

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
and Independent Auditors' Report Thereon



SCHNEIDER DOWNS

Big Thinking. Personal Focus.

www.schneiderdowns.com

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position, December 31, 2020 and 2019	3
Consolidated Statements for the years ended December 31, 2020 and 2019:	
Activities and Changes in Net Assets	4
Functional Expenses	6
Cash Flows	10
Notes to Consolidated Financial Statements	11

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Humane Animal Rescue of Pittsburgh and Subsidiary
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of Humane Animal Rescue of Pittsburgh and Subsidiary (HARP), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditors' 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 auditors' 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 financial position of HARP as of December 31, 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
July 22, 2021

[This Page Intentionally Left Blank.]

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 624,954	\$ 789,277
Accounts and contributions receivable	401,725	142,960
Pledges receivable, net	94,964	142,160
Note receivable (Note 14)	5,348,000	5,348,000
Inventory	143,303	204,913
Prepaid and other assets	51,468	59,279
Investments (Notes 4 and 5)	9,748,588	8,643,797
Interests in charitable trusts (Note 6)	4,019,261	3,723,014
Property and equipment, net (Note 7)	17,846,460	18,477,588
	<u>17,846,460</u>	<u>18,477,588</u>
Total Assets	<u>\$ 38,278,723</u>	<u>\$ 37,530,988</u>
LIABILITIES		
Accounts payable	\$ 70,061	\$ 80,602
Accrued pension liability - nonqualified (Note 12)	78,881	87,243
Accrued pension liability - qualified (Note 12)	522,676	486,269
Other accrued liabilities	388,426	602,946
Notes payable, net (Note 14)	7,653,297	7,552,390
	<u>7,653,297</u>	<u>7,552,390</u>
Total Liabilities	8,713,341	8,809,450
NET ASSETS		
Without donor restrictions		
Undesignated (Note 3)	24,099,138	23,456,439
With donor restrictions (Note 8)		
Perpetual in nature	5,401,812	5,014,336
Purpose restrictions	64,432	250,763
	<u>5,466,244</u>	<u>5,265,099</u>
Total Net Assets	<u>29,565,382</u>	<u>28,721,538</u>
Total Liabilities And Net Assets	<u>\$ 38,278,723</u>	<u>\$ 37,530,988</u>

See notes to consolidated financial statements.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
OPERATING SUPPORT AND REVENUES			
Holding and adoption fees	\$ 734,631	-	\$ 734,631
Veterinary services	1,380,605	-	1,380,605
Behavior and training	86,678	-	86,678
Merchandise sales	44,861	-	44,861
Memberships	18,145	-	18,145
Contributions and grants	3,847,294	\$ 40,982	3,888,276
Capital campaign contributions	-	-	-
Direct mail fundraising	1,138,605	-	1,138,605
Special events fundraising:			
Gala	466,636	-	466,636
Marathon	9,133	-	9,133
Other	74,929	-	74,929
Net assets released from restrictions:			
Satisfaction of purpose restrictions	136,084	(136,084)	-
Total Operating Support And Revenues	7,937,601	(95,102)	7,842,499
EXPENSES			
Programs	7,367,383	-	7,367,383
Fundraising	649,368	-	649,368
Management and general	366,987	-	366,987
Total Operating Expenses	8,383,738	-	8,383,738
(Decrease) Increase In Net Assets From Operations	(446,137)	(95,102)	(541,239)
NON OPERATING INCOME			
Other income, net	121	-	121
Interest expense	(55,882)	-	(55,882)
Net investment return	1,203,002	-	1,203,002
Increase in interests in charitable trusts	-	296,247	296,247
	1,147,241	296,247	1,443,488
Increase (Decrease) In Net Assets Before Change In Unrecognized Pension Costs	701,104	201,145	902,249
CHANGE IN UNRECOGNIZED PENSION COSTS	(58,405)	-	(58,405)
Total Change In Net Assets	642,699	201,145	843,844
NET ASSETS			
Beginning of year	23,456,439	5,265,099	28,721,538
End of year	<u>\$ 24,099,138</u>	<u>\$ 5,466,244</u>	<u>\$ 29,565,382</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,033,307	-	\$ 1,033,307
1,196,771	-	1,196,771
166,105	-	166,105
74,585	-	74,585
82,885	-	82,885
3,005,346	\$ 291,008	3,296,354
-	20,558	20,558
1,193,209	-	1,193,209
691,038	-	691,038
52,757	-	52,757
273,930	-	273,930
198,593	(198,593)	-
7,968,526	112,973	8,081,499
7,645,984	-	7,645,984
1,398,361	-	1,398,361
298,229	-	298,229
9,342,574	-	9,342,574
(1,374,048)	112,973	(1,261,075)
42,868	-	42,868
(55,882)	-	(55,882)
1,357,471	-	1,357,471
-	513,624	513,624
1,344,457	513,624	1,858,081
(29,591)	626,597	597,006
(610)	-	(610)
(30,201)	626,597	596,396
23,486,640	4,638,502	28,125,142
\$ 23,456,439	\$ 5,265,099	\$ 28,721,538

