



**ANIMAL WELFARE LEAGUE
OF ARLINGTON, INC.**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2020 AND 2019



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INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
Statements of Financial Position	
June 30, 2020 and 2019	2
Statement of Activities	
For the Year Ended June 30, 2020	3
Statement of Activities	
For the Year Ended June 30, 2019	4
Statement of Functional Expenses	
For the Year Ended June 30, 2020	5
Statement of Functional Expenses	
For the Year Ended June 30, 2019	6
Statements of Cash Flows	
For the Years Ended June 30, 2020 and 2019	7
Notes to Financial Statements	8 - 15



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Animal Welfare League of Arlington, Inc.
Arlington, Virginia

We have audited the accompanying financial statements of Animal Welfare League of Arlington, Inc., a not-for-profit organization, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 Animal Welfare League of Arlington, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Burdette Smith & Bish, LLC

Fairfax, Virginia
October 15, 2020

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 248,962	\$ 47,466
Accounts receivable, net	630	1,756
Pledges receivable, net	64,027	185,405
Inventory	5,265	3,302
Prepaid expenses	29,981	28,819
Total Current Assets	<u>348,865</u>	<u>266,748</u>
 INVESTMENTS	<u>6,964,658</u>	<u>6,250,750</u>
 PROPERTY AND EQUIPMENT, AT COST	5,228,651	5,180,923
Less: accumulated depreciation	(2,731,719)	(2,503,667)
	<u>2,496,932</u>	<u>2,677,256</u>
 TOTAL ASSETS	\$ 9,810,455	\$ 9,194,754
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 71,539	\$ 89,210
Accrued expenses	191,940	152,803
Deferred Revenue	27,046	-
Paycheck Protection Program loan	436,325	-
Total Current Liabilities	<u>726,850</u>	<u>242,013</u>
 NET ASSETS		
Without donor restrictions	8,404,130	8,555,257
With donor restrictions	679,475	397,484
	<u>9,083,605</u>	<u>8,952,741</u>
 TOTAL LIABILITIES AND NET ASSETS	\$ 9,810,455	\$ 9,194,754

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Adoptions and educational programs	\$ 402,807	\$ -	\$ 402,807
Arlington County appropriation	1,419,517	-	1,419,517
Contributions	1,464,482	403,336	1,867,818
Special events revenue, net of expenses	39,321	-	39,321
Merchandise and other income	33,693	-	33,693
Investment income (loss), net of expenses	253,807	-	253,807
	3,613,627	403,336	4,016,963
Net assets released from restrictions	121,345	(121,345)	-
	3,734,972	281,991	4,016,963
Expenses			
Programs	3,324,025	-	3,324,025
Support services:			
Management and general	83,296	-	83,296
Fundraising	478,778	-	478,778
	3,886,099	-	3,886,099
CHANGE IN NET ASSETS	(151,127)	281,991	130,864
NET ASSETS, BEGINNING OF YEAR	8,555,257	397,484	8,952,741
NET ASSETS, END OF YEAR	\$ 8,404,130	\$ 679,475	\$ 9,083,605

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Adoptions and educational programs	\$ 361,724	\$ -	\$ 361,724
Arlington County appropriation	1,476,285	-	1,476,285
Contributions	1,777,353	146,610	1,923,963
Special events revenue, net of expenses	99,296	-	99,296
Merchandise and other income	45,093	-	45,093
Investment income (loss), net of expenses	316,351	-	316,351
	4,076,102	146,610	4,222,712
Net assets released from restrictions	184,965	(184,965)	-
	4,261,067	(38,355)	4,222,712
Expenses			
Programs	3,165,632	-	3,165,632
Support services:			
Management and general	74,139	-	74,139
Fundraising	438,661	-	438,661
	3,678,432	-	3,678,432
CHANGE IN NET ASSETS	582,635	(38,355)	544,280
NET ASSETS, BEGINNING OF YEAR	7,972,622	435,839	8,408,461
NET ASSETS, END OF YEAR	\$ 8,555,257	\$ 397,484	\$ 8,952,741

