

BERKSHIRE HUMANE SOCIETY, INC.

Financial Statements

December 31, 2018

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Adelson & Company PC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BERKSHIRE HUMANE SOCIETY, INC.
 Pittsfield, MA 01201

Report on the Financial Statements

We have audited the accompanying financial statements of Berkshire Humane Society, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Berkshire Humane Society, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Adelson & Company PC

ADELSON & COMPANY PC

October 24, 2019

BERKSHIRE HUMANE SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31,

		Comparative
	2018	2017
ASSETS		
Current assets		
Cash and equivalents	\$ 292,749	\$ 269,070
Short-term investments	25,867	25,727
Accounts receivable	11,730	4,762
Inventory	11,169	10,580
Prepaid expenses	18,729	16,136
Total current assets	360,244	326,275
Long-term investments	35,757	112,605
Property and equipment, net	3,191,577	3,326,354
TOTAL ASSETS	<u>\$ 3,587,578</u>	<u>\$ 3,765,234</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 59,380	\$ 36,822
Accrued liabilities	62,981	61,459
Notes payable due within one year	26,009	41,382
Total current liabilities	148,370	139,663
Long-term debt, less current portion	828,804	854,826
TOTAL LIABILITIES	<u>977,174</u>	<u>994,489</u>
Net assets		
Without donor restrictions	2,577,349	2,743,657
With donor restrictions	33,055	27,088
Total net assets	<u>2,610,404</u>	<u>2,770,745</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,587,578</u>	<u>\$ 3,765,234</u>

See notes to financial statements.

BERKSHIRE HUMANE SOCIETY, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Comparative Total 2017
OPERATING ACTIVITIES				
REVENUE AND SUPPORT				
Contributions	\$ 493,601	\$ 18,640	\$ 512,241	\$ 411,821
Program services	255,655		255,655	218,741
Catwalk retail store sales	117,856		117,856	105,112
In kind contributions	46,245		46,245	23,195
Special events, net	105,792		105,792	145,982
Memberships	300,209		300,209	265,389
Bank interest	387		387	875
Interest and dividend income	2,437		2,437	2,735
Net assets released from restrictions	12,673	(12,673)	---	---
TOTAL REVENUE AND SUPPORT	1,334,855	5,967	1,340,822	1,173,850
EXPENSES				
Program services				
Animal Shelter	937,993		937,993	951,512
Catwalk retail store	75,569		75,569	43,010
Public Awareness	202,584		202,584	207,924
Total program services	1,216,146	---	1,216,146	1,202,446
Support services				
Management and general	158,785		158,785	128,497
Fund-raising	116,566		116,566	129,706
Total support services	275,351	---	275,351	258,203
TOTAL EXPENSES	1,491,497	---	1,491,497	1,460,649
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(156,642)	5,967	(150,675)	(286,799)
NON-OPERATING ACTIVITIES				
Realized and unrealized gain (loss) on investments	(9,666)		(9,666)	(5,200)
CHANGE IN NET ASSETS	(166,308)	5,967	(160,341)	(291,999)
Net assets, beginning	2,743,657	27,088	2,770,745	3,062,744
NET ASSETS, ENDING	\$ 2,577,349	\$ 33,055	\$ 2,610,404	\$ 2,770,745

See notes to financial statements.

