

HART for Animals, Inc.

Financial Report

December 31, 2021

TURNBULL, HOOVER & KAHL, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

HART for Animals, Inc.
Table of Contents
December 31, 2021

Financial Statements	Page
Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-20

David W. Turnbull, CPA
Richard J. Hoover, CPA
Bernard B. Kahl, CPA



13179 Garrett Highway, Suite E
Oakland, Maryland 21550
Phone: 301.334.2820
Fax: 301.334.3634

To the Board of Trustees of
HART for Animals Inc.
McHenry, Maryland 21541

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of HART for Animals, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 HART for Animals Inc. as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 HART for Animals Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 HART for Animals, Inc. ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 HART for Animals, 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 HART for Animals, 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.

Jumbully Hoover & Kahl PA

Oakland, Maryland

October 21, 2022

HART for Animals, Inc.
Statement of Financial Position
December 31, 2021

Assets

<u>Current Assets</u>	
Cash and cash equivalents	\$ 69,320
Investments, at fair value	12,023
Pledges receivable, current portion	58,067
Inventory, at cost	43,085
Accounts receivable	1,596
Prepaid expenses	3,719
Total Current Assets	187,810
 <u>Other Assets</u>	
Pledges receivable, net- long term portion	429,012
Right of use assets	22,407
Total Other Assets	451,419
 <u>Non-Current Assets</u>	
Buildings	2,948,598
Land	325,784
Furniture and equipment	210,872
Improvements	81,489
Vehicles	36,507
Less: accumulated depreciation	(747,214)
Net Non-Current Assets	2,856,036
Total Assets	\$ 3,495,265

Liabilities and Net Assets

<u>Current Liabilities</u>	
Accounts payable	\$ 70,226
Accrued payroll	42,423
Credit cards payable	25,735
Accrued leave	10,606
Accrued payroll taxes	4,511
Loans payable, current portion	62,256
Lease payable, current portion	4,004
Total Current Liabilities	219,761
 <u>Non-Current Liabilities</u>	
Loans payable, less current portion	1,481,906
Lease payable, less current portion	18,403
Total Non-Current Liabilities	1,500,309
Total Liabilities	1,720,070
 <u>Net Assets</u>	
Without donor restrictions	1,169,326
With donor restrictions	605,869
Total Net Assets	1,775,195
Total Liabilities and Net Assets	\$ 3,495,265

The Accompanying Notes to Financial Statements are an integral part of this statement

HART for Animals, Inc.
Statement of Activities and Changes in Net Assets
For the year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue</u>			
Support:			
Contributions	563,117	\$ 21,897	\$ 585,014
Direct public grants	-	12,262	12,262
Special events	44,166	-	44,166
Total Support	607,283	34,159	641,442
Revenue:			
Bredel Center income	1,000,136	-	1,000,136
Bed 'n Bark Inn income	220,290	-	220,290
Muttworks income	34,915	-	34,915
Adoption and Rescue income	22,602	-	22,602
Pick of the Litter income	44,047	-	44,047
HART Shoppe income	8,460	-	8,460
In Kind income	14,351	-	14,351
Investment income, net	(40)	-	(40)
Total Revenue	1,344,761	-	1,344,761
Net assets released from restrictions satisfaction of purpose restrictions	133,877	(133,877)	-
Total Support and Revenue (Increase in Net Assets With/Without Donor Restrictions)	2,085,921	(99,718)	1,986,203
Expenses			
Program Service Expenses	1,525,078	-	1,525,078
Management & General Expenses	273,907	-	273,907
Total Expenses (Decrease in Net Assets With/Without Donor Restrictions)	1,798,985	-	1,798,985
Change in Net Assets With/Without Donor Restrictions	286,936	(99,718)	187,218
Net Assets With/Without Donor Restrictions, Beginning of Year	882,390	705,587	1,587,977
Net Assets With/Without Donor Restrictions, End of Year	\$ 1,169,326	\$ 605,869	\$ 1,775,195