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Total Program Services	Management and General	Fundraising	Total 2020
	Shelter Operations	Animal Control	Total County Services	Community Services				
Animal care	\$ 175,470	\$ -	\$ 175,470	\$ 98,552	\$ 274,022	\$ -	\$ -	\$ 274,022
Communications	23,964	24,695	48,659	3,132	51,791	1,147	1,787	54,725
Community programs	-	-	-	82,143	82,143	-	-	82,143
Depreciation	148,433	37,108	185,541	39,582	225,123	7,422	14,843	247,388
Donated services	-	-	-	9,360	9,360	-	-	9,360
Employee benefits	168,008	46,432	214,440	55,653	270,093	2,966	30,756	303,815
Events and appeals	-	-	-	-	-	-	101,945	101,945
Humane education	-	-	-	61,804	61,804	-	-	61,804
Insurance	12,867	19,941	32,808	18,560	51,368	-	-	51,368
Microchip expense	14,530	-	14,530	-	14,530	-	-	14,530
Miscellaneous	2,231	613	2,844	2,265	5,109	13,311	381	18,801
Office expense and equipment	37,690	6,925	44,615	6,557	51,172	230	1,272	52,674
Payroll taxes	89,323	28,332	117,655	26,146	143,801	1,634	17,975	163,410
Printing and postage	1,994	930	2,924	5,761	8,685	292	39,509	48,486
Professional services	-	1,985	1,985	400	2,385	30,841	-	33,226
Public relations	-	-	-	1,742	1,742	-	1,627	3,369
Repairs and maintenance	38,936	15,415	54,351	21,125	75,476	1,897	19,584	96,957
Salaries	1,161,882	368,241	1,530,123	337,540	1,867,663	21,019	232,520	2,121,202
Taxes, other	12,997	5,415	18,412	6,042	24,454	-	-	24,454
Training	3,913	11,798	15,711	11,343	27,054	6	2,286	29,346
United Way	-	-	-	-	-	-	6,301	6,301
Utilities	27,777	8,251	36,028	9,640	45,668	2,206	4,412	52,286
Volunteers	-	-	-	1,939	1,939	-	-	1,939
Workers compensation	17,902	5,533	23,435	5,208	28,643	325	3,580	32,548
	<u>\$ 1,937,917</u>	<u>\$ 581,614</u>	<u>\$ 2,519,531</u>	<u>\$ 804,494</u>	<u>\$ 3,324,025</u>	<u>\$ 83,296</u>	<u>\$ 478,778</u>	<u>\$ 3,886,099</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				Total Program Services	Management and General	Fundraising	Total 2019
	Shelter Operations	Animal Control	Total County Services	Community Services				
Animal care	\$ 194,123	\$ -	\$ 194,123	\$ 115,855	\$ 309,978	\$ -	\$ -	\$ 309,978
Communications	17,005	19,180	36,185	4,416	40,601	1,105	2,051	43,757
Community programs	-	-	-	98,490	98,490	-	-	98,490
Depreciation	136,322	34,080	170,402	36,561	206,963	6,815	13,632	227,410
Donated services	-	-	-	15,933	15,933	-	-	15,933
Employee benefits	176,377	45,994	222,371	61,582	283,953	2,854	33,918	320,725
Events and appeals	-	-	-	-	-	-	68,148	68,148
Humane education	-	-	-	35,070	35,070	-	-	35,070
Insurance	11,412	17,689	29,101	16,789	45,890	-	-	45,890
Microchip expense	12,024	-	12,024	-	12,024	-	-	12,024
Miscellaneous	337	85	422	732	1,154	8,120	196	9,470
Office expense and equipment	45,254	3,829	49,083	14,325	63,408	580	1,985	65,973
Payroll taxes	82,678	25,555	108,233	24,052	132,285	1,503	16,536	150,324
Printing and postage	1,822	402	2,224	2,561	4,785	212	32,519	37,516
Professional services	5,875	6,142	12,017	6,938	18,955	29,081	15,975	64,011
Public relations	-	-	-	1,469	1,469	-	2,806	4,275
