



**Kentucky Humane Society -**

**Animal Rescue League, Inc.**

**Independent Auditors' Report**

**And Financial Statements**

**For the Years Ended**

**September 30, 2021 and 2020**

## Contents

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

## **Independent Auditors' Report**

To the Board of Directors  
Kentucky Humane Society – Animal Rescue League, Inc.

### **Opinion**

We have audited the accompanying financial statements of Kentucky Humane Society - Animal Rescue League, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Humane Society - Animal Rescue League, Inc. as of September 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.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Humane Society - Animal Rescue League, 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 Kentucky Humane Society - Animal Rescue League, 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.

*Baldwin CPAs, PLLC*

Louisville, Kentucky  
September 12, 2022

Kentucky Humane Society - Animal Rescue League, Inc.  
 Statements of Financial Position  
 September 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash	\$ 5,357,289	\$ 2,530,420
Accounts receivable	30,368	19,031
Prepaid expenses	46,700	59,122
Inventory	49,711	52,632
Investments	5,677,277	4,254,497
ERTC receivable	1,266,422	-
Beneficial interests in perpetual trusts	5,238,577	4,356,378
Land, buildings and equipment, net	6,732,783	6,983,352
<b>Total Assets</b>	<b>\$ 24,399,127</b>	<b>\$ 18,255,432</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 174,114	187,361
Accrued expenses	187,077	157,142
Deferred payroll tax	86,686	73,603
<b>Total Liabilities</b>	447,877	418,106
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	10,060,411	5,164,037
Board designated endowment	140,666	115,648
Land, buildings and equipment, net of debt	6,732,783	6,983,353
<b>Total Net Assets without Donor Restrictions</b>	<b>16,933,860</b>	<b>12,263,038</b>
With donor restrictions		
Restricted by purpose or time	1,778,813	1,217,910
Restricted in perpetuity	5,238,577	4,356,378
<b>Total Net Assets with Donor Restrictions</b>	<b>7,017,390</b>	<b>5,574,288</b>
<b>Total Net Assets</b>	<b>23,951,250</b>	<b>17,837,326</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 24,399,127</b>	<b>\$ 18,255,432</b>

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

Kentucky Humane Society - Animal Rescue League, Inc.  
 Statements of Activities  
 September 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support:</b>						
Contributions and bequests	\$ 6,776,200	\$ 959,887	\$ 7,736,087	\$ 3,970,169	\$ 477,118	\$ 4,447,287
Program fees	3,016,847	-	3,016,847	2,862,431	-	2,862,431
Investment income	36,320	-	36,320	72,609	-	72,609
Realized/unrealized gains	816,589	-	816,589	95,479	-	95,479
Distribution from and change in value of perpetual trusts	183,504	882,198	1,065,702	184,046	450,642	634,688
Special events	635,780	-	635,780	459,182	-	459,182
Special event expenses	(111,727)	-	(111,727)	(44,347)	-	(44,347)
	11,353,513	1,842,085	13,195,598	7,599,569	927,760	8,527,329
<b>Net assets released from restrictions</b>	398,983	(398,983)	-	781,415	(781,415)	-
<b>Total Revenue and Support</b>	11,752,496	1,443,102	13,195,598	8,380,984	146,345	8,527,329
<b>Expenses:</b>						
Program	5,806,864	-	5,806,864	5,918,461	-	5,918,461
Administration	573,407	-	573,407	491,964	-	491,964
Fund raising	701,403	-	701,403	993,338	-	993,338
<b>Total Expenses</b>	7,081,674	-	7,081,674	7,403,763	-	7,403,763
<b>Change in Net Assets</b>	4,670,822	1,443,102	6,113,924	977,221	146,345	1,123,566
Net Assets at Beginning of Year	12,263,038	5,574,288	17,837,326	11,285,817	5,427,943	16,713,760
<b>Net Assets at End of Year</b>	\$ 16,933,860	\$ 7,017,390	\$ 23,951,250	\$ 12,263,038	\$ 5,574,288	\$ 17,837,326

