

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
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Report of Independent Auditor

To the Board of Directors
Nashville Humane Association and Supporting Foundation
Nashville, Tennessee

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nashville Humane Association and Supporting Foundation as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 and 2018 information contained on pages 18 through 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Emphasis of Matter

As discussed in Note 12, toward the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen, which could negatively impact the Association's investments, and could potentially impact revenues and operations for an indeterminable time period. Other financial impacts could occur though such potential impacts are unknown at this time. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
August 19, 2020

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,228,312	\$ 2,020,183
Inventory	17,491	-
Prepaid expenses and other	4,094	4,094
Total Current Assets	2,249,897	2,024,277
Beneficial interests in trusts	123,203	631,827
Investments	24,190,730	18,925,163
Land, building, and equipment, net	2,234,645	2,302,814
Total Assets	\$ 28,798,475	\$ 23,884,081
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 33,121	\$ 46,881
Accrued expenses	35,219	46,272
Total Current Liabilities	68,340	93,153
Net Assets:		
Without Donor Restriction:		
Undesignated	4,035,883	3,500,915
Designated	22,265,194	17,352,331
Total Without Donor Restriction	26,301,077	20,853,246
With Donor Restriction:		
Purpose restrictions	134,058	642,682
Endowment	2,295,000	2,295,000
Total With Donor Restriction	2,429,058	2,937,682
Total Net Assets	28,730,135	23,790,928
Total Liabilities and Net Assets	\$ 28,798,475	\$ 23,884,081

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue:			
Public Support:			
Donations	\$ 2,292,565	\$ -	\$ 2,292,565
Auxiliary fundraisers	338,282	-	338,282
In-kind donations	418,145	-	418,145
Grants	404,578	-	404,578
Net assets released from restriction	572,538	(572,538)	-
Total Public Support	4,026,108	(572,538)	3,453,570
Revenue:			
Adoptions	364,079	-	364,079
Other program services	6,490	-	6,490
Investment return, net	4,247,603	-	4,247,603
Change in value of beneficial interest in trusts	-	63,914	63,914
Total Revenue	4,618,172	63,914	4,682,086
Total Public Support and Revenue	8,644,280	(508,624)	8,135,656
Expenses:			
Program Services:			
Shelter operations	1,991,240	-	1,991,240
Rover	204,501	-	204,501
Community spay and neuter program	233,729	-	233,729
Total Program Services	2,429,470	-	2,429,470
Supporting Services:			
Management and general	223,666	-	223,666
Fundraising	543,313	-	543,313
Total Supporting Services	766,979	-	766,979
Total Expenses	3,196,449	-	3,196,449
Change in net assets	5,447,831	(508,624)	4,939,207
Net assets, beginning of year	20,853,246	2,937,682	23,790,928
Net assets, end of year	\$ 26,301,077	\$ 2,429,058	\$ 28,730,135