See notes to consolidated financial statements.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services					Total Program Services
	Shelter	Clinic	Humane Education	Investigation	Wildlife Center	
Payroll and related expenses	\$ 3,225,584	\$ 875,404	\$ 157,431	\$ 90,717	\$ 422,182	\$ 4,771,318
Supplies	347,234	422,968	18,213	2,433	38,466	829,314
Utilities	266,733	33,083	3,440	4,036	38,927	346,219
Professional fees	110,788	33,187	2,695	1,596	11,105	159,371
Direct mail	-	-	-	-	-	-
IT costs	62,169	19,233	1,498	843	3,199	86,942
Insurance	69,959	16,857	4,412	260	9,556	101,044
Repairs and maintenance	79,868	12,176	946	946	9,684	103,620
Consultants	50,179	45,797	709	474	2,366	99,525
Bad debt expense	-	-	-	-	-	-
Pension	65,234	-	-	-	-	65,234
Community outreach	27,890	6,829	2,134	-	2,134	38,987
Miscellaneous	34,274	2,897	374	390	1,098	39,033
Gala expense	-	-	-	-	-	-
Transportation and fuel	19,388	1,766	516	591	1,376	23,637
Outside medical services	17,413	1,467	-	-	50	18,930
Fundraisers	984	268	36	25	95	1,408
Marathon expense	-	-	-	-	-	-
Bank fees	-	15	-	-	-	15
Facilities costs	752	92	9	9	-	862
Taxes and licenses	317	39	4	4	53	417
	<u>4,378,766</u>	<u>1,472,078</u>	<u>192,417</u>	<u>102,324</u>	<u>540,291</u>	<u>6,685,876</u>
Depreciation	<u>550,534</u>	<u>65,348</u>	<u>6,535</u>	<u>6,535</u>	<u>52,555</u>	<u>681,507</u>
	<u>\$ 4,929,300</u>	<u>\$ 1,537,426</u>	<u>\$ 198,952</u>	<u>\$ 108,859</u>	<u>\$ 592,846</u>	<u>\$ 7,367,383</u>

Fund- raising	Management and General	Total Expenses
\$ 322,341	\$ 222,510	\$ 5,316,169
23,291	8,343	860,948
9,756	11,254	367,229
24,011	3,031	186,413
133,173	-	133,173
37,276	5,599	129,817
5,121	6,889	113,054
2,838	2,838	109,296
709	1,420	101,654
-	76,121	76,121
-	-	65,234
4,695	-	43,682
1,638	2,419	43,090
36,527	-	36,527
1,038	351	25,026
-	-	18,930
16,048	2	17,458
11,213	-	11,213
-	6,505	6,520
78	27	967
11	74	502
629,764	347,383	7,663,023
19,604	19,604	720,715
\$ 649,368	\$ 366,987	\$ 8,383,738

See notes to consolidated financial statements.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services					Total Program Services
	Shelter	Clinic	Humane Education	Investigation	Wildlife Center	
Payroll and related expenses	\$ 3,251,347	\$ 797,712	\$ 140,649	\$ 103,214	\$ 415,053	\$ 4,707,975
Supplies	430,928	420,585	17,495	1,300	63,248	933,556
Direct mail	-	-	-	-	-	-
Utilities	270,174	33,619	3,540	3,924	38,947	350,204
Gala expense	-	-	-	-	-	-
Community outreach	112,428	28,299	8,843	-	10,266	159,836
Fundraisers	-	-	-	-	-	-
Professional fees	109,626	26,772	3,185	1,659	11,124	152,366
Consultants	83,989	71,758	1,849	219	1,098	158,913
IT costs	56,661	16,890	1,642	896	5,694	81,783
Pension	110,376	-	-	-	-	110,376
Repairs and maintenance	75,925	6,584	1,372	871	12,114	96,866
Insurance	44,944	6,508	2,644	403	7,219	61,718
Miscellaneous	30,259	5,170	589	298	11,793	48,109
Transportation and fuel	23,663	1,896	1,430	2,070	8,186	37,245
Marathon expense	-	-	-	-	-	-
Taxes and licenses	13,274	1,239	228	75	204	15,020
Outside medical services	9,970	500	120	912	365	11,867
Facilities costs	6,607	1,658	29	-	108	8,402
Bank fees	-	-	-	-	15	15
Bad debt expense	-	-	-	-	-	-
	<u>4,630,171</u>	<u>1,419,190</u>	<u>183,615</u>	<u>115,841</u>	<u>585,434</u>	<u>6,934,251</u>
Depreciation	<u>582,071</u>	<u>69,642</u>	<u>6,964</u>	<u>6,964</u>	<u>46,092</u>	<u>711,733</u>
	<u>\$ 5,212,242</u>	<u>\$ 1,488,832</u>	<u>\$ 190,579</u>	<u>\$ 122,805</u>	<u>\$ 631,526</u>	<u>\$ 7,645,984</u>

