

**The Humane Society of
Austin and Travis County, Inc.
(dba Austin Humane Society)**

**Financial Statements
as of and for the Years Ended
June 30, 2021 and 2020 and
Independent Auditors' Report**



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

Independent Auditors' Report

To the Board of Directors of
The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society):

We have audited the accompanying financial statements of The Humane Society of Austin and Travis County, Inc. (dba Austin Humane Society) (the "Society") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, 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.

Auditors' Responsibility

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"
This firm is not a CPA firm*

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Maxwell Locke & Ritter LLP". The signature is written in a cursive, flowing style.

Austin, Texas
March 1, 2022

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 1,203,738	\$ 1,227,720
Investments	1,677,085	835,897
Contributions receivable, net	637,862	1,449,296
Accounts receivable	27,520	-
Real estate held for sale	292,953	-
Prepaid expenses and other assets	88,678	17,930
Inventory	64,582	41,179
Cash restricted to investment in building construction	694,557	299,148
Property and equipment, net	<u>9,440,321</u>	<u>9,472,414</u>
Total assets	<u>\$ 14,127,296</u>	<u>\$ 13,343,584</u>
Liabilities And Net Assets		
Liabilities:		
Accounts payable	\$ 144,516	\$ 95,348
Accrued liabilities	127,039	114,170
Deferred liability	63,074	-
Deferred PPP grant revenue (Note 10)	891,423	460,487
Capital lease obligations	55,804	72,821
Note payable	<u>2,797,721</u>	<u>3,748,177</u>
Total liabilities	4,079,577	4,491,003
Net assets:		
Without donor restrictions	3,138,917	2,555,103
With donor restrictions	<u>6,908,802</u>	<u>6,297,478</u>
Total net assets	<u>10,047,719</u>	<u>8,852,581</u>
Total liabilities and net assets	<u>\$ 14,127,296</u>	<u>\$ 13,343,584</u>

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statement of Activities
Year Ended June 30, 2021

(with summarized comparative totals for the year ended June 30, 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and net assets released from restrictions:				
Contributions, net	\$ 2,985,932	758,928	3,744,860	3,984,514
Special events	558,800	-	558,800	557,688
Costs of direct benefits to donors Program	(31,710) 412,255	-	(31,710) 412,255	(106,346) 535,782
Government grant revenue	235,130	-	235,130	-
Donated goods and services	198,960	-	198,960	142,155
Investment income, net	64,929	-	64,929	3,609
Other income	85,334	-	85,334	82,697
Net assets released from restrictions	147,604	(147,604)	-	-
 Total revenues and net assets released from restrictions	 4,657,234	 611,324	 5,268,558	 5,200,099
Expenses:				
Program services	2,900,529	-	2,900,529	3,000,409
Fundraising	934,623	-	934,623	623,948
Management and general	238,268	-	238,268	211,663
 Total expenses	 4,073,420	 -	 4,073,420	 3,836,020
 Change in net assets	 583,814	 611,324	 1,195,138	 1,364,079
Net assets, beginning of year	2,555,103	6,297,478	8,852,581	7,488,502
Net assets, end of year	\$ 3,138,917	6,908,802	10,047,719	8,852,581

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and net assets released from restrictions:			
Contributions, net	\$ 2,410,840	1,573,674	3,984,514
Special events	557,688	-	557,688
Costs of direct benefits to donors Program	(106,346)	-	(106,346)
Donated goods and services	535,782	-	535,782
Investment income, net	142,155	-	142,155
Other income	3,609	-	3,609
Net assets released from restrictions	82,697	-	82,697
	<u>899,090</u>	<u>(899,090)</u>	<u>-</u>
Total revenues and net assets released from restrictions	4,525,515	674,584	5,200,099
Expenses:			
Program services	3,000,409	-	3,000,409
Fundraising	623,948	-	623,948
Management and general	211,663	-	211,663
Total expenses	<u>3,836,020</u>	<u>-</u>	<u>3,836,020</u>
Change in net assets	689,495	674,584	1,364,079
Net assets, beginning of year	<u>1,865,608</u>	<u>5,622,894</u>	<u>7,488,502</u>
Net assets, end of year	<u>\$ 2,555,103</u>	<u>6,297,478</u>	<u>8,852,581</u>

