



**Kentucky Humane Society -
Animal Rescue League, Inc.
Independent Auditors' Report
And Financial Statements
For the Years Ended
September 30, 2022 and 2021**

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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, 2022 and 2021, 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, 2022 and 2021, 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
May 13, 2023

Kentucky Humane Society - Animal Rescue League, Inc.
 Statements of Financial Position
 September 30, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 5,563,524	\$ 5,357,289
Accounts receivable	36,295	30,368
Prepaid expenses	55,445	46,700
Inventory	72,862	49,711
Investments	6,383,601	5,677,277
ERTC receivable	1,266,422	1,266,422
Beneficial interests in perpetual trusts	4,051,208	5,238,577
Land, buildings and equipment, net	6,743,533	6,732,783
Total Assets	\$ 24,172,890	\$ 24,399,127
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 165,071	\$ 174,114
Accrued expenses	258,639	187,077
Deferred payroll tax	-	86,686
Total Liabilities	423,710	447,877
Net Assets		
Without donor restrictions		
Undesignated	11,633,799	10,060,411
Board designated endowment	113,930	140,666
Land, buildings and equipment, net of debt	6,743,533	6,732,783
Total Net Assets without Donor Restrictions	18,491,262	16,933,860
With donor restrictions		
Restricted by purpose or time	1,206,710	1,778,813
Restricted in perpetuity	4,051,208	5,238,577
Total Net Assets with Donor Restrictions	5,257,918	7,017,390
Total Net Assets	23,749,180	23,951,250
Total Liabilities and Net Assets	\$ 24,172,890	\$ 24,399,127

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

Kentucky Humane Society - Animal Rescue League, Inc.
 Statements of Activities
 September 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and bequests	\$ 5,489,025	\$ 540,660	\$ 6,029,685	\$ 6,686,229	\$ 959,887	\$ 7,646,116
Contribution of nonfinancial assets	267,233	-	267,233	89,971	-	89,971
Program fees	3,278,087	-	3,278,087	3,016,847	-	3,016,847
Investment income	67,589	-	67,589	36,320	-	36,320
Realized/unrealized gains (losses)	(1,074,574)	-	(1,074,574)	816,589	-	816,589
Distribution from and change in value of perpetual trusts	430,074	(1,187,369)	(757,295)	183,504	882,198	1,065,702
Special events	820,307	-	820,307	635,780	-	635,780
Special event expenses	(180,215)	-	(180,215)	(111,727)	-	(111,727)
	9,097,526	(646,709)	8,450,817	11,353,513	1,842,085	13,195,598
Net assets released from restrictions	1,112,763	(1,112,763)	-	398,983	(398,983)	-
Total Revenue and Support	10,210,289	(1,759,472)	8,450,817	11,752,496	1,443,102	13,195,598
Expenses:						
Program	7,387,424	-	7,387,424	5,806,864	-	5,806,864
Administration	599,118	-	599,118	573,407	-	573,407
Fund raising	666,345	-	666,345	701,403	-	701,403
Total Expenses	8,652,887	-	8,652,887	7,081,674	-	7,081,674
Change in Net Assets	1,557,402	(1,759,472)	(202,070)	4,670,822	1,443,102	6,113,924
Net Assets at Beginning of Year	16,933,860	7,017,390	23,951,250	12,263,038	5,574,288	17,837,326
Net Assets at End of Year	\$ 18,491,262	\$ 5,257,918	\$ 23,749,180	\$ 16,933,860	\$ 7,017,390	\$ 23,951,250

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

Kentucky Humane Society - Animal Rescue League, Inc.
 Statements of Functional Expenses
 September 30, 2022 and 2021