BERKSHIRE HUMANE SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31,

	Program Services			Supporting Services			Comparative Total 2017
	Animal Shelter	Catwalk Retail Store	Public Awareness	Total Programs	Management and General	Fund- raising	Total 2018
Compensation and related expenses							
Salaries	\$ 341,041	\$ 36,419	\$ 112,227	\$ 489,687	\$ 84,581	\$ 59,774	\$ 634,042
Employee benefits	62,978	2,810	17,424	83,212	18,711	12,915	114,838
Payroll taxes	36,379	3,966	11,391	51,736	8,196	5,661	65,593
Total	440,398	43,195	141,042	624,635	111,488	78,350	814,473
Office expense	7,633	2,881		15,284	11,449		26,733
Postage and printing	2,394	4	4,770	2,398	88	438	3,182
Telephone	4,759	477		5,236	250		5,486
Advertising	10,787	1,506		12,293		4,406	16,699
Dues and subscriptions	3,179			3,179			3,179
Meetings and seminars	3,046			3,046			3,046
Education			26,788	26,788			26,788
Vehicle expense	3,464			3,464			3,464
Maintenance and repairs	33,984	1,267		35,251			35,251
Utilities	91,460	3,306	11,594	106,360	2,325	796	109,481
Occupancy	28,547	20,349		48,896		5,038	53,934
Laundry and cleaning	2,951	1,392		4,343			4,343
Medicines	24,561			24,561			24,561
Professional fees				---	25,264		25,264
Insurance	12,860			12,860	3,841		17,422
Animal handling supplies	12,757			12,757		721	13,070
Cremation	6,043			6,043			6,043
Spay and neuter expenses	16,990			16,990			16,990
Outside medical services	69,344			69,344			69,344
Feline/Canine adoption package	3,648			3,648			3,648
Promotion expense	5,759	397		6,156		1,945	8,101
Development expense				---		20,527	20,527
Fundraising		795		---	486	5,696	5,696
Miscellaneous	1,729			2,524			17,014
Raffle prizes				---		28,750	28,750
Interest expense	32,549		4,126	36,675	828	283	37,786
Depreciation	119,151		14,264	133,415	2,766	1,032	137,213
Total Expenses	937,993	75,569	202,584	1,216,146	158,785	116,566	1,537,175
Less expenses included with revenues on the Statement of Activities	---	---	---	---	---	---	(45,678)
Total Expenses included in the expense section of the Statement of Activities	\$ 937,993	\$ 75,569	\$ 202,584	\$ 1,216,146	\$ 158,785	\$ 116,566	\$ 1,491,497
							\$ 1,460,649

See notes to financial statements

BERKSHIRE HUMANE SOCIETY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31,

	2018	Comparative 2017
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ (160,341)	\$ (291,999)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	137,213	138,336
Realized and unrealized (gains) losses on investments	9,666	5,200
Eliminate non-cash contribution of vehicle	---	(13,000)
(Increase) decrease in operating assets:		
Accounts receivable, net	(6,968)	8,485
Inventories	(589)	4,487
Prepaid expenses	(2,593)	4,969
Increase (decrease) in operating liabilities:		
Accounts payable	22,558	6,687
Accrued liabilities	1,522	13,982
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>468</u>	<u>(122,853)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in short term investments	(140)	(129)
Purchases of long-term investments	(15,636)	(5,994)
Proceeds from sale of long-term investments	82,818	---
Additions to property and equipment	<u>(2,436)</u>	<u>(26,252)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>64,606</u>	<u>(32,375)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	<u>(41,395)</u>	<u>(39,650)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(41,395)</u>	<u>(39,650)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	23,679	(194,878)
Cash and equivalents, beginning	<u>269,070</u>	<u>463,948</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 292,749</u>	<u>\$ 269,070</u>

See notes to financial statements.

BERKSHIRE HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Berkshire Humane Society, Inc. is a 501(c)(3) nonprofit, open-admission animal support organization with a twofold mission: (1) to ensure the compassionate care, treatment, and whenever possible, placement of homeless animals through the shelter operation, and (2) to promote and improve the welfare of all animals through community education and outreach.

Change in Accounting Principle

The Organization adopted the Financial Accounting Standards Board Accounting Standards Update (Update) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which updates and supersedes previous guidance for certain disclosures. Under the new guidance, the three-category classification of net assets is now reported in two categories: with donor restrictions and without donor restrictions. Additional requirements include expanded reporting to present expenses by function and natural classification (Statement of Functional Expenses), and additional disclosure on the Organization's liquidity management policy (Note 10). As required by the Update, the Organization has reclassified net assets retrospectively. Unrestricted net assets of \$2,743,657 at December 31, 2017 have been reclassified to *net assets without donor restrictions* on the Statement of Financial Position and the Statement of Activities. Temporarily restricted net assets of \$27,088 at December 31, 2017 have been restated as *net assets with donor restrictions* on the Statement of Financial Position and the Statement of Activities. As permitted by the Update, disclosures on liquidity management have been omitted for periods starting before January 1, 2018.