HART for Animals, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Bredel Center	Bed 'n Bark Inn	Muttworks	Pick of the Litter	Adoption & Rescue	HART Shoppe	Total Program Services	Management & General	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries and wages-Specific	330,129	147,513	27,767	16,564	151,794	-	673,767	-	673,767
Administration Salaries-Specific	-	-	-	-	-	-	-	151,671	151,671
Customer Salaries- Divided*	30,623	13,610	13,610	-	5,444	1,361	64,648	3,403	68,051
Facility Salaries- Divided*	4,353	17,412	2,177	-	17,412	-	41,354	2,177	43,531
Supplies	308,785	1,833	1,764	1,015	5,473	6,341	325,211	3,533	328,744
Payroll expenses**	34,604	15,572	4,326	1,730	15,572	-	71,804	14,707	86,511
Interest expense	8,152	13,795	627	627	20,693	-	43,894	18,812	62,706
Depreciation expense- Divided	7,287	12,332	561	561	18,498	-	39,239	16,817	56,056
Utilities	6,244	10,567	480	480	15,850	-	33,621	48,030	82,051
Laboratory fees	40,581	-	-	-	-	-	40,581	-	40,581
Depreciation expense- Specific	4,654	1,283	373	302	31,433	-	38,045	-	38,045
Service charges	3,613	6,115	278	278	9,173	-	19,457	8,339	27,796
Repairs & maintenance- Divided	3,307	5,596	254	254	8,394	-	17,805	7,631	25,436
Insurance	2,907	4,920	224	224	7,380	-	15,655	6,709	22,364
Workers compensation	2,172	3,676	167	167	5,514	-	11,696	5,012	16,708
In Kind Expenses	14,351	-	-	-	-	-	14,351	-	14,351
Contract veterinarians	14,258	-	-	-	-	-	14,258	-	14,258
Event expenses	1,471	2,490	113	113	3,734	-	7,921	3,395	11,316
Legal & professional	1,414	2,394	109	109	3,590	-	7,616	3,264	10,880
Advertising	1,196	2,025	92	92	3,037	-	6,442	2,761	9,203
Membership and subscriptions	1,136	1,922	87	87	2,883	-	6,115	2,621	8,736
Printing & copying lease expense	1,045	1,769	80	80	2,653	-	5,627	2,412	8,039
Property taxes	945	1,599	73	73	2,399	-	5,089	2,181	7,270
Repairs & maintenance- Specific	3,677	1,348	77	-	174	-	5,276	-	5,276
Office expense	540	913	42	42	1,370	-	2,907	1,243	4,150
Miscellaneous	469	793	36	36	1,190	-	2,524	1,082	3,606
Staff development	1,858	228	296	-	76	-	2,458	76	2,534
Uniforms	793	302	279	-	510	-	1,884	548	2,432
Licenses and permits	1,588	-	-	-	-	-	1,588	436	2,024
Program expense	-	-	-	-	1,760	-	1,760	-	1,760
Automobile expense	-	-	-	-	1,693	-	1,693	-	1,693
Postage & delivery	-	249	11	11	374	-	792	-	1,132
Travel	-	-	-	-	-	-	-	340	340
Total	\$ 832,299	\$ 270,256	\$ 53,903	\$ 22,845	\$ 338,073	\$ 7,702	\$ 1,525,078	\$ 273,907	\$ 1,798,985

HART for Animals, Inc.
Statement of Cash Flows
For the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 187,218
Adjustments to reconcile increases in net assets to net cash provided by (used in) operating activities	
Depreciation expense	94,101
Unrealized (gain) loss on investments	112
Realized (gain) loss on investments	138
Increase in accounts payable	174
Increase in accrued payroll taxes	1,739
Increase in accrued wages	7,101
Decrease in credit cards payable	(4,072)
Amortization of discount on pledges	(13,400)
Decrease in pledges receivable	58,067
Decrease in prepaid expenses	5,313
Decrease in line of credit	(10,000)
Increase in accounts receivable	(492)
Decrease in accrued leave	(10,704)
Decrease in inventory	3,662
Increase in right of use assets	(22,407)
<i>Net cash provided by operating activities</i>	296,551

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	9,879
<i>Net cash provided by investing activities</i>	9,879

