627,393	5,950,768
Equipment and vehicles	<u>812,004</u>	<u>788,539</u>
	8,492,185	7,590,122
Less: Accumulated depreciation	<u>(2,508,087)</u>	<u>(2,254,308)</u>
Land, buildings, and equipment, net	<u>\$ 5,984,098</u>	<u>\$ 5,335,814</u>

On February 28, 2022, the Society purchased 385 S. Yonge Street, Ormond Beach, Florida. The thrift store was relocated to this freestanding building now called “Rescue Retail” in June of 2022.

Depreciation expense for the years ended December 31, 2022 and 2021 was \$258,372 and \$239,617, respectively.

NOTE 8 – Notes Payable

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. There were no note payables as of December 31, 2022 and 2021.

The Loan bore an interest rate of 1.00% per annum, principal and interest are payable monthly. 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 used the entire Loan amount for qualifying expenses as described in the CARES Act, and the entire Loan was forgiven in February of 2021. See NOTE 17 – Extinguishment of Debt

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 9 – Board Designated Net Assets

At December 31, 2022 and 2021, the Society's board of directors has chosen to place the following limitation on net assets without donor restrictions:

	2022	2021
Designated for the Capital Campaign	\$ 50,626	\$ 102,931

The purpose of the Capital Campaign is to address issues with the facilities including the laundry roof, stray building, courtyard and gates.

NOTE 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2021 and 2020:

	2022	2021
Restricted for specified purposes:		
Program		
Grant & contributions – cash	\$ 52,118	\$ 69,092
Bequest receivable	917,394	295,938
Charitable remainder trusts, net	15,283	18,656
	984,795	383,686
Capital expenditure		
Capital campaign	-	2,000
Restricted in perpetuity:		
Tignor Perpetual Trust	240,156	240,156
Ciri Perpetual Trust	423,537	423,537
Rodgers Perpetual Trust	789,676	1,010,448
	1,453,369	1,674,141
Total net assets with donor restrictions	\$ 2,438,164	\$ 2,059,827

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.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 10 – Net Assets with Donor Restrictions (continued)

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>2022</u>	<u>2021</u>
Programs		
Bequest receivable	\$ 280,938	\$ 440,784
Emergency medical funds	35,232	12,610
Investment income	<u>8,007</u>	<u>8,001</u>
	324,177	461,395
Expenditures for capital projects	<u>2,000</u>	<u>47,071</u>
Total donor restricted net assets released from restrictions	<u>\$ 326,177</u>	<u>\$ 508,466</u>

NOTE 11 – Leasing Activities

The Society has an operating lease of storefront space for the clinic which expires in October of 2023.

The following summarizes the line items in the statements of financial position which include amounts for the operating lease as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Operating Lease		
Operating lease right-of-use-assets	<u>\$ 16,493</u>	<u>\$ 35,059</u>
Other current liabilities	\$ 16,493	\$ 18,566
Operating lease liabilities	<u>-</u>	<u>16,493</u>
Total operating lease liabilities	<u>\$ 16,493</u>	<u>\$ 35,059</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2022</u>	<u>2021</u>
Weighted Average Remaining Lease Term		
Operating leases	1 year	2 years
Weighted Average Discount Rate		
Operating leases	7.00%	7.00%

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 11 – Leasing Activities (continued)

The maturities of the lease liability as of December 31, 2022 are as follows:

Year Ending December 31:	Operating
2023	\$ 17,027
Total lease payments	17,027
Less: Interest	(534)
Present value of the lease liabilities	<u>\$ 16,493</u>

The following summarizes the line items in the statement of activities which include the components of the lease expense for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Operating lease expense included in occupancy expenses	<u>\$ 20,432</u>	<u>\$ 20,432</u>

The following summarizes cash flow information related to leases for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measure of lease liabilities:		
Operating cash flows from operation lease	\$ 20,432	\$ 20,432
Lease asset obtained in exchange of lease obligations:		
Operating leases	16,493	35,059

The Society leased storefront space for the thrift store in Ormond Beach. The lease expired in July 2022 and was not renewed. The thrift store now operates in a building owned by the Society.

NOTE 12 – 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, 2022 and 2021 was \$18,207 and \$24,693, respectively.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 13 – 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.

NOTE 14 – Litigation Matters

The Society can be exposed to potential civil litigations arising from ordinary conduct of its regular business activities. Often, the matter is an individual action involving a single plaintiff.

In accordance with the provisions of U.S. GAAP for contingencies, the Society establishes accruals for legal matters when potential losses associated with the actions become probable and the amount of loss can be reasonably estimated. No assurance can be made regarding the ultimate resolution of these matters.

Any estimate of reasonably possible losses is based upon currently available information and involves considerable judgement. In addition, the matters underlying of the estimate will change from time to time, and actual losses may vary significantly from the estimate. For this same reason stated, we do not believe than an estimate of reasonable possible losses can be made for certain matters and therefore no estimate is reflected.

NOTE 15 – Concentration Of Credit Risk

Cash deposits in banks are covered by the FDIC up to \$250,000. For the year ended December 31, 2022, the Society's cash and cash equivalents exceeded federally insured limits by \$149,793.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 16 – Employee Retention Credit

In March of 2022, the Society engaged a company to provide advisory services as it relates to the Employee Retention Credit (ERC). On June 14, 2022, it was determined that the Society qualified for the Retention Credit under partial suspension March 13, 2020 through September 25, 2020 and later filed Form 941X. The credit for each qualifying quarter is estimated at \$100,326 and \$133,082 for 2020 quarter two and quarter three, respectively. The Society recognized \$233,408 as recovery of those losses and a corresponding fee of \$35,733 during the year ending December 31, 2022.

Laws and regulations concerning government programs, including the Employee Retention Credit established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization’s claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization.

NOTE 17 - Extinguishment of Debt

The Society was granted full forgiveness in the amount of \$357,500 for its 2020 Paycheck Protection Program (PPP) long-term borrowing in February of 2021. Forgiveness was authorized by Section 1106 of the Cares Act and funds were remitted by the Small Business Administration (SBA) to the lender of record. As of December 31, 2021, the amount of debt extinguished was \$357,500.

NOTE 18 – 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>2022</u>
Cash and cash equivalents – Without Donor Restriction	\$ 377,595
Investments – Without Donor Restriction	5,837,588
Accounts receivable	30,856
Pledges receivable, net	8,700
	6,254,739
 Board Designated Net Assets	 (68,309)
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 6,186,430</u>

NOTE 19 – Supplemental Cash Flow Information

For the years ended December 31, 2022 and 2021, there was no interest expense or income taxes paid.

Halifax Humane Society, Inc.
Notes To Financial Statements (continued)
December 31, 2022 And 2021

NOTE 20 – Subsequent Events

The Society entered into a finance lease agreement for three copiers. The lease is for a period of five years three months commencing on November 2, 2023. Payments are due monthly in the amount of \$534 and total \$33,642.

The Society entered into a finance lease agreement for two washers and two dryers. The lease is for a period of five years commencing on November 9, 2023. Payments are due monthly in the amount of \$844 and total \$50,640.

Subsequent Events were evaluated as of December 8, 2023 which is prior to the financial statement availability date of December 21, 2023.