

ANIMAL WELFARE SOCIETY, INC.

**Financial Statements
for the years ended June 30, 2021 and 2020**

(See Independent Auditor's Report)

M^cLeod | Ascanio

Certified Public Accountants

Scott A. M^cLeod
Managing Principal

James Ascanio
Managing Principal

Matthew R. Barbour
Principal

Independent Auditor's Report

To the Board of Directors of
Animal Welfare Society, Inc.

We have audited the accompanying financial statements of Animal Welfare Society, Inc. (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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, except for the issue noted in the Known Departure from Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Welfare Society, Inc. 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.

Known Departure from Accounting Principles Generally Accepted in the United States of America

As disclosed in Note 1 to the financial statements, accounting principles generally accepted in the United States of America require that fixed assets be depreciated over their estimated useful lives. The Society has computed depreciation on some of its fixed assets in accordance with the Modified Accelerated Cost Recovery System required for federal income tax purposes, which does not allocate depreciation to expense over the estimated useful lives of the assets. The effects of this departure from accounting principles generally accepted in the United States of America on financial position, results of operations, and cash flows have not been determined.

McLeod/Ascua

Cumberland Foreside, Maine

September 30, 2021

ANIMAL WELFARE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
as of June 30, 2021 and 2020
(See Independent Auditor's Report)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash and equivalents	\$ 179,380	\$ 286,802
Accounts receivable, net	11,142	8,915
Bequests receivable, current portion	558,579	1,608,579
Investments	3,412,785	1,925,492
Inventory	94,650	73,285
Prepaid expenses	36,247	37,782
Total current assets	<u>4,292,783</u>	<u>3,940,855</u>
Property, plant and equipment:		
Land and improvements	1,052,481	1,052,481
Building and improvements	4,057,384	4,035,772
Furniture, fixtures and equipment	734,671	734,671
Vehicles	21,523	39,846
	<u>5,866,059</u>	<u>5,862,770</u>
Less accumulated depreciation	<u>2,242,164</u>	<u>2,033,027</u>
Total property, plant and equipment	<u>3,623,895</u>	<u>3,829,743</u>
Other assets:		
Beneficial interest in charitable trusts	296,940	234,833
Total other assets	<u>296,940</u>	<u>234,833</u>
Total Assets	<u><u>\$ 8,213,618</u></u>	<u><u>\$ 8,005,431</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 46,142	\$ 52,774
Accrued expenses	77,502	142,973
Deferred revenue	45,764	26,352
Total current liabilities	<u>169,408</u>	<u>222,099</u>
Other liabilities:		
Notes payable, less current portion	<u>-</u>	<u>451,400</u>
Total other liabilities	<u>-</u>	<u>451,400</u>
Net assets:		
Without donor restrictions:		
Board-designated as funds functioning as endowment	2,124,625	671,820
Undesignated	4,342,176	5,081,975
With donor restrictions	<u>1,577,409</u>	<u>1,578,137</u>
Total net assets	<u>8,044,210</u>	<u>7,331,932</u>
Total Liabilities and Net Assets	<u><u>\$ 8,213,618</u></u>	<u><u>\$ 8,005,431</u></u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.