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statement of Functional Expenses

Year Ended June 30, 2021

(with summarized comparative totals for the year ended June 30, 2020)

	2021				2020 Total
	Program Services	Fundraising	Management and General	2021 Total	
Salaries and wages	\$ 1,561,458	292,774	97,591	1,951,823	1,959,615
Depreciation and amortization	240,071	-	-	240,071	225,286
Employee benefits	187,278	35,114	11,705	234,097	215,603
Occupancy	172,181	32,284	10,761	215,226	137,164
Office	78,050	114,619	4,878	197,547	237,651
Medical supplies	153,883	-	-	153,883	226,199
Payroll taxes	115,203	21,601	7,200	144,004	145,074
Capital campaign	-	103,823	-	103,823	34,079
Professional fees	-	-	83,748	83,748	21,075
Events	-	80,398	-	80,398	69,105
Information technology support	18,945	62,951	1,184	83,080	82,474
Insurance	61,277	11,349	3,783	76,409	65,435
Credit card and bank fees	20,654	34,391	1,291	56,336	57,818
Other fees for services	36,294	1,774	7,300	45,368	32,048
Vet services	39,554	-	-	39,554	34,200
Shelter supplies	20,787	-	-	20,787	22,958
Training and development	15,612	-	-	15,612	23,944
Automobile	10,661	-	-	10,661	13,540
Boutique	3,068	-	-	3,068	5,228
Provision for uncollectible contributions receivable	-	-	-	-	36,752
Other operating	123,265	22,945	8,627	154,837	96,785
Total expenses before donated goods and services and cost of direct benefits to donors	2,858,241	814,023	238,068	3,910,332	3,742,033
Donated goods and services	42,288	120,600	200	163,088	93,987
Total expenses before cost of direct benefits to donors	2,900,529	934,623	238,268	4,073,420	3,836,020
Costs of direct benefits to donors	-	-	-	31,710	106,346
Total expenses	\$ 2,900,529	934,623	238,268	4,105,130	3,942,366

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Fundraising	Management and General	Total
Salaries and wages	\$ 1,665,672	215,558	78,385	1,959,615
Depreciation and amortization	225,286	-	-	225,286
Employee benefits	183,263	23,716	8,624	215,603
Occupancy	116,590	15,088	5,486	137,164
Office	121,962	109,950	5,739	237,651
Medical supplies	226,199	-	-	226,199
Payroll taxes	123,313	15,958	5,803	145,074
Capital campaign	-	34,079	-	34,079
Professional fees	-	-	21,075	21,075
Events	-	69,105	-	69,105
Information technology support	24,179	58,011	284	82,474
Insurance	55,715	7,128	2,592	65,435
Credit card and bank fees	23,444	33,271	1,103	57,818
Other fees for services	10,763	1,393	19,892	32,048
Vet services	34,200	-	-	34,200
Shelter supplies	22,958	-	-	22,958
Training and development	23,944	-	-	23,944
Automobile	13,540	-	-	13,540
Boutique	5,228	-	-	5,228
Provision for uncollectible contributions receivable	-	-	36,752	36,752
Other operating	79,001	11,856	5,928	96,785
Total expenses before donated goods and services and cost of direct benefits to donors	2,955,257	595,113	191,663	3,742,033
Donated goods and services	45,152	28,835	20,000	93,987
Total expenses before cost of direct benefits to donors	3,000,409	623,948	211,663	3,836,020
Costs of direct benefits to donors	-	-	-	106,346
Total expenses	<u>\$ 3,000,409</u>	<u>623,948</u>	<u>211,663</u>	<u>3,942,366</u>

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc.
(dba Austin Humane Society)

