

LAWRENCE HUMANE SOCIETY, INC.

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Independent Auditor's Report

Board of Directors
Lawrence Humane Society, Inc.
Lawrence, Kansas

We have audited the accompanying financial statements of Lawrence Humane Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lawrence Humane Society, Inc. as of December 31, 2019 and 2018, 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.

Mize CPAs Inc.

September 17, 2020
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LAWRENCE HUMANE SOCIETY, INC.

Statements of Financial Position
December 31,

Assets

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 611,220	\$ 315,111
Accounts receivable	7,421	8,106
Prepaid expenses	<u>26,333</u>	<u>20,829</u>
Total current assets	<u>644,974</u>	<u>344,046</u>
Capital campaign pledges receivable, less allowance of \$79,986 and \$40,850 in 2019 and 2018	<u>1,066,887</u>	<u>3,054,329</u>
Fixed assets:		
Construction in progress	6,885	3,292,451
Property, plant and equipment	7,528,382	2,555,276
Accumulated depreciation	<u>(180,136)</u>	<u>(1,379,324)</u>
Total fixed assets	<u>7,355,131</u>	<u>4,468,403</u>
Other assets:		
Beneficial interest in assets held by others	<u>664,831</u>	<u>1,197,077</u>
Total assets	<u>\$9,731,823</u>	<u>\$9,063,855</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 130,848	\$ 51,484
Payroll liabilities	39,968	37,984
Deferred revenue	30,000	
Current portion of long-term debt	<u>103,778</u>	
Total current liabilities	<u>304,594</u>	<u>89,468</u>
Long-term liabilities:		
Long-term debt	<u>1,150,000</u>	<u>-</u>
Total liabilities	<u>1,454,594</u>	<u>89,468</u>
Net assets:		
Without donor restrictions	7,192,669	4,807,273
With donor restrictions	<u>1,084,560</u>	<u>4,167,114</u>
Total net assets	<u>8,277,229</u>	<u>8,974,387</u>
Total liabilities and net assets	<u>\$9,731,823</u>	<u>\$9,063,855</u>

The notes to the financial statements are an integral part of these financial statements.

LAWRENCE HUMANE SOCIETY, INC.

Statements of Activities
Years Ended December 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:						
Contracts	\$ 409,280	\$ -	\$ 409,280	\$ 411,120	\$ -	\$ 411,120
Program fees	383,039		383,039	472,881		472,881
Contributions	1,196,935	231,272	1,428,207	513,553	3,995,558	4,509,111
Grants	29,865		29,865	75,555		75,555
In-kind donations	77,333		77,333	57,432		57,432
Fundraising events	214,852		214,852	227,219		227,219
Investment income:						
Interest income	6,129	306	6,435	890	20,277	21,167
Realized (loss) gain on investments	(206)	(35)	(241)		2,375	2,375
Unrealized gain (loss) on investments	38,145	2,703	40,848		(16,735)	(16,735)
Miscellaneous	2,709		2,709	4,889		4,889
Net assets released from restriction	<u>3,316,800</u>	<u>(3,316,800)</u>		<u>2,763,816</u>	<u>(2,763,816)</u>	
Total revenues, gains and other support	<u>5,674,881</u>	<u>(3,082,554)</u>	<u>2,592,327</u>	<u>4,527,355</u>	<u>1,237,659</u>	<u>5,765,014</u>
Expenses:						
Program services	1,432,076		1,432,076	1,235,814		1,235,814
Supporting services	392,908		392,908	356,907		356,907
Fundraising	<u>322,870</u>		<u>322,870</u>	<u>261,174</u>		<u>261,174</u>
Total expenses	<u>2,147,854</u>	<u>-</u>	<u>2,147,854</u>	<u>1,853,895</u>	<u>-</u>	<u>1,853,895</u>
Other expense:						
Retirement of building	(1,141,631)		(1,141,631)			
Total other expense	<u>(1,141,631)</u>	<u>-</u>	<u>(1,141,631)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reclassifications	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,818</u>	<u>(106,818)</u>	<u>-</u>
Change in net assets	2,385,396	(3,082,554)	(697,158)	2,780,278	1,130,841	3,911,119
Net assets, beginning of year	<u>4,807,273</u>	<u>4,167,114</u>	<u>8,974,387</u>	<u>2,026,995</u>	<u>3,036,273</u>	<u>5,063,268</u>
Net assets, end of year	<u>\$7,192,669</u>	<u>\$1,084,560</u>	<u>\$8,277,229</u>	<u>\$4,807,273</u>	<u>\$4,167,114</u>	<u>\$8,974,387</u>

The notes to the financial statements are an integral part of these financial statements.

