

**SECOND CHANCE HUMANE
SOCIETY, INC.**

FINANCIAL STATEMENTS AND INDEPENDENT
ACCOUNTANT'S REVIEW REPORT

December 31, 2021

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Second Chance Humane Society, Inc.
Ridgway, Colorado

We have reviewed the accompanying financial statements of Second Chance Humane Society, Inc. (a Colorado nonprofit corporation) which comprise the statement of financial position for the year ended December 31, 2021, and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Second Chance Humane Society, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
Durango, Colorado
November 9, 2022

FINANCIAL STATEMENTS

SECOND CHANCE HUMANE SOCIETY

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

Current Assets

Cash and cash equivalents.....	\$ 638,518
Right-of-use.....	14,319
Tax and insurance escrow account.....	1,370
Total current assets.....	654,207

Property and equipment

Land.....	685,102
Building and Improvements	2,034,481
Furniture, fixtures and equipment	35,756
Vehicles	57,697
Total property and equipment.....	2,813,036
Accumulated depreciation.....	(605,857)
Property and equipment, net.....	2,207,179

Other assets

Right-of-use.....	2,386
Lease deposits.....	500
Total other assets.....	2,886

Total assets..... \$ 2,864,272

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable.....	11,941
Accrued wages and taxes.....	48,853
Accrued compensated absences.....	46,666
Other accrued expenses.....	17,704
Mortgages, current portion.....	5,511
Lease liability, current portion.....	14,319
Total current liabilities.....	\$ 144,994

Long-term liabilities

Mortgage payable, net of current portion	150,419
Lease liability, net of current portion	2,386
Total long-term liabilities.....	152,805
Total liabilities.....	297,799

Net assets

Net assets without donor restrictions	
Net assets available for current operations.....	154,805
Net investment in property and equipment.....	2,051,249
Board designated emergency fund.....	240,000
Board designated staff development fund.....	49,000
Board designated facilities fund.....	50,923
Total net assets without donor restrictions.....	2,545,977
Net assets with donor restrictions	20,496
Total net assets.....	2,566,473

Total liabilities and net assets..... \$ 2,864,272

See accompanying notes and independent accountant's review report.

SECOND CHANCE HUMANE SOCIETY

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Revenues			
Adoption, contractual and other.....	\$ 90,924	\$ -	\$ 90,924
Contributions and grants.....	310,570	84,255	394,825
Thrift store income.....	947,950	-	947,950
Interest.....	176	-	176
Rental income.....	20,928	-	20,928
Other income.....	8,373	-	8,373
In - kind donations.....	548	-	548
Special event income, net			
Income.....	22,107	-	22,107
Direct expenses.....	(5,574)	-	(5,574)
Special event income, net.....	16,533	-	16,533
Total before reclassifications.....	1,396,002	84,255	1,480,257
Released from restriction in satisfaction of program restrictions.....	94,913	(94,913)	-
Total revenue and support.....	1,490,915	(10,658)	1,480,257
Functional Expenses			
Program services			
Animal Care.....	1,100,972	-	1,100,972
Community Wellness.....	75,327	-	75,327
Total program services.....	1,176,299	-	1,176,299
Support services			
Management and general.....	156,533	-	156,533
Fundraising.....	163,981	-	163,981
Total support services.....	320,514	-	320,514
Total Functional Expenses	1,496,813	-	1,496,813
Change in net assets.....	(5,898)	(10,658)	(16,556)
Net assets, beginning of year.....	2,551,875	31,154	2,583,029
Net assets, end of year.....	\$ 2,545,977	\$ 20,496	\$ 2,566,473

See accompanying notes and independent accountant's review report.