STATEMENT OF ACTIVITIES

for the year ended June 30, 2021

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains and other support:			
Contributions and bequests	\$ 767,517	\$ 23,586	\$ 791,103
Municipal fees	187,673	-	187,673
Adoption fees	437,874	-	437,874
Shelter services	1,016,738	-	1,016,738
Merchandise sales	18,881	-	18,881
In-kind donations	3,416	-	3,416
Other income	1,206	-	1,206
Net assets released from restrictions:			
Satisfaction of purpose restrictions	86,421	(86,421)	-
Total operating revenues, gains and other support	2,519,726	(62,835)	2,456,891
Operating expenses:			
Program services	2,382,787	-	2,382,787
Management and general	379,213	-	379,213
Fundraising	196,250	-	196,250
Total operating expenses	2,958,250	-	2,958,250
Operating revenues, gains and other support in excess (deficit) of operating expenses	(438,524)	(62,835)	(501,359)
Other changes:			
Dividends and interest, net of fees totaling \$15,153	38,659	-	38,659
Realized and unrealized gains (losses) on investments, net	656,471	-	656,471
Change in value of beneficial interest in charitable trusts	-	62,107	62,107
Forgiveness of PPP loan	451,400	-	451,400
Gains (losses) on disposal of property, plant and equipment, net	5,000	-	5,000
Change in net assets	713,006	(728)	712,278
Net assets at beginning of year	5,753,795	1,578,137	7,331,932
Net assets at end of year	\$ 6,466,801	\$ 1,577,409	\$8,044,210

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.

STATEMENT OF ACTIVITIES

for the year ended June 30, 2020

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains and other support:			
Contributions and bequests	\$ 2,414,712	\$ 169,189	\$2,583,901
Municipal fees	191,782	-	191,782
Adoption fees	488,406	-	488,406
Shelter services	762,250	-	762,250
Merchandise sales	35,732	-	35,732
Fundraising and special events	28,775	-	28,775
In-kind donations	106,492	-	106,492
Other income	9,805	-	9,805
Net assets released from restrictions:			
Satisfaction of purpose restrictions	143,397	(143,397)	-
Total operating revenues, gains and other support	4,181,351	25,792	4,207,143
Operating expenses:			
Program services	2,614,294	-	2,614,294
Management and general	316,929	-	316,929
Fundraising	295,827	-	295,827
Total operating expenses	3,227,050	-	3,227,050
Operating revenues, gains and other support in excess (deficit) of operating expenses	954,301	25,792	980,093
Other changes:			
Dividends and interest, net of fees totaling \$12,544	40,214	-	40,214
Realized and unrealized gains (losses) on investments, net	70,767	-	70,767
Change in value of beneficial interest in charitable trusts	-	(1,525)	(1,525)
Change in net assets	1,065,282	24,267	1,089,549
Net assets at beginning of year	4,688,513	1,553,870	6,242,383
Net assets at end of year	\$ 5,753,795	\$1,578,137	\$7,331,932

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2021
(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,293,796	\$ 212,621	\$ 137,829	\$ 1,644,246
Depreciation expense	211,538	9,098	6,824	227,460
Payroll taxes	90,742	59,031	8,084	157,857
Employee benefits	117,727	20,188	6,508	144,423
Shelter operations	128,482	-	-	128,482
Veterinary supplies	106,374	-	-	106,374
Merchandise for resale	104,297	-	-	104,297
Professional fees	52,123	14,000	-	66,123
Animal transport	56,675	-	-	56,675
Bank and payroll fees	30,166	20,111	5,586	55,863
Occupancy	33,356	11,740	5,870	50,966
Insurance	38,654	7,530	4,016	50,200
Pension expense	27,372	6,666	3,737	37,775
Repairs and maintenance	24,736	7,068	3,534	35,338
Veterinary fees	25,113	-	-	25,113
Office supplies and postage	5,959	2,310	10,206	18,475
Miscellaneous	14,136	2	365	14,503
Telephone and internet	5,092	3,361	1,732	10,185
Computer services	4,562	2,378	771	7,711
Dues and licenses	4,129	1,430	515	6,074
In-kind donations	3,416	-	-	3,416
Travel and vehicle expenses	1,956	644	-	2,600
Educational expense	1,317	1,035	-	2,352
Printing and publications	353	-	673	1,026
Bad debt expense	716	-	-	716
Total expenses	<u>\$ 2,382,787</u>	<u>\$ 379,213</u>	<u>\$ 196,250</u>	<u>\$ 2,958,250</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2020
(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,413,000	\$ 190,683	\$ 166,062	\$ 1,769,745
Depreciation and amortization	229,822	8,650	8,650	247,122
Shelter operations	177,597	-	17,564	195,161
Veterinary supplies	168,914	-	-	168,914
Employee benefits	138,553	10,842	9,829	159,224
Payroll taxes	108,182	16,783	10,617	135,582
Professional fees	48,025	12,057	33,528	93,610
Animal transport	65,568	-	-	65,568
Occupancy	37,265	11,923	5,962	55,150
Bank and payroll fees	27,928	18,262	4,913	51,103
Repairs and maintenance	31,518	9,005	4,502	45,025
Veterinary fees	43,722	-	-	43,722
Insurance	32,422	5,897	3,356	41,675
Pension expense	31,781	4,589	4,577	40,947
Merchandise for resale	17,536	-	-	17,536
Office supplies and postage	4,362	1,198	10,677	16,237
Fundraising and special events	108	-	11,966	12,074
In-kind donations	10,746	-	-	10,746
Telephone and internet	4,806	3,250	1,589	9,645
Bad debt expense	9,419	-	-	9,419
Miscellaneous	3,451	5,578	-	9,029
Interest expense	-	8,243	-	8,243
Computer services	2,594	2,594	576	5,764
Educational expense	1,607	3,754	175	5,536
Dues and licenses	3,427	1,288	400	5,115
Travel and vehicle expenses	1,923	2,333	-	4,256
Printing and publications	-	-	884	884
Advertising	18	-	-	18
Total expenses	<u>\$ 2,614,294</u>	<u>\$ 316,929</u>	<u>\$ 295,827</u>	<u>\$ 3,227,050</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