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue:			
Public Support:			
Donations	\$ 1,472,554	\$ -	\$ 1,472,554
Auxiliary fundraisers	440,061	-	440,061
In-kind donations	230,030	-	230,030
Grants	369,110	-	369,110
Net assets released from restriction	-	-	-
Total Public Support	<u>2,511,755</u>	<u>-</u>	<u>2,511,755</u>
Revenue:			
Adoptions	297,965	-	297,965
Other program services	23,211	-	23,211
Investment return, net	(456,112)	-	(456,112)
Change in value of beneficial interest in trusts	<u>-</u>	<u>(140,920)</u>	<u>(140,920)</u>
Total Revenue	<u>(134,936)</u>	<u>(140,920)</u>	<u>(275,856)</u>
Total Public Support and Revenue	<u>2,376,819</u>	<u>(140,920)</u>	<u>2,235,899</u>
Expenses:			
Program Services:			
Shelter operations	1,767,111	-	1,767,111
Rover	238,170	-	238,170
Community spay and neuter program	<u>202,685</u>	<u>-</u>	<u>202,685</u>
Total Program Services	<u>2,207,966</u>	<u>-</u>	<u>2,207,966</u>
Supporting Services:			
Management and general	166,626	-	166,626
Fundraising	<u>457,404</u>	<u>-</u>	<u>457,404</u>
Total Supporting Services	<u>624,030</u>	<u>-</u>	<u>624,030</u>
Total Expenses	<u>2,831,996</u>	<u>-</u>	<u>2,831,996</u>
Change in net assets	(455,177)	(140,920)	(596,097)
Net assets, beginning of year	<u>21,308,423</u>	<u>3,078,602</u>	<u>24,387,025</u>
Net assets, end of year	<u>\$ 20,853,246</u>	<u>\$ 2,937,682</u>	<u>\$ 23,790,928</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services				Supporting Services			
	Shelter		Community		Management			Total
	Operations	Rover	Spay and	Total	and General	Fundraising	Total	Expenses
			Neuter Program					
Salaries	\$ 743,319	\$ 131,608	\$ 129,099	\$ 1,004,026	\$ 69,643	\$ 167,666	\$ 237,309	\$ 1,241,335
Shelter supplies	504,376	3,836	4,800	513,012	-	-	-	513,012
Fundraising events	-	-	-	-	-	343,501	343,501	343,501
Payroll taxes and employee benefits	134,416	23,799	23,345	181,560	12,594	30,320	42,914	224,474
Vet supplies	132,552	6,238	17,154	155,944	-	-	-	155,944
Depreciation	93,879	13,606	20,408	127,893	8,163	-	8,163	136,056
Grant expenses	95,891	-	-	95,891	-	-	-	95,891
Legal and professional	-	-	-	-	83,491	-	83,491	83,491
Utilities	42,957	6,226	9,338	58,521	3,735	-	3,735	62,256
Repairs and maintenance	59,337	-	-	59,337	-	-	-	59,337
Miscellaneous	49,116	-	-	49,116	-	-	-	49,116
Vet fees	24,036	3,915	19,078	47,029	-	-	-	47,029
Insurance	28,732	4,164	6,246	39,143	2,498	-	2,498	41,641
Bank charges and investment fees	-	-	-	-	32,578	-	32,578	32,578
Telephone	17,042	5,173	4,260	26,476	2,130	1,826	3,956	30,432
Office expense	25,076	-	-	25,076	-	-	-	25,076
Equipment rental	14,418	-	-	14,418	-	-	-	14,418
Advocacy and continuing ed.	13,324	-	-	13,324	-	-	-	13,324
Auto and truck expenses	6,431	5,936	-	12,367	-	-	-	12,367
Technology	-	-	-	-	8,833	-	8,833	8,833
Taxes and licenses	3,704	-	-	3,704	-	-	-	3,704
Laundry and uniforms	1,898	-	-	1,898	-	-	-	1,898
Cremation services	736	-	-	736	-	-	-	736
	<u>\$ 1,991,240</u>	<u>\$ 204,501</u>	<u>\$ 233,729</u>	<u>\$ 2,429,470</u>	<u>\$ 223,666</u>	<u>\$ 543,313</u>	<u>\$ 766,979</u>	<u>\$ 3,196,449</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			
	Shelter		Community		Management			Total
	Operations	Rover	Spay and	Total	and General	Fundraising	Total	Expenses
			Neuter Program					
Salaries	\$ 727,017	\$ 119,999	\$ 117,588	\$ 964,604	\$ 30,674	\$ 139,851	\$ 170,525	\$ 1,135,129
Shelter supplies	303,373	3,870	2,200	309,443	-	-	-	309,443
Payroll taxes and employee benefits	133,048	21,960	21,519	176,527	5,613	25,593	31,206	207,733
Vet fees	149,328	20,205	8,096	177,629	-	-	-	177,629
Fundraising events	-	-	-	-	-	289,956	289,956	289,956
Vet supplies	51,382	33,833	12,385	97,600	-	-	-	97,600
Depreciation	85,605	12,406	18,610	116,621	7,444	-	7,444	124,065
Legal and professional	37,519	5,437	8,156	51,112	3,262	-	3,262	54,374
Utilities	-	-	-	-	82,901	-	82,901	82,901
Advocacy and continuing education	88,280	-	-	88,280	-	-	-	88,280
Repairs and maintenance	43,487	6,302	9,454	59,243	3,781	-	3,781	63,024
Insurance	-	-	-	-	23,383	-	23,383	23,383
Miscellaneous	22,833	-	-	22,833	-	-	-	22,833
Bank charges and investment fees	63,303	-	-	63,303	-	-	-	63,303
Telephone	22,093	588	-	22,681	-	-	-	22,681
Auto and truck expenses	18,707	5,679	4,677	29,063	2,338	2,004	4,342	33,405
Office expense	8,142	7,636	-	15,778	-	-	-	15,778
Technology	-	-	-	-	7,230	-	7,230	7,230
Equipment rental	5,707	-	-	5,707	-	-	-	5,707
Taxes and licenses	1,220	255	-	1,475	-	-	-	1,475
Cremation services	1,562	-	-	1,562	-	-	-	1,562
Laundry and uniforms	4,505	-	-	4,505	-	-	-	4,505
	<u>\$ 1,767,111</u>	<u>\$ 238,170</u>	<u>\$ 202,685</u>	<u>\$ 2,207,966</u>	<u>\$ 166,626</u>	<u>\$ 457,404</u>	<u>\$ 624,030</u>	<u>\$ 2,831,996</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 4,939,207	\$ (596,097)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	136,056	124,065
Unrealized (gains) losses on investments	(3,750,367)	889,557
Contribution of stock	(10,507)	-
Change in value of beneficial interest in trusts	(63,914)	140,920
Changes in operating assets and liabilities:		
Inventory	(17,491)	-
Accounts payable and accrued expenses	(24,813)	57,238
Net cash provided by operating activities	<u>1,208,171</u>	<u>615,683</u>
Cash flows from investing activities:		
Purchase of land, building, and equipment	(67,887)	(201,894)
Proceeds from beneficial interest in trusts	572,538	-
Purchase of investments	(2,504,693)	(500,000)
Proceeds from sale of investments	<u>1,000,000</u>	<u>953,086</u>
Net cash (used in) provided by investing activities	<u>(1,000,042)</u>	<u>251,192</u>
Increase in cash and cash equivalents	208,129	866,875
Cash and cash equivalents, beginning of year	<u>2,020,183</u>	<u>1,153,308</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,228,312</u></u>	<u><u>\$ 2,020,183</u></u>
Supplemental schedule of noncash investing activities:		
Contribution of stock	<u><u>\$ 10,507</u></u>	<u><u>\$ -</u></u>

