

HART for Animals, Inc.

Financial Report

December 31, 2023

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

HART for Animals, Inc.
Table of Contents
December 31, 2023

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	7-19

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, 2023, 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, 2023, 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.'s 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.

Jumbull Hoover & Kahl P.A.

Oakland, Maryland
August 29, 2024

HART for Animals, Inc.
Statement of Financial Position
December 31, 2023

Assets

Current Assets

Cash and cash equivalents	\$ 154,166
Investments, at fair value	233,742
Pledges receivable, current portion	58,067
Inventory, at cost	60,617
Accounts receivable	3,945
Prepaid expenses	12,881
Total Current Assets	523,418

Other Assets

Pledges receivable, net- long term portion	350,153
Right of use assets	14,174
Total Other Assets	364,327

Non-Current Assets

Buildings	2,948,598
Land	325,784
Furniture and equipment	226,479
Improvements	110,406
Vehicles	36,507
Less: accumulated depreciation	(931,061)
Net Non-Current Assets	2,716,713

Total Assets	\$ 3,604,458
---------------------	---------------------

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 77,645
Accrued payroll	53,369
Credit cards payable	20,082
Accrued leave	9,274
Accrued payroll taxes	5,154
Sales tax payable	268
Loans payable, current portion	49,809
Lease payable, current portion	4,468
Total Current Liabilities	220,069

Non-Current Liabilities

Loans payable, less current portion	1,359,863
Lease payable, less current portion	9,706
Total Non-Current Liabilities	1,369,569

Total Liabilities	1,589,638
--------------------------	------------------

Net Assets

Without donor restrictions	1,606,065
With donor restrictions	408,755
Total Net Assets	2,014,820

Total Liabilities and Net Assets	\$ 3,604,458
---	---------------------

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue</u>			
Support:			
Contributions	\$ 293,476	\$ 41,610	\$ 335,086
Special events	91,797	-	91,797
Government grants	-	29,095	29,095
Direct public grants	10,000	17,279	27,279
Total Support	395,273	87,984	483,257
Revenue:			
Bredel Center income	1,417,944	-	1,417,944
Bed 'n Bark Inn income	353,987	-	353,987
Pick of the Litter income	68,021	-	68,021
MuttWorks income	52,662	-	52,662
Adoption and Rescue income	40,072	-	40,072
Investment income/ (loss), net	26,350	-	26,350
HART Shoppe income	8,390	-	8,390
Total Revenue	1,967,426	-	1,967,426
Net assets released from restrictions satisfaction of purpose restrictions	202,962	(202,962)	-
Total Support and Revenue (Increase in Net Assets With/Without Donor Restrictions)	2,565,661	(114,978)	2,450,683
Expenses			
Program Service Expenses	2,250,056	-	2,250,056
Management & General Expenses	363,710	-	363,710
Total Expenses (Decrease in Net Assets With/Without Donor Restrictions)	2,613,766	-	2,613,766
Change in Net Assets With/Without Donor Restrictions	(48,105)	(114,978)	(163,083)
Net Assets With/Without Donor Restrictions, Beginning of Year , as restated	1,654,170	523,733	2,177,903
Net Assets With/Without Donor Restrictions, End of Year	\$ 1,606,065	\$ 408,755	\$ 2,014,820