Income Taxes

The Organization is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and state taxes under applicable state law. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition. The Organization's tax returns are subject to examination by taxing authorities for all years ending on or after December 31, 2015.

Basis of Accounting and Financial Statement Presentation

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

Contributions

The Organization accounts for contributions received as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support within net assets without donor restrictions.

Contributed Services

Volunteers contribute services to the Organization in all aspects of its programs for which no value has been recognized in the financial statements because these services did not meet the criteria for recognition under generally accepted accounting principles.

NOTE 1 - (Continued)**In Kind Support**

The Organization records various types of in kind support including professional services, advertising and materials. Contributed professional services are recognized at fair market value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in kind support are offset by like amounts included in expenses or property and equipment.

Cash and Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Inventory

Inventory is stated at the lower of acquisition cost or net realizable value. Cost is determined by the first-in, first-out method.

Investments

Investments are presented in the financial statements at fair value, Level 1 input, as described below. Unrealized gains and losses are included in the change in net assets. Restricted gains and investment income whose donor restrictions are met in the same period are recognized and reported as revenue and gains without donor restrictions.

Level 1 Fair Value Measurement

Fair values for long-term investments are measured on a recurring basis and are determined by quoted market prices and other relevant information generated by market transactions.

Certificates of deposit with original maturities greater than three months are classified as investments and stated at face value plus interest. Interest income is included as an increase in unrestricted net assets in the accompanying Statement of Activities.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment with a useful life greater than one year. Purchased equipment is recorded at cost. Donated equipment is recorded at fair market value at the date of the donation. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets using the straight-line method.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$16,699 and \$24,085 for the years ended December 31, 2018 and 2017.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimated of time and effort.

NOTE 1 - (Continued)**Subsequent Events**

Management has evaluated subsequent events through October 24, 2019, the date that the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summarized Comparative Financial Information

The financial information for the year ended December 31, 2017, presented for comparative purposes, is not intended to be a complete financial statement presentation. Certain items in the comparative prior year totals may have been reclassified to conform to the current year presentation.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash. The Organization maintains its cash in various bank deposit accounts, which at times may exceed federally insured limits. Bank deposits at December 31, 2018 were \$300,927, which was fully insured and collateralized. The Organization has not experienced any losses in such accounts.

NOTE 3 - INVESTMENTS

Investment fair values are measured on a recurring basis and determined by quoted market prices and other relevant information generated by market transactions (Level 1 input). The investments are presented in the financial statements at fair value.

Investments are comprised of the following groups as reported at fair value.

	2018		Comparative 2017	
	Fair Value	Cost	Fair Value	Cost
Money market accounts	\$ 35,757	\$ 35,757	\$ 30,050	\$ 30,050
Marketable securities	---	---	82,555	81,960
Total	<u>\$ 35,757</u>	<u>\$ 35,757</u>	<u>\$ 112,605</u>	<u>\$ 112,010</u>

NOTE 3 - (Continued)

The following summarizes the relationship between fair values and the cost of investment assets:

	Fair Value	Cost	Unrealized Appreciation (Loss)
Balance at end of year	\$ 35,757	\$ 35,757	\$ ---
Balance at beginning of year	112,605	112,010	<u>595</u>
Increase (decrease) in unrealized appreciation (loss)			<u>\$ (595)</u>

Investments held in the above accounts do not have donor restrictions.