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of organization and summary of significant accounting policies

Nature of Organization – Nashville Humane Association is a nonprofit organization formed in 1946. Nashville Humane Association is committed to finding responsible homes, controlling pet overpopulation, and promoting the humane treatment of animals.

Nashville Humane Association Supporting Foundation is an affiliated nonprofit organization formed in 2004 to raise, manage, and distribute funds exclusively for the benefit of the Nashville Humane Association.

Principles of Consolidation – The consolidated statements include the accounts and activities of Nashville Humane Association and Nashville Humane Association Supporting Foundation referred collectively herein as the “Association”. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation – The Association presents its consolidated financial statements in accordance with standards of accounting and reporting prescribed for nonprofit organizations. Under these standards, the Association is required to report information regarding its financial position and activities according to two classes of net assets: without donor restriction and with donor restriction. Net assets of the Association are presented as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association’s management and the Board of Directors. The Board of Directors has designated certain investments for a Board endowment to be used at the Board’s discretion.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, the Association considers all cash and related short-term investments with original maturities of three months or less to be cash equivalents.

Contribution Receivable – Contributions are recognized when a donor makes a promise to give to the Association that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the consolidated statements of activities as net assets without donor restriction.

Investments – Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Gains or losses on such investments are reported as a change in net assets in the period they occur.

Fair Value Measurements – The Association has an established process in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidelines for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. FASB ASC guidance has a three-level valuation hierarchy for fair value measurements. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of organization and summary of significant accounting policies (continued)

The three levels are explained as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for asset measurement at fair value at December 31, 2019 and 2018:

Fixed Income Securities and Common Stock Mutual Funds – Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial Interests in Trusts – Valued using information obtained from third party sources, including financial statements and other information from detailed listings of holdings from the trust. These valuations are typically performed annually, based on the present value of the estimated future distributions the Association expects to receive over the term of the trust.

Land, Building, and Equipment – Land, building, and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets. It is the Association's policy to capitalize any expenditures over \$500 for land, building, and equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

Income Taxes – The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Association is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying consolidated financial statements.

The Association follows FASB ASC guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. There are no tax penalties or interest reported in the accompanying consolidated financial statements.