	2022			2021				
	Program	Admini- stration	Fund Raising	Total	Program	Admini- stration	Fund Raising	Total
Salaries and wages	\$ 3,635,917	\$ 394,463	\$ 321,006	\$ 4,351,386	\$ 2,921,236	\$ 369,703	\$ 296,520	\$ 3,587,459
Employee benefits/taxes	495,808	54,070	39,724	589,602	458,525	57,415	41,967	557,907
Total payroll expenses	4,131,725	448,533	360,730	4,940,988	3,379,761	427,118	338,487	4,145,366
Advertising/public relations	59,577	-	59,576	119,153	49,812	-	49,811	99,623
Medical/animal supplies	1,377,508	-	-	1,377,508	858,850	-	-	858,850
Merchandise	9,459	-	11,779	21,238	6,411	-	100,086	106,497
Office supplies	56,738	6,156	5,007	67,901	34,688	4,390	3,520	42,598
Telephone	14,076	1,527	1,264	16,867	13,440	1,701	1,365	16,506
Travel and transportation	36,706	3,982	3,240	43,928	21,878	2,769	2,222	26,869
Printing and publications	421,171	-	105,292	526,463	356,019	-	89,006	445,025
Insurance	99,904	10,839	8,820	119,563	95,542	12,092	9,699	117,333
Repairs and maintenance	253,033	27,452	22,318	302,803	188,824	23,897	19,168	231,889
Professional fees	76,271	8,275	6,733	91,279	53,557	6,778	5,436	65,771
Occupancy/utilities	214,670	23,290	18,954	256,914	176,244	22,305	17,888	216,437
Training	37,138	4,029	2,968	44,135	30,471	3,856	3,093	37,420
Taxes, fees and refunds	133,514	14,485	11,787	159,786	100,518	12,721	10,199	123,438
Fundraising expense	-	-	6,742	6,742	-	-	6,684	6,684
Information technology	95,169	10,325	8,401	113,895	93,745	11,864	9,515	115,124
Bad debt expense	-	-	-	-	100	-	-	100
Depreciation	351,752	38,162	31,055	420,969	328,379	41,559	33,332	403,270
Miscellaneous	19,013	2,063	1,679	22,755	18,625	2,357	1,892	22,874
Direct costs of special events	-	-	180,215	180,215	-	-	111,727	111,727
Total Expenses By Function	7,387,424	599,118	846,560	8,833,102	5,806,864	573,407	813,130	7,193,401
Less direct costs of special events	-	-	(180,215)	(180,215)	-	-	(111,727)	(111,727)
Total Expenses Included in Expense Section of Statement of Activities	<u>\$ 7,387,424</u>	<u>\$ 599,118</u>	<u>\$ 666,345</u>	<u>\$ 8,652,887</u>	<u>\$ 5,806,864</u>	<u>\$ 573,407</u>	<u>\$ 701,403</u>	<u>\$ 7,081,674</u>
Percent of total	<u>85.38%</u>	<u>6.92%</u>	<u>7.70%</u>	<u>100.00%</u>	<u>82.00%</u>	<u>8.10%</u>	<u>9.90%</u>	<u>100.00%</u>

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

Kentucky Humane Society - Animal Rescue League, Inc.
 Statements of Cash Flows
 September 30, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ (202,070)	\$ 6,113,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	420,969	403,270
Realized/unrealized (gains) losses on investments	1,121,547	(816,589)
Gain on disposal of property and equipment	(400)	(3,000)
(Increase) decrease in value of perpetual trusts	1,187,369	(882,199)
Bad debt expense	-	100
Contributions restricted for capital assets	(45,542)	(69,126)
(Increase) decrease in operating assets:		
Accounts receivables	(5,927)	(11,437)
Prepaid expenses and inventory	(31,896)	15,343
ERTC receivable	-	(1,266,422)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	62,519	16,688
Deferred payroll tax	(86,686)	13,083
	2,419,883	3,513,635
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities:		
Purchase of property and equipment	(431,719)	(152,702)
Proceeds from sale of property and equipment	400	3,000
Purchase of investments	(1,827,871)	(606,190)
	(2,259,190)	(755,892)
Net Cash Used by Investing Activities		
Cash Flows From Financing Activities:		
Contributions restricted for capital assets	45,542	69,126
	45,542	69,126
Net Cash Provided (Used) by Financing Activities		
Net Increase in Cash	206,235	2,826,869
Cash at Beginning of Year	5,357,289	2,530,420
Cash at End of Year	\$ 5,563,524	\$ 5,357,289
Supplemental Disclosures:		
Noncash financing activities:		
Forgiveness of paycheck protection loan	\$ -	\$ 716,300

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.

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, 2022 with the remaining 50% on September 30, 2023. As of September 30, 2022 and 2021, KHS has deferred \$0 and \$86,686, 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.

Contributions of Non-financial Assets and In-kind Donations

The Organization may receive various types of in-kind donations including services and equipment. FASB ASC 958-605-25 requires recognition of professional services received if those services (a) create or enhance long-lived non-financial assets or (b) require specialized skill(s), are provided by individuals possessing those skill(s) and would typically need to be purchased if not provided by donation. The services received by the Organization do not meet these criteria. Contributions of tangible assets are recognized at fair value when received and presented on the statement of activities as contributions of non-financial assets and in-kind donations, as required by ASU 2020-07.