HART for Animals, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2023

	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	562,896	180,602	27,043	6,740	250,351	-	1,027,632	-	1,027,632
Administration Salaries-Specific	44,417	19,829	3,966	-	6,345	-	75,350	188,293	188,293
Customer Salaries-Divided	4,334	17,335	-	-	17,335	-	39,004	3,966	79,316
Facility Salaries-Divided	497,383	3,754	6,853	1,904	16,978	7,610	534,682	4,334	43,338
Supplies	3,376	292	-	-	32,871	-	36,539	4,630	539,312
Depreciation expense-Specific	7,260	12,845	-	558	18,430	-	39,093	16,754	55,847
Depreciation expense-Divided	8,107	11,275	512	512	16,912	-	37,318	15,120	52,438
Interest expense	51,681	18,400	2,620	569	23,154	67	96,491	16,611	113,102
Payroll expenses	6,953	11,767	535	535	17,651	-	37,441	13,224	53,487
Utilities-Specific	4,064	1,856	564	-	3,051	-	9,535	16,046	9,535
Utilities-Divided	4,915	8,318	378	-	12,477	-	26,466	-	37,809
Repairs & maintenance-Specific	3,326	5,629	256	256	8,443	-	17,910	11,343	25,585
Repairs & maintenance-Divided	4,238	7,498	-	326	10,758	-	22,820	9,780	32,600
Insurance	57,783	-	-	1,611	-	-	57,783	-	57,783
Event expenses	5,287	8,947	407	407	13,421	-	28,469	12,201	40,670
Laboratory fees	1,106	1,957	85	-	2,808	-	5,956	2,553	8,509
Service charges-Specific	2,005	3,547	-	154	5,090	-	10,796	4,627	15,423
Service charges-Divided	14,406	25,487	-	1,108	36,568	-	77,569	33,244	110,813
Small furniture and equipment	-	-	-	-	2,980	-	2,980	-	2,980
Workers compensation	4,474	1,327	105	60	1,990	-	7,956	1,809	9,765
Legal & professional	951	1,609	73	73	2,414	-	5,120	2,194	7,314
Program expense	1,254	2,121	96	96	3,182	-	6,749	2,893	9,642
Advertising	136	223	-	-	320	-	679	291	970
Property taxes	462	783	36	36	1,174	-	2,491	1,067	3,558
Printing & copying lease expense	309	420	618	19	5,825	-	7,191	573	7,764
Postage & delivery	1,175	-	-	-	440	-	1,175	1,175	2,350
Office expense	219	452	207	-	761	-	2,024	-	2,024
Miscellaneous	1,303	-	-	-	3,308	-	7,017	679	8,299
Travel	2,024	-	-	-	2,047	-	2,047	-	2,047
Uniforms	5,993	828	38	-	-	-	-	-	-
Licenses and permits	1,303	2,306	-	100	517,084	-	7,017	3,007	10,024
Licenses and permits	-	349,407	-	23,666	-	-	-	363,710	-
Staff development	-	-	-	-	-	-	-	-	-
Automobile expense	-	-	-	-	-	-	-	-	-
Membership and subscriptions	-	-	-	-	-	-	-	-	-
Total	1,302,037	349,407	44,392	23,666	517,084	8,470	2,250,056	363,710	2,613,766

HART for Animals, Inc.
Statement of Cash Flows
For the year ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (163,083)
Adjustments to reconcile increases in net assets to net cash provided by (used in) operating activities	
Depreciation expense	92,386
Employee retention credit	467,162
Unrealized (gain) loss on investments	(201)
Increase in accounts payable	1,937
Increase in accrued payroll taxes	730
Increase in accrued wages	9,211
Decrease in credit cards payable	(9,020)
Amortization of discount on pledges	(24,897)
Decrease in pledges receivable	57,918
Increase in prepaid expenses	(2,602)
Increase in accounts receivable	(2,271)
Increase in accrued leave	26
Increase in inventory	(7,741)
Increase in sales tax payable	9
Decrease in right of use assets	4,229
<i>Net cash provided by operating activities</i>	423,793

CASH FLOWS USED IN INVESTING ACTIVITIES

Purchase of investments	(214,000)
Purchase of fixed assets	(28,917)
<i>Net cash used in investing activities</i>	(242,917)

CASH FLOWS USED IN FINANCING ACTIVITIES

Payments on debt	(75,836)
Payments on lease	(4,229)
<i>Net cash used in financing activities</i>	(80,065)

NET CHANGE IN CASH AND CASH EQUIVALENTS 100,811

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 53,355

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 154,166

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 52,438
---------------	-----------

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 1. Reporting Entity and Summary of Significant Accounting Policies

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. Reporting Entity and Summary of Significant Accounting Policies- 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, 2023

Note 1. Reporting Entity and Summary of Significant Accounting Policies- continued

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, 2023 net assets without donor restrictions totaled \$1,606,065 and net assets with donor restrictions totaled \$408,755.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 1. Reporting Entity and Summary of Significant Accounting Policies- continued

Financial Statement Presentation- continued

Net assets with donor restrictions are restricted for adoption center veterinary care \$377,123, HART help surgeries \$16,995, and animals needing extreme care \$14,637.