Functional Allocation of Expenses – The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs, predominately salaries and related benefits, have been allocated among the programs and supporting services benefited, based primarily on time and effort, while other expenses have been charged directly to the program.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of organization and summary of significant accounting policies (continued)

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In-Kind Donations – In-kind donations are recognized at the fair value of items received at the time of donation. Volunteer time is recognized to the extent such time is provided by individuals with specialized training and which would normally need to be purchased. The Association also receives volunteer services from a number of individuals in carrying out its programs that do not meet the criteria for recognition in the consolidated financial statements.

Beneficial Interests in Trusts – FASB ASC standards require that the following instruments be recorded as a contribution and an asset at the present value of the Association’s ultimate interest:

Charitable Remainder Trusts – A donor has established and funded trusts under which specified distributions are to be made to a designated beneficiary over the trusts’ term. Upon termination of the trusts, the Association receives a portion of the assets remaining in the trusts.

Charitable Lead Trust – A donor has established and funded a trust designating the Association as a beneficiary of specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is to be paid to a beneficiary designated by the donor.

Perpetual Trusts Held by a Third Party – Donors have established and funded trusts naming outside fiscal agents to invest and manage the trusts’ assets in perpetuity. The Association, each year, will receive a pro rata share of income from the trusts’ assets in perpetuity.

Endowment Funds – The Uniform Prudent Management Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The Not-for-Profit topic of the FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds, a description of the organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization’s endowment investment policies, and additional disclosures not previously required.

Adoption of New Accounting Pronouncement – In June 2018, FASB issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies the accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Association evaluated the new standard and determined the accounting standard did not require a change to the Association’s practices for recording contributions.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of organization and summary of significant accounting policies (continued)

Accounting Policies for Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Association for the year ending December 31, 2020. The Association is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending December 31, 2022. The Association is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Note 2—Liquidity and availability

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities and programs as well as the conduct of services undertaken to support those activities to be general expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,228,312	\$ 2,020,183
Investments	24,190,730	18,925,163
Total financial assets	26,419,042	20,945,346
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	134,058	642,682
Amounts held in perpetuity	2,295,000	2,295,000
Board designated	22,265,194	17,352,331
Financial assets not available to be used within one year	24,694,252	20,290,013
Financial assets available to meet general expenditures within one year	\$ 1,724,790	\$ 655,333

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 3—Investments

Investments are stated at fair value with fair value determined based on active markets (Level 1), and consist of the following at December 31:

	2019	2018
Fixed income securities:		
Untied States Treasury Notes	\$ 8,152,058	\$ 6,732,361
Common stock mutual funds:		
Large blend	16,038,672	12,192,802
	<u>\$ 24,190,730</u>	<u>\$ 18,925,163</u>

The following schedule summarizes the investment return for the years ended December 31:

	2019	2018
Interest and dividends	\$ 497,236	\$ 433,445
Unrealized (losses) gains, net	3,750,367	(889,557)
	<u>\$ 4,247,603</u>	<u>\$ (456,112)</u>

Note 4—Beneficial interests in trusts

The Association has been named as one of three beneficiaries of charitable remainder trusts, held and administered by a third party. The Association receives a portion of the assets remaining in the trusts upon termination of the trusts. Based upon earnings at an estimated rate of 6% over the life of the trust, 6% annual distribution to an unrelated specified beneficiary over their lifetime, and a 2.20% discount rate, the present value of future benefits expected to be received by the Association totaled approximately \$526,000 as of December 31, 2018. During December 2018, the income beneficiary passed away and in February 2019, these assets were distributed to the defined parties. The amount distributed to the Association under this trust totaled approximately \$572,000.

A donor has established a trust held by a third party, naming the Association as a beneficiary of a charitable lead trust. Under terms of the split-interest agreement, the Association is to receive 20% of 5% of the trust assets annually for its unrestricted use for a period of 15 years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 5% over the life of the trust and a 1.20% discount rate, the present value of future benefits expected to be received by the Association totaled approximately \$3,200 and \$3,200 at December 31, 2019 and 2018, respectively.