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. Many individuals volunteer significant amounts of time and perform a variety of tasks that assist the Organization with programs, solicitations, and various committee assignments, however the Organization does not reflect the value of the contributed services because they do not meet recognition criteria presented by GAAP.

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
September 30, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are charged to expense when incurred. Advertising costs for the years ended September 30, 2022 and 2021 were \$119,153 and \$99,623, respectively.

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. For the years ended September 30, 2022 and 2021, respectively, there was no income tax expense on unrelated business income.

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.

Accounting Pronouncements Adopted in the Current Year

In September 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021, with early adoption permitted, and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. The Organization adopted and implemented this pronouncement on October 1, 2020 using the retrospective method of application. The adoption of ASU 2020-07 resulted in no material changes to the recognition of contributions.

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, 2022, and 2021, uninsured amounts were \$5,385,499 and \$5,133,505, respectively. The risk is managed by maintaining all deposits in high quality financial institutions. In December 2022, \$1,000,000 in cash was moved to a self-directed brokerage account.

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
September 30, 2022 and 2021

Note 2 – Concentrations of Credit Risk (Continued)

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.

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 were 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, 2022 and 2021:

	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
<i>September 30, 2022</i>			
Cash	\$ 1,706,313	\$ 1,706,313	\$ -
Certificates of deposit	174,689	174,689	-
Mutual funds - equities	2,346,316	2,660,153	313,837
Mutual funds - fixed income	773,813	685,835	(87,978)
Mutual funds - international	947,539	799,425	(148,114)
Corporate obligations	191,622	243,256	51,634
Community Foundation of Louisville	<u>140,666</u>	<u>113,930</u>	<u>(26,736)</u>
Totals	<u>\$ 6,280,958</u>	<u>\$ 6,383,601</u>	<u>\$ 102,643</u>
<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	<u>115,649</u>	<u>140,666</u>	<u>25,017</u>
Totals	<u>\$ 4,586,804</u>	<u>\$ 5,677,277</u>	<u>\$ 1,090,473</u>

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
September 30, 2022 and 2021

Note 4 – Investments (Continued)

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.

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, 2022</i>				
Cash	\$ 1,706,313	\$ -	\$ -	1,706,313
Certificates of deposit	-	174,689	-	174,689
Mutual funds - equities	2,660,153	-	-	2,660,153
Mutual funds - fixed income	685,835	-	-	685,835
Mutual funds - international	799,425	-	-	799,425
Corporate bonds	243,256	-	-	243,256
Community Foundation of Louisville	-	-	113,930	113,930
Totals	<u>\$ 6,094,982</u>	<u>\$ 174,689</u>	<u>\$ 113,930</u>	<u>6,383,601</u>
<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
Totals	<u>\$ 5,141,381</u>	<u>\$ 395,230</u>	<u>\$ 140,666</u>	<u>5,677,277</u>

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, 2022 and 2021.

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.

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
September 30, 2022 and 2021

Note 4 – Investments (Continued)

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).

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, 2022 and 2021:

Community Foundation of Louisville	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 140,666	\$ 115,648
Gains (unrealized and realized), net of fees	<u>(26,736)</u>	<u>25,018</u>
Balance, end of year	<u>\$ 113,930</u>	<u>\$ 140,666</u>

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:

	<u>2022</u>	<u>2021</u>
Irvine Trust - quarterly payment of one-twelfth of income	\$ 218,803	\$ 287,093
Robert Koehler Memorial Trust Fund	6,632	228,645
Masser Trust Fund - annual payment of 12% of income through 2060	1,563,751	1,762,928
Allen S. Mattingly Trust B - quarterly payments of 32% of income through 2032	<u>2,262,022</u>	<u>2,959,911</u>
Total	<u>\$ 4,051,208</u>	<u>\$ 5,238,577</u>

Kentucky Humane Society - Animal Rescue League, Inc.
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September 30, 2022 and 2021

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, 2022</i>			
Irvine Trust	\$ 218,803	\$ -	\$ 218,803
Robert Koehler Trust	6,632	-	6,632
Masser Trust Fund	1,563,751	1,563,751	-
Allen S. Mattingly Trust	2,262,022	2,262,022	-
Total	\$ 4,051,208	\$ 3,825,773	\$ 225,435
<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	-
Total	\$ 5,238,577	\$ 4,722,839	\$ 515,738