Repairs and maintenance	20,698	23,001	43,699	22,593	66,292	1,979	24,430	92,701
Salaries	1,063,343	328,455	1,391,798	309,492	1,701,290	19,056	212,395	1,932,741
Taxes, other	12,812	5,062	17,874	5,216	23,090	-	-	23,090
Training	10,579	5,953	16,532	11,808	28,340	274	4,708	33,322
United Way	-	-	-	-	-	-	1,442	1,442
Utilities	28,968	8,603	37,571	10,018	47,589	2,287	4,573	54,449
Volunteers	-	-	-	1,295	1,295	-	-	1,295
Workers compensation	16,736	5,173	21,909	4,869	26,778	273	3,347	30,398
	<u>\$ 1,836,365</u>	<u>\$ 529,203</u>	<u>\$ 2,365,568</u>	<u>\$ 800,064</u>	<u>\$ 3,165,632</u>	<u>\$ 74,139</u>	<u>\$ 438,661</u>	<u>\$ 3,678,432</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from the County of Arlington and others	\$ 3,860,778	\$ 3,758,695
Dividends and interest received	340,057	374,022
Payments to employees and suppliers	<u>(3,602,956)</u>	<u>(3,519,116)</u>
Net Cash Provided By (Used In) Operating Activities	<u>597,879</u>	<u>613,601</u>
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(75,295)	(380,324)
Purchase of investments	(1,864,561)	(1,855,522)
Proceeds from sale of investments	<u>1,107,148</u>	<u>1,569,225</u>
Net Cash Provided By (Used In) Investing Activities	<u>(832,708)</u>	<u>(666,621)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Proceeds from loan	436,325	-
Net Cash Provided By (Used In) Financing Activities	<u>436,325</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	201,496	(53,020)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>47,466</u>	<u>100,486</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 248,962</u>	<u>\$ 47,466</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 130,864	\$ 544,280
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	247,389	227,410
Unrealized (gain) loss on investments	29,089	16,064
Realized (gain) loss on investments	14,416	1,383
Net (gain) loss on disposals of property and equipment ..	8,230	1,564
Decrease (increase) in:		
Accounts receivable	1,126	1,791
Pledges receivable	121,378	(185,405)
Inventory	(1,963)	(99)
Prepaid expenses	(1,162)	(6,624)
Increase (decrease) in:		
Accounts payable	(17,671)	7,370
Accrued expenses	39,137	6,842
Deferred revenue	27,046	(975)
	<u>467,015</u>	<u>69,321</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES . \$	<u>597,879</u>	<u>\$ 613,601</u>
<u>SUPPLEMENTAL NONCASH ACTIVITIES</u>		
In-kind services performed	\$ 9,360	\$ 15,933
Donated stock used to purchase investments	<u>52,306</u>	<u>6,426</u>
Total noncash activities	<u>\$ 61,666</u>	<u>\$ 22,359</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The Animal Welfare League of Arlington, Inc. (the League) is a humane society that was organized and incorporated on May 16, 1944 in the Commonwealth of Virginia. The League was formed for the purpose of providing for abandoned animals for the County of Arlington, Virginia (the County). The League provides contractual services to the County for animal control and sheltering and educates the public on animal issues. These activities are funded primarily through Arlington County appropriations and through contributions.