The Association is one of five beneficiaries of a perpetual trust. The assets of the trust, totaling approximately \$1,199,000 and \$1,024,000 at December 31, 2019 and 2018, respectively, are held and administered by an outside fiscal agent. The Association has recorded an asset, which is considered net assets with donor restrictions, of approximately \$120,000 and \$102,000 at December 31, 2019 and 2018, respectively, representing its beneficial interest in the trust based on the present value of amounts to be received. The Association received no amounts from this trust for the years ended December 31, 2019 and 2018, respectively.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 5—Land, building, and equipment

Land, building, and equipment consist of the following at December 31:

	2019	2018
Land	\$ 426,395	\$ 426,395
Building	2,807,423	2,795,400
Furniture and fixtures	83,284	62,379
Equipment	693,192	674,665
Works of art	16,625	16,625
Vehicles	379,852	499,002
	4,406,771	4,474,466
Less accumulated depreciation	(2,172,126)	(2,171,652)
	<u>\$ 2,234,645</u>	<u>\$ 2,302,814</u>

Depreciation expense totaled \$136,056 and \$124,065 for the years ended December 31, 2019 and 2018, respectively.

Note 6—Net assets with donor restrictions

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Relief aid	\$ 10,855	\$ 10,855
Beneficial interest in trusts	123,203	631,827
Total purpose restrictions	134,058	642,682
Endowment	2,295,000	2,295,000
Total net assets with donor restrictions	<u>\$ 2,429,058</u>	<u>\$ 2,937,682</u>

Note 7—In-kind donations

The Association receives a significant amount of donated services and items from unpaid volunteers who assist in fundraising, animal care, and special projects. The amount meeting accounting criteria described in Note 1 and recognized in the accompanying consolidated financial statements for the years ended December 31, 2019 and 2018 totaled \$418,145 and \$230,030, respectively.

Note 8—Employee benefit plan

The Association has established a Simple IRA Retirement Plan (the "Plan"). Under the terms of the Plan, the Association will provide a matching contribution up to a maximum of 3% of each eligible employee's annual compensation. Employees are eligible to participate in the Plan once compensation exceeds \$1,000 or upon completion of one year of service. Employer contributions totaled \$15,336 and \$10,399 for the years ended December 31, 2019 and 2018, respectively.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 9—Community Foundation of Middle Tennessee investments

The Community Foundation of Middle Tennessee (the “Community Foundation”), a separate nonprofit organization, maintains investments on behalf of the Association. The Community Foundation has ultimate authority and control over the investments; accordingly, the net assets of the Association do not include these investments.

The Association does anticipate receiving periodic investment earnings on its pro rata share of the Community Foundation’s assets. The balance of the endowment funds held for the benefit of the Association totaled approximately \$3,688,000 and \$3,296,000 at December 31, 2019 and 2018, respectively. The Association received approximately \$177,000 and \$180,000 from these investments for the years ended December 31, 2019 and 2018, respectively.

Note 10—Endowment

The Association’s endowment funds were established to further its programs. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the UPMIFA as requiring that the Association classify as net assets with donor restrictions, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as purpose restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

Endowment net asset composition by type of fund for the year ended December 31, 2019 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 2,295,000	\$ 2,295,000
Board-designated endowment funds	22,265,194	-	22,265,194
Total Funds	\$ 22,265,194	\$ 2,295,000	\$ 24,560,194

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 10—Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 17,352,331	\$ 2,295,000	\$ 19,647,331
Investment return, net	3,830,951	394,878	4,225,829
Transfers, net	692,608	-	692,608
Appropriations	394,878	(394,878)	-
Expenditures	(5,574)	-	(5,574)
Endowment net assets, end of year	<u>\$ 22,265,194</u>	<u>\$ 2,295,000</u>	<u>\$ 24,560,194</u>

Endowment net asset composition by type of fund for the year ended December 31, 2018 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 2,295,000	\$ 2,295,000
Board-designated endowment funds	17,352,331	-	17,352,331
Total Funds	<u>\$ 17,352,331</u>	<u>\$ 2,295,000</u>	<u>\$ 19,647,331</u>

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 18,179,570	\$ 2,295,000	\$ 20,474,570
Investment return, net	(402,834)	(53,278)	(456,112)
Transfers, net	(370,376)	-	(370,376)
Appropriations	(53,278)	53,278	-
Expenditures	(751)	-	(751)
Endowment net assets, end of year	<u>\$ 17,352,331</u>	<u>\$ 2,295,000</u>	<u>\$ 19,647,331</u>

The Association reports earnings on endowment funds held in perpetuity originally as net assets with donor restriction and then appropriates such earnings to net assets without donor restriction available for operations of the Association.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide a real total return, net of investment management fees, that is consistent with spending policy requirements. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Association's investment policy is to generally maintain 0%-20% in cash and cash equivalents, 25%-100% in fixed income securities, and 0%-65% in domestic equities.