SECOND CHANCE HUMANE SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

Description	Animal Care Programs	Community Medical Program	Supporting Services		Total Expenses
			Management and General	Fundraising	
Salaries.....	682,600	49,345	109,105	127,827	\$ 968,877
Payroll taxes.....	52,890	3,823	8,454	9,904	75,071
Employee benefits.....	22,967	1,660	3,671	4,301	32,599
Payroll related expenses.....	<u>758,457</u>	<u>54,828</u>	<u>121,230</u>	<u>142,032</u>	<u>1,076,547</u>
Advertising and promotion.....	19,652	1,004	1,587	1,519	23,762
Bank fees.....	20,060	1,024	1,620	1,550	24,254
Catering and meals.....	1,021	52	82	79	1,234
Dues and memberships.....	2,127	109	172	164	2,572
Insurance.....	22,062	1,127	1,782	1,705	26,676
Interest.....	5,646	288	456	436	6,826
Leases.....	12,324	629	995	952	14,900
Office expenses.....	21,156	1,080	1,709	1,635	25,580
Other expenses.....	11,071	565	894	856	13,386
Postage and shipping.....	7,599	388	614	588	9,189
Professional fees.....	9,746	696	12,843	456	23,741
Supplies (food, medical, care).....	54,665	5,603	-	-	60,268
Printing.....	15,929	813	1,286	1,231	19,259
Repairs and maintenance.....	25,138	1,284	2,030	1,943	30,395
Telephone and internet.....	7,365	376	595	569	8,905
Training and development.....	5,016	256	405	388	6,065
Travel.....	4,155	212	336	321	5,024
Utilities.....	36,566	1,867	2,953	2,826	44,212
Depreciation.....	61,217	3,126	4,944	4,731	74,018
Total other expenses.....	<u>342,515</u>	<u>20,499</u>	<u>35,303</u>	<u>21,949</u>	<u>420,266</u>
Total expenses.....	<u>\$ 1,100,972</u>	<u>\$ 75,327</u>	<u>\$ 156,533</u>	<u>\$ 163,981</u>	<u>\$ 1,496,813</u>

See accompanying notes and independent accountant's review report.

SECOND CHANCE HUMANE SOCIETY

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2021

Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from contributors, grantors, and other.....	\$ 511,379
Cash received from thrift store operations.....	947,950
Cash received from rental income.....	20,928
Cash paid to suppliers.....	(1,383,095)
Cash paid for lease.....	(14,305)
Cash paid for interest on lease.....	(595)
Net cash provided by operating activities.....	<u>75,436</u>
Cash flows from investing activities:	
Purchase of property and equipment.....	(107,438)
Net cash used by investing activities.....	<u>(107,438)</u>
Cash flows from financing activities:	
Payment on long-term debt.....	(5,593)
Net cash used by financing activities.....	<u>(5,593)</u>
Net decrease in cash and cash equivalents.....	(37,595)
Cash and cash equivalents, beginning of year.....	<u>676,113</u>
Cash and cash equivalents, end of year.....	<u>\$ 638,518</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets.....	<u>\$ (16,556)</u>
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation.....	74,018
(Increase) decrease in:	
Change in escrow.....	(525)
Increase (decrease) in:	-
Accounts payable.....	2,228
Accrued compensated balances.....	(535)
Other accrued liabilities.....	16,806
Total adjustments.....	<u>91,992</u>
Net cash provided by operating activities.....	<u>\$ 75,436</u>

See accompanying notes and independent accountant's review report.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 - NATURE OF ACTIVITIES

The Second Chance Humane Society, Inc. (the Organization) was incorporated in 1994 for the purpose of providing humane care and treatment for any domestic animal in need. The Organization also provides related education and public services to the communities in and around Ouray, San Miguel, and Montrose counties in Colorado.

The Organization's program services include, but are not limited to, adoption services, education, saving animals lives and promoting the human animal bond. The Organization also operates a thrift store with the proceeds benefiting these program services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP). Net assets and revenues, expenses, gains and losses are classified for reporting purposes based on the existence or absence of donor-imposed restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Without donor restrictions - These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, receiving interest from operating investments, less expenses incurred in providing academic department support, scholarships, raising contributions, and performing administrative functions.

With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt; endowment, annuity, and life income gifts; pledges; and investment returns on endowment funds held in perpetuity, and endowments where the principal may be expended upon the passage of a stated period of time. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents

The Organization considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

From time to time, the Organization maintains deposits in excess of the Federal Deposit Insurance Corporation (FDIC) amount of \$250,000, however management believes there is little risk to the Organization from the overages. To minimize this risk, the Organization uses multiple banks and reviews the bank's financial condition to ensure the safety of its deposits.