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on debt	(273,085)
Proceeds from new lease	22,407
<i>Net cash used in financing activities</i>	(250,678)

NET CHANGE IN CASH AND CASH EQUIVALENTS 55,752

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 13,568

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 69,320

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 62,706
---------------	-----------

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 1. **Nature of Activities**

HART for Animals, Inc. (the Organization) is a nonprofit corporation incorporated under the general laws of the State of Maryland on May 13, 2003. Operating under a Board of Directors, the Organization's purpose is to serve the public interest by reducing the number of homeless or unwanted companion animals in Garrett County; to help guard public health by establishing a program for vaccinating, neutering and spaying incoming animals to reduce the spread of communicable and reportable diseases, i.e., rabies, parvo virus, feline leukemia, and others; to operate a facility to temporarily or permanently house rescued and relinquished companion animals; to create an endowment fund to sustain the operation of the facility into the future; to create educational opportunities that will serve the needs of Garrett County residents; to recruit volunteers that will assist the Organization in achieving its purpose; to provide community education pertaining to animal care and welfare; and to assist the county's animal control efforts by supporting those actions that may fall within the stated purpose of the organization. The major sources of revenue are from contributions, fundraisers, and income from veterinary services.

Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Bredel Center

The Bredel Center is a full service veterinary practice, providing preventive and healing veterinary services for cats, dogs, and pocket pets. The services of the Bredel Veterinary Clinic are designed to improve the lives of companion animals and reinforce the human-animal connection. Services include: consultations, examinations, surgeries, vaccinations, spay and neuter surgeries, dental procedures, digital radiology, and laboratory tests. The Bredel Clinic also receives grants that cover low cost and no cost surgeries for low income residence residing in Maryland, West Virginia, and Pennsylvania.

Bed 'n Bark Inn

The Bed N Bark Inn is a luxurious pet hotel that offers vacation days or overnight stays to those in need of boarding their feline and canine companions. The hotel offers multiple spacious dog dens and cat condos, 24-hour security, lots of exercise, and tons of hugs and love to ensure all of its guests are safe and happy during their stay.

MUTTWorks

MUTTWorks is a full-service grooming spa for dogs of all sizes and shapes.

Note 1. Nature of Activities - continued

Description of Program and Supporting Services- continued

Pick of the Litter

HART for Animals operates its thrift shop at McHenry Plaza as a way of raising funds for its various animal welfare programs. Opened in April 2013, the store has become a stopping place for residents and visitors, with its selection of housewares, lawn and garden items, baby furniture, children's toys, small appliances, pet toys and accessories, and other household items

Adoption & Rescue

Since 2003, HART for Animals, Inc. has been working with the Garrett County Animal Shelter to rescue the animals that arrive at the shelter and are not adopted. Due to the shelter's space limitations, animals who were not adopted immediately were euthanized to allow room for other incoming animals. By working cooperatively with the shelter and with Rescue Groups, HART is able to rescue and transport 50% of the animals arriving at the shelter.

Any animals brought into the shelter are evaluated by HART's Rescue Coordinator and all adoptable animals are either transported or brought to HART's adoption center. Any tests and vaccinations needed are administered and all animals being adopted at the center are spayed/ neutered prior to their adoption. The adoption manager evaluates all potential adopters to ensure the pet goes to the best suited home. Although the adoption wing finds home for many animals, HART still continues to do transports to rescue groups in surrounding metropolitan areas, where some of the animals have a greater chance of being adopted.

HART Shoppe

The HART Shoppe is a small retail corner located in the main HART for Animals lobby. The purpose of this store is to bring in extra income when clients are visiting the other main revenue centers. Many customers who adopt a new pet purchase leashes, collars, crates, and pet food to ensure the pet has everything it needs to spend its first days in its new forever home. Other clients checking out from the Bredel Clinic tend to purchase items recommended by the vet clinic such as pill pockets and calming sprays. Clients dropping off their animals at the Bed N Bark Inn sometimes purchase toys to make their pets feel happy as they leave them for a long stay. There are also several grooming tools that those visiting MuttWorks may like to purchase. Other items for sale include t-shirts, candles, pet beds, deep creek lake maps, and more. The HART Shoppe although small offers a variety of items both for humans and their furry companions.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. Significant Accounting Policies

Basis of Accounting

The HART for Animals, Inc. prepares its financial statements on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Therefore, revenues are recognized when earned rather than when received, and expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Support is recognized when contributions are received. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Revenues are recorded when earned rather than when received for the fiscal year. Therefore, related accounts receivables represent revenues earned but not yet received.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB); the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of the two classes of net assets is as follows:

Net assets without donor restrictions – This class represents those net assets whose use is not restricted by the donor even though their use may be limited in other respects.