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

Kentucky Humane Society - Animal Rescue League, Inc.  
 Statements of Functional Expenses  
 September 30, 2021 and 2020

	2021			2020				
	Program	Admini- stration	Fund Raising	Total	Program	Admini- stration	Fund Raising	Total
Salaries and wages	\$ 2,921,236	\$369,703	\$296,520	\$ 3,587,459	\$ 2,881,251	\$428,219	\$ 191,317	\$ 3,500,787
Employee benefits/taxes	458,525	57,415	41,967	557,907	385,565	40,917	72,502	498,984
Total payroll expenses	3,379,761	427,118	338,487	4,145,366	3,266,816	469,136	263,819	3,999,771
Advertising/public relations	49,812	-	49,811	99,623	-	-	118,872	118,872
Medical/animal supplies	858,850	-	-	858,850	1,268,046	-	-	1,268,046
Merchandise	6,411	-	100,086	106,497	12,361	-	-	12,361
Office supplies	34,688	4,390	3,520	42,598	30,421	3,228	5,720	39,369
Telephone	13,440	1,701	1,365	16,506	11,672	1,239	2,195	15,106
Travel and transportation	21,878	2,769	2,222	26,869	19,525	2,072	3,672	25,269
Printing and publications	356,019	-	89,006	445,025	431,789	45,822	81,194	558,805
Insurance	95,542	12,092	9,699	117,333	101,565	10,778	19,099	131,442
Repairs and maintenance	188,824	23,897	19,168	231,889	160,256	17,006	30,135	207,397
Professional fees	53,557	6,778	5,436	65,771	40,006	4,245	7,523	51,774
Occupancy/utilities	176,244	22,305	17,888	216,437	153,214	16,259	28,811	198,284
Interest	-	-	-	-	959	-	-	959
Training	30,471	3,856	3,093	37,420	34,508	3,662	6,489	44,659
Taxes, fees and refunds	100,518	12,721	10,199	123,438	111,454	11,828	20,958	144,240
Fundraising expense	-	-	6,684	6,684	-	-	2,729	2,729
Information technology	93,745	11,864	9,515	115,124	92,242	9,789	17,345	119,376
Bad debt expense	100	-	-	100	1,230	-	-	1,230
Depreciation	328,379	41,559	33,332	403,270	343,002	36,400	64,499	443,901
Miscellaneous	18,625	2,357	1,892	22,874	15,588	1,654	2,931	20,173
Direct costs of special events	-	-	111,727	111,727	-	-	44,347	44,347
Total Expenses By Function	5,806,864	573,407	813,130	7,193,401	6,094,654	633,118	720,338	7,448,110
Less direct costs of special events	-	-	(111,727)	(111,727)	-	-	(44,347)	(44,347)
Total Expenses Included in Expense Section of Statement of Activities	\$ 5,806,864	\$ 573,407	\$ 701,403	\$ 7,081,674	\$ 6,094,654	\$ 633,118	\$ 675,991	\$ 7,403,763
Percent of total	82.00%	8.10%	9.90%	100.00%	82.32%	8.55%	9.13%	100.00%

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

Kentucky Humane Society - Animal Rescue League, Inc.  
 Statements of Cash Flows  
 September 30, 2021 and 2020

