

ASSOCIATED HUMANE SOCIETIES, INC.

June 30, 2018



ASSOCIATED HUMANE SOCIETIES, INC.

For the Year Ended June 30, 2018

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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, 2018, 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.

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, 2018, 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 3, 2019
Flemington, New Jersey

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Financial Position
June 30, 2018

ASSETS

Current assets	
Cash	\$ 121,603
Accounts receivable, net of allowance for doubtful accounts of \$5,000	444,554
Inventory	282,074
Prepaid expenses	195,917
Total current assets	1,044,148
Property and equipment, net of accumulated depreciation of \$9,451,658	1,511,731
Other assets	
Investments	4,327,959
Certificates of deposit	22,160
Receivables from estates	813,576
Total other assets	5,163,695
Total assets	\$ 7,719,574

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 118,944
Accrued liabilities	265,402
Note payable - current portion	14,433
Total current liabilities	398,779
Long-term liabilities	
Note payable - net of current portion	3,767
Total liabilities	402,546
Net assets	
Unrestricted	7,311,258
Temporarily restricted	5,770
Total net assets	7,317,028
Total liabilities and net assets	\$ 7,719,574

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Activities
For the Year Ended June 30, 2018

	Unrestricted	Temporarily restricted	Total
Revenue			
Contributions	\$ 1,283,243	\$ -	\$ 1,283,243
Grants	24,700	-	24,700
Legacies and bequests	2,011,538	-	2,011,538
Special events	359,225	-	359,225
Program service revenue	3,675,754	-	3,675,754
Merchandise sales	97,056	-	97,056
Total public support, revenue and reclassifications	7,451,516	-	7,451,516
Expenses			
Program services	6,899,458	-	6,899,458
Management and general expenses	1,669,723	-	1,669,723
Fundraising	360,399	-	360,399
Total expenses	8,929,580	-	8,929,580
Non-operating activities			
Unrealized gain on investments	50,286	-	50,286
Realized gain on sale of investments	93,474	-	93,474
Interest and dividend income	116,591	-	116,591
Investment fees	(33,587)	-	(33,587)
Interest expense	(1,772)	-	(1,772)
Rental income	15,548	-	15,548
Total non-operating income	240,540	-	240,540
Change in net assets	(1,237,524)	-	(1,237,524)
Net assets - beginning of year	8,548,782	5,770	8,554,552
Net assets - end of year	\$ 7,311,258	\$ 5,770	\$ 7,317,028

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 3,075,291	\$ 1,263,962	\$ 29,511	\$ 4,368,764
Payroll taxes and fringe benefits	582,598	239,451	5,591	827,640
Total salaries and related expenses	<u>3,657,889</u>	<u>1,503,413</u>	<u>35,102</u>	<u>5,196,404</u>
Animal food, supplies, and drugs	806,239	3,007	13,032	822,278
Animal care services	359,252	-	-	359,252
Automotive costs	35,031	12,120	-	47,151
Bank and credit card fees	33,447	-	4,046	37,493
Computer expense	4,978	2,911	-	7,889
Depreciation	321,743	-	-	321,743
Dues and subscriptions	1,115	5,275	-	6,390
Equipment rental	23,104	40,662	1,666	65,432
Insurance	366,769	-	-	366,769
License and permits	7,441	1,445	841	9,727
Media advertising	4,100	8,132	12,838	25,070
Occupancy	532,170	1,822	-	533,992
Postage and shipping	480	4,250	56,622	61,352
Printing	12,257	3,309	116,024	131,590
Professional fees				
Computer and website	-	1,820	44,142	45,962
Audit and accounting	76,570	-	-	76,570
Legal	380,421	-	-	380,421
Other	33,106	-	-	33,106
Promotional materials	10,041	-	47,581	57,622
Repairs and maintenance	144,204	32,557	-	176,761
Office supplies	14,055	44,064	28,505	86,624
Telephone	75,046	4,936	-	79,982
Total	<u>\$ 6,899,458</u>	<u>\$ 1,669,723</u>	<u>\$ 360,399</u>	<u>\$ 8,929,580</u>

See accompanying notes to the financial statements.

ASSOCIATED HUMANE SOCIETIES, INC.
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Change in net assets	\$ (1,237,524)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	321,743
Realized gain on sale of investments	(93,474)
Unrealized gain on investments	(50,286)
Reinvested interest and dividends	(82,428)
(Increase) decrease in assets	
Accounts receivable	(87,518)
Inventory	(159,410)
Prepaid expenses	(44,010)
Certificate of deposit	(10)
Receivables from estates	(520,127)
Increase (decrease) in liabilities	
Accounts payable	(15,499)
Accrued liabilities	24,018
Total adjustments	<u>(707,001)</u>
Net used in operating activities	<u>(1,944,525)</u>
 Cash flows from investing activities	
Purchase of property and equipment	(92,908)
Transfers from investment account	<u>1,181,314</u>
Net cash provided by investing activities	<u>1,088,406</u>
 Cash flows from financing activities	
Principal payments on note payable	<u>(13,468)</u>
Net cash used in financing activities	<u>(13,468)</u>
 Net decrease in cash	(869,587)
 Cash - beginning of year	<u>991,190</u>
 Cash - end of year	<u><u>\$ 121,603</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.