Income Recognition

Contributions are recognized when the donor makes a promise to the League that is, in substance, unconditional. All donor-restricted revenue is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a 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. Contributions that are restricted by the donor are reported as unrestricted net assets if the restrictions are met in the same period the donation is made.

Wills are recorded as bequests revenue when the probate court declares the wills valid and the proceeds are measurable.

Revenue from Arlington County appropriations is recognized when earned.

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States established a framework for measuring fair value, clarifying the definition of fair value within that framework and expanding disclosure about fair value measurements. U.S. GAAP established a three-tiered fair value hierarchy with Level 1 representing quoted prices for identical assets or liabilities in an active market, Level 2 representing quoted prices for identical assets or liabilities in an active market that is non-active or with other than directly or indirectly observable inputs, and Level 3 representing estimate values based on unobservable inputs. Related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values.

The carrying amounts for cash and cash equivalents, accounts receivable, inventory, prepaid expenses, accounts payable and accrued expenses approximate fair value because of the short-term maturity of these instruments.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the League considers all bank accounts, cash on hand and petty cash, not held within their investment portfolio, to be cash and cash equivalents.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts and Pledges Receivable

Program receivables are recognized when veterinary services are provided. Pledges receivable are recognized when the donor makes a written promise to give to the League that is, in substance, unconditional. The League uses the allowance method for recording bad debt expense. Management periodically reviews the aged receivables and adjusts the allowance to reflect the current estimate of future bad debt expense. The League records a valuation allowance for sponsorship pledges receivable which are intended to benefit future years. The change in valuation allowance is reported as unrestricted support and revenue in the accompanying statement of activities.

Inventories

Inventories are stated at cost using primarily the first-in, first-out method. Inventories consist principally of items for resale such as collars, leashes, and pet toys.

Investments

Investments are reflected at fair market value using level 1 valuation methodology and consist of money market accounts held for long-term purposes and mutual funds investing in debt and equity securities. Interest, dividends and realized gains or losses are recorded when earned or sustained. Fluctuations in the market value of the portfolio are recorded as unrealized gains or losses in the accompanying statement of activities. Donated securities are sold upon receipt to establish fair market value.

The League invests in various investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

Property and Equipment

The League capitalizes property and equipment with a cost of \$1,000 or more. Costs incurred related to future facility renovations are accumulated in property and equipment and not depreciated until the relevant assets are completed and put into operational use. Expenditures for ordinary maintenance and repair items are charged to operations as incurred. Upon sale, or other disposition of property, the cost and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the change in net assets. Depreciation is provided for under the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Donated Services and Equipment

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated, are recorded at their estimated fair market value as of the date of the donation. Donated services reflected in the accompanying financial statements include the value of donated veterinary, grooming and photography services used as part of the League's community services program.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Classes of Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the League, resources for various purposes are classified for accounting purposes into classes established according to their nature and purpose 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 organization. These net assets may be used at the discretion of the League's management and the board of directors.

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 League or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Income Taxes

The League is a non-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and classified as other than a private foundation.

Management has evaluated the League's tax positions and concluded that the League has taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, federal and state information returns for years prior to 2016 are no longer subject to examination by tax authorities.

NOTE 2 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable is summarized as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Current	\$ 630	\$ 207
>30 days	-	1,342
>60 days	-	-
>90 days	-	207
Allowance for doubtful accounts	-	-
	<u>\$ 630</u>	<u>\$ 1,756</u>

Pledges receivable total the following at June 30:

	<u>2020</u>	<u>2019</u>
Pledges receivable	\$ 64,027	\$ 185,405
Less: allowance for doubtful collections	-	-
Less: valuation allowance	-	-
	<u>\$ 64,027</u>	<u>\$ 185,405</u>

There was no bad debt expense for the years ended June 30, 2020 and 2019.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 3 – INVESTMENTS

Investments are carried at fair value based on quoted prices in active markets (all Level 1 measurements) and consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 6,604,751	\$ 6,046,945
Money market funds	<u>359,907</u>	<u>203,805</u>
	<u>\$ 6,964,658</u>	<u>\$ 6,250,750</u>

Investment income, which is reported net of related investment expenses in the statement of activities, is comprised of the following for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 340,057	\$ 374,022
Realized gains (losses).....	(14,416)	(1,383)
Unrealized gains (losses)	(29,090)	(16,064)
Investment fees	<u>(42,744)</u>	<u>(40,224)</u>
	<u>\$ 253,807</u>	<u>\$ 316,351</u>