as of June 30, 2021 and 2020

(See Independent Auditor's Report)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 712,278	\$ 1,089,549
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	227,460	247,122
Bad debt expense	716	9,419
Forgiveness of PPP loan	(451,400)	-
(Gains) losses on disposal of property, plant and equipment, net	(5,000)	-
Realized and unrealized (gains) losses on investments, net	(656,471)	(70,767)
Change in value of beneficial interest in charitable trusts	(62,107)	1,525
Donated investments	(51,357)	(82,413)
Donated property, plant and equipment	-	(95,746)
(Increase) decrease in operating assets:		
Accounts receivable	(2,943)	(11,303)
Pledges receivable	-	49,133
Bequests receivable	1,050,000	(1,608,579)
Inventory	(21,365)	(14,235)
Prepaid expenses	1,535	(7,831)
Increase (decrease) in operating liabilities:		
Accounts payable	(6,632)	(54,069)
Accrued expenses	(65,471)	30,122
Change in fiduciary liability	-	(2,058)
Deferred revenue	<u>19,412</u>	<u>(2,258)</u>
Net cash provided by operating activities	688,655	(522,389)
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	5,000	-
Purchases of property, plant and equipment	(21,612)	(23,859)
Proceeds from sale of investments	603,472	1,507,985
Purchases of investments	<u>(1,382,937)</u>	<u>(1,134,498)</u>
Net cash used by investing activities	(796,077)	349,628
Cash flows from financing activities:		
Principal payments on capital lease obligation	-	(27,450)
Repayments on line of credit	-	(130,000)
Proceeds from notes payable	149,900	451,400
Repayments of notes payable	<u>(149,900)</u>	<u>-</u>
Net cash used by financing activities	<u>-</u>	<u>293,950</u>
Net change in cash and equivalents, during the year	(107,422)	121,189
Cash and equivalents, at beginning of year	<u>286,802</u>	<u>165,613</u>
Cash and equivalents, at end of year	<u><u>\$ 179,380</u></u>	<u><u>\$ 286,802</u></u>
<i>Supplemental cash flow disclosures:</i>		
Cash paid for interest	<u><u>\$ -</u></u>	<u><u>\$ 8,243</u></u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the years ended June 30, 2021 and 2020
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

Animal Welfare Society, Inc. (the "Society") is a Maine not-for-profit corporation organized on May 31, 1967. The Society exists to provide humane shelter and care to animals temporarily in need of housing, and to further the cause of responsible animal adoption and ownership through education and public awareness. The Society actively promotes kindness, the elimination of cruelty and neglect to all animals, and the lifelong commitment of people to their pets. The Society's principal sources of revenue are donations, fees, investment income and fundraising activities.