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,195,138	\$ 1,364,079
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for investment in building construction	(1,486,941)	(1,216,431)
Depreciation and amortization	240,071	225,286
Change in discount to net present value for contributions receivable	33,248	(44,092)
Unrealized and realized (gains) losses on investments	(32,540)	7,918
Provision for uncollectible contributions	-	36,752
Real estate held for sale	(292,953)	-
Donated property and equipment	-	(16,317)
Changes in operating assets and liabilities that provided (used) cash:		
Contributions receivable	778,186	417,803
Accounts receivable	(27,520)	26,315
Prepaid expenses and other assets	(70,748)	5,418
Inventory	(23,403)	(18,120)
Accounts payable	49,168	17,178
Accrued liabilities	12,869	(51,689)
Deferred liability	63,074	-
Deferred PPP grant revenue	<u>430,936</u>	<u>460,487</u>
Net cash provided by operating activities	868,585	1,214,587
Cash Flows from Investing Activities:		
Purchases of investments	(829,217)	(400,000)
Sales of investments	20,569	250,000
Purchases of property and equipment	<u>(207,978)</u>	<u>(353,525)</u>
Net cash used in investing activities	(1,016,626)	(503,525)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(17,017)	(15,360)
Contributions restricted for investment in building construction	1,486,941	1,216,431
Payments on note payable	<u>(950,456)</u>	<u>(936,390)</u>
Net cash provided by financing activities	<u>519,468</u>	<u>264,681</u>
Net change in cash, cash equivalents, and restricted cash	371,427	975,743
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,526,868</u>	<u>551,125</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,898,295</u>	<u>\$ 1,526,868</u>
Supplemental Disclosure-		
Interest paid in cash	<u>\$ 115,349</u>	<u>\$ 205,418</u>
Supplemental Noncash Disclosure-		
Donated property and equipment	<u>\$ -</u>	<u>\$ 16,317</u>

See notes to financial statements.

The Humane Society of Austin and Travis County, Inc. (dba Austin Humane Society)

Notes to Financial Statements Years Ended June 30, 2021 and 2020

1. Nature of Operations

The Humane Society of Austin and Travis County, Inc. (dba Austin Humane Society) (the “Society”) is a nonprofit community service agency that offers comprehensive, humane, life-saving animal services, transforming the lives of animals and those who love them. Because the Society believes homeless animals deserve a chance to thrive in a loving environment, they offer innovative nationally-recognized programs that save the lives of thousands of dogs and cats each year. The Society’s approach to addressing animal homelessness encompasses both finding animals homes through adoption as well as preventing future homelessness through spay and neuter programs.

2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Without Donor Restrictions - These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use, or at the discretion of the Board of Directors (the “Board”) for the Society’s use.

With Donor Restrictions - These net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. The Society does not have permanently donor-restricted net assets.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 - Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash, Cash Equivalents, and Restricted Cash - The Society considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash restricted to investment in building construction is related to the Society's capital campaign discussed in Note 9.

Investments - Investments are recorded in the statements of financial position at fair value. Investment transactions are recorded on the trade date and investment income is recorded when earned. Realized gains and losses are recorded in the statements of activities as the difference between historical cost and the proceeds received from the sale of an investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. Realized and unrealized gains and losses are included in net investment income in the statements of activities.

Contributions Receivable - Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Contributions receivable include amounts pledged over a period of one to five years. The Society records a discount to reflect the present value of receivables using approximate market rates applicable to the years in which the pledge is included in contribution revenue. Although the Society has not experienced material uncollectible amounts in the past, an allowance for uncollectible pledges receivable has been established.

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned when the Society has an unconditional right to payment under the term of the customer's contract. Delinquent accounts receivable invoices do not accrue interest. The Society continually monitors each customer's credit-worthiness individually and recognizes allowances for estimated bad debts on customer accounts that are no longer estimated to be collectible. The Society adjusts any allowance for subsequent collections and final determination that an account receivable is no longer collectible. The Society had no allowance for uncollectible receivables as of June 30, 2021 or 2020, as management deemed all outstanding balances to be collectible.