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Income taxes

The Organization is a non-profit corporation whose operations are generally exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and similar provision for New Jersey. Therefore, no provision for income taxes has been made. The Organization's information returns before 2014 are no longer subject to examination by either Federal or State authorities.

The Organization files an income tax return for its operations at Popcorn Park Zoo, which management has determined qualifies as unrelated business taxable income. The return for the year ended June 30, 2018, shows a cumulative net operating loss carryforward of \$1,119,314. These loss carryforward amounts begin to expire in 2031. These losses create a deferred tax asset of \$447,726. 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.

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.

Net asset classifications

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets are defined as follows:

Unrestricted net assets are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired.

Temporarily restricted net assets include assets for which donor-imposed restrictions have not been met.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Revenue recognition

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

Gifts of cash and other noncapital assets are reported as temporarily restricted support when the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received the support is reported as unrestricted.

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, 2018 was \$25,070.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

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, 2018 was \$25,000.

Note 2 - Concentrations

Cash

The Organization maintains its cash balances in several financial institutions, which may at times, exceed federally insured limits. As of June 30, 2018, there was no uninsured cash.

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, 2018, one township represented 35% of total township revenue, and two townships accounted for nearly 60% of township service receivables.

Note 3 - 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.

Note 4 - Property and equipment

Property and equipment at June 30, 2018 consist of the following:

Land	\$ 249,421
Buildings and leasehold improvements	7,890,958
Furniture and equipment	1,855,082
Transportation equipment	967,928
	<hr/>
	10,963,389
Less: accumulated depreciation	9,451,658
Property and equipment, net	<hr/> <u>\$ 1,511,731</u>

Depreciation expense for the year ended June 30, 2018 was \$321,743.

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 5 - Investments

Investments are classified as available for sale securities and 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, 2018 totaled \$116,591.

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

Note 6 - 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, 2018:

	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	\$ 270,562	\$ -	\$ -
Equities	2,684,781	-	-
Fixed income	1,372,616	-	-
	\$ 4,327,959	\$ -	\$ -

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 7 - 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 8 - Operating leases

The Organization leases various office equipment under non-cancelable operating leases with expiration dates from October 2018 to January 2023. Rent is paid monthly. Rent expense for the year ended June 30, 2018 was \$44,004.

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

2019	\$	44,004
2020		42,768
2021		29,344
2022		11,040
2023		3,059

Note 9 - Long-term debt

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.

	\$	18,200
Less: current portion of long-term debt		14,433
Long-term debt	\$	<u>3,767</u>

Future principal payments for the year ended June 30, 2018 are as follows:

2019	\$	14,433
2020		3,767

Note 10 - Supplemental cash flow information

Cash payments for interest for the year ended June 30, 2018 was \$1,772.

Noncash investing and financing activities for the year ended June 30, 2018, were as follows:

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

ASSOCIATED HUMANE SOCIETIES, INC.
Notes to the Financial Statements

Note 11 - 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 2016-14: The FASB adopted ASU 2016-14, Not for Profit Entities. This update changes the format of the Organization's financial statement presentation and enhances the required disclosures to the financial statements. This ASU will be effective in the year ending June 30, 2019. This change is expected to impact the financial reporting of the Organization, however for amounts that are immaterial.

ASU 2016-02: FASB issued ASU 2016-02, Leases. This ASU recognizes as a liability non-cancellable lease. 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.

Note 12 - Subsequent events

The Organization operates three facilities, one of which is located in Newark, New Jersey. The Newark facility is subject to licensing requirements and compliance inspections by the Department of Health for the City of Newark. The Newark facility initially failed its compliance inspections and has been placed in temporary licensed status. It is not clear if this situation will impact future operations. Management of the Organization has made the representation that all inspection deficiencies have been corrected.

The Organization has been operating under a fixed fee contract for animal control services to the City of Newark since 2015. During recent negotiations, it became apparent that both parties could not come to an agreement on payment terms, and the contract was terminated. The City of Newark represents approximately 35% of all township service revenue.

The Organization's management has determined that no material events or transactions, other than the comment above, have occurred subsequent to June 30, 2018 and through January 3, 2019, the date of the Organization's financial statement issuance, which requires additional disclosure in the Organization's financial statements.