Fund- raising	Management and General	Total Expenses
\$ 287,522	\$ 219,049	\$ 5,214,546
22,281	13,014	968,851
499,371	-	499,371
10,230	11,203	371,637
254,405	-	254,405
20,194	-	180,030
178,227	-	178,227
18,867	3,029	174,262
617	659	160,189
39,235	5,365	126,383
-	-	110,376
2,610	2,610	102,086
2,625	4,033	68,376
1,978	8,581	58,668
1,180	452	38,877
37,505	-	37,505
561	668	16,249
-	-	11,867
61	763	9,226
-	7,911	7,926
-	-	-
1,377,469	277,337	8,589,057
20,892	20,892	753,517
\$ 1,398,361	\$ 298,229	\$ 9,342,574

See notes to consolidated financial statements.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 843,844	\$ 596,396
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for long-term purposes	-	(20,558)
Net realized and unrealized gain on investments (Note 4)	(1,105,992)	(1,204,560)
Net change in charitable trusts	(296,247)	(513,015)
Depreciation	720,715	753,517
Bad debt expense	(76,121)	-
Amortization of deferred financing costs through interest expense	55,870	55,870
Net pension benefit cost	36,407	(33,399)
Changes in assets and liabilities:		
Accounts, contributions and pledges receivable	(135,448)	14,719
Inventory	61,610	63,060
Prepaid and other assets	7,811	118,818
Accounts payable	(10,541)	(525,400)
Accrued pension and other liabilities	(222,882)	139,971
Net Cash Used In Operating Activities	(120,974)	(554,581)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(44,550)	(250,054)
Purchases of investments	(1,032,986)	(911,368)
Proceeds from sales of investments	1,034,187	915,229
Net Cash Used In Investing Activities	(43,349)	(246,193)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	-	20,558
Net Cash Provided By Financing Activities	-	20,558
Net Decrease In Cash And Cash Equivalents	(164,323)	(780,216)
CASH AND CASH EQUIVALENTS		
Beginning of year	789,277	1,569,493
End of year	<u>\$ 624,954</u>	<u>\$ 789,277</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 55,882</u>	<u>\$ 55,882</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Deferred pension cost	<u>\$ 58,405</u>	<u>\$ 610</u>

During the year ended December 31, 2020, the Organization financed a vehicle addition for approximately \$46,000.

See notes to consolidated financial statements.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1 - ORGANIZATION

On September 29, 2016, the governing bodies of the Animal Rescue League of Western Pennsylvania, Inc. (ARL) and the Western Pennsylvania Humane Society (WPHS) each approved a plan of merger between ARL and WPHS. Effective December 31, 2016, the merger formed one of the largest open-door shelters in Pennsylvania. The merged organization now provides greater efficiency in animal care processes and staff training, and is bringing best practices to one organization, which is now able to save and serve more animals. On May 16, 2017, the governing board filed documents to change the name of the organization to Humane Animal Rescue. In March 2021, the name of the organization was amended by the governing board to become Humane Animal Rescue of Pittsburgh (HARP).

HARP operates facilities that provide humane care for stray animals and animals turned in by the public. Primary services provided include domestic animal holding, adoption and veterinary care. Low-cost veterinary services, kennel services, animal burial services and education support are also provided to the general public. HARP also operates the HARP Wildlife Center, which treats and later releases injured wildlife and provides educational services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant account policies consistently applied by management in the preparation of the accompanying financial statements follows:

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of HARP and its subsidiary, ARL Forever Home, Inc. (Forever Home), collectively known as HARP (the Organization). Forever Home is a 501 supporting organization under the control of HARP established in relation to the new markets tax credit transactions described in Note 14. Intercompany transactions and balances have been eliminated during consolidation.

Basis of Presentation - The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. The activities of HARP are separated into operating and nonoperating categories in the consolidated statements of activities and changes in net assets. The nonoperating category includes interest expense, net investment return and changes in interests in charitable trusts.

Use of Estimates - The preparation of consolidated financial statements in conformity with 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets - Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. HARP reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Contract Revenue and Cost Recognition - Revenue, including holding and adoption fees and veterinary services, is recognized when earned. Contract revenue, primarily from the City of Pittsburgh (Note 11), is recognized when earned under terms of the contract. The Organization generally enters into contracts with customers to provide clinical and veterinary services, as well as adoption services and behavioral training classes. Within these contracts, there can sometimes be multiple services provided. Since the organization provides such ancillary services simultaneously, these services are not considered to be distinct within the context of the contract and do not represent separate performance obligations.

A performance obligation is satisfied when the Organization transfers control of the underlying good or service to its client. For certain services, the Organization requires upfront payments before the service is completed. For other services, the Organization charges the customer at the time of check out after providing the service. In either circumstance, the Organization is considered to have transferred a service at a point in time, and therefore recognizes revenue at the point in time at which the performance obligation is considered to be satisfied.

Contributions - Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Conditional contributions for which donor-imposed conditions and restrictions are met within the same reporting period are presented as net assets without donor restrictions. As of December 31, 2020 and 2019, HARP did not have any conditional promises to give outstanding for which the conditions had not yet been met.