	2021	2020
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 6,113,924	\$ 1,123,566
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	403,270	443,901
Realized/unrealized gains on investments	(816,589)	(95,479)
Gain on disposal of property and equipment	(3,000)	-
(Increase) decrease in value of perpetual trusts	(882,199)	(450,642)
Bad debt expense	100	1,230
Contributions restricted for capital assets	(69,126)	(29,639)
(Increase) decrease in operating assets:		
Accounts receivables	(11,437)	50,584
ERTC receivable	(1,266,422)	-
Prepaid expenses and inventory	15,343	(8,370)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	16,688	(187,953)
Deferred payroll tax	13,083	73,603
	<b>3,513,635</b>	<b>920,801</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(152,702)	(184,251)
Proceeds from sale of property and equipment	3,000	-
Purchase of investments	(606,190)	(356,199)
Proceeds from sale of investments	-	900,000
	<b>(755,892)</b>	<b>359,550</b>
<b>Net Cash (Used) Provided by Investing Activities</b>		
<b>Cash Flows From Financing Activities:</b>		
Contributions restricted for capital assets	69,126	29,639
Payments on long-term debt	-	(104,279)
	<b>69,126</b>	<b>(74,640)</b>
<b>Net Cash Provided (Used) by Financing Activities</b>		
<b>Net Increase in Cash</b>	<b>2,826,869</b>	<b>1,205,711</b>
Cash at Beginning of Year	2,530,420	1,324,709
<b>Cash at End of Year</b>	<b>\$ 5,357,289</b>	<b>\$ 2,530,420</b>
<b>Supplemental Disclosures:</b>		
Cash paid for interest	\$ -	\$ 959
Income Taxes	\$ -	\$ 66,127
Noncash financing activities:		
Forgiveness of paycheck protection loan	\$ 716,300	\$ 783,900

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



Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements  
September 30, 2021 and 2020

**Note 1 – Summary of Significant Accounting Policies**

Nature of Activities

The Kentucky Humane Society – Animal Rescue League, Inc. (KHS) is a Kentucky not-for-profit corporation that was founded in 1884 and incorporated in 1945. KHS advocates the humane treatment of companion animals through leadership and proactive solutions to pet overpopulation, including adoptions, education, and spay/neuter efforts.

Basis of Accounting

KHS prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, KHS is required to report information regarding its financial position and activities according to two classes of net assets. A description of the net asset categories follows:

Net assets without donor restrictions: include the portion of expendable funds that are not subject to donor-imposed stipulations.

Board Designated: represent net assets without donor restrictions designated for specific purposes by the board of directors. Although the board could release or revise the designations in the future, to the extent not externally restricted, there is no intent to do so.

Net assets with donor restrictions: stipulated by donors for specific operating purposes or are restricted by time. These include donor restrictions requiring that the corpus to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Land, buildings, equipment, net of debt: represents the portion of net assets without donor restrictions that have been invested in land, buildings, and equipment and, as such, are not readily available for support in the operation of KHS.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

For purposes of the statement of cash flows, cash equivalents include time deposits and money market accounts. Cash held temporarily by a custodian for investment purposes is included in investments and is not considered to be cash equivalents.

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Accounts Receivable

Accounts receivable consists primarily of program fee receivables. Receivables are considered past due if payments are not received in ninety days. It is the organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. All accounts are deemed to be fully collectible.

Inventory

Inventories are stated at the lower of cost or net realizable value determined by the first-in, first-out method.

Investments

The ASC establishes a framework for measuring fair value and expands disclosures required for fair value measurements. The framework establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. These levels, in order of lowest to highest priority are described as follows:

Level 1 – Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that KHS can access at the measurement date.

Level 2 – Inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in inactive markets, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 – Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

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, although the organization 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.

Beneficial Interests in Perpetual Trusts

Beneficial interests in perpetual trusts are funds held by outside trustees for the benefit of KHS in accordance with the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of KHS. The fair values of the trusts are recognized as assets. Distributions from the trusts are recorded as income in the statements of activities and the carrying value of the assets is adjusted annually for changes in the fair value of the trusts.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Land, Buildings and Equipment

Donations of land, buildings and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The cost of property and equipment purchased more than \$1,000 is capitalized. Land, buildings, and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets.

Deferred Payroll Tax

KHS has elected to defer the deposit and payment of employer's portion of Social Security taxes pursuant to Section 2302 of the CARES Act. These deferred amounts must be repaid 50% on September 30, 2021 with the remaining 50% on September 30, 2022. As of September 30, 2021 and 2020, KHS has deferred \$86,686 and \$73,603, respectively, which is classified as deferred payroll tax liability – on the accompanying Statement of Financial Position.

Revenue and Support

Contributions and bequests are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest, is received and are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions and bequests that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution or bequest is recognized. All other donor restricted contributions and bequests are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, 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. Conditional promises to give, that is, those with a measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Program revenue is recognized when the program takes place.