Net assets with donor restrictions – This class represents those net assets whose use is restricted by the donor for specific use for the contributed asset that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports information regarding its financial position and activities according to the recommendations of the Financial Accounting Standards Board. The determination of net asset class is established by the existence or absence of legally enforceable restrictions from outside of the Organization and its board of directors. If no outside restrictions exist, then all net assets are recorded as without donor restrictions. As of December 31, 2021 net assets without donor restrictions totaled \$1,169,326 and net assets with donor restrictions totaled \$605,869.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. Significant Accounting Policies- continued

Financial Statement Presentation- continued

Net assets with donor restrictions are restricted for adoption center veterinary care \$493,257, HART help surgeries \$99,265, and animals needing extreme care \$13,347.

Cash and Cash Equivalents

For purposes of the statements of financial position the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities in the financial statements and disclosures. Actual results could differ from those estimates.

Accounts Receivable and Bad Debts Expense

HART reports accounts receivable net of an allowance for doubtful accounts. Under the allowance method of handling bad debts, an estimate of the total uncollectible accounts is calculated and periodically evaluated. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management.

HART did not record any bad debt expense for the year ended December 31, 2021.

The carrying amount approximates fair value because of the short-term maturity of these instruments.

Donated Pick of the Litter Items

Donations of Pick of the Litter Thrift Shop items are not valued, nor is an inventory of such items used for financial reporting. This accounting treatment is based on ASC 958, *Contributions Received*, where a major uncertainty about the existence of value may indicate that an item received or given should not be recognized. ASC 845, *Initial Measurement*, also applies that fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value. Revenue from donated Pick of the Litter Thrift Shop inventory is recognized when the inventory is sold.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. Significant Accounting Policies- continued

Property and Equipment

HART follows the practice of capitalizing all expenditures for property, plant, and equipment and improvements in excess of \$2,500 with a useful life exceeding one year. Property, plant and equipment purchased is capitalized at cost. Maintenance and repairs are charged to expenses as incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets that range from three to ten years for autos and equipment, and thirty years for buildings with no salvage value assigned. Leasehold improvements are amortized over the remaining life of the lease.

When property, plant, and equipment is retired or otherwise disposed of, the cost is removed from the asset account and the related depreciation is adjusted with the difference being charged to income as either a gain or loss.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted in writing the donated asset to a specific purpose.

Furniture and equipment, improvements, buildings, land, and vehicles totaled \$3,603,250 at December 31, 2021 less accumulated depreciation of \$747,214.

Income Tax Status

HART is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Management has reviewed the Organization's tax positions for all open tax years (tax years after December 31, 2018) and has determined that no provision for income taxes is required in the financial statements, in accordance with financial and accounting disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a U.S. income tax return. Additionally, HART for Animals, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of section 509(a) of the Internal Revenue Code.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. Significant Accounting Policies- continued

Functional Allocation of Expenses

The costs of providing program services and general and administrative activities have been summarized on a functional basis in the statement of activity. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Salaries and wages, payroll taxes, and insurance are allocated based on time and effort. The remaining expenses are allocated based on square footage utilized.

Investments

Investments are valued at fair value. Unrealized and realized gains and losses on sales of securities are recognized based on the cost of specific securities sold. Investments acquired through gifts or bequests are recorded at the market value at the date of the gift. All gains and losses arising from the sale or other disposition of investments and other non-cash assets are accounted for in the fund that owned the assets. Ordinary income from investments is also accounted for in the fund owning the assets. Changes in unrealized gains and losses are included in the determination of changes in net assets.