NOTE 4 - PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING AT DECEMBER 31:

	2018	Comparative 2017
Land	\$ 150,206	\$ 150,206
Buildings	4,873,113	4,873,113
Furniture and equipment	204,560	202,124
Vehicle	<u>44,600</u>	<u>44,600</u>
Total	\$ 5,272,479	\$ 5,270,043
Accumulated depreciation	<u>(2,080,902)</u>	<u>(1,943,689)</u>
Property and equipment, net	<u>\$ 3,191,577</u>	<u>\$ 3,326,354</u>

Depreciation expense was \$137,213 and \$138,336 for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 - NOTES PAYABLE CONSISTED OF THE FOLLOWING AT DECEMBER 31:

	<u>2018</u>	<u>Comparative 2017</u>
Due to banks		
Mortgage payable in monthly installments of \$5,773, including interest at 5.25% until January 2024 at which time the interest rate will adjust to the Federal Home Loan Bank Regular Classic Advance Rate with a five year term + 2.150 percentage points; maturing January 2039; collateralized by real estate	\$ 854,813	\$ 896,208
Amount due within one year	<u>26,009</u>	<u>41,382</u>
Amount due after one year	<u>\$ 828,804</u>	<u>\$ 854,826</u>

The above debt matures during years ending December 31,

2019	\$ 26,009
2020	26,395
2021	27,814
2022	29,310
2023	30,887
Thereafter	<u>714,398</u>
Total	<u>\$ 854,813</u>

Subsequent to year end, the Organization amended the terms of its existing mortgage to extend the maturity date out five additional years and to update the interest rate to current market terms. The terms disclosed above reflect these amendments.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

	<u>2018</u>	<u>Comparative 2017</u>
Subject to expenditure for specified purpose:		
Programs	<u>\$ 33,055</u>	<u>\$ 27,088</u>

During the years ended December 31, 2018 and 2017, the Organization released net assets of \$12,673 and \$36,200, respectively, for program services.

NOTE 7 - SPECIAL EVENTS ACTIVITIES FOR THE YEAR ENDED DECEMBER 31 WERE AS FOLLOWS:

	2018	Comparative 2017
Special event revenues		
Sales	\$ 50,424	\$ 72,574
Sponsorship income	29,626	68,406
Raffle sales	71,420	71,600
Subtotal	151,470	212,580
Less: contributions	---	(6,084)
 Total special event revenues	 151,470	 206,496
 Special event expenses		
Direct benefit to donors	32,100	44,708
Other Costs	13,578	15,806
Total special event expenses	45,678	60,514
 Special events, net	 \$ 105,792	 \$ 145,982

NOTE 8 – RELATED PARTY TRANSACTION

The Organization receives veterinary services from a veterinary hospital owned by a member of the Board of Directors. Total veterinary expense incurred with this hospital for the years ended December 31, 2018 and 2017 was \$46,396 and \$40,387, respectively. At December 31, 2018 and 2017, respectively, accounts payable included balances of \$7,613 and \$2,977 due to this veterinary hospital.

NOTE 9 – COMMITMENT

The Organization entered into an agreement dated August 13, 2015 allowing the organization to purchase electricity at \$0.11/kWh for 20 years. The agreement goes into effect in 2018 and ends in 2038.

NOTE 10 – LIQUIDITY

The following reflects the Organization's financial assets as of the date of the Statement of Financial Position, reduced by amounts not available or not expected to be used for general use because of donor-imposed restrictions within one year of the date of the Statement of Financial Position.

Financial assets at December 31, 2018:

Cash and cash equivalents	\$ 292,749
Short-term investments	25,867
Accounts receivable	<u>11,730</u>
Total financial assets	<u>330,346</u>

Less amounts not available to be used within one year:

Net assets with donor restrictions	33,055
Less net assets with purpose restrictions to be met in less than a year	<u>(22,039)</u>
Total amount not available to be used within one year	<u>11,016</u>

Financial assets available to meet general expenditures

over the next twelve months	<u>\$ 319,330</u>
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The Organization is substantially supported by contributions, program services, special events, and thrift store sales. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments, including certificate deposits.