Special events revenue is recognized when the event takes place.

Donated Materials, Equipment, and Services

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. KHS pays for most services requiring specific expertise. Additionally, many individuals volunteer their time and perform a variety of tasks that assist KHS with programs, solicitations, and various committee assignments.

Advertising

Advertising costs are charged to expense when incurred. Advertising costs for the years ended September 30, 2021 and 2020 were \$99,623 and \$118,872, respectively.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Expense Allocation

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the program and supporting services benefited. The expenses that are allocated are compensation and benefits, which are allocated based on estimates of time and effort and occupancy costs and depreciation, which are allocated on a square footage basis.

Income Tax Status

KHS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), except for unrelated business income as noted under Section 511 of the IRC. In addition, KHS qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). IRC Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its trade or business. Unrelated business income arises principally from pet resort program income and rental income earned by KHS. Income tax expense on unrelated business income totaled \$0 and \$28,687 incurred in the years ended September 30, 2021 and 2020, respectively, for the prior year tax liabilities.

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position.

Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

**Note 2 – Concentrations of Credit Risk**

Cash - KHS maintains its cash balances in several financial institutions in Louisville, Kentucky. The cash balances are insured by the Federal Deposit Insurance Corporation. At various times during the year, the cash balances exceed amounts federally insured. On September 30, 2021, and 2020, uninsured amounts were \$5,133,505 and \$2,211,092, respectively. The risk is managed by maintaining all deposits in high quality financial institutions.

Accounts receivable - Financial instruments that are exposed to credit risk consist of accounts receivable. Realization of these accounts is dependent on various individual economic conditions.

Investments - Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities, and the level of uncertainty related to change in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of KHS.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 3 – ERTC Receivable**

ERTC receivable consists of amounts due from the Internal Revenue Service for the Employee Retention Tax Credit (ERTC) as established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) and further modified and extended by the Consolidated Appropriations Act, 2021 (CAA). KHS has determined that it is qualified to recover amounts previously paid for employee wages during fiscal years 2020 and 2021 by claiming the ERTC and expects to receive payment during fiscal year 2023. In accordance with ASC 958-605 the amounts requested have been recognized as part of contributions and grants on the statement of activities for the year ended September 30, 2021.

**Note 4 – Investments**

Investments consist of the following on September 30, 2021 and 2020:

	Cost Basis	Fair Value	Unrealized Gain (Loss)
<i>September 30, 2021</i>			
Cash	\$ 848,397	\$ 848,397	\$ -
Certificates of deposit	395,230	395,230	-
Mutual funds - equities	1,779,055	2,657,093	878,038
Mutual funds - fixed income	505,990	531,830	25,840
Mutual funds - international	751,929	913,368	161,439
Corporate obligations	190,554	190,693	139
Community Foundation of Louisville	115,649	140,666	25,017
Totals	<u>\$ 4,586,804</u>	<u>\$ 5,677,277</u>	<u>\$ 1,090,473</u>
<i>September 30, 2020</i>			
Cash	\$ 391,054	\$ 391,054	\$ -
Certificates of deposit	477,205	477,328	123
Mutual funds - equities	1,550,362	1,810,402	260,040
Mutual funds - fixed income	496,434	536,111	39,677
Mutual funds - international	734,944	733,385	(1,559)
Corporate obligations	190,499	190,569	70
Community Foundation of Louisville	98,553	115,648	17,095
Totals	<u>\$ 3,939,051</u>	<u>\$ 4,254,497</u>	<u>\$ 315,446</u>

The agency agreement with the Community Foundation of Louisville (CFL) stipulates that a minimum balance of \$25,000 remain invested with CFL, while assets more than \$25,000 are available for distribution at the discretion of KHS's board. CFL does not provide the types of investments. This investment is the board designated endowment.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 4 – Investments (Continued)**

The following tables set forth by level, within the fair value hierarchy, KHS's investments at fair value:

	Level 1	Level 2	Level 3	Totals
<i>September 30, 2021</i>				
Cash	\$ 848,397	\$ -	\$ -	848,397
Certificates of deposit	-	395,230	-	395,230
Mutual funds - equities	2,657,093	-	-	2,657,093
Mutual funds - fixed income	531,830	-	-	531,830
Mutual funds - international	913,368	-	-	913,368
Corporate bonds	190,693	-	-	190,693
Community Foundation of Louisville	-	-	140,666	140,666
<b>Totals</b>	<b>\$ 5,141,381</b>	<b>\$ 395,230</b>	<b>\$ 140,666</b>	<b>5,677,277</b>
<i>September 30, 2020</i>				
Cash	\$ 391,054	\$ -	\$ -	391,054
Certificates of deposit	-	477,328	-	477,328
Mutual funds - equities	1,810,402	-	-	1,810,402
Mutual funds - fixed income	536,111	-	-	536,111
Mutual funds - international	733,385	-	-	733,385
Corporate bonds	190,569	-	-	190,569
Community Foundation of Louisville	-	-	115,648	115,648
<b>Totals</b>	<b>\$ 3,661,521</b>	<b>\$ 477,328</b>	<b>\$ 115,648</b>	<b>4,254,497</b>

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used to determine fair value on September 30, 2021 and 2020.

*Cash and cash equivalents:* Valued at cost, plus accrued interest.

*Certificates of deposit:* Valued at cost, plus accrued interest.

*Corporate obligations:* Valued using pricing matrices.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Council are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by KHS are deemed to be actively traded.

*Beneficial interests in perpetual trusts:* Valued based on the fair value of the underlying assets and liabilities in the trusts multiplied by KHS's entitled percentage of the income. The underlying assets consist of corporate stocks, bonds and mutual funds that have been valued similarly to the methods described above. (See Note 5).

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 4 – Investments (Continued)**

The following table sets forth a summary of changes in the fair value of KHS's level 3 investments shown above for the years ended September 30, 2021 and 2020:

Community Foundation of Louisville	2021	2020
Balance, beginning of year	\$ 115,648	\$ 107,798
Gains (unrealized and realized), net of fees	25,018	7,850
Balance, end of year	\$ 140,666	\$ 115,648

**Note 5 – Beneficial Interests in Perpetual Trusts**

KHS is the beneficiary of several perpetual charitable trusts held and administered by independent trustees. Under the terms of the trusts, KHS has the irrevocable right to receive the income earned on the trust assets in perpetuity. The Masser and Mattingly trusts will terminate on the date indicated below and the principal will be distributed to KHS. The fair value of the beneficial interests in these trusts is recognized as an asset and as a permanently restricted contribution at the date the trust is established. KHS's estimate of fair value is based on the fair value information received from the trustees. The trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities. These assets are not subject to the control of KHS. Gains and losses which are not distributed by the trusts are reflected as changes in value of perpetual trusts in the statements of activities. The market value of the assets of the trusts and terms are as follows:

	2021	2020
Irvine Trust - quarterly payment of one-twelfth of income	\$ 287,093	\$ 243,798
Robert Koehler Memorial Trust Fund	228,645	202,028
Masser Trust Fund - annual payment of 12% of income through 2060	1,762,928	1,376,453
Allen S. Mattingly Trust B - quarterly payments of 32% of income through 2032	2,959,911	2,534,099
Total	\$ 5,238,577	\$ 4,356,378

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 5 – Beneficial Interests in Perpetual Trusts (Continued)**

The following tables set forth by level, within the fair value hierarchy, KHS's beneficial interests at fair value:

	Total fair value	Fair value hierarchy	
		Level 2	Level 3
<i>September 30, 2021</i>			
Irvine Trust	\$ 287,093	\$ -	\$ 287,093
Robert Koehler Trust	228,645	-	228,645
Masser Trust Fund	1,762,928	1,762,928	-
Allen S. Mattingly Trust	2,959,911	2,959,911	-
<b>Total</b>	<b>\$ 5,238,577</b>	<b>\$ 4,722,839</b>	<b>\$ 515,738</b>
<i>September 30, 2020</i>			
Irvine Trust	\$ 243,798	\$ -	\$ 243,798
Robert Koehler Trust	202,028	-	202,028
Masser Trust Fund	1,376,453	1,376,453	-
Allen S. Mattingly Trust	2,534,099	2,534,099	-
<b>Total</b>	<b>\$ 4,356,378</b>	<b>\$ 3,910,552</b>	<b>\$ 445,826</b>