Fair value of financial instruments

Generally accepted accounting principles (GAAP) requires disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash and other short-term assets and liabilities, which approximates fair value due to the relatively short maturity of these instruments. There were no changes in methods or assumptions during the year ended December 31, 2021.

Inventory

Thrift store inventory consisting of donated items for resale such as clothing, linens, furniture, décor, and other household items. The organization has not applied an estimated value to these donated items and therefore no inventory amount is reflected in the financial statements.

Property and Equipment

It is the Organization's policy to capitalize property and equipment at cost, while repair and maintenance items are charged to expense. Donations of property and equipment are capitalized at their estimated fair value at the date of gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 5 to 40 years.

Federal income tax status

The Organization is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Organization continues to qualify to be treated as a tax-exempt organization for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. When the Organization has unrelated business income, the federal Exempt Organization Business Income Tax Returns (Form 990T) would be subject to examination by the Internal Revenue Service for three years after they are filed. Should any penalties and interest be incurred, they would be recognized as management and general expenses.

Based on the results of management's evaluation, these requirements did not have a material effect on the Organization's financial statements. Consequently, no liability is recognized in the accompanying statement of financial position for uncertain income tax positions.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Contributions are recognized when the donation is received. Donor-restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions. When a restriction expires, donor restricted net assets are reclassified to unrestricted net assets. Contributions and grants that are restricted by the donor or grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Contributed Services

Contributed services are recognized if services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no contributed services for the years ended December 31, 2021.

A substantial number of individuals have made contributions of their time to assist the Organization in a variety of tasks and services. The value of these services is not recorded in the accompanying financial statements, as these services do not meet the criteria for recognition.

Functional allocation of expenses

The costs of providing the Organization's various programs and supporting services have been reported on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on actual direct expenditures and cost allocation techniques.

Recent adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU, which is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration an organization expects to receive in exchange for those goods and services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Organizations that transition to this new standard may either retrospectively restate each prior reporting period or follow the modified retrospective method, which reflects the cumulative effect of initially applying the updates with an adjustment to net assets at the date of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet. The guidance requires disclosures to better inform financial statement users of the amount, timing and uncertainty of cash flows arising from leases. The primary impact of this guidance will be to records right-of-use asset and obligations for current operating leases. The Organization adopted ASU 2016-02 and its related amendments as of January 1, 2021, which resulted in the recognition of finance right-of-use assets and finance lease liabilities totaling \$16,705.

The Organization adopted this standard effective January 1, 2021, using the modified retrospective approach. The cumulative effect of applying the new standard was deemed immaterial by management. Therefore, no adjustments were made to the Organization's financial position, statement of activities, functional expenses, or cash flows as a result of the adoption of ASU 2014-09.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent issued accounting pronouncements

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The objective of this ASU is to increase transparency of contributed nonfinancial assets for not-for-profit ("NFP") entities through enhancements to presentation and disclosure. The amendments in this ASU apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments in this ASU will improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services. The amendments will not change the recognition and measurement requirements. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022. Early application is permitted. The amendments in this ASU should be applied on a retrospective basis.

The Organization is currently assessing the impact these recent accounting pronouncements will have on its financial statements.

NOTE 3 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following reflects the Organization's financial assets available within one year of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or board designated reserves, at December 31, 2021:

Financial assets:	
Cash and cash equivalents	\$ 638,518
Tax and insurance escrow	1,370
Current liabilities	<u>(144,994)</u>
Financial assets, at year-end	494,894
Less amounts unavailable for general expenditure:	
Board designated emergency fund	(240,000)
Board designated staff development fund	(49,000)
Board designated facilities fund	(50,923)
Net assets with donor restrictions	<u>(20,496)</u>
Financial assets available to meet cash needs	
for general expenditures within one year	<u>\$ 134,475</u>

The Organization's primary source of revenue is thrift store income which representing approximately 64% of revenue and support. All of that revenue is available to be used at the Organization's discretion. The Organization receives grants and contributions representing approximately 27% of revenue and support, of which 27% is donor restricted support required to be used in accordance with the purpose restrictions imposed by the donors.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 4 - LONG - TERM DEBT

The Organization has a mortgage payable of \$155,930 at December 31, 2021 on the property located in Ridgway, Colorado. The note bears interest at 4.5%, and is due in monthly installments of \$1,176, including principal and interest. The agreement is collateralized by property stated above with a net book value of \$140,839 at December 31, 2021. The note matures in August 2025 at which time all outstanding principal and interest becomes due.