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, 2022 and 2021:

	2022	2021
Balance, October 1st	\$ 515,738	\$ 445,826
Change in value	(276,760)	75,259
Distributions	(13,543)	(5,347)
Balance, September 30th	\$ 225,435	\$ 515,738

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Note 6 – Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following:

	2022	2021
Land	\$ 2,302,752	\$ 2,302,752
Buildings and improvements	9,006,912	8,963,996
Furniture, equipment and vehicles	1,879,630	1,511,851
	13,189,294	12,778,599
Less accumulated depreciation	(6,445,761)	(6,045,816)
Land, buildings and equipment, net	\$ 6,743,533	\$ 6,732,783

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, 2022 and 2021, the fair market value of this fund totaled \$113,930 and \$140,666, 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, 2022 and 2021.

Note 8 – Net Assets with Donor Restrictions

Net assets are restricted for the following purposes:

	2022	2021
Subject to specified purpose or passage of time:		
Program activities	\$ 1,143,218	\$ 1,699,541
Building and equipment	63,492	79,272
	1,206,710	1,778,813
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trusts	4,051,208	5,238,577
Total net assets with donor restriction	\$ 5,257,918	\$ 7,017,390

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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, 2022 and 2021, respectively. On September 30, 2022, the minimum future lease income under the operating lease is as follows:

9/30/2023	\$	118,800
9/30/2024		103,800
9/30/2025		55,080
9/30/2026		<u>55,080</u>
 Total		 <u><u>\$ 332,760</u></u>

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, 2022, are as follows:

9/30/2023	\$	61,293
9/30/2024		63,094
9/30/2025		<u>50,545</u>
 Total		 <u><u>\$ 174,932</u></u>

Lease expense for 2022 and 2021, was \$67,239 and \$64,863, 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 30, 2022 and 2021, employer contributions were \$60,180 and \$41,847, respectively.

Note 12 – Contribution of Nonfinancial Assets

For the years ended June 30, contributed nonfinancial assets recognized within the statements of activities included.

	<u>2022</u>	<u>2021</u>
Fundraising	\$ 2,571	\$ 2,783
Food	<u>264,662</u>	<u>87,188</u>
	<u><u>\$ 267,233</u></u>	<u><u>\$ 89,971</u></u>

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
September 30, 2022 and 2021

Note 12 – Contribution of Nonfinancial Assets (Continued)

The Organization records various forms of gift-in-kind (GIK), including fundraising and food. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. GIK are value based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor.

Note 13 – Liquidity and Availability of Financial Assets

The following table reflects KHS' financial assets as of September 30, 2022 and 2021 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.

	<u>2022</u>	<u>2021</u>
Financial Assets		
Cash	\$ 5,563,524	\$ 5,357,289
Accounts receivable	36,295	30,368
Investments	<u>6,383,601</u>	<u>5,677,277</u>
Financial assets, at year-end	11,983,420	11,064,934
Less those unavailable for general expenditure within one year		
Donor imposed restrictions	<u>(1,206,710)</u>	<u>(1,778,813)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,776,710</u>	<u>\$ 9,286,121</u>

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 – Paycheck Protection Program

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.

Kentucky Humane Society - Animal Rescue League, Inc.
Notes to Financial Statements - Continued
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Note 15 – Accounting Standards Update

Accounting Standards Update 2016-02, Leases

In February 2016, the FASB issued Account Standards Update (ASU) 2016-02, Leases (Topic 842) (ASU 2016-02), requiring all leases to be recognized on Kentucky Humane Society - Animal Rescue League, Inc.'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, Kentucky Humane Society - Animal Rescue League, Inc., Inc. will recognize: 1) a lease liability for Kentucky Humane Society - Animal Rescue League, Inc.'s obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents Kentucky Humane Society - Animal Rescue League, Inc.'s right to use, or control the use of, the specified asset for the lease term. Upon adopting ASU 2016-02, Kentucky Humane Society - Animal Rescue League, Inc. 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 Kentucky Humane Society - Animal Rescue League, Inc. for the year ending September 30, 2023, with early adoption permitted. Kentucky Humane Society - Animal Rescue League, Inc. is currently evaluating the effect that the new standard will have on its financial statements.

Note 16 – Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through May 13, 2023 which was the date at which the financial statements were available to be issued.