The Organization's investment portfolio is administered under a revocable trust agreement by the Edward Jones Company, Oakland, Maryland.

See Note 7 for additional details on valuation of investments.

Revenue Recognition

Contributions and Grants

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes, are reported as support with donor restrictions.

HART reports gifts or cash and other assets as restricted support held in separate accounts if they are received with donor stipulations that limit the use of the donated assets. Contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as support without donor restrictions.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. **Significant Accounting Policies- continued**

Revenue Recognition - continued

HART reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as support with donor restrictions.

Unconditional promises to give with payments due in future periods are reported as donor restricted support. Amounts outstanding are recorded at the net realizable value discounted based on the period of future payment, using a rate of return that a market participant would expect to receive at the date the pledge is received.

Sales and services

HART reports revenues from the Bredel Center, Bed 'n Bark Inn, MUTTWorks, Adoption and Rescue, Pick of the Litter, and HART Shoppe under this revenue system. Revenue is based on contract terms and is calculated using a set rate recognized at a point in time, when services are provided. The revenue reflects a contractual relationship between the two parties and each party receives commensurate value for services provided.

Pledges Receivable

The pledges receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of December 31, 2021. The amounts that HART will ultimately realize could differ from the amounts assumed in arriving at the present value. Amounts due are recorded at the net realizable value discounted using a discount rate of 2.60% for the year ended December 31, 2021. HART's policy is to write-off all pledges receivable that are deemed to be uncollectible.

Advertising

The cost of advertising has been expensed as incurred. Advertising costs are incurred for both supporting services and program services.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 2. Significant Accounting Policies- continued

Inventories

Inventories, which consist primarily of medical supplies, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

Prepaid expenses

Prepaid expenses include expenditures for insurances and licenses.

Compensated Absences

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. Any accrued and unused paid leave will be paid upon termination. An employee can earn leave with every pay which can generally be carried over to following fiscal years. As of December 31, 2021 the liability for accrued leave was \$10,606.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in other assets, current liabilities, and non-current liabilities in the statement of financial position.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Organization's leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. Amortization of the ROU asset is recognized over a straight-line basis over the lease term.

The Organization has lease agreements with lease and non-lease components, which are accounted for separately.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 3. Cash and Cash Equivalents

Cash and cash equivalents are invested in interest bearing accounts at financial institutions and in money market funds. Accounts at each institution are insured for up to \$250,000 by the Federal Deposit Insurance Organization or are covered by a separate collateral agreement. At December 31, 2021, the carrying amount of deposits was \$69,320 and the bank balance was \$88,742.

Note 4. Risks and Uncertainties

The Organization is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Commercial insurance is purchased annually to cover the claims for all risk of loss. The Organization retains no risk for claims to the maximum amount of the policy except for deductible amounts.

The Organization does not expect any economic uncertainties resulting from the COVID-19 pandemic to have any significant impact on operating results.

Note 5. Availability of Financial Assets

The Organization's financial assets available within one year of the financial statement date for general expenditure are as follows:

Cash and cash equivalents	\$ 69,320
Accounts receivable	1,596
Pledges receivable, current portion	58,067
Investments	12,023
	<u>\$ 141,006</u>

HART for Animals, Inc. is substantially supported by contributions, fundraising, and fees collected for services. The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately \$150,000). As part of its liquidity plan, excess cash is invested in short-term investments. The Organization has a \$20,000 line of credit available to meet cash flow needs.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 6. Investments

Long-term investments are stated at fair value and consist of the following:

Mutual Funds	\$ 12,023
Total	\$ 12,023

The following schedule summarizes the investment return in the statement of activities:

Dividends	\$ 191
Interest Income	19
Unrealized Losses	(112)
Realized Losses	(138)
Total	\$ (40)

Note 7. Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2021 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Mutual Funds	\$ 12,023	\$ 12,023	\$ -	\$ -
Total	\$ 12,023	\$ 12,023	\$ -	\$ -

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 inputs to the valuation methodology include the following:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 7. Fair Value Measurements- continued

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following provides a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021

- Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by HART are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value to transact at that price. The mutual funds held are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 8. Accounts Receivable

Accounts receivable at December 31, 2021 is comprised of the following:

Bredel Center Receivable	\$ 1,596
--------------------------	----------

Note 9. Pledges Receivable

Pledges receivable represent amounts due to HART for legally enforceable pledges. These pledges are due as follows at December 31, 2021.