Effective July 1, 2016, the Society merged with the Cleo Fund, a Maine not-for-profit corporation existing to provide subsidies to low-income individuals to cover the cost of animal spay and neuter surgeries. All the property, rights, powers, duties, and obligations of the Cleo Fund were transferred to and vested in the Society and its separate existence ceased.

Recently Adopted Accounting Pronouncements

Effective July 1, 2020, the Society adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all related subsequent ASUs. The new standard supersedes most existing revenue recognition guidance. It provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration entity expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Society adopted ASU 2014-09 and all related amendments using the modified retrospective transition method. The Society concluded that the adoption of the new standard had no significant effect and did not require an adjustment to the opening net assets balance.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, support, revenues, gains and losses 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:

Net Assets with Donor Restrictions

Net assets subject to donor-imposed restrictions that may/will be met, either by actions of the Society and/or the passage of time, or that net assets be maintained permanently by the Society. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions.

Cash and Equivalents

Cash and equivalents include cash in banks and all highly liquid investments with original maturities of three months or less at the time of purchase. The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant risk on cash and equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, or reserves against, any specific accounts deemed to have collection risks. Allowance for bad debt was \$2,901 and zero at June 30, 2021 and 2020, respectively.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the years ended June 30, 2021 and 2020
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Pledges Receivable

Unconditional pledges receivable are recorded as contributed income in the statement of activities in the year pledged, along with collected pledges. The Society uses the allowance method to account for uncollectible pledges. The allowance is based on management's estimate of possible bad debts. At June 30, 2021 and 2020, no allowance for uncollectible pledges was necessary.

Unconditional pledges receivable that are not fully collectible within one year are recorded at their present value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Conditional pledges are not recorded until the conditions on which they depend are substantially met.

Bequests Receivable

The Society is a beneficiary under various wills and trust agreements, some of which the total realizable amount is not presently determinable. Amounts are recorded when a will or trust is declared valid by a probate court and the proceeds are measurable. At June 30, 2021 and 2020, \$558,579 and \$1,608,579 of bequests met this criteria for recognition as bequests receivable in the statements of financial position, respectively.

Inventory

Inventory consists of veterinary supplies, apparel and other items held for sale and is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Restricted Fiduciary Cash and Liability

The Society acted as a fiduciary for a local dog park. In this capacity, the Society collected and safeguarded donations on behalf of the park and remitted funds as the park incurred expenses and submitted requests for reimbursement. During the year ended June 30, 2020, the Society ceased acting as a pass-through entity and all fiduciary funds were remitted to the park.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Contributed assets are carried at their fair market value at the time of the gift. Depreciation is computed using the straight-line and Modified Accelerated Cost Recovery System methods of depreciation over the assets' estimated useful lives as follows:

	<u>Years</u>
Land improvements	10-15
Building and improvements	15-39
Furniture, fixtures and equipment	3-10
Vehicles	5

Expenditures for major renewals and betterments, which extend the useful lives of property, plant and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. For assets sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statements of activities.

Depreciation expense for the years ended June 30, 2021 and 2020 was \$227,460 and \$247,122, respectively.

Deferred Revenue

Deferred revenue consists of advanced payments received.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the years ended June 30, 2021 and 2020
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Measure of Operations

In its statements of activities, the Society includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Non-operating support and revenues include such items as: dividends and interest, net of brokerage fees; realized and unrealized gains and losses on investments; change in value of beneficial interest in charitable trusts; forgiveness of debt; and gains and losses on disposal of property, plant and equipment.

