

# 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, 2020 and 2019, 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, 2020 and 2019, 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.*

November 10, 2021  
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**LAWRENCE HUMANE SOCIETY, INC.**

Statements of Financial Position  
December 31,

Assets

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 527,382	\$ 611,220
Accounts receivable	24,539	7,421
Prepaid expenses	<u>14,864</u>	<u>26,333</u>
Total current assets	<u>566,785</u>	<u>644,974</u>
Long-term unconditional promises to give:		
Capital campaign pledges receivable	<u>656,448</u>	<u>1,066,887</u>
Fixed assets:		
Property, plant and equipment	7,667,970	7,528,382
Construction in progress		6,885
Accumulated depreciation	<u>(468,888)</u>	<u>(180,136)</u>
Total fixed assets	<u>7,199,082</u>	<u>7,355,131</u>
Other assets:		
Beneficial interest in assets held by others	<u>1,423,530</u>	<u>664,831</u>
Total assets	<u>\$9,845,845</u>	<u>\$9,731,823</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 60,457	\$ 130,848
Accrued payroll and liabilities	36,292	39,968
Deferred revenue		30,000
Current portion of long-term debt	<u>362,582</u>	<u>103,778</u>
Total current liabilities	459,331	304,594
Long-term liabilities:		
Paycheck Protection Program loan	226,200	
Long-term debt		<u>1,150,000</u>
Total liabilities	<u>685,531</u>	<u>1,454,594</u>
Net assets:		
Without donor restrictions	8,438,248	7,192,669
With donor restrictions	<u>722,066</u>	<u>1,084,560</u>
Total net assets	<u>9,160,314</u>	<u>8,277,229</u>
Total liabilities and net assets	<u>\$9,845,845</u>	<u>\$9,731,823</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,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:						
Program fees	\$ 453,568	\$ -	\$ 453,568	\$ 383,039	\$ -	\$ 383,039
Contracts	411,280		411,280	409,280		409,280
Contributions	1,981,034		1,981,034	1,196,935	231,272	1,428,207
Grants	26,608	138,205	164,813	29,865		29,865
In-kind donations	39,784		39,784	77,333		77,333
Fundraising events	151,958		151,958	214,852		214,852
Investment income:						
Interest income	6,055		6,055	6,129	306	6,435
Realized gain (loss) on investments	6,867		6,867	(206)	(35)	(241)
Unrealized gain on investments	39,648		39,648	38,145	2,703	40,848
Miscellaneous	180		180	2,709		2,709
Net assets released from restriction	<u>500,699</u>	<u>(500,699)</u>		<u>3,316,800</u>	<u>(3,316,800)</u>	
Total revenues, gains and other support	<u>3,617,681</u>	<u>(362,494)</u>	<u>3,255,187</u>	<u>5,674,881</u>	<u>(3,082,554)</u>	<u>2,592,327</u>
Expenses:						
Program services	1,726,862		1,726,862	1,432,076		1,432,076
Supporting services	397,199		397,199	392,908		392,908
Fundraising	<u>248,041</u>		<u>248,041</u>	<u>322,870</u>		<u>322,870</u>
Total expenses	<u>2,372,102</u>	<u>-</u>	<u>2,372,102</u>	<u>2,147,854</u>	<u>-</u>	<u>2,147,854</u>
Other expense:						
Retirement of building				(1,141,631)		(1,141,631)
Total other expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,141,631)</u>	<u>-</u>	<u>(1,141,631)</u>
Change in net assets	1,245,579	(362,494)	883,085	2,385,396	(3,082,554)	(697,158)
Net assets, beginning 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>
Net assets, end of year	<u>\$8,438,248</u>	<u>\$ 722,066</u>	<u>\$9,160,314</u>	<u>\$7,192,669</u>	<u>\$1,084,560</u>	<u>\$8,277,229</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,