The following table sets forth a summary of changes in the fair value of KHS's level 3 investments shown above for the years ended September 30, 2021 and 2020:

	2021	2020
Balance, October 1st	\$ 445,826	\$ 432,506
Change in value	75,259	24,410
Distributions	(5,347)	(11,090)
<b>Balance, September 30th</b>	<b>\$ 515,738</b>	<b>\$ 445,826</b>



Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 6 – Land, Buildings, and Equipment**

Land, buildings, and equipment consist of the following:

	2021	2020
Land	\$ 2,302,752	\$ 2,302,752
Buildings and improvements	8,963,996	8,878,397
Furniture, equipment and vehicles	1,511,851	1,466,049
	12,778,599	12,647,198
Less accumulated depreciation	(6,045,816)	(5,663,846)
Land, buildings and equipment, net	\$ 6,732,783	\$ 6,983,352

**Note 7 – Board Designated Net Assets**

In December 2012, the KHS's Board of Directors designated \$54,545 of its overall investment account as a quasi-endowment fund. On September 30, 2021 and 2020, the fair market value of this fund totaled \$140,666 and \$115,648, respectively. KHS is required to keep a minimum fund balance of \$25,000, while the amount more than \$25,000 is available for withdrawal. No withdrawals were made from the investment account in both years ending September 30, 2021 and 2020.

**Note 8 – Net Assets with Donor Restrictions**

Net assets are restricted for the following purposes:

	2021	2020
Subject to specified purpose or passage of time:		
Program activities	\$ 1,699,541	\$ 389,616
Building and equipment	79,272	828,294
	1,778,813	1,217,910
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trusts	5,238,577	4,356,378
Total net assets with donor restriction	\$ 7,017,390	\$ 5,574,288

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 9 – Leasing Activities**

Rental income is derived from leasing the Eastpoint vet clinic, which expires September 2024, and from leasing the East Campus vet clinic, which expires April 2026. These leases have no renewal options. The rental income is recognized ratably as the lease rental payments are earned and is included in program fees on the statements of activities. Lease revenue is \$131,842 and \$123,914 for the years ended September 30, 2021 and 2020, respectively. On September 30, 2021, the minimum future lease income under the operating lease is as follows:

9/30/2022	\$	118,800
9/30/2023		118,800
9/30/2024		103,800
9/30/2025		55,080
9/30/2026		55,080
Total	\$	451,560

**Note 10 – Leases**

KHS leases office space and equipment under operating leases expiring in various years through 2025. Several of these leases have renewal options that are exercised in the normal course of business. Future minimum lease payments under non-cancelable operating leases on September 30, 2021, are as follows:

9/30/2022	\$	64,650
9/30/2023		61,293
9/30/2024		63,094
9/30/2025		50,545
Total	\$	239,582

Lease expense for 2021 and 2020, was \$64,863 and \$57,806, respectively.

**Note 11 – Retirement Plan**

KHS provides a 401(k) plan to employees after one year of service. In the year ended September 30, 2020, KHS adopted a safe-harbor provision, matching dollar-for-dollar up to 3% of employees' deferrals, and 50% of the next 2% of employee deferrals. For the years ended September 31, 2021 and 2020, employer contributions were \$41,847 and \$37,434, respectively.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 12 – In-Kind Donations**

KHS records various types of in-kind support, including materials and other tangible assets. Contributed in-kind support is recognized in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification 958-605-25, which governs the presentation of financial statements of not-for-profit organizations. This pronouncement requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind service donation for both years ended September 30, 2021 and 2020 were \$0.