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 10—Endowment (continued)

The Association may authorize an annual distribution of up to 4% of the market value calculated on a rolling three-year average market value. The Nashville Humane Association Supporting Foundation made a distribution of \$-0- and \$500,000 to the Nashville Humane Association during 2019 and 2018, respectively.

Note 11—Concentrations

The Association maintains its cash in bank accounts at national financial institutions whose accounts are insured by the Federal Deposit Insurance Company up to statutory limits. The Association has not experienced any losses in such accounts; therefore, management believes it is not exposed to any significant credit risk related to cash and cash equivalents. Uninsured balances at December 31, 2019 and 2018 totaled approximately \$461,000 and \$491,000, respectively.

Note 12 – Subsequent Events

The Association has evaluated subsequent events through August 19, 2020, when these financial statements were available to be issued.

As a result of the spread of COVID-19, economic uncertainties have arisen which have the potential to negatively impact the Association's revenues. Other financial impacts could occur though such potential impacts are unknown at this time.

ADDITIONAL INFORMATION

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,848,341	\$ 379,971	\$ 2,228,312
Inventory	17,491	-	17,491
Prepaid expenses and other	4,094	-	4,094
Total Current Assets	1,869,926	379,971	2,249,897
Beneficial interests in trusts	123,203	-	123,203
Investments	10,507	24,180,223	24,190,730
Land, building, and equipment, net	2,234,645	-	2,234,645
Total Assets	\$ 4,238,281	\$ 24,560,194	\$ 28,798,475
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 33,121	\$ -	\$ 33,121
Accrued expenses	35,219	-	35,219
Total Current Liabilities	68,340	-	68,340
Net Assets:			
Without Donor Restriction:			
Undesignated	4,035,883	-	4,035,883
Designated	-	22,265,194	22,265,194
Total Without Donor Restriction	4,035,883	22,265,194	26,301,077
With Donor Restriction:			
Purpose restrictions	134,058	-	134,058
Endowment	-	2,295,000	2,295,000
Total With Donor Restriction	134,058	2,295,000	2,429,058
Total Net Assets	4,169,941	24,560,194	28,730,135
Total Liabilities and Net Assets	\$ 4,238,281	\$ 24,560,194	\$ 28,798,475

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,298,015	\$ 722,168	\$ 2,020,183
Prepaid expenses and other	4,094	-	4,094
Total Current Assets	1,302,109	722,168	2,024,277
Beneficial interests in trusts	631,827	-	631,827
Investments	-	18,925,163	18,925,163
Land, building, and equipment, net	2,302,814	-	2,302,814
Total Assets	\$ 4,236,750	\$ 19,647,331	\$ 23,884,081
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 46,881	\$ -	\$ 46,881
Accrued expenses	46,272	-	46,272
Total Current Liabilities	93,153	-	93,153
Net Assets:			
Without Donor Restriction:			
Undesignated	3,500,915	-	3,500,915
Designated	-	17,352,331	17,352,331
Total Without Donor Restriction	3,500,915	17,352,331	20,853,246
With Donor Restriction:			
Purpose restrictions	642,682	-	642,682
Endowment	-	2,295,000	2,295,000
Total With Donor Restriction	642,682	2,295,000	2,937,682
Total Net Assets	4,143,597	19,647,331	23,790,928
Total Liabilities and Net Assets	\$ 4,236,750	\$ 19,647,331	\$ 23,884,081