Real Estate Held for Sale - Contributed real estate ready for sale is measured at its fair value less estimated costs to sell.

Inventory - Inventory, which consists primarily of medical supplies, is stated at the lower of cost or net realizable value, as determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of disposal. Management reviews inventory for slow-moving items and records a reserve as necessary. No reserve was considered necessary as of June 30, 2021 and 2020.

Property and Equipment - Property and equipment are capitalized at cost if purchased and at fair market value on the date of receipt if donated. The Society capitalizes all acquisitions of property and equipment with a cost or donated value in excess of \$500. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of activities. Maintenance and repairs that do not improve or extend the useful life of the respective asset are expensed as incurred. Land and construction-in-progress are not depreciated. Depreciation and amortization expense is calculated using the straight-line method over the following estimated useful lives:

Building and improvements	7-40 years
Computer equipment and software	3-5 years
Kennel equipment	5-7 years
Furniture and fixtures	5-10 years
Automotive equipment	4-5 years
Capital lease assets	5 years
Surgical equipment	5-10 years

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment at the asset group level whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which carrying amount of the asset group exceeds fair value, if the carrying amount of the asset group is not recoverable.

Contributions - All contributions are recorded at their fair value and are considered to be available for operations unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related amounts are reclassified to net assets without donor restrictions. This is reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give, defined as those with a measurable performance or other barrier and a right of return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Special Events Revenue - Special events revenue includes ticket sales and sponsorships of events. Both ticket sales and sponsorship revenue are recognized when the conditional promises to give are met, which is when the event takes place. The Society receives ticket sales and sponsorships for future events. Cash receipts collected in advance of the event are deferred until the event takes place and the special event revenue is earned. Costs of direct benefits to donors are recorded in the fiscal year in which the events are held. These costs primarily consist of entertainment, auction items, food and beverage, and facilities costs. The annual gala was virtual during the year ended June 30, 2021 and there were no costs of direct benefit to donors.

Revenue Recognition - Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Society expects to be entitled in exchange for those goods or services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Society satisfies a performance obligation, as further described below.

Program revenue includes fees for adoptions, spay/neuter surgery of feral cats, and other services that are earned and recognized as revenue when the adoptions occur or as the services are provided.

Costs to Obtain or Fulfill Contracts - As performance obligations in contracts with customers are satisfied in less than on year, the Society applies the practical expedient to expense costs to obtain a contract as incurred. Management has not identified any costs to obtain or fulfill contracts which meet the criteria for capitalization.

Donated Goods and Services - Donated goods and services are reflected in the statements of activities at their fair value on the date of receipt. Donated services are recognized if the services received (a) create or enhance non-financial assets and (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2021 and 2020, volunteers donated 105,814 and 108,248 hours, respectively, to the Society's program services and fundraising campaigns. No amounts have been recognized in the statements of activities for these volunteer hours because they do not require specialized skills.

The Society received the following donated goods and services during the years ended June 30:

	2021	2020
Professional services	\$ 125,000	\$ 20,000
Vehicles	35,872	48,168
Veterinary services	23,000	28,000
Shelter supplies	11,088	17,152
Audio visual services	-	24,390
Other	4,000	4,445
Total donated goods and services	<u>\$ 198,960</u>	<u>\$ 142,155</u>

Functional Allocation of Expenses - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the programs and supporting services benefited using a variety of cost allocation techniques, such as time and effort.