Donated Services - Contributed services are measured at fair value and consist primarily of donated professional services. In addition, many individuals volunteer time and perform a variety of tasks that assist HARP, including working independently with the animals, working hands-on with under-socialized pets and helping to successfully place them in adoptive homes, as well as helping to keep the animals' living quarters clean. These services do not meet the criteria for recognition in the consolidated statements of activities and changes in net assets.

Cash and Cash Equivalents - HARP considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit held for investments that are not debt securities are included in investments. HARP maintains its cash in bank deposit accounts, which at times may be in excess of the Federal Deposit Insurance Corporation insurance limit. HARP does not believe it is exposed to any significant credit risk on cash.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Contributions Receivable - Accounts and contributions receivable consist primarily of contract revenue, unconditional promises to give and capital campaign pledges receivable. Management assesses the need for an allowance for doubtful accounts based on review of outstanding receivables and collection history. No allowance was considered necessary at December 31, 2020 or 2019.

Pledges receivable are due as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 74,964	\$ 112,160
Receivable in one to five years	<u>20,000</u>	<u>30,000</u>
	<u>\$ 94,964</u>	<u>\$ 142,160</u>

Management assesses the net present value of future pledges receivable on an annual basis. No discount was applied for the years ended December 31, 2020 and 2019 because HARP believes a discount is immaterial to the consolidated financial statements.

Inventory - Inventory is stated at the lower of cost or net realizable value, with cost determined by the first-in, first-out method, and consists principally of gift shop items held for sale and supplies used in the operation of the kennel and veterinary clinic.

Investments - Investments are reported at their fair values. The fair values of money market funds and real estate approximate their cost. Investments in common stocks, government/corporate obligations, mutual funds and real assets with readily determinable fair values are stated at fair value, primarily based on quoted market prices.

Interests in charitable trusts are reported at the fair value of HARP's beneficial interest in the underlying trust assets. Management determines and monitors the fair value of the trust interests based on the fair value of underlying trust assets as provided by the trustees.

Net investment return is reported in the consolidated statements of activities and changes in net assets and consists of interest and dividend income and realized and unrealized gains and losses, less external investment expenses.

Risks and Uncertainties - HARP's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the consolidated financial statements.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided on the straight-line method based on the estimated useful lives ranging from three years for certain equipment to 40 years for buildings and improvements. Maintenance and repairs not considered to extend the useful lives of assets are charged to expense as incurred. Expenditures for additions and improvements are capitalized. The cost of property sold or retired and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in non-operating income.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. No impairment charge was recorded during the years ended December 31, 2020 or 2019.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function, therefore expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance and other, which are allocated on the basis of estimates of time-and-effort.

Tax-Exempt Status - HARP and Forever Home have been classified as tax-exempt nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code, however certain activities of the Organization are deemed to be taxable. These activities generated losses in 2020 and 2019; accordingly, no provision for federal income tax is required.

At December 31, 2020 and 2019, HARP has federal net operating loss carryforwards of approximately \$4,884,000 available to offset any future taxable income through 2040. A valuation allowance has been recorded for the full amount of the benefit of net operating losses because of uncertainty about generating future taxable income.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification on Income Taxes clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. HARP evaluates uncertain tax positions for recognition by determining whether evidence indicates it is more likely than not that a position will be sustained if examined by taxing authorities. As of December 31, 2020 and 2019, HARP is unaware of any uncertain tax positions. HARP and Forever Home are no longer subject to Internal Revenue Service examinations of their respective tax returns for years before 2017.

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 Leases (Topic 842) (ASU 2016-02), the result of a joint project of the FASB and the International Accounting Standards Board (IASB) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The amendments require a lessee to recognize a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term initially measured at the present value of the lease payments. The lessee should also include payments to be made on an optional lease extension if the company is reasonably certain that the extension will be exercised when measuring the asset and liability. Organizations will be permitted to make an accounting policy election to not recognize leases with a term of 12 months or less. In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements, which provides for an additional optional transition method, allowing the initial application of the guidance with recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. This ASU is effective for annual reporting periods beginning after December 15, 2021, with early application permitted. HARP is assessing the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans (ASU 2018-14), which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2021, with early adoption permitted. HARP is assessing the impact that ASU 2018-14 will have on its consolidated financial statements and related disclosures.

In March 2020, FASB issued ASU No. 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04), which provides for optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The standard provides for several optional expedients for contracts and agreements that are modified because of reference rate reform, which do not require additional analysis at the time of adoption. To qualify for the optional expedients for contract modifications, other terms being concurrently modified in an entity's contract(s) need to be related to the replacement of a reference rate because of reference rate reform. ASU 2020-04 includes guidance and examples for identifying when changes to the terms of the contract are related to the replacement of a reference rate and are eligible for the optional expedients. The standard requires that all elected expedients must be applied consistently to all eligible contract modifications within that Topic or Industry Subtopic. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued, through December 31, 2022. HARP is assessing the impact that ASU 2020-04 will have on its consolidated financial statements and related disclosures.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07), which provides for certain changes to the presentation and disclosure of nonfinancial assets for not-for-profit entities. The standard will require separate presentation of contributed nonfinancial assets, apart from contributed cash and other financial assets, and will require additional disclosures about the nature, type, fair value measurement, usage, and donor-imposed restrictions for any contributed nonfinancial assets. ASU 2020-07 is effective for fiscal years ending after June 15, 2021, to be applied on a retrospective basis with early adoption permitted. HARP is assessing the impact that ASU 2020-07 will have on its consolidated financial statements and related disclosures.