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
Without Donor Restriction Net Assets			
Public Support and Revenue:			
Public Support:			
Donations	\$ 2,292,565	\$ -	\$ 2,292,565
Auxiliary fundraisers	338,282	-	338,282
In-kind donations	418,145	-	418,145
Grants	404,578	-	404,578
Net assets released from restriction	572,538	-	572,538
Total Public Support	4,026,108	-	4,026,108
Revenue:			
Adoptions	364,079	-	364,079
Other program services	6,490	-	6,490
Investment return, net	21,774	4,225,829	4,247,603
Total Revenue	392,343	4,225,829	4,618,172
Total Public Support and Revenue	4,418,451	4,225,829	8,644,280
Expenses:			
Program Services:			
Shelter operations	1,991,240	-	1,991,240
Rover	204,501	-	204,501
Community spay and neuter program	233,729	-	233,729
Total Program Services	2,429,470	-	2,429,470
Supporting Services:			
Management and general	218,092	5,574	223,666
Fundraising	543,313	-	543,313
Total Supporting Services	761,405	5,574	766,979
Total Expenses	3,190,875	5,574	3,196,449
Change in net assets without donor restriction	1,227,576	4,220,255	5,447,831
Without donor restricted net assets, beginning of year	3,500,915	17,352,331	20,853,246
Transfer of net assets from Nashville Humane to Nashville Humane Association Supporting Foundation	(692,608)	692,608	-
Without donor restricted net assets, end of year	\$ 4,035,883	\$ 22,265,194	\$ 26,301,077

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
With Donor Restriction Net Assets			
Public Support and Revenue:			
Public Support:			
Donations	\$ -	\$ -	\$ -
Net assets released from restriction	(572,538)	-	(572,538)
Total Public Support	(572,538)	-	(572,538)
Revenue:			
Investment income	-	-	-
Change in value of beneficial interest in trusts	63,914	-	63,914
Total Revenue	63,914	-	63,914
Change in with donor restricted net assets	(508,624)	-	(508,624)
With donor restricted net assets, beginning of year	642,682	2,295,000	2,937,682
With donor restricted net assets, end of year	\$ 134,058	\$ 2,295,000	\$ 2,429,058

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
Without Donor Restriction Net Assets			
Public Support and Revenue:			
Public Support:			
Donations	\$ 1,472,554	\$ -	\$ 1,472,554
Auxiliary fundraisers	440,061	-	440,061
In-kind donations	230,030	-	230,030
Grants	369,110	-	369,110
Net assets released from restriction	-	-	-
Total Public Support	2,511,755	-	2,511,755
Revenue:			
Adoptions	297,965	-	297,965
Other program services	23,211	-	23,211
Investment return, net	272	(456,384)	(456,112)
Total Revenue	321,448	(456,384)	(134,936)
Total Public Support and Revenue	2,833,203	(456,384)	2,376,819
Expenses:			
Program Services:			
Shelter operations	1,767,111	-	1,767,111
Rover	238,170	-	238,170
Community spay and neuter program	202,685	-	202,685
Total Program Services	2,207,966	-	2,207,966
Supporting Services:			
Management and general	165,875	751	166,626
Fundraising	457,404	-	457,404
Total Supporting Services	623,279	751	624,030
Total Expenses	2,831,245	751	2,831,996
Change in net assets without donor restriction	1,958	(457,135)	(455,177)
Without donor restricted net assets, beginning of year	3,128,853	18,179,570	21,308,423
Transfer of net assets from Nashville Humane Association to Nashville Humane Association Supporting Foundation	(129,896)	129,896	-
Transfer of net assets to Nashville Humane Association from Nashville Humane Association Supporting Foundation	500,000	(500,000)	-
Without donor restricted net assets, end of year	\$ 3,500,915	\$ 17,352,331	\$ 20,853,246

NASHVILLE HUMANE ASSOCIATION AND SUPPORTING FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	Nashville Humane Association	Nashville Humane Association Supporting Foundation	Total
With Donor Restriction Net Assets			
Public Support and Revenue:			
Public Support:			
Donations	\$ -	\$ -	\$ -
Net assets released from restriction	-	-	-
Total Public Support	-	-	-
Revenue:			
Investment income	-	-	-
Change in value of beneficial interest in trusts	(140,920)	-	(140,920)
Total Revenue	(140,920)	-	(140,920)
Change in with donor restricted net assets	(140,920)	-	(140,920)
With donor restricted net assets, beginning of year	783,602	2,295,000	3,078,602
With donor restricted net assets, end of year	<u>\$ 642,682</u>	<u>\$ 2,295,000</u>	<u>\$ 2,937,682</u>