	2020				2019			
	Program Services	Supporting Services	Fundraising	Total	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 837,726	\$ 151,156	\$ 144,066	\$1,132,948	\$ 737,444	\$ 111,287	\$ 153,731	\$1,002,462
Payroll taxes and benefits	98,496	41,309	11,206	151,011	89,236	84,972	14,012	188,220
Allowance for doubtful accounts	4,895			4,895	39,136			39,136
Bank fees	54	24,150	1,725	25,929	4	20,765	1,545	22,314
Computer and technology		9,939	1,640	11,579		12,127		12,127
Depreciation	259,877	28,875		288,752	158,149	17,572		175,721
Dues and subscriptions		6,366	3,580	9,946		4,609		4,609
Event expenses			14,843	14,843			59,643	59,643
Insurance	17,454	1,939		19,393	13,115	1,457		14,572
Interest	38,829	4,314		43,143	27,292	3,032		30,324
Legal and professional		78,633		78,633		69,460	11,610	81,070
Maintenance and repairs	58,152	136		58,288	28,467	5,040		33,507
Marketing	15,368	1,649	53,878	70,895	14,012	5,080	68,354	87,446
Miscellaneous	4,501	(2,127)	(100)	2,274	2,105	1,281	302	3,688
Office expenses		48	23	71		607		607
Postage and shipping	220	598	4,024	4,842	156	677	1,744	2,577
Sales and use tax		219		219		355		355
Supplies:								
General	259	34,969	955	36,183	779	34,016	826	35,621
Animal care	142,227	2,267	12,158	156,652	95,419	2,060	10,884	108,363
Medical program	149,873			149,873	122,743		167	122,910
Travel	7	2,786	43	2,836	1,853	8,214	52	10,119
Utilities	89,752	9,973		99,725	92,668	10,297		102,965
Volunteer and education program	1,755			1,755	2,986			2,986
Waste disposal	5,830			5,830	6,512			6,512
COVID	<u>1,587</u>	<u>          </u>	<u>          </u>	<u>1,587</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total expenses</b>	<b><u>\$1,726,862</u></b>	<b><u>\$ 397,199</u></b>	<b><u>\$ 248,041</u></b>	<b><u>\$2,372,102</u></b>	<b><u>\$1,432,076</u></b>	<b><u>\$ 392,908</u></b>	<b><u>\$ 322,870</u></b>	<b><u>\$2,147,854</u></b>

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>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 883,085	\$ (697,158)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	288,752	175,721
Retirement of building		1,141,631
Change in beneficial interest	(758,699)	532,246
Allowance for uncollectible pledges receivable	4,895	39,136
Donated fixed assets		(21,796)
Changes in assets and liabilities:		
Accounts receivable	(17,118)	685
Prepaid expenses	11,469	(5,504)
Pledges receivable	405,544	1,948,306
Accounts payable	(70,391)	79,364
Accrued payroll and liabilities	(3,676)	1,984
Deferred revenue	<u>(30,000)</u>	<u>30,000</u>
Net cash provided by operating activities	<u>713,861</u>	<u>3,224,615</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(132,703)</u>	<u>(4,182,284)</u>
Net cash used in investing activities	<u>(132,703)</u>	<u>(4,182,284)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(891,196)	(77,246)
Proceeds from issuance of long-term debt		1,331,024
Proceeds from Paycheck Protection Program loan	<u>226,200</u>	
Net cash (used in) provided by financing activities	<u>(664,996)</u>	<u>1,253,778</u>
Net change in cash and cash equivalents	(83,838)	296,109
Cash and cash equivalents, beginning of year	<u>611,220</u>	<u>315,111</u>
Cash and cash equivalents, end of year	\$ <u>527,382</u>	\$ <u>611,220</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ <u>43,143</u>	\$ <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, 2020 and 2019

### 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 (GAAP).

#### Basis of 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, 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.

#### Cash and Cash Equivalents

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

# LAWRENCE HUMANE SOCIETY, INC.

## Notes to Financial Statements December 31, 2020 and 2019

### 1. Summary of Significant Accounting Policies (Continued)

#### 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.

Investment securities held by DCCF are exposed to various risks, such as interest rate, market fluctuation, and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term, including the macroeconomic impact of COVID-19, and such changes could materially affect those investments and the amounts reported in the statements of financial position.

#### 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, 2020 and 2019

### 1. Summary of Significant Accounting Policies (Continued)

#### Fair Value Measurement

Assets recorded at fair value are categorized based upon the level of observability associated with the inputs used to measure their fair value. Fair value is defined as the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The availability of observable inputs is affected by a variety of factors, including the type of asset and the transparency of market transactions. To the extent that fair value is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date.

Level 2 – Inputs are other than quoted prices in active markets that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs are unobservable and significant to the asset and include situations where there is little, if any, market activity.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants used to make valuation decisions, including assumptions about risk. Inputs may include market price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. 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. Management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of a fund within the hierarchy is based upon the pricing transparency of that fund and does not necessarily correspond to management’s perceived risk of that fund.