Federal Income Taxes - The Society is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent of any unrelated business income. The Society did not incur any significant tax liabilities due to unrelated business income during the years ended June 30, 2021 and 2020. The Society files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Recently Issued Accounting Pronouncement - In February 2016, the FASB issued Accounting Standards Update (“ASU”) ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of operations for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2021 and early adoption is permitted. The Society is currently evaluating the impact the standard will have on its financial statements

3. Liquidity and Availability of Financial Assets

The Society’s financial assets available within one year for general expenditure were as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,203,738	\$ 1,227,720
Investments	1,677,085	835,897
Accounts receivable	27,520	-
Contributions receivable, net of allowance, due in less than one year (unrelated to capital campaign)	<u>156,719</u>	<u>144,293</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,062,254</u>	<u>\$ 2,207,910</u>

The Society invests its funds in liquid investments in a manner to maximize return, minimize interest rate risk, and support cash flow requirements. The Board ensures the Society’s financial stability by approving an annual budget prior to the start of each fiscal year. Any expenditures not in the approved budget must be approved. The Society maintains financial policies to ensure funds are allocated in a manner consistent with the mission of the Society. Amounts related to the Society’s capital campaign (Note 9) are not included in amounts available for general expenditure within one year.

4. Concentration of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist of cash, cash equivalents, and restricted cash, investments, and receivables. The Society places its cash and cash equivalents with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position. The Society does not maintain collateral for its receivables. Three donors comprised 66% of contributions receivable as of June 30, 2021. Two donors comprised 60% of contributions receivable as of June 30, 2020. The Society is also subject to risk in the concentration of contribution and special events revenue from certain donors. Two donors comprised 36% of contribution and special events revenue during the year ended June 30, 2020.

5. Investments

Investments reported at fair value consisted of the following as of June 30, 2021:

	Total Fair Value	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Federal money market fund	\$ 1,564,609	-	1,564,609	-
Common stocks	112,476	112,476	-	-
Total investments	<u>\$ 1,677,085</u>	<u>66,659</u>	<u>1,564,609</u>	<u>-</u>

Investments reported at fair value consisted of the following as of June 30, 2020:

	Total Fair Value	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Federal money market fund	\$ 746,609	-	764,609	-
Common stocks	66,659	66,659	-	-
Limited partnerships	4,629	-	-	4,629
Total investments	<u>\$ 835,897</u>	<u>66,659</u>	<u>764,609</u>	<u>4,629</u>

Level 1 investments consist of common stocks and have been valued using the market approach. Level 2 investments consist of a federal money market fund valued using the market approach. The federal money market fund is closed to new investors and is not actively traded. Level 3 investments have been valued using the income approach.

A summary of activity and changes in Level 3 investments during the years ended June 30:

	2021	2020
Sale of investments	\$ (20,569)	-
Gain on investments, net	\$ 15,940	-
Transfers in/out of Level 3	\$ -	-

6. Contributions Receivable

Contributions receivable include unconditional promises to give to the capital campaign (Note 9) and other contributions receivable. Contributions receivable were comprised of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 387,792	\$ 961,554
One to five years	<u>259,400</u>	<u>533,631</u>
	647,192	1,495,185
Less discount to net present value	(9,330)	(42,578)
Less allowance for uncollectible contributions receivable	<u>-</u>	<u>(3,311)</u>
Total	<u>\$ 637,862</u>	<u>\$ 1,449,296</u>

The present value of estimated future cash flows on long-term contributions receivable was calculated using a discount rate of 3.20% and 3.25% as of June 30, 2021 and 2020, respectively.

Contributions receivable were as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Capital campaign	\$ 490,473	\$ 1,347,581
Other	<u>156,719</u>	<u>147,604</u>
Total contributions receivable	<u>\$ 647,192</u>	<u>\$ 1,495,185</u>

7. Property and Equipment

Property and equipment consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 6,720,432	\$ 6,720,432
Computer equipment and software	365,297	348,362
Kennel equipment	215,201	215,201
Furniture and fixtures	159,722	145,748
Automotive equipment	108,478	108,478
Capital lease assets	88,181	88,181
Surgical equipment	<u>114,873</u>	<u>46,769</u>
	7,772,184	7,673,171
Less accumulated depreciation	(2,194,359)	(1,954,289)
Land	2,481,844	2,481,844
Construction-in-progress	<u>1,380,652</u>	<u>1,271,688</u>
Property and equipment, net	<u>\$ 9,440,321</u>	<u>\$ 9,472,414</u>

Capitalized interest related to the note payable for the purchase of building and land (Note 8) for the years ended June 30, 2021 and 2020 was \$108,964 and \$193,930 respectively, and is included in construction-in-progress.