NOTE 3 - AVAILABILITY AND LIQUIDITY

HARP's cash flows have seasonal variations during the year attributable to the timing of contributions, events and animal population. HARP receives a significant amount of contributions restricted by donors to be used in accordance with the associated time or purpose restriction. For the years ended December 31, 2020 and 2019, restricted contributions of approximately \$27,000 and \$197,000, respectively, were received, of which approximately \$27,000 and \$100,000, respectively, was included in financial assets available to meet cash needs for general expenditures within one year, as the donor restrictions are expected to be met.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 3 - AVAILABILITY AND LIQUIDITY (Continued)

HARP considers contributions without donor restrictions and contributions with donor restrictions due to time payable in the next year to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and program expenses to be paid in the following year. HARP manages its cash available to meet general expenditures by forecasting future needs and activities and proactively anticipates future funds needed. HARP holds short-term liquid investments in mutual funds to assist in maintaining sufficient funds to provide reasonable assurance that obligations will continue to be met and ensure the stability of HARP. HARP holds lines of credits totaling \$2,300,000, of which the entire amount was available as of December 31, 2020 and 2019 to draw upon in the event of a liquidity need.

Financial assets available for general expenditures within one year of the consolidated statement of financial position date, are comprised of the following at December 31:

	2020	2019
Cash and cash equivalents	\$ 560,522	\$ 538,514
Accounts and contributions receivable	401,725	141,362
Pledges receivable	74,964	112,160
Investments	8,366,037	7,334,619
Distributions from beneficial interests	210,949	86,530
Total financial assets available within one year	\$ 9,614,197	\$ 8,213,185

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 54,231	\$ 48,192	\$ 65,693	\$ 62,262
Common stocks	5,377,710	6,799,470	4,626,039	4,989,265
Government/corporate obligations	2,523,409	2,666,135	2,838,105	2,906,760
Mutual funds	107,813	105,671	535,385	553,257
Real assets	149,458	125,120	140,056	128,253
Real estate	4,000	4,000	4,000	4,000
	\$ 8,216,621	\$ 9,748,588	\$ 8,209,278	\$ 8,643,797

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 4 - INVESTMENTS (Continued)

Net investment return for the years ended December 31 consist of the following:

	2020	2019
Interest and dividend income	\$ 144,229	\$ 199,108
Realized gains (loss)	71,806	(5,969)
Investment expenses	(47,219)	(46,197)
	168,816	146,942
Change in unrealized appreciation in fair value of investments	1,034,186	1,210,529
	\$ 1,203,002	\$ 1,357,471

NOTE 5 - FAIR VALUE MEASUREMENT

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the extent of market price observability:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The valuation of HARP's investments by the above fair value hierarchy levels are as follows as of December 31:

	2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 48,192	-	-	\$ 48,192
Common stocks	6,799,470	-	-	6,799,470
Fixed-income securities	2,666,135	-	-	2,666,135
Mutual funds	105,671	-	-	105,671
Real assets	125,120	-	-	125,120
Real estate	-	-	\$ 4,000	4,000
	9,744,588	-	4,000	9,748,588
Interests in charitable trusts	-	-	4,019,261	4,019,261
	\$ 9,744,588	-	\$ 4,023,261	\$ 13,767,849

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 62,262	-	-	\$ 62,262
Common stocks	4,989,265	-	-	4,989,265
Fixed-income securities	2,906,760	-	-	2,906,760
Mutual funds	553,257	-	-	553,257
Real assets	128,253	-	-	128,253
Real estate	-	-	\$ 4,000	4,000
	<u>8,639,797</u>	<u>-</u>	<u>4,000</u>	<u>8,643,797</u>
Interests in charitable trusts	-	-	3,723,014	3,723,014
	<u>\$ 8,639,797</u>	<u>-</u>	<u>\$ 3,727,014</u>	<u>\$ 12,366,811</u>

HARP's financial instruments consist primarily of cash and cash equivalents, accounts and contributions receivable, pledges receivable, investments, interests in charitable trusts, accounts payable, accrued liabilities and notes payable.

