

ASSOCIATED HUMANE SOCIETIES, INC.

June 30, 2019



ASSOCIATED HUMANE SOCIETIES, INC.

For the Year Ended June 30, 2019

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Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

To the Board of Directors
Associated Humane Societies, Inc.
Newark, New Jersey

We have audited the accompanying financial statements of Associated Humane Societies, Inc. (a non-profit organization) which comprise the Statement of Financial Position as of June 30, 2019, and the related Statement of Activities, Functional Expenses, and Cash Flows for the year 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.

Auditors' Responsibility

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

Change in Accounting Principle

In 2018, the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities*, became effective. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Humane Societies, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



BKC, CPAs, PC

January 23, 2020
Flemington, New Jersey

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Financial Position
June 30, 2019

ASSETS

Current assets	
Cash	\$ 567,362
Accounts receivable, net of allowance for doubtful accounts of \$5,000	374,500
Inventory	165,042
Prepaid expenses	48,623
Investments	3,555,498
Certificates of deposit	22,160
Receivables from estates	1,091,061
Property held for resale	260,000
Total current assets	6,084,246
Property and equipment, net of accumulated depreciation of \$9,707,042	1,385,163
Total assets	\$ 7,469,409

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 78,148
Accrued liabilities	275,657
Note payable - current maturities	2,518
Total liabilities all current	356,323
Net assets	
Without donor restrictions	7,113,086
Total liabilities and net assets	\$ 7,469,409

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 1,215,988	\$ -	\$ 1,215,988
Legacies and bequests	3,571,856	-	3,571,856
Special events	395,115	-	395,115
Program service revenue	3,411,967	-	3,411,967
Merchandise sales	91,101	-	91,101
Net assets released from restrictions	5,770	(5,770)	-
Total public support, revenue and reclassifications	8,691,797	(5,770)	8,686,027
Expenses			
Program services	7,283,638	-	7,283,638
Management and general expenses	1,380,716	-	1,380,716
Fundraising	391,719	-	391,719
Total expenses	9,056,073	-	9,056,073
Non-operating activities			
Unrealized gain on investments	53,569	-	53,569
Realized gain on sale of investments	145,338	-	145,338
Interest and dividend income	106,923	-	106,923
Investment fees	(24,524)	-	(24,524)
Interest expense	(830)	-	(830)
Program fees	520	-	520
Rental income	15,082	-	15,082
Total non-operating income	296,078	-	296,078
Change in net assets	(68,198)	(5,770)	(73,968)
Net assets - beginning of year	7,181,284	5,770	\$7,187,054
Net assets - end of year	\$ 7,113,086	\$ -	\$ 7,113,086

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 3,316,197	\$ 901,930	\$ 31,249	\$ 4,249,376
Payroll taxes and fringe benefits	675,120	183,617	6,362	865,099
Total salaries and related expenses	<u>3,991,317</u>	<u>1,085,547</u>	<u>37,611</u>	<u>5,114,475</u>
Animal food, supplies, and drugs	1,143,326	6,467	10,995	1,160,788
Animal care services	374,005	-	-	374,005
Automotive costs	39,111	2,720	750	42,581
Bank and credit card fees	36,567	-	4,014	40,581
Computer expense	7,574	5,262	-	12,836
Depreciation	255,385	-	-	255,385
Dues and subscriptions	528	2,812	-	3,340
Equipment rental	20,599	37,339	883	58,821
Insurance	576,029	-	-	576,029
License and permits	6,025	1,688	852	8,565
Media advertising	3,600	1,987	22,125	27,712
Occupancy	490,671	8,300	236	499,207
Postage and shipping	-	10,612	62,513	73,125
Printing	3,423	2,194	108,435	114,052
Professional fees				
Computer and website	-	25,092	65,415	90,507
Audit and accounting	-	55,810	-	55,810
Legal	27,409	56,471	-	83,880
Other	1,732	-	-	1,732
Promotional materials	92	-	48,890	48,982
Repairs and maintenance	206,186	49,632	-	255,818
Office supplies	41,244	16,698	28,927	86,869
Telephone	58,815	12,085	73	70,973
Total	<u>\$ 7,283,638</u>	<u>\$ 1,380,716</u>	<u>\$ 391,719</u>	<u>\$ 9,056,073</u>