8. Note Payable

The Society had a \$7,500,000 term note with a bank for the purchase of a building and land for its future headquarters with interest due monthly at the prime rate, as defined (3.25% at June 30, 2020), and outstanding principal due at maturity on June 13, 2021. The agreement required that 70% of capital campaign receipts be held for repayments of outstanding interest and principal. The note was collateralized by a security interest in the Society's investment accounts, rights to future capital campaign pledges and payments, all receivables, grants, and contributions, and the land and the building, and was guaranteed by an individual. As of June 30, 2020, the outstanding principal totaled \$3,748,177.

In June 2021, the Society repaid its note payable that matured in June 2021 with the proceeds from another note (the "Note") for \$2,797,721. The Note is payable in monthly installments of \$15,864, with an interest rate of 3.2% per annum, and a maturity date of June 14, 2026. The Note is collateralized by a security interest in the Society's receivables and revenue. The Society is also subject to a funded debt to unrestricted net assets debt covenant restriction under the Note agreement.

Future minimum payments under the note payable consisted of the following as of June 30, 2021:

2022	\$ 101,855
2023	104,441
2024	107,655
2025	111,426
2026	<u>2,372,344</u>
Total note payable	<u>\$ 2,797,721</u>

9. Net Assets With Donor Restrictions

During the year ended June 30, 2018, the Society began a capital campaign to fund the purchase of land and renovation of a building to serve as the Society's future headquarters that will include a new administration building, adoption center, dog run, and kennels on multiple levels.

Net assets with donor restrictions were restricted for the following purposes as of June 30:

	<u>2021</u>	<u>2020</u>
Capital campaign	\$ 6,752,083	\$ 6,149,874
Other time restrictions	156,719	142,283
Shelter manager salary	-	<u>5,321</u>
Total	<u>\$ 6,908,802</u>	<u>\$ 6,297,478</u>

10. Government Grants

The Society has taken various actions to preserve its liquidity. In April 2020, the Society received a \$460,487 loan (the “2020 PPP loan”) under the Paycheck Protection Program (“PPP”) which was created through the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). The loan has a fixed interest rate of 1% and matures in 2 years. The loan is eligible for forgiveness by the SBA for the portion of loan proceeds used for payroll costs and other designated operating expenses (as defined) for up to eight weeks or, at the discretion of the borrower, twenty-four weeks (the “Covered Period”), provided at least 60% of loan proceeds are used for payroll costs and the Society meets all necessary criteria as defined by the SBA. The Society accounted for the PPP loan as a conditional grant with two performance criteria including incurring qualifying expenses that will be forgiven as well as obtaining a formal forgiveness from the SBA. The performance obligations have not been met as of June 30, 2021 and is recorded in deferred PPP grant revenue in the statements of financial position. The Society received forgiveness in July 2021 for the 2020 PPP loan.

In March 2021, the Society received an additional PPP loan (the “2021 PPP loan”) for \$430,936 which has similar terms as described above for the 2020 PPP loan except the maturity on the 2021 PPP loan is five years. As of June 30, 2021, the Society had not applied for 2021 PPP loan forgiveness.

During the year ended June 30, 2021, the Society received \$235,130 through the Employee Retention Tax Credit (“ERTC”) offered under the CARES Act and administered by the SBA. The Society accounted for the ERTC as a conditional grant with one performance criteria of incurring qualifying expenses. The conditions were met prior to June 30, 2021 and therefore \$235,130 was recorded as government grant revenue in the statement of activities for the year then ended.

11. Commitments and Contingencies

Lease Commitments

The Society leased office space on a month-to-month basis, ending its commitment in April 2020. Rental expense totaled \$27,600 during the year ended June 30, 2020.