NOTE 6 - INTERESTS IN CHARITABLE TRUSTS

HARP is a beneficiary of perpetual charitable trusts. Under the trust agreements, HARP has the irrevocable right to receive its share of the income earned on trust assets in perpetuity, but has no right to or control over the corpus of the trusts. The beneficial interests in the trusts were recorded originally as net assets with donor restrictions at the fair market value of the assets in the trusts. Changes in fair value of the trust assets are recorded in net assets with donor restrictions based on HARP's beneficial interest in the trusts' underlying assets. Interest and dividend income is available for HARP's use and is reflected as an increase in net assets without donor restrictions.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 1,216,578	\$ 1,216,578
Buildings	19,770,959	19,757,016
Automobiles and equipment	2,871,338	2,825,337
	<u>23,858,875</u>	<u>23,798,931</u>
Less - Accumulated depreciation	6,012,415	5,321,343
	<u>\$ 17,846,460</u>	<u>\$ 18,477,588</u>

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available at December 31 for the following purposes:

	<u>2020</u>	<u>2019</u>
Net Assets With Donor Restrictions		
Subject to expenditure for specified purpose:		
Transfer program	\$ 64,432	\$ 144,954
Cat cages	-	100,000
Miller Project Nala (spay and neuter)	-	2,794
Cat crisis center	-	1,794
Pet retention grant	-	1,221
	<u>\$ 64,432</u>	<u>\$ 250,763</u>
Net Assets With Donor Restrictions		
Perpetual in nature:		
Interests in charitable trusts	\$ 4,019,261	\$ 3,723,014
Verbofsky fund	741,891	694,541
Joan McKay Young fund	640,660	596,781
	<u>\$ 5,401,812</u>	<u>\$ 5,014,336</u>

NOTE 9 - ENDOWMENT FUNDS

The endowment funds consist of funds with donor restrictions. Net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions as required by U.S. GAAP.

Changes in endowment fund net assets with donor restrictions perpetual in nature are as follows:

Balance, December 31, 2018	\$ 4,385,646
Net appreciation	<u>628,690</u>
Balance, December 31, 2019	5,014,336
Net appreciation	<u>387,476</u>
Balance, December 31, 2020	<u>\$ 5,401,812</u>

To satisfy long-term rate-of-return objectives, HARP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HARP established asset allocation percentages for its investment portfolio. Target asset allocations are based on the investment objective, time horizon and risk tolerance established for the portfolio.

HARP has interpreted Pennsylvania law as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 9 - ENDOWMENT FUNDS (Continued)

Based on this interpretation, HARP classifies as net assets with donor restrictions the original value of the gift, the original value of any subsequent gifts to the endowment, and accumulations made in accordance with the direction of the donor gift instrument. The remaining portion of the donor-restricted endowment funds is classified as net assets without donor restrictions or net assets with donor restrictions as required by the donor. A fund is considered to be under water if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity. Management believes there are no underwater endowment funds as of December 31, 2020 or 2019.

The Verbofsky agreement stipulated that all realized investment returns be utilized for animal care and are therefore classified as revenue without donor restrictions.

The Joan McKay Young Charitable Remainder Trust stipulates that 5% of the fund, as determined on December 31 of the prior year, be utilized to provide medical care and treatment to low-income pet owners.

NOTE 10 - OPERATING LEASES

HARP leases certain office equipment under operating lease agreements. Approximate future rental payments due under noncancelable leases are as follows for the years ending December 31:

<u>Year Ending December 31</u>	<u>Amount</u>
2021	\$ 52,000
2022	52,000
2023	52,000
2024	<u>26,000</u>
	<u>\$ 182,000</u>

Rent expense totaled approximately \$57,000 and \$62,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE 11 - CONTRACTUAL AGREEMENT

The City of Pittsburgh delivers stray animals to HARP under a contractual arrangement whereby a fee is received for each animal. Revenues related to this contract were approximately \$195,000 and \$215,000 in 2020 and 2019, respectively, which are included in holding and adoption fees in the consolidated statements of activities and changes in net assets. HARP had amounts receivable related to the contract of approximately \$51,000 and \$48,000 at December 31, 2020 and 2019, respectively.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 12 - RETIREMENT PLANS

401(k) Plans

HARP has two 401(k) retirement plans, the Humane Animal Rescue of Pittsburgh Retirement Plan and the Humane Animal Rescue of Pittsburgh 401(k) Profit Sharing Plan, covering substantially all employees under which eligible employees may contribute a portion of their eligible earnings to the plan, not to exceed \$8,000 annually. All employees are eligible to participate in the plans upon reaching 18 years of age and 60 days of employment. HARP is required to make matching contributions equal to the amount of each participant's elective deferrals up to 3% of compensation. Contributions by HARP totaled approximately \$90,000 and \$92,000 for 2020 and 2019, respectively.

Qualified Defined Benefit Plan

The qualified defined benefit pension plan covers substantially all former WPHS employees with five years of service. The benefits are based on years of service and an employee's compensation during the last five years of employment. HARP uses a measurement date of January 1 for the plan. At December 31, 2003, the plan benefit accruals were frozen and all participants in the plan became fully vested.