LAWRENCE HUMANE SOCIETY, INC.

Statements of Functional Expenses
Years Ended December 31,

	2019				2018			
	Program Services	Supporting Services	Fundraising	Total	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 737,444	\$ 111,287	\$ 153,731	\$1,002,462	\$ 686,901	\$ 154,017	\$ 89,810	\$ 930,728
Payroll taxes and benefits	89,236	84,972	14,012	188,220	77,279	44,871	9,216	131,366
Allowance for doubtful accounts	39,136			39,136				
Bank fees	4	20,765	1,545	22,314	11	34,274	2,503	36,788
Computer and technology		12,127		12,127		8,639		8,639
Depreciation	158,149	17,572		175,721	65,297	7,255		72,552
Dues and subscriptions		4,609		4,609	798	4,799	270	5,867
Event expenses			59,643	59,643	45		55,453	55,498
Insurance	13,115	1,457		14,572	14,793	1,644		16,437
Interest	27,292	3,032		30,324				
Legal and professional		69,460	11,610	81,070		49,918	16,148	66,066
Maintenance and repairs	28,467	5,040		33,507	40,052	703		40,755
Marketing	14,012	5,080	68,354	87,446	13,735	13,007	70,519	97,261
Miscellaneous	2,105	1,281	302	3,688	1,728	2,309	19	4,056
Office expenses		607		607		40		40
Postage and shipping	156	677	1,744	2,577	278	689	2,797	3,764
Sales and use tax		355		355		414		414
Supplies:								
General	779	34,016	826	35,621	439	21,726	823	22,988
Animal care	95,419	2,060	10,884	108,363	113,871	380	13,616	127,867
Medical program	122,743		167	122,910	134,289	209		134,498
Travel	1,853	8,214	52	10,119	59	3,526		3,585
Utilities	92,668	10,297		102,965	76,382	8,487		84,869
Volunteer and education program	2,986			2,986	3,822			3,822
Waste disposal	<u>6,512</u>			<u>6,512</u>	<u>6,035</u>			<u>6,035</u>
 Total expenses	 <u>\$1,432,076</u>	 <u>\$ 392,908</u>	 <u>\$ 322,870</u>	 <u>\$2,147,854</u>	 <u>\$1,235,814</u>	 <u>\$ 356,907</u>	 <u>\$ 261,174</u>	 <u>\$1,853,895</u>

The notes to the financial statements are an integral part of these financial statements.

LAWRENCE HUMANE SOCIETY, INC.

Statements of Cash Flows
Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (697,158)	\$3,911,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	175,721	72,552
Retirement of building	1,141,631	
Change in beneficial interest	532,246	903,972
Change in allowance for uncollectible pledges receivable	39,136	
Donated fixed assets	(21,796)	
Changes in assets and liabilities:		
Accounts receivable	685	75,350
Pledges receivable	1,948,306	(2,203,768)
Prepaid expenses	(5,504)	6,503
Accounts payable	79,364	(37,169)
Payroll liabilities	1,984	6,960
Deferred revenue	30,000	
Net cash provided by operating activities	<u>3,224,615</u>	<u>2,735,519</u>
Cash flows from investing activities:		
Purchase of fixed assets	(4,182,284)	(2,998,345)
Net cash used in investing activities	<u>(4,182,284)</u>	<u>(2,998,345)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(77,246)	
Proceeds from issuance of long-term debt	<u>1,331,024</u>	_____
Net cash provided by financing activities	<u>1,253,778</u>	_____ -
Net change in cash and cash equivalents	296,109	(262,826)
Cash and cash equivalents, beginning of year	<u>315,111</u>	<u>577,937</u>
Cash and cash equivalents, end of year	\$ <u>611,220</u>	\$ <u>315,111</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ <u>30,324</u>	\$ _____ -