Revenue Recognition

Contributions received are recorded as unrestricted or restricted support, depending on the existence of any donor restrictions, when a binding commitment has been made by the donors. Adoption fees are recognized when the animal has been placed with an individual for adoption. Clinic fees are recognized when the service is performed. Funds received in advance of work performed are recorded as deferred revenue until earned. Municipal animal control income is recognized based on the terms of the annual contracts with the municipalities. The performance obligation of each contract is satisfied over the term of one year. The municipal animal control fees are billed and collected in even, quarterly installments. As a practical expedient, the Society considers each contract to be one performance obligation, unless the circumstances dictate otherwise.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, restricted by the donor in perpetuity, or specific purposes are reported as an increase in net assets with donor restrictions. When a donor restriction expires (i.e. when a stipulated time restriction ends or purpose restriction is accomplished) net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donated Services and Items

The Society recognizes donated marketable securities and other noncash items at their estimated fair values at the date of donation. Donated services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

Expenses are presented by both their nature and function in the statements of functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and, thus, require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square-footage basis; and salaries and wages, employee benefits, payroll taxes, and pension expense, which are allocated on the basis of estimates of time and effort. All other expenses are allocated based on the actual expenditures incurred by related programs and departments and are tracked in the Society's accounting software by function.

Advertising

Advertising costs are expensed as they are incurred. Advertising costs for the years ended June 30, 2021 and 2020 were zero and \$18, respectively.

Income Tax Status

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, it qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Therefore, no provision for federal income tax is required.

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the years ended June 30, 2021 and 2020
(See Independent Auditor's Report)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Tax Status (continued)

Management has evaluated the Society's tax positions and concluded that as of June 30, 2021, it does not believe that any tax positions that would require adjustments to the financial statements have been taken. As of June 30, 2021, the Society was open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended June 30, 2018 through 2021.

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates. In the opinion of management, the accompanying financial statements include all normal and recurring adjustments that are necessary to fairly present the financial position, results of operations and cash flows of the Society.

2. INVESTMENTS:

Investments are carried at fair value, and realized and unrealized gains and losses are reflected within investment return, net, in the statements of activities. Investments were composed of the following as of June 30:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	\$ 135,895	\$ 135,895	\$ 165,222	\$ 165,222
Fixed income	780,919	778,735	239,997	244,344
Equity and options	1,504,097	2,420,131	1,180,246	1,472,942
Mutual funds, EFTs and closed-end funds	68,123	78,024	42,990	42,984
Total	<u>\$ 2,489,034</u>	<u>\$ 3,412,785</u>	<u>\$ 1,628,455</u>	<u>\$ 1,925,492</u>

Investments are held in two investment pools. Pool A is for permanent endowments, board-designated funds functioning as endowments, and the unappropriated net appreciation of those endowments. Pool B is for amounts designated by the Board of Directors for investment.

Investment activity during the year ended June 30, 2021 is reflected in the following table:

	Pool A	Pool B	Total
Investments at beginning of year	\$ 1,877,809	\$ 47,683	\$ 1,925,492
Gifts available for investment:			
Gifts designated for investment	800,000	51,357	851,357
Investment returns, net:			
Dividends and interest	34,991	2,194	37,185
Realized and unrealized gains, net	646,609	9,862	656,471
Total return on investments	681,600	12,056	693,656
Amounts appropriated for current operations	(28,795)	(28,925)	(57,720)
Investments at end of year	<u>\$ 3,330,614</u>	<u>\$ 82,171</u>	<u>\$ 3,412,785</u>

ANIMAL WELFARE SOCIETY, INC.
NOTES TO THE FINANCIAL STATEMENTS
for the years ended June 30, 2021 and 2020
(See Independent Auditor's Report)

2. INVESTMENTS (CONTINUED):

Investment activity during the year ended June 30, 2020 was as follows:

	Pool A	Pool B	Total
Investments at beginning of year	\$ 2,123,796	\$ 22,003	\$ 2,145,799
Gifts available for investment:			
Gifts designated for investment	-	82,413	82,413
Investment returns, net:			
Dividends and interest	38,613	1,185	39,798
Realized and unrealized gains, net	69,714	1,053	70,767
Total return on investments	108,327	2,238	110,565
Amounts appropriated for current operations	(354,314)	(58,971)	(413,285)
Investments at end of year	\$ 1,877,809	\$ 47,683	\$ 1,925,492

3. ENDOWMENT FUNDS:

As of June 30, 2021 and 2020, \$1,205,989 of Pool A investment balance as described in Note 2 represented donor-restricted permanent endowment funds consisting of the original value of payments from two bequests required to be added to the Society's general endowment and the income only to be utilized for the general use of the Society. The remaining balance of Pool A investments consisted of funds without donor restrictions which were designated by the Board of Directors of the Society as a general endowment fund to support the mission of the Society.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Since the amount of funds designated by the Board of Directors to function as endowments resulted from an internal designation and is not donor-restricted, the designation is classified and reported as net assets without donor restrictions. Permanent endowment funds are classified and reported as net assets with donor restrictions.

Laws and regulations allow the Board of Directors to appropriate so much of an endowment fund as is prudent considering the following relevant factors: the duration and preservation of the endowment fund; the purposes of the Society and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments, the Society's other resources; and the Society's investment policy.

The Society's investment spending policy consists of distributing monthly, or as deemed necessary, net investment income including interest, dividends and capital gain distributions from investments. Annually, the Society spends 4% of the above funds for purposes as deemed necessary by the Society.

Over the long-term, the Society expects the current policy to allow its endowment funds to grow at an average of 3-4% annually. This is consistent with the Society's objective to provide a predictable stream of funding from its endowment funds, while also maintaining the purchasing power of the endowment assets and providing additional real growth through investment return. The fund will meet this objective by investing endowment funds in fixed income and equity investments.

4. BENEFICIAL INTEREST IN CHARITABLE TRUSTS:

The Society is a beneficiary of the following charitable trusts:

Conderman Charitable Remainder Unitrust

The Society is a residual charitable beneficiary of the Penelope G. Bridge Conderman living trust held and administered by an outside trustee. Under the terms of the trust, one life-time income beneficiary currently receives, first from income and, to the extent that income is insufficient, from principal, a total annuity each year equal to 6% of the net fair market value of the trust assets as of the first day of the trust year.

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4. BENEFICIAL INTEREST IN CHARITABLE TRUSTS: (CONTINUED):

Conderman Charitable Remainder Unitrust (continued)

Upon the death of the beneficiary, 16.667% percent of the remaining principal is to be distributed to the Society. The expected future cash flow, discounted at a rate of 2.04% and a 5.06 year remaining life expectancy of the income beneficiary, of \$55,640 represents the Society's share of the fair market value of the trust principal at June 30, 2021. The expected future cash flow at June 30, 2020 was \$45,055 and was discounted at a rate of 2.84% and a 5.41 year remaining life expectancy of the income beneficiary. The actual rate of return and life of the income beneficiary could differ from these amounts. Changes in the value of the trust have been reported in the statements of activities as increases in net assets with donor restrictions.

The Clark Foundation Charitable Trust

The Society is a beneficiary of the Virginia Clark Robinson Foundation charitable trust that was established in perpetuity and is held and administered by an outside trustee. The Society will receive annual distributions equal to 8.33% of the income of the trust in perpetuity. The trust's owned assets for the benefit of the Society had market values of \$241,300 and \$189,778 as of June 30, 2021 and 2020, respectively. Distributions from the trust totaled \$6,643 and \$8,139 during the years ended June 30, 2021 and 2020, respectively.

5. 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. In determining fair value, the Society uses various methods including market, income and cost approaches. Based on these approaches, the Society often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs.