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ (73,968)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	255,385
Donation of land for resale	(260,000)
Realized gain on sale of investments	(145,338)
Unrealized gain on investments	(53,569)
Reinvested interest and dividends	(81,919)
(Increase) decrease in assets	
Accounts receivable	70,054
Inventory	117,032
Prepaid expenses	17,320
Receivables from estates	(277,485)
Increase (decrease) in liabilities	
Accounts payable	(40,796)
Accrued liabilities	10,256
Total adjustments	<u>(389,060)</u>
Net cash used in operating activities	<u>(463,028)</u>
 Cash flows from investing activities	
Purchase of property and equipment	(128,816)
Transfers to investment account	(2,095,968)
Transfers from investment account	3,149,255
Net cash provided by investing activities	<u>924,471</u>
 Cash flows from financing activities	
Principal payments on note payable	(15,684)
Net cash used in financing activities	<u>(15,684)</u>
 Net increase in cash	445,759
 Cash - beginning of year	<u>121,603</u>
 Cash - end of year	<u><u>\$ 567,362</u></u>

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

Nature of activities

Associated Humane Societies, Inc. (the Organization) is a non-profit organization, established in 1906. The primary objective of the Organization is the prevention of cruelty to animals throughout the United States, and specifically, the State of New Jersey. The Organization advances humane treatment of animals by providing public awareness regarding proper care and treatment of animals. It also maintains animal care centers, medical/surgical facilities and ambulance services to provide medical needs to animals in the local communities. Associated Humane Societies, Inc. has two shelters and a zoo that houses pets, wildlife, farm and exotic animals, all having been rescued. Some animals are permanent residents, while many others are available for adoption.

The Organization provides animal control services to towns throughout the State of New Jersey as well as county parks, highways and other areas by contract through state, county and local municipalities. The services include pick-up and/or rescue of owned, abandoned, trapped or sick animals and wildlife.

Financial presentation

The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities*, for the year ended June 30, 2019. This ASU updated the presentation of the Organization's financial statements and disclosures.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net Assets without donor restriction - net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets with donor restriction - net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Cash

The Organization considers all highly liquid investment instruments with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of animal medications, supplies, and novelty items and is valued at the lower of cost (first-in, first-out) or net realizable value.

Property and equipment

Property and equipment are stated at cost and depreciated over the estimated useful life of each asset. Depreciation is provided by use of the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Building and leasehold improvements	5 - 39 years
Furniture and equipment	5 - 10 years
Transportation equipment	5 years

Additions and improvements, which extend the useful lives of the respective assets, are charged to asset accounts and are depreciated accordingly, while general repairs and maintenance are expensed as incurred. The Organization has no formal capitalization policy. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are included in the changes in net assets.

Revenue recognition

Revenues are reported as increases in net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets unless their use is restricted by donor stipulation or law.

Contributions

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are reported as support in the period the unconditional promise is given. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Contributions

Gifts of cash and other noncapital assets are recorded as support increasing either net assets without donor restrictions or net assets with donor restrictions, depending on the existence of any donor restrictions. Time and purposed restricted contributions are reported as donor-restricted support and are then reclassified to net assets without donor restrictions upon expiration of the time restriction or fulfillment of purpose restriction.

Gifts in kind

Land held for sale is recorded as in-kind donations and included in the legacies and bequests revenue. During the year ended June 30, 2019, two parcels of land were bequeathed to the Organization, and are reported at fair market value based on real estate tax assessments for each respective parcel.

Contributed services

Unpaid volunteers contribute their time to forward the Organization's program services. No amounts for donated services have been included in these statements, as they do not meet the criteria for recognition.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and services benefited. Functional expenses are calculated by specific identification and allocation based on management's judgment.

Advertising expenses

All advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2019 was \$27,712.

Retirement plan

The Organization maintains a defined contribution profit-sharing plan covering substantially all full-time employees. Contributions to the plan are discretionary and are determined annually by the Board of Directors. Profit-sharing plan expense for the year ended June 30, 2019 was \$25,000.

Note 2 - Income taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) and similar state provisions. The Organization is further classified as an entity that is not a private foundation under Section 509(a)(3) of the Code.

The most significant tax positions of the Organization are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to Unrelated Business Income Tax (UBIT).

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 2 - Income taxes (continued)

The Organization follows the guidance of FASB's Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertain income taxes which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken on a tax return.

The Organization Files a Federal Form 990 Return of Organization Exempt from Tax, annually with the Internal Revenue Service, as well as a State equivalent filing. Both Filings are subject to audit by the appropriate authority. The Organization's information returns before 2015 are no longer subject to examination by Federal or New Jersey authorities, due to the statute of limitations.

The Organization files an income tax return for its operations at Popcorn Park Zoo, which management has determined qualifies as Unrelated Business Taxable Income (UBIT). The return for the year ended June 30, 2019, shows a cumulative net operating loss carryforward of \$1,084,271. These loss carryforward amounts begin to expire in 2031. These losses create a deferred tax asset of \$433,708. Because of the more likely than not assessment that these net operating losses will not be used, an allowance equal to the amount of the deferred tax asset has been recorded.