Scheduled maturities of the long-term note payable are as follows at December 31, 2021:

<u>Year ended December 31,</u>	
2022	\$ 5,511
2023	5,764
2024	6,029
2025	<u>138,626</u>
Total	<u>\$ 155,930</u>

Interest expense was \$6,826, for the year ended December 31, 2021, and is included in interest expense under the statement of functional expenses.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2021:

Land	\$ 685,102
Building and improvements	2,034,481
Vehicles	<u>57,697</u>
Total cost	2,813,036
Accumulated depreciation	<u>(605,857)</u>
Net property and equipment	<u>\$ 2,207,179</u>

Depreciation expense for the year ended December 31, 2021 was \$74,018.

NOTE 6 - LEASE COMMITMENTS

In February 2021, the Organization entered into an operating lease for store space set to expire in February 2023. The asset and liability under the operating lease are recorded at the present value of the future minimum lease payments. The Organization pays a base monthly amount of \$1,250 under the terms of the lease. Total lease expense for the space totaled \$14,900 for the year ended December 31, 2021. Future minimum annual rental commitments under the long-term operating leases at December 31, 2021 are as follows:

Minimum future lease payments are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 15,000
2023	<u>2,500</u>
Present value of future minimum lease payments	<u>\$ 17,500</u>

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended December 31, 2021 were restricted by the passage of time or for the following specified purposes:

	Net Assets With Donor Restrictions January 1, 2021	Restricted Support	Released from Restriction	Net Assets With Donor Restrictions December 31, 2021
Animal Care Programs	\$ 30,000	\$ 49,255	\$ (78,759)	\$ 496
Community Medical Program	1,154	35,000	(16,154)	20,000
Total	<u>\$ 31,154</u>	<u>\$ 84,255</u>	<u>\$ (94,913)</u>	<u>\$ 20,496</u>

NOTE 8 - CONCENTRATION

Concentrations of Credit Risk. The Organization's primary customers are local governments and individuals. The Organization performs ongoing credit evaluations of its customers and does not require collateral. In the past, credit losses had been minimal and within management's expectations.

Geographical Concentrations. The Organization receives predominantly all of its support and revenue from the surrounding counties of Ouray, San Miguel, and Montrose.

NOTE 9 - RELATED PARTIES

During 2021, the Organization leased owned properties to two of its employees on month-to-month rental arrangements. Rental revenue from related parties for the year ended December 31, 2021 was \$20,928. Under the terms of the agreements, the employees paid refundable security deposits totaling \$2,425 and are included in other accrued expenses on the statement of financial position at December 31, 2021.

NOTE 10 - BOARD DESIGNATED FUNDS

The Board of Directors designated \$240,000, an amount roughly equivalent to 2 months of operating expenses, as an operating reserve to allow for the continuation of program services in the event of unanticipated funding reductions. As of December 31, 2021, reserve had \$240,000 set aside for that purpose.

During 2020, the Board created a designated fund with a beginning balance of \$100,000 for facilities expenses related to the Angel Ridge property, at December 31, 2021 the facilities fund had a balance remaining of \$50,923.

During 2021, the Board created a designated fund to fund a Head of Development for the Organization. At December 31, 2021 the staffing fund had \$49,000 set aside for that purpose.

NOTE 11 - IN-KIND CONTRIBUTIONS

Donated services, which require recognition, are those that create or enhance non-financial assets or that specifically require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind volunteer hours contribute greatly to the success and quality of the Organization. Of the in-kind contributions recognized during the year, approximately \$500 were related to use of facilities, and \$48 were for goods.

SECOND CHANCE HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2021

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 9, 2022, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.