Pledge receivable	\$	551,322
Less: unamortized discount		(64,243)
Net pledges receivable	\$	487,079
Amounts due in:		
Within one year	\$	58,067
One to five years		290,335
Greater than five years		202,920
Total	\$	551,322

The discount rates used to calculate the present value components are as follows:

		1-5 Years
2021		2.60%

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 10. Operating Lease Liability

The Organization leases copiers and printers. The lease is 60 months requiring a monthly payment of \$428 per month. The lease began December 2021.

\$22,407

Total

\$22,407

The minimum lease payments required under the above operating leases as of December 31, 2021, are as follows:

2022	\$ 4,004
2023	4,229
2024	4,468
2025	4,720
2026	<u>4,986</u>
Total	<u>\$ 22,407</u>

Note 11. Concentrations of Credit Risk

HART maintains cash in bank accounts in amounts that do not exceed Federally insured limits. HART has not experienced any losses in these accounts in the past and believes that it is not exposed to significant credit risks because the accounts are deposited with major financial institutions.

HART believes that it has limited credit risk associated with remaining balance of accounts and pledges receivable due to the size of the amount owed and its donor base.

Note 12. Long-Term Debt

HART's long-term debt consists of the following:

United States Department of Agriculture loan dated August 12, 2013 due in monthly installments of \$7,420 through August 2043 at 3.50% interest.	\$ 1,346,773
United States Department of Agriculture loan dated December 31, 2014 due in monthly installments of \$289 through December 31, 2044 at 3.5% interest.	53,407
Garrett County Department of Public Utilities loan dated January 1, 2012 due in quarterly installments of \$1,354 through January 1, 2027 at 1% interest.	27,665

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 12. Long-Term Debt – continued

Garrett County Commissioners loan. No formal written agreement between the two parties. Verbal agreement of 0% interest and due by the end of 2019.	6,000
Ally loan beginning May 2020 due in monthly installments of \$417 through December 2023 at 6.74% interest	9,702
Small Business Administration loan dated June 14, 2020 due in Monthly installments of \$428 through March 22, 2050 at 2.75%	<u>100,615</u>
Total	<u>\$ 1,544,162</u>

The annual requirements to amortize the above debt outstanding at December 31, 2021 are as follows:

2022	\$ 62,256
2023	58,665
2024	55,204
2025	57,014
2026	60,235
Thereafter	<u>1,250,788</u>
Total	<u>\$1,544,162</u>

Note 13. Line of Credit

HART for Animals has an unsecured financing agreement with its primary bank that permits multiple borrowings, at variable rates of interest, up to \$20,000. The Organization had a balance of \$0 on the account at December 31, 2021.

Note 14. Contributed Services

HART for Animals, Inc. received a significant contribution of time from an unpaid veterinarian assisting HART in the Bredel clinic. The value of this contributed time is reflected in the accompanying financial statements since the veterinarian possesses a specialized skill that would otherwise need to be purchased from an outside source. A total of 191.35 volunteer hours were donated in 2021 at an estimated pay rate of \$75.00 per hour, resulting in total contributed services of \$14,351.

Note 15. Concentrations

As of December 31, 2021, 100% of Pledges Receivable represent the amounts owed from one donor.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2021

Note 16. Evaluation of Subsequent Events

Decline in Value of Investments

Subsequent to December 31, 2021, the stock market experienced a significant decline in value. As of October 21, 2022, the Dow Jones industrial average declined 16.93% since December 31, 2021, and the NASDAQ composite index declined 31.76%. During the same period it is estimated that HART's investments declined by 10.58%. HART will continue to monitor its investments.

HART has evaluated, for possible financial statement disclosure, subsequent events through October 21, 2022, the date which the financial statements were available to be issued.