Contributions of tangible assets are recognized at fair market value when received. The amounts are reflected in the accompanying financial statements as support and are offset by like amounts included in expenses or assets. In-kind donations for the years ended September 30, 2021 and 2020 were \$89,971 and \$382,800, respectively.

**Note 13 – Liquidity and Availability of Financial Assets**

The following table reflects KHS' financial assets as of September 30, 2021 and 2020 reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action.

	2021	2020
Financial Assets		
Cash	\$ 5,357,289	\$ 2,530,420
Accounts receivable	30,368	19,031
Investments	5,677,277	4,254,496
Financial assets, at year-end	11,064,934	6,803,947
Less those unavailable for general expenditure within one year		
Donor imposed restrictions	(1,778,813)	(1,217,910)
Financial assets available to meet cash needs for general expenditures within one year	\$ 9,286,121	\$ 5,586,037

In addition to financial assets available to meet general expenditures over the year, KHS operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient program and other revenues, by utilizing resources from current and prior year's gifts and by appropriating the investment return on its board-designated endowment, as needed.

#### **Note 14 – Accounting Standards Updates**

##### Accounting Standards Update (ASU) 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) (ASU 2016-02)*, requiring all leases to be recognized on the KHS's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, KHS will recognize: 1) a lease liability for KHS's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents KHS's right to use, or control the use of, the specified asset for the lease term. Upon adopting ASU 2016-02, KHS will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for KHS for the year ending September 30, 2023, with early adoption permitted. KHS is currently evaluating the effect that the new standard will have on its financial statements.

##### Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)*, requiring an entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. ASU 2020-07 includes additional disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The standard will be applied on a retrospective basis and will be effective for the year ending September 30, 2022. KHS does not expect the new standard will impact its financial statements other than a reclassification on the statement of activities and additional disclosures.

#### **Note 15 – Commitments and Contingencies**

The novel coronavirus (COVID-19) was first identified in people in late 2019. COVID-19 spread rapidly throughout the world and, in March 2020, the World Health Organization characterized COVID-19 as a pandemic. It has significantly disrupted supply chains and businesses around the world. The United States and global markets experienced significant volatility in value resulting from uncertainty caused by the pandemic. KHS is closely monitoring its investment portfolio and its liquidity but has no immediate plans to change its investment portfolio. The extent of the impact of COVID-19 on KHS's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the clients, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact KHS's future financial condition, results of operations and cash flows is uncertain.

#### **Note 16 – Paycheck Protection Program**

On April 15, 2020, KHS qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate principal amount of \$783,900 (PPP I). In addition, President Trump signed into law the Paycheck Protection Program and Health Care Enhancement Act on April 24, 2020, which increased funding provided by the CARES Act. Terms and conditions associated with the Paycheck Protection Program have been subsequently revised by the Paycheck Protection Program Flexibility Act of 2020, the Consolidated Appropriations Act, 2021 and the PPP Extension Act of 2021, which were enacted on June 5, 2020, December 27, 2020, and March 30, 2021, respectively.

Kentucky Humane Society - Animal Rescue League, Inc.  
Notes to Financial Statements - Continued  
September 30, 2021 and 2020

**Note 16 – Paycheck Protection Program - Continued**

KHS applied for and received forgiveness of the PPP I loan. Forgiveness was approved on January 13, 2021. The proceeds from the forgiveness of the loan are recognized as contributions on the 2020 statement of activities.

On February 12, 2021, KHS qualified for and received a second loan pursuant to the PPP, from a qualified lender, for an aggregate principal amount of \$716,300 (PPP II). PPP II is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of PPP II is subject to forgiveness under the Paycheck Protection Program upon KHS's request to the extent that PPP II proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by KHS.

KHS applied for and received forgiveness of the PPP II loan. Forgiveness was approved on September 27, 2021. The proceeds from the forgiveness of the loan are recognized as contributions on the 2021 statement of activities.

**Note 17 – Subsequent Events**

Management has evaluated subsequent events for recognition or disclosure in the financial statements through September 12, 2022 which was the date at which the financial statements were available to be issued.