Management has determined that it is more likely than not, that all tax positions would be sustained upon examination by taxing authorities.

Note 3 - Concentrations

Cash

The Organization maintains its cash balances in several financial institutions, which are insured by the Federal Deposit Insurance Corporation. As of June 30, 2019, the Organization had approximately \$203,000 of uninsured cash and equivalents.

Revenue and accounts receivable

The Organization maintained animal control service contracts with certain townships whose revenue individually represented 10% or more of the Organization's total township revenue, or whose accounts receivable balances individually represented 10% or more of the Organization's accounts receivable.

For the year ended June 30, 2019, one township represented 31% of total township revenue, and two townships accounted for nearly 48% of township service receivables.

Note 4 - Accounts receivable

Accounts receivable consists of amounts owed to the Organization for services provided through yearly contracts with local governments. An allowance for uncollectible receivables is provided based upon management's judgment and prior collection history.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 5 - Property and equipment
Property and equipment at June 30, 2019 consist of the following:

Land	\$ 249,421
Buildings and leasehold improvements	7,950,130
Furniture and equipment	1,863,401
Transportation equipment	1,029,253
Total property and equipment	11,092,205
Less: accumulated depreciation	9,707,042
Property and equipment, net	\$ 1,385,163

Depreciation expense for the year ended June 30, 2019 was \$255,385.

Note 6 - Investments
Investments are reported at fair value and included as a component of net assets. The specific identification method is used to determine realized gains and losses. Interest and dividends earned on the investments for the year ended June 30, 2019 totaled \$106,923.

Unrealized gains and losses are reported as a separate component of non-operating income.

Note 7 - Fair value measurements
The Organization applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The following table presents assets that are measured at fair value on a recurring basis at June 30, 2019:

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 7 - Fair value measurements (continued)

	Fair Value Measurement at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 396,578	\$ -	\$ -
Equities	1,757,340	-	-
Fixed income	1,401,580	-	-
Total investments	\$ 3,555,498	\$ -	\$ -

Note 8 - Receivables from estates

The Organization records bequests receivable when notification has been received that they are named as a beneficiary in a will for which the amount to be received has been made known or an estimate has been provided by the executor of the estate. If the donor has designated that the proceeds be used for a specific purpose, the funds are recorded as temporarily restricted net assets.

Note 9 - Operating leases

The Organization leases various office equipment under non-cancelable operating leases with expiration dates from October 2020 to January 2023. Rent is paid monthly. Rent expense for the year ended June 30, 2019 was \$44,004.

The future minimum operating rental payments in excess of one year are as follows:

2020	\$	42,768
2021		29,344
2022		11,040
2023		3,059

Note 10 - Note payable

Note payable to a finance company calling for monthly payments of \$1,270, including interest at 6.9% through September 2019, secured by the office equipment purchased.

Total long-term debt	\$	2,518
Less: current maturities of long-term debt		2,518
Long-term debt, net of current maturities	\$	-

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 11 - Availability of financial assets

The following reflects the Organization's financial assets as of the balance sheet date:

Cash and cash equivalents	\$ 567,362
Accounts receivable	375,985
Bequests receivable	1,091,061
Investments	<u>3,577,658</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,612,066</u>

As part of the Organization's liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 12 - Prior period adjustment

The net assets without donor restrictions has been adjusted for \$129,974 as a result of an overstatement of prepaid insurance, and Accounting Standards Update 2016-14

	Previously Reported	Restatements	Restated Net Assets
Unrestricted net assets	\$ 7,311,258	\$ (7,311,258)	\$ -
Net assets without donor restrictions	-	7,181,284	7,181,284
Prepaid insurance	195,917	(129,974)	65,943

Note 13 - Supplemental cash flow information

Cash payments for interest for the year ended June 30, 2019 was \$830.

Noncash investing and financing activities for the year ended June 30, 2019, were as follows:

Proceeds from sale of investments	\$ 962,330
Purchase of investments	(963,476)

Note 14 - Change in accounting standards

ASU 2014-09: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This ASU, as modified by ASU 2015-14 changes the timing of recording revenue for services performed. This ASU will be effective to the Organization in the year ending June 30, 2020. Management has not completed its assessment of the impact of this change.

ASU 2016-02: FASB issued ASU 2016-02, *Leases*. This ASU recognizes as a liability, non-cancellable leases. The liability is offset by an amortizable asset called a right to use. This ASU will be effective to the Organization in the year ending June 30, 2021. Management has not completed its assessment of the impact of this change.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 15 - Subsequent events

The Organization's management has determined that no material events or transactions have occurred subsequent to June 30, 2019 and through January 23, 2020, the date of the Organization's financial statement issuance, which requires additional disclosure in the Organization's financial statements.