NOTE 4 – AVAILABILITY AND LIQUIDITY OF RESOURCES

The League's financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position, are as follows:

	<u>2020</u>
Cash and cash equivalents	\$ 248,962
Accounts receivable	630
Pledge receivable	64,027
Investments	<u>5,291,851</u>
Net Financial Assets Available Within One Year ...	<u>\$ 5,605,470</u>

As part of liquidity management, the League has a policy to structure its financial assets to be available for general expenditures, liabilities, and other obligations as they come due. The League invests cash in short-term investments, including money market accounts, stocks, and exchange traded funds so sufficient financial assets are available to cover all of its obligations.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at cost, and related accumulated depreciation, at June 30 is comprised of the following:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 4,629,482	\$ 4,585,334
Equipment - office	102,247	102,059
Trucks and autos	275,198	275,198
Equipment - kennel	<u>221,724</u>	<u>218,332</u>
	5,228,651	5,180,923
Less accumulated depreciation	<u>(2,731,719)</u>	<u>(2,503,667)</u>
	<u>\$ 2,496,932</u>	<u>\$ 2,677,256</u>

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 5 – PROPERTY AND EQUIPMENT, continued

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$247,389 and \$227,410, respectively.

Trucks and autos with a net carrying value of \$74,729 were acquired over time with funds received from the County which will revert to the County upon termination of the County contract. See Note 12.

NOTE 6 – BOARD DESIGNATED NET ASSETS

Included in unrestricted net assets are certain funds which The Board has segregated and designated for general repairs and maintenance and replacement of equipment in the League’s building (Building Fund) and for supporting the expansion or improvements of the animal shelter and/or other facilities operated by the League (Capital Fund).

Designated funds consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Building Reserve Fund	\$ 1,385,560	\$ 1,409,286
Capital Fund	<u>137,325</u>	<u>589,754</u>
	<u>\$ 1,522,885</u>	<u>\$ 1,999,040</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of various funds specifically devoted to promoting medical care to animals and educating the public, as follows:

1. The AWLA TNR Program covers the cost of spaying, neutering and rabies vaccinations for feral cats in Arlington County and the City of Falls Church.
2. The Bob and Pat Ragan Humane Education Fund provides financial support for League staff to visit schools, scout troops, and many other community organizations to provide guidance on pet overpopulation, responsible pet ownership, preparing pets for a new baby, bite prevention, coexisting with urban wildlife and many other important issues affecting animals and people in the Arlington community.
3. The Healthy Pet Funds are to be used to provide treatment of medical ailments to make animals adoptable as well as provide enrichment in the form of behavioral training or environmental upgrades. The cost of treatment must be outside of the scope of our normal animal medical and behavioral expenses.
4. The Dr. Cottey Low Cost Spay/Neuter Fund seeks to reduce pet overpopulation by providing low-cost spay and neuter surgery to pets whose owners cannot afford them.
5. The Ross - Roberts Veterinary Assistance Fund provides small contributions to pet owners in order to assist in payment for veterinary fees.
6. The Ross - Roberts Kitten Care Fund supports neonatal kitten care training for volunteers and the public. Funds are also used for capital improvements, consultants, equipment and supplies to operate a neonatal kitten nursery.
7. Donor restricted grant funds are used to provide access to low cost veterinary care, behavioral advice and pet wellness resources. Funds are also used to fulfill the requirements of grants received from Maddie’s Fund, Best Friends Animal Society and Banfield Charities.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS, continued

8. The Jean M. Senior Pet Fund provides funds to be used to reimburse adopters for medical and behavioral treatment for designated animals after they have been adopted for a set period.
9. The Gladys Shulaw Cat Fund is to be used to facilitate the adoption of adult cats, spaying and neutering adult cats, supporting the AWLA Community Cats program (TNR), vet assistance to adult cats, and the Paws & Read program for cats.