The Society utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Society is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the Society performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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5. FAIR VALUE MEASUREMENTS (CONTINUED):

For the years ended June 30, 2021 and 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial interest in charitable trusts

The fair value of a split interest agreement, classified as beneficial interest in charitable trusts within the statements of financial position, has been measured using an income approach that utilizes present value techniques using Level 2 inputs for interest rates, yield curves, and life expectancy tables, as described in Note 4.

Assets itemized below were measured at fair value using market approach for Level 1 measurements and income approach for Level 2 measurements.

Fair values of assets measured on a recurring basis were as follows:

	Fair Value	Fair Value Measurements At Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
<u>June 30, 2021</u>				
Investments	\$ 3,412,785	\$ 3,412,785	\$ -	\$ -
Beneficial interest in charitable trusts	296,940	-	296,940	-
	<u>\$ 3,709,725</u>	<u>\$ 3,412,785</u>	<u>\$ 296,940</u>	<u>\$ -</u>
<u>June 30, 2020</u>				
Investments	\$ 1,925,492	\$ 1,925,492	\$ -	\$ -
Beneficial interest in charitable trusts	234,833	-	234,833	-
	<u>\$ 2,160,325</u>	<u>\$ 1,925,492</u>	<u>\$ 234,833</u>	<u>\$ -</u>

There were no transfers between the levels in the fair value hierarchy during the years ended June 30, 2021 and 2020.

The carrying amounts of cash and equivalents, restricted fiduciary cash, accounts receivables, pledges receivable, bequests receivable, inventory, prepaid expenses, line of credit, accounts payable, accrued expenses, fiduciary liability, deferred revenue, and capital lease obligation approximate fair value.

6. LINE OF CREDIT:

The Society has a \$200,000 revolving line of credit with a local bank to help finance its short-term cash flow needs. This line is secured by a mortgage on the Society's real property located in Kennebunk, ME and any leases and rents on the property. Interest is payable monthly based on the outstanding balance at the highest U.S. Prime Rate as published in The Wall Street Journal with the minimum floor rate of 4%. The line of credit matures on May 15, 2022.

At June 30, 2021 and 2020, the line's effective rate of interest was 4%. As of June 30, 2021 and 2020, there was no balance outstanding on the line of credit. Interest expense for the years ended June 30, 2021 and 2020 was zero and \$8,243, respectively.

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7. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions were restricted for the following purposes or periods at June 30:

	2021	2020
Subject to expenditure for specific purposes:		
Restricted to spay/neuter programs	\$ 34,168	\$ 37,108
Restricted to kennel renovation project	-	57,356
Restricted to youth programs	15,500	15,500
Restricted to other uses	24,812	27,351
Subject to the passage of time:		
Beneficial interest in Conderman charitable remainder unitrust, Note 4	55,640	45,055
Not subject to appropriation and expenditure:		
Beneficial interest in the Clark Foundation charitable trust, Note 4	241,300	189,778
Donor-designated permanent endowment funds, Note 3	1,205,989	1,205,989
Total	<u>\$ 1,577,409</u>	<u>\$ 1,578,137</u>

8. NET ASSETS RELEASED FROM DONOR RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows during the years ended June 30:

	2021	2020
Purpose restrictions accomplished:		
Restricted to clinic renovation and equipment	\$ -	\$ 50,000
Restricted to spay/neuter programs	17,085	31,435
Restricted to kennel renovation project	57,357	24,065
Restricted to clinic operations	3,500	12,500
Restricted to animal transport costs	-	1,000
Restricted to youth programs	-	7,700
Restricted to other uses	8,479	16,697
Total restrictions released	<u>\$ 86,421</u>	<u>\$ 143,397</u>

9. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects the Society's financial assets as of the balance sheet dates, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet dates. Amounts not available include amounts designated by the Board of Directors of the Society as a general endowment fund that could be drawn upon if the Board of Directors approves that action. However, amounts already appropriated from the board-designated endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

	2021	2020
Financial assets, at year-end	\$ 4,495,073	\$ 4,102,403
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donors with time or purpose restrictions	130,120	182,370
Restricted by donors in perpetuity	1,447,289	1,395,767
Board-designated as funds functioning as endowment	2,124,625	671,820
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 796,178</u>	<u>\$ 1,825,445</u>

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9. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED):

The Society is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Society also could draw upon its available line of credit (as further discussed in Note 6) or its board-designated endowment fund.