The Society has also entered into noncancelable capital leases for copier equipment which expire during fiscal years 2024 and 2025. As of June 30, 2021 and 2020, the equipment had a cost value of \$88,181 and accumulated amortization of \$34,062 and \$16,426, respectively.

Future minimum lease payments under capital lease obligations were as follows as of June 30, 2021:

2022	\$	19,132
2023		19,132
2024		19,132
2025		1,312
Total minimum lease payments		58,708
Less amounts representing interest		(2,904)
Capital lease obligations	\$	<u>55,804</u>

The Society leases office space to a third party under a non-cancellable operating lease agreement which expires during fiscal year 2022. Rental income under this agreement was \$78,000 and \$82,274 during the years ended June 30, 2021 and 2020, respectively and was included in other income. Future minimum operating lease income is \$42,000 related to the fiscal year ended June 30, 2022.

Contingencies

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. As a result of the COVID-19 pandemic, the Society transitioned from in-person to virtual animal adoptions, and additionally held its annual gala virtually. The Society is actively managing the business to maintain its cash flow and management believes that the Society has adequate liquidity.

12. Related Party Transactions

Certain members of the Board contributed \$46,880 and \$47,197 to the Society during the years ended June 30, 2021 and 2020, respectively. Contributions receivable of \$28,250 and \$40,700 remained outstanding as of June 30, 2021 and 2020, respectively.

13. Charitable Trusts

The Society has received communications indicating it has been named as a beneficiary in charitable trusts that are maintained by third-party trustees. As of June 30, 2021 and 2020, the value of these conditional promises to give could not be estimated, and were not recognized in the statements of financial position as they will be recorded as contributions in the period in which they become unconditional and the Society obtains information regarding the value of the promises to give.

14. Austin Community Foundation Endowment Fund

In 2008, the Society transferred funds to the Austin Community Foundation (the "Foundation") to establish the Austin Humane Society Every Animal Fund (the "Fund"). The Fund was established for the purpose of generating income, while corpus is preserved into perpetuity, to provide general support to the Society. Contributions to the Fund are from two sources: 1) the Society may contribute Board-designated unrestricted funds and 2) donors making restricted contributions directly to the Foundation to support the Society.

The Society recognizes the two sources of contributions as follows:

- The funds contributed by the Society are recognized as an asset and unrestricted net assets on the Society's statements of financial position, even though the agreement between the Society and the Foundation expressly creates a permanent endowment held irrevocably by the Foundation. The Society will record the related investment activity related to the Society's contributions in the statements of activities. The value of the fund was \$8,316 and \$6,240 at June 30, 2021 and 2020, respectively, and is recorded within other assets on the statements of financial position.

- Donations made directly to the Foundation by individuals, corporations, and others are not recorded as contributions by the Society. The value of this fund at any point in time is not included in the financial statements. The Society will recognize contributions from the Foundation when the contribution is received by the Society. The value of this fund was \$289,077 and \$216,898 at June 30, 2021 and 2020, respectively. The Foundation preserves the principal amounts contributed in perpetuity and charges a fee as compensation for investing, administering, and distributing funds. Investments are administered in accordance with Foundation policies and monitored by an investment committee. The investment pool is a diversified portfolio of fixed income, large cap, small cap, international and alternative strategy investment vehicles which are managed by investment managers. Variance power is reserved by the Foundation's Board of Governors and contained in the Foundation's Articles of Incorporation and By-laws. This power provides the Board of Governors the ability to modify any restriction or condition on the distribution of assets, if circumstances warrant. The annual amount available to be distributed to the Society is based upon the spending policy of the Foundation as established by the Board of Governors. The current spending policy allows a maximum of up to five percent of the 20-quarter average of the endowment to be available for distribution. No distributions were received during the years ended June 30, 2021 and 2020.

15. Subsequent Events

The Society has evaluated subsequent events through March 1, 2022, the date the financial statements were available to be issued.

In July 2021, the Society received forgiveness of the first PPP loan for \$460,487, as described in Note 10.