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, 2023.

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, 2023

Note 1. Reporting Entity and Summary of 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 \$3,647,774 at December 31, 2023 less accumulated depreciation of \$931,061.

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, 2020) 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, 2023

Note 1. Reporting Entity and Summary of 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 an outside investment firm.

See Note 6 for additional details on valuation of investments.

Revenue Recognition

Contributions and Grants

Contributions, including unconditional promises to give, are recognized in the period received or pledged. 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, 2023

Note 1. Reporting Entity and Summary of 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.

Conditional promises to give are recognized as revenue when conditions on which they depend have been substantially met (refer to Note 8 for discussion of conditional promises to give and intentions.)

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, 2023. 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 5.80% for the year ended December 31, 2023. 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, 2023

Note 1. Reporting Entity and Summary of 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, 2023 the liability for accrued leave was \$9,274.

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, 2023

Note 2. 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, 2023, the carrying amount of deposits was \$154,166 and the bank balance was \$168,451.

Note 3. 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.

Note 4. 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	\$ 154,166
Accounts receivable	3,945
Pledges receivable, current portion	58,067
Investments	233,742
	<u>\$ 449,920</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 \$220,000). 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.

Note 5. Investments

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

Stocks	\$ 5,458
Mutual Funds	148,236
Certificates of Deposits	80,048
Total	<u>\$ 233,742</u>

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 5. Investments- continued

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

Dividends	\$	3,467
Interest Income		668
Unrealized Gain		201
Interest Income-ERC		22,014
Total	\$	26,350

Note 6. Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2023 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, 2023				
Stocks	\$ 5,458	\$ 5,458	\$ -	\$ -
Mutual Funds	148,236	148,236	-	-
Certificates of Deposits	80,048	80,048	-	-
Total	\$ 233,742	\$ 233,742	\$ -	\$ -

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.

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

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 6. Fair Value Measurements- continued

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, 2023

- Stocks are valued at the closing price reported on the active market on which the individual securities are traded.
- 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 7. Accounts Receivable

Accounts receivable at December 31, 2023 is comprised of the following:

Bredel Center Receivable	\$ 3,945
--------------------------	----------

Note 8. Pledges Receivable

Pledges receivable represent amounts due to HART for legally enforceable pledges. These pledges are due as follows at December 31, 2023.

Pledge receivable	\$	435,338
Less: unamortized discount		(27,118)
Net pledges receivable	\$	408,220
Amounts due in:		
Within one year	\$	58,067
One to five years		290,335
Greater than five years		59,818
Total	\$	408,220

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

2018-2022	2.60%
2023	5.80%

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 9. 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.

\$14,174

Total

\$14,174

The minimum lease payments required under the above operating leases as of December 31, 2023, are as follows:

2024	\$ 4,468
2025	4,720
2026	<u>4,986</u>
Total	<u>\$ 14,174</u>

Note 10. 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.

HART also invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Note 11. 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.	\$ 1,263,684
--	--------------

United States Department of Agriculture loan dated December 31, 2014 due in monthly installments of \$289 through December 31, 2044 at 3.5% interest.	50,239
---	--------

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2023

Note 11. Long-Term Debt- continued

Small Business Administration loan dated June 14, 2020 due in Monthly installments of \$428 through March 22, 2050 at 2.75%	<u>95,749</u>
Total	<u>\$ 1,409,672</u>

The annual requirements to amortize the above debt outstanding at December 31, 2023 are as follows:

2024	\$ 49,809
2025	51,560
2026	53,375
2027	55,252
2028	57,196
Thereafter	<u>1,142,480</u>
Total	<u>\$1,409,672</u>

Note 12. 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, 2023.

Note 13. Concentrations

As of December 31, 2023, 100% of Pledges Receivable represent the amounts owed from one donor.

Note 14. Prior Period Adjustment

HART for Animals received \$470,550 in employee retention credits for years 2020 and 2021. Therefore, Hart for Animals increased the beginning net assets from \$1,707,353 to \$2,177,903.

Note 15. Evaluation of Subsequent Events

HART has evaluated, for possible financial statement disclosure, subsequent events through August 29, 2024, the date which the financial statements were available to be issued.