Net assets with donor restrictions at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
AWLA TNR Program	\$ 5,054	\$ 7,486
Bob and Pat Ragan Humane Education Fund	20,667	20,140
Healthy Pet Fund	191,844	101,255
Dr. Cottey Low Cost Spay/Neuter Fund	72,347	13,815
Ross - Roberts Veterinary Assistance Fund	12,980	24,875
Ross - Roberts Kitten Care Fund	19,473	20,762
Donor Restricted Grants	27,188	34,940
Jean M. Senior Pet Fund	149,922	174,211
Gladys Shulaw Cat Bequest	180,000	-
	<u>\$ 679,475</u>	<u>\$ 397,484</u>

NOTE 8 – LEASES

Under a lease signed in January 1997, the County allowed the League to construct, operate, and maintain a building and related structures to be used as an animal control and adoption center on a portion of the County property, rent free, over thirty years. The lease is renewable every 10 years until the expiration of the final lease term in 2027. After the expiration of the final lease term, the League's tenancy on the land will be on a month-to-month basis. The County reserves the right to refuse to recognize such month-to-month tenancy and to seek the League's eviction from the property. Upon termination of the lease agreement, the County shall pay to the League the depreciated base cost of the improvements erected on the property following the start of the lease. The League plans to enter into a new lease agreement with the County upon expiration of the final lease term in 2027.

The fair value of the rent attributable to the property cannot be reasonably estimated, and accordingly has not been reflected in the accompanying financial statements. The League must, at its own cost and expense, provide public liability insurance for as long as the agreement remains in effect.

NOTE 9 – SPECIAL EVENTS

Special fundraising events are reflected net of costs in the statements of activities. Gross revenues and expenses for the years ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Revenue	\$ 48,954	\$ 173,904
Expenses	(9,633)	(74,608)
Net	<u>\$ 39,321</u>	<u>\$ 99,296</u>

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 10 – EXPENSE ALLOCATION

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 program, general and administrative and fundraising activities based on level of effort. Such allocations are determined by management on an equitable basis.

NOTE 11 – RETIREMENT PLAN

The League participates in a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code covering all employees who choose to participate after attaining age 21. Under the terms of the Plan, participants may voluntarily elect to have a portion of their compensation deferred and contributed to the Plan. The League contributes 7% of compensation for all eligible employees. Retirement expense for the years ended June 30, 2020 and 2019 totaled \$84,345 and \$70,430, respectively.

NOTE 12 – CONCENTRATION

The League receives significant funding from the County of Arlington to provide animal shelter management and animal control services for the County of Arlington. The League's contract with the County of Arlington is comprised of seven annual periods with mutually agreed upon contract amounts in accordance with County Appropriations. The contract expires on June 30, 2021.

Appropriated funds received from the County for the years ended June 30, 2020 and 2019 totaled \$1,419,517 and \$1,476,285, respectively. County Service expenses totaled \$2,519,531 and \$2,365,568 for the years ended June 30, 2020 and 2019, respectively.

Because the League receives significant funding from the County of Arlington for operations, the programs and activities of the League could be materially affected if the level of funding from the County is substantially reduced.

NOTE 13 – PAYCHECK PROTECTION LOAN

On April 22, 2020, the League received loan proceeds in the amount of approximately \$436,325 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The League intends to use the proceeds for purposes consistent with the PPP. While the League currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, there is no assurance that certain events might occur that could cause the League to be ineligible for forgiveness of the loan, in whole or in part.

ANIMAL WELFARE LEAGUE OF ARLINGTON, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

NOTE 14 – SUBSEQUENT EVENTS

In preparing the accompanying financial statements, the League has evaluated events and transactions for potential recognition or disclosure through the report date, October 15, 2020, the date the financial statements were available for issuance.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the League’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the League’s is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for 2020.

Although the League cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the League’s results of future operations, financial position, and liquidity in 2020.