Reconciliation of changes in projected benefit obligation and changes in plan assets are as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Accumulated benefit obligation as of end of year	\$ <u>1,985,959</u>	\$ <u>1,844,823</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 1,844,823	\$ 1,660,910
Interest cost	55,664	66,884
Actuarial loss	178,057	208,451
Benefits paid	<u>(92,585)</u>	<u>(91,422)</u>
Projected benefit obligation at end of year	\$ <u>1,985,959</u>	\$ <u>1,844,823</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 1,358,554	\$ 1,141,242
Employer contributions	50,000	100,000
Actual return on plan assets (net of expenses)	147,314	208,734
Benefits paid	<u>(92,585)</u>	<u>(91,422)</u>
Fair value of plan assets at end of year	<u>1,463,283</u>	<u>1,358,554</u>
Funded status as of end of year	\$ <u>(522,676)</u>	\$ <u>(486,269)</u>
Amount included in unrecognized pension costs:		
Deferred amendments	\$ 182,081	\$ 227,487
Deferred actuarial gain	<u>475,308</u>	<u>371,497</u>
Net amount recognized	\$ <u>657,389</u>	\$ <u>598,984</u>

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 12 - RETIREMENT PLANS (Continued)

Net periodic benefit cost for the years ended December 31 included the following components:

	<u>2020</u>	<u>2019</u>
Interest cost on projected benefit obligation	\$ 55,664	\$ 66,884
Prior services cost amortization	45,406	45,406
Prior losses	7,636	21,366
Expected return	<u>(80,704)</u>	<u>(67,665)</u>
	<u>\$ 28,002</u>	<u>\$ 65,991</u>

Items not yet recognized as a component of net periodic benefit cost at December 31, 2020 and 2019 included \$28,002 and \$65,991, respectively, of net actuarial losses. The amount expected to be recognized in net periodic benefit cost during the year ending December 31, 2021 is \$57,411.

Amounts as of December 31, 2020 expected to be recognized as components of net periodic benefit cost in the year ending December 31, 2021 are:

Net loss	\$ 12,005
Prior service cost	<u>45,406</u>
	<u>\$ 57,411</u>

The investment policy of the plan is to invest in securities that will provide both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments other than “fixed-dollar” investments should be included among the plan’s investments to prevent erosion by inflation, but investments should be sufficiently liquid to enable the plan on short notice to make some distributions in the event of the death or disability of a participant.

The weighted-average asset allocation of pension plan assets as of the end of the plan year is as follows:

	<u>2020</u>	<u>2019</u>
Mutual funds - equity securities	60 %	60 %
Mutual funds - fixed-income securities	35	36
Cash and cash equivalents	<u>5</u>	<u>4</u>
Total	<u>100 %</u>	<u>100 %</u>

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 12 - RETIREMENT PLANS (Continued)

The valuation of pension plan assets based upon the fair value measurement hierarchy are as follows as of December 31:

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 76,409	-	-	\$ 76,409
Mutual funds - equity securities	873,455	-	-	873,455
Mutual funds - fixed-income securities	513,419	-	-	513,419
	\$ 1,463,283	-	-	\$ 1,463,283
	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 60,184	-	-	\$ 60,184
Mutual funds - equity securities	809,290	-	-	809,290
Mutual funds - fixed-income securities	489,080	-	-	489,080
	\$ 1,358,554	-	-	\$ 1,358,554

In 2021, \$100,000 is expected to be contributed to the pension plan.

HARP estimates benefit payments for each of the next five years and in the aggregate for the years thereafter as follows:

Year Ending December 31	Amount
2021	\$ 97,901
2022	107,495
2023	111,211
2024	113,879
2025	113,420
2026-2030	553,606

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 12 - RETIREMENT PLANS (Continued)

	<u>2020</u>		<u>2019</u>
Weighted-average assumptions as of December 31:			
For net periodic pension cost:			
Discount rate	3.10	%	4.15 %
Expected return on assets	6.00		6.00
For benefit obligation:			
Discount rate	2.30	%	3.10 %
Expected long-term rate of return on plan assets	6.00		6.00
Rate of compensation increase	N/A		N/A

The change in the funded status of the plan was due to a decrease in the discount rate. The corresponding increase in liabilities was more than the increase in the market value of assets leading to a decrease in the funded status.

Nonqualified Defined Benefit Plan

HARP also has a nonqualified pension plan whereby it makes monthly benefit payments to retired former WPHS employees based on years of service and prior earnings. HARP has agreed to make annual payments of \$10,956 to the retired employees. U.S. GAAP requires HARP to record a liability for these obligations to equal the present value of the benefits to be paid. The present value of the future benefit for these retirees was approximately \$79,000 and \$87,000 as of December 31, 2020 and 2019, respectively.

NOTE 13 - LINE OF CREDIT

HARP has a \$2,000,000 line of credit that carries an interest rate of one-month London InterBank Offered Rate (0.14% as of December 31, 2020) plus 1.65%. The line of credit is collateralized by the investments without donor restrictions. The line of credit was closed on July 13, 2020. The Organization had no borrowings outstanding against the bank line of credit as of December 31, 2019.

Additionally, HARP established a \$300,000 operating line of credit on August 2, 2018, that bears interest at Prime (3.25% as of December 31, 2020) and is due on demand. The operating line of credit is collateralized by all of HARP's inventory. HARP had no borrowings outstanding against the operating line of credit as of December 31, 2020 and 2019.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 14 - NOTES PAYABLE/NOTE RECEIVABLE NEW MARKETS TAX CREDIT TRANSACTIONS

On March 31, 2016, HARP entered into a financial arrangement to provide additional funding for the construction of a new facility through the use of the New Markets Tax Credit (NMTC) program.