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 the beneficial interest. Beneficial interests in assets held by other 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.

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.

# LAWRENCE HUMANE SOCIETY, INC.

## Notes to Financial Statements December 31, 2020 and 2019

### 1. Summary of Significant Accounting Policies (Continued)

#### Revenue Recognition

Program fee revenue relates to admissions and adoptions of animals as well as retail sales of pet related products. Fees are recognized at the point in time when the performance obligation of receiving animals or placing them in a home through adoption are met.

Contract revenue relates to written agreements with each of the municipalities for which the Organization provides animal sheltering services. Income from each contract is recognized during the period the support is intended to cover. Prepayments are recorded as deferred revenue.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend on have been substantially met.

Revenue from 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.

Fundraising event revenue is recognized at the point in time when the related event occurs.

In-kind donations consist of donated professional services and donated shelter food of \$39,784 and \$55,537 for the years ended December 31, 2020 and 2019. 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.

#### 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 \$12,303 and \$3,386 in 2020 and 2019.

# LAWRENCE HUMANE SOCIETY, INC.

## Notes to Financial Statements December 31, 2020 and 2019

### 1. **Summary of Significant Accounting Policies** (Continued)

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

#### Accounting Pronouncements

On January 1, 2020, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, ASC 606), which creates a single framework for recognizing revenue from contracts with customers that fall within its scope. Recognition of contributions and bequests is not included in the guidance under the ASU. The Organization adopted ASC 606 using the modified retrospective method of adoption. Adoption of the new standard resulted in no substantial changes to accounting policies previously described; in addition, no adjustments to beginning net assets were necessary.

In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modified the disclosure requirements on fair value measurements in ASC 820. The Organization adopted ASU 2018-13 on January 1, 2020. Adoption of the new standard did not have a material impact on the Organization's financial statements.

### 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, 2020 and 2019

#### 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>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 527,382	\$ 611,220
Accounts receivable	24,539	7,421
Capital campaign pledges receivable	656,448	1,066,887
Beneficial interest in assets held by others	<u>1,423,530</u>	<u>664,831</u>
Total financial assets	2,631,899	2,350,359
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(722,066)</u>	<u>(1,084,560)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$1,909,833</u>	<u>\$1,265,799</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>2020</u>	<u>2019</u>
Fair value beginning balance	\$1,731,718	\$4,251,406
Investment income	53,998	46,453
Contributions	1,015,940	1,079,753
Pledge payments received, net	(410,439)	(1,992,713)
Expenditures	<u>(311,239)</u>	<u>(1,653,181)</u>
Fair value ending balance	<u>\$2,079,978</u>	<u>\$1,731,718</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, 2020.

# LAWRENCE HUMANE SOCIETY, INC.

## Notes to Financial Statements December 31, 2020 and 2019

### 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, 2021	\$ <u>362,582</u>
	\$ <u>362,582</u>

As campaign pledges are received, those payments are applied to reduce the outstanding debt. The remaining balance of the loan was paid off subsequent to year-end.

#### Paycheck Protection Program

On April 16, 2020, the Organization obtained a loan in the amount of \$226,200, with interest of 1.00%, pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020. If the loan proceeds are fully utilized to pay qualified expenses over the covered period, as further defined by the PPP, the full principal amount of the PPP loan may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the Organization during the covered period as compared to a baseline period. The Organization elected to account for the loan as debt. The loan will remain a liability until it is either forgiven by the SBA or the Organization pays off the loan.

The Organization received official forgiveness of the full balance of the loan on January 27, 2021. The amount of the loan will be recognized as income on the 2021 financial statements.

## LAWRENCE HUMANE SOCIETY, INC.

### Notes to Financial Statements December 31, 2020 and 2019

#### 7. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose or period:		
Facility construction	\$ 656,448	\$1,070,825
Other purpose restrictions	<u>65,618</u>	<u>13,735</u>
Total net assets with donor restrictions	<u>\$ 722,066</u>	<u>\$1,084,560</u>

#### 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 2020 and 2019. Minimum future lease payments under noncancelable operating leases with terms in excess of one year are as follows:

Years ending December 31, 2021	\$ <u>1,198</u>
	\$ <u>1,198</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. Uncertainty

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.

#### 12. Subsequent Events

The Organization has evaluated subsequent events through November 10, 2021, the date the financial statements were available to be issued.