10. LEASES:

The Society was a lessee of phone and medical equipment under capital leases that expired during the year ended June 30, 2020. The assets and liabilities under those capital leases were recorded at the present value of the future minimum lease payments. The assets were depreciated over their estimated productive lives. Depreciation of the assets under those capital leases was included in depreciation expense for the year ended June 30, 2020.

During the year ended June 30, 2021, the Society entered into an operating lease for various office equipment. The lease has monthly lease payments of \$600 and expires in 2026.

Rent expense for the year ended June 30, 2021 was \$3,042.

The future minimum rent payments for the years ending June 30 are as follows:

2022	\$	7,206
2023		7,206
2024		7,206
2025		7,206
2026		4,203
Total	\$	<u>33,027</u>

11. RETIREMENT PLANS:

The Society has a 401(k) profit sharing plan under which the Society matches eligible participants' contributions to the plan on a 1:1 basis up to 3% of the individual participant's compensation. In addition, the plan allows for discretionary profit sharing, which is determined by management and is allocated pro rata to eligible participant accounts based on the eligible participant's compensation in relation to the total compensation of all eligible participants.

The total matching contributions to the plan for the years ended June 30, 2021 and 2020 were \$37,775 and \$40,947, respectively, and there were no elective profit sharing contributions for both years.

12. SPECIAL EVENTS:

No special events were held during the year ended June 30, 2021 due to COVID-related restrictions (see Note 13).

Special events consisted of the following for the year ended June 30, 2020:

	Special Events		
	Revenue	Expenses	Net
Woofstock	\$ 25,049	\$ (12,074)	\$ 12,975
Antique Show	3,726	-	3,726
	<u>\$ 28,775</u>	<u>\$ (12,074)</u>	<u>\$ 16,701</u>

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13. RISKS AND UNCERTAINTIES:

The Society invests in various investment securities and money market funds. Due to the level of risk associated with investments, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amount reported in the statements of financial position.

COVID-19

During the years ended June 30, 2021 and 2020, local, U.S. and world governments encouraged self-isolation to curtail the spread of the global pandemic, COVID-19, by mandating the temporary shut-down of businesses in many sectors and imposing limitations on travel and the size and duration of group meetings. While these mandates have slowly become less restrictive in some areas, most sectors are still experiencing disruption to business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Therefore, while management expects this matter to negatively impact the Society's operations, the full financial impact and duration cannot be reasonably estimated at this time.

14. NOTES PAYABLE:

On April 13, 2020, the Society received a loan in the amount of \$451,400 from the Small Business Administration (SBA) as part of Coronavirus Aid, Relief and Economic Security Act's Paycheck Protection Plan (PPP).

The loan was unsecured, nonrecourse, accrued interest at one percent per annum, with a due date of April 13, 2025. Under the terms of the loan, a portion, or all, of the loan was forgivable to the extent that loan proceeds were used to fund qualifying payroll, rent and utilities during a designated twenty-four-week period. The full amount of the loan has been forgiven during the year ended June 30, 2021.

During the year ended June 30, 2021, the Society also received \$150,000 Economic Injury Disaster Loan (EIDL) from the SBA. The loan accrued interest at 2.75% per annum and was due in June 2050. Monthly principal and interest payments of \$641 were due to begin in June 2021. The loan has been repaid in full during the year ended June 30, 2021.

15. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.

No matters have arisen since year-end through the date of management's evaluation date that would require adjustment to the financial statements or disclosures presented herein.