The notes to the financial statements are an integral part of these financial statements.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Lawrence Humane Society, Inc. (the Organization) was incorporated as a 501(c)(3) organization under the laws of the state of Kansas on March 22, 1951. The Organization provides shelter, care, and advocacy to stray, homeless, and abused animals and nurtures the human-animal bond.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Financial Statement Presentation

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. Net assets and revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets are recognized as revenue when the assets are placed in service. 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.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restriction. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts held at commercial banks.

Pledges Receivable and Allowance for Uncollectible Pledges

Pledges receivable are valued at their estimated collectible amounts. The Organization uses estimates in computing the allowance for doubtful accounts. No interest accrues on past due pledges. Accounts are written off when deemed uncollectible.

Beneficial Interest in Assets Held by Others

The Organization has monies held in an organization-advised fund at the Douglas County Community Foundation (DCCF). The Organization appoints a committee to recommend distributions from the fund – subject to DCCF’s Board of Directors’ final approval – for the primary purpose of providing grants to support the activities and operations of the Organization. Principal and accumulated earnings of the fund above the endowed amount of \$15,000 may be distributed for purposes consistent with the exempt status and purposes of DCCF. The fund is pooled with other funds held by DCCF and invested in various financial assets. Income received from pooled assets is allocated to the various funds calculated on the value of the entire pool.

Fixed Assets

All acquisitions of fixed assets and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (5 to 39 years). Expenditures for routine maintenance and repairs are charged to expense as incurred. Management annually reviews fixed assets to determine whether carrying values have been impaired.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Organization follows the accounting standards for uncertain tax positions. The Organization’s policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Fair Value Measurement

Fair value is defined as the amount that would be received to sell an asset in an orderly transaction between market participants. Fair value is determined using various inputs. These inputs are assumptions that market participants would use in pricing an asset, which are not always observable in the marketplace. When available, quoted market prices in an active market for identical assets (Level 1 inputs) are used to determine fair value. If quoted market prices are not available, valuation techniques are used that place greater reliance on other observable factors (Level 2 inputs) and unobservable factors (Level 3 inputs).

The classification of a financial asset within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by management. The categorization of a financial asset within the hierarchy is based upon the pricing transparency of that asset and does not necessarily correspond to management’s perceived risk of that asset.

The fair value of beneficial interests in assets held by others represents the Organization’s rights to future cash flows from assets held by the DCCF for the Organization’s benefit. The Organization uses its proportional share of the pooled assets as reported by DCCF to determine the fair value of beneficial interests. Beneficial interests in assets held by others are classified as Level 3.

Pledges receivable are valued at the present value of estimated future cash flows on the measurement date and are classified as a Level 3 input in the fair value hierarchy.

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 Organization believes the 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 and the presence or absence of a ready market could result in a different estimate of fair value at the reporting date.

Contributions

Contributions are recognized when the donor makes a promise to give to Lawrence Humane Society, Inc. that is, in substance, unconditional. Contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

In-Kind Donations

The Organization received donated professional services and donated shelter food of \$55,537 and \$57,432 for the years ended December 31, 2019 and 2018. Such amounts, which are based upon information provided by third-party providers, are recorded at their estimated fair value determined on the date of contribution and are reported as in-kind donations on the statements of activities and included in event expenses and animal care in the statements of functional expenses.

In addition, the Organization received donated fixed assets with a fair value of \$21,796 in 2019.

Contracts and Grants

Income from contracts and grants is recognized during the period the support is intended to cover. Prepayments are recorded as deferred revenue, while payments not yet received, but for which a commitment and fund availability has been established, are accrued as receivable.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, and payroll taxes which are allocated on the basis of estimates of direct service hours.

Advertising

Advertising expense is charged to operations in the year incurred. Advertising expense totaled \$3,386 and \$968 in 2019 and 2018.