In connection with NMTC financing, HARP received a note receivable from an unrelated third party, Chase NMTC Animal Rescue League Investment Fund, LLC (IF), in the amount of \$5,348,000. Interest accrues on the note at a fixed rate of 1.44% per annum. Interest-only payments are due in quarterly installments from June 2016 through March 2023. Commencing with the payment due in June 2023, quarterly payments of principal and interest in the amount of \$86,591 are due through September 30, 2040. A final balloon payment of all unpaid principal, interest, and fees is due on October 1, 2040. The note is secured by a security interest in certain assets owned by IF.

In connection with the NMTC financing, HARP issued two notes payable to CNMC SUB-CDE 102, LLC, a subsidiary of IF, in the amounts of \$668,500 and \$331,500. The notes accrue interest at a fixed rate of 1.00% per annum. Interest-only payments are due in quarterly installments from June 2016 through March 2023. Commencing with the payment due in June 2023, quarterly payments of principal and interest in the amounts of \$8,143 and \$4,038 are due through March 31, 2046. A final balloon payment of all unpaid principal, interest and fees is due on March 31, 2046. The notes are secured by a mortgage on the Hamilton Avenue property.

In connection with the NMTC financing, HARP issued two notes payable to Pittsburgh Urban Initiatives Sub-CDE 18, LP, a subsidiary of IF, in the amounts of \$4,679,500 and \$2,040,500. The notes accrue interest at a fixed rate of 1.00% per annum. Interest-only payments are due in quarterly installments from June 2016 through March 2023. Commencing with the payment due in June 2023, quarterly payments of principal and interest in the amounts of \$57,001 and \$24,855 are due through March 31, 2046. A final balloon payment of all unpaid principal, interest and fees is due on March 31, 2046. The notes are secured by a mortgage on the Hamilton Avenue property.

In connection with the issuances of notes payable, HARP incurred debt issuance costs with remaining balances of approximately \$112,000 and \$167,000 as of December 31, 2020 and 2019, respectively.

Simultaneous with these transactions, HARP entered into an option agreement with Chase Community Equity, LLC (CCE), the federal tax credit investor, which is the sole member of IF. Under terms of the option agreement, CCE is expected to sell its ownership interest in IF to HARP for \$1,000 during the three-month put period, commencing on March 31, 2023, the last day of the tax credit investment period. Exercise of this option will effectively extinguish HARP's note receivable and notes payable described above. HARP will recognize a gain on the forgiveness of debt in an amount approximating the difference in the book value of the note receivable and the notes payable. If the put option is not exercised, HARP has a call option to purchase the interest in IF at fair value.

Pursuant to the transactions, HARP is required to comply with certain NMTC requirements as generally set forth in Internal Revenue Code Section 45D.

During 2020, HARP also financed property and equipment additions in the form of a term note, of which approximately \$45,000 was outstanding and included in notes payable at December 31, 2020.

HUMANE ANIMAL RESCUE OF PITTSBURGH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 15 - GOVERNMENT GRANT

In April 2020, the Organization entered into a term note with Dollar Bank with a principal amount of \$984,500, pursuant to the Paycheck Protection Program (PPP Term Note) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The PPP Term Note is evidenced by a promissory note. The PPP Term Note bears interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. The PPP Term Note is unsecured and guaranteed by the United States Small Business Administration (SBA). Recipients may apply for forgiveness of the PPP Term Note, with the amount eligible to be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred during the 24-week period beginning upon receipt of PPP Term Note funds, calculated in accordance with the terms of the CARES Act. In February 2021, the Organization received full forgiveness of the PPP Term Note from the SBA. As such, the Organization has recorded the full amount of \$984,500 in contributions and grants on the accompanying consolidated statement of activities.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

HARP is, from time to time, subject to claims and suits arising in the ordinary course of its business. Management believes at this time that the ultimate resolution of these matters, if any, will not have a material impact on the financial position, results of activities or cash flows of HARP.

The coronavirus pandemic has materially and adversely affected HARP and its operations. Ongoing government-imposed safety regulations may result in direct operational and administrative disruptions to HARP's operations. Additionally, HARP's suppliers and donors may continue to be adversely affected by these disruptions, which in turn could negatively impact HARP's operating results. HARP is unable to accurately predict how restrictions related to the coronavirus pandemic will continue to affect the results of its operations because the extent of its residual effects and the duration of continuing regulations are uncertain. While it may be premature to accurately predict the ultimate impact of these developments, HARP expects that its results for the year ended December 31, 2021 could be impacted.

NOTE 17 - SUBSEQUENT EVENTS

Management evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through July 22 2021, the date the consolidated financial statements were approved and authorized for issuance and determined there have been no events that have occurred that would require adjustments to disclosures in the consolidated financial statements except for the matter described in the following paragraph.

On February 2, 2021, the Organization entered into a second PPP loan with the SBA for \$986,152. Under recent legislation, the deferral period for loan payments is extended to 1) the date that the SBA remits the borrower's loan forgiveness amount, or 2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. The Organization plans on applying for forgiveness in 2021.