Reclassifications

Certain accounts in the 2018 financial statements have been reclassified to conform with the current year financial statement presentation.

2. Cash and Equivalents

The Organization maintains cash and interest-bearing deposits in various high-quality financial institutions. The balances are insured by the Federal Deposit Insurance Corporation; however, balances may occasionally exceed federally insured limits.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

3. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 611,220	\$ 315,111
Accounts receivable	7,421	8,106
Capital campaign pledges receivable	1,066,887	3,054,329
Beneficial interest in assets held by others	<u>664,831</u>	<u>1,197,077</u>
Total financial assets	2,350,359	4,574,623
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(1,084,560)</u>	<u>(4,167,114)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$1,265,799</u>	<u>\$ 407,509</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in a money market account.

4. Fair Value Measurements

The following table provides a summary of changes in the fair value measurements of Level 3 assets, which consist of pledges receivable and beneficial interest in assets held by others, for the year ending December 31:

	<u>2019</u>	<u>2018</u>
Fair value beginning balance	\$4,251,406	\$2,951,610
Investment income	46,453	5,917
Contributions	1,079,753	3,995,558
Pledge payments received, net	(1,992,713)	
Expenditures	<u>(1,653,181)</u>	<u>(2,701,679)</u>
Fair value ending balance	<u>\$1,731,718</u>	<u>\$4,251,406</u>

Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2019.

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

5. Compensated Absences

The Organization provides for sick and vacation leave. Full time employees are entitled to five days of vacation leave during the first year of employment. In the second to fourth year of employment, full time employees are entitled to ten vacation days each year, with a maximum accrual of 21 days. In the fifth to ninth year, full time employees are entitled to 15 days each year, with a maximum accrual of 25 days. After the ninth year, full time employees are entitled to 25 vacation days each year, with a maximum accrual of 31 days. All accrued and unused vacation time is paid at the end of employment.

Sick leave is accrued at ten days per year for the regular full-time staff, with a maximum of 260 hours. All accrued and unused sick leave is not paid at the end of employment.

6. Long-Term Debt

The long-term note payable to bank bears interest at 4.524% and requires monthly payments of principal and interest to be paid through the maturity date of May 2024.

The aggregate maturities of long-term debt are as follows:

Years ending December 31,	
2020	\$ 103,778
2021	250,000
2022	250,000
2023	250,000
2024	<u>400,000</u>
	<u>\$1,253,778</u>

As campaign pledges are received, those payments are applied to reduce the outstanding debt.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose or period:		
Facility construction	\$1,070,825	\$4,144,588
Other purpose restrictions	<u>13,735</u>	<u>22,526</u>
Total net assets with donor restrictions	<u>\$1,084,560</u>	<u>\$4,167,114</u>

LAWRENCE HUMANE SOCIETY, INC.

Notes to Financial Statements December 31, 2019 and 2018

8. Operating Leases

The Organization leases office equipment from unrelated parties under operating leases expiring in February 2021. Rental payments associated with operating leases are charged to expenses as incurred. Rental expense under these operating leases were \$7,188 in both 2019 and 2018. Minimum future lease payments under noncancelable operating leases with terms in excess of one year are as follows:

Years ending December 31,	
2020	\$ 7,188
2021	<u>1,198</u>
	<u>\$ 8,386</u>

9. Economic Dependence

The Organization receives a substantial amount of its support from local governments. A significant reduction in the level of this support, if this were to occur, would have an effect on the Organization's programs and activities.

10. Risk Management

The Organization is exposed to various risks of loss related to limited torts; thefts of, damage to, and destruction of assets; errors and omissions and natural disasters. The Organization carries commercial insurance and has not incurred any losses in the past three years.

11. Subsequent Events

The Organization has evaluated subsequent events through September 17, 2020, the date the financial statements were available to be issued. As a result of the significant disruption in business from the outbreak of the COVID-19 coronavirus in the United States, management believes future operations could be negatively impacted. While the disruption is currently expected to be temporary, there is considerable uncertainty around the length and financial impact of the disruption, and the effects cannot be reasonably estimated at this time.