

Financial Statements
Year Ended
June 30, 2020



Heritage Humane Society, Inc.

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Independent Auditors' Report

To the Board of Directors
Heritage Humane Society, Inc.

We have audited the accompanying financial statements of ***Heritage Humane Society, Inc.*** (Society), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Society'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 Society'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 ***Heritage Humane Society, Inc.***, as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Beth Moore & Associates, CPAs

September 9, 2020

Expertise ~ Attention ~ Agility

Heritage Humane Society, Inc.

Statement of Financial Position

June 30, 2020

Assets	
Current assets	
Cash and cash equivalents	\$ 830,446
Investments	451,105
Contract receivables	11,384
Prepaid expenses	9,038
Inventory	<u>8,021</u>
Total current assets	1,309,994
Property and equipment - net	2,083,976
Other asset	
Investments - endowment	<u>144,552</u>
	<u>\$ 3,538,522</u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 14,898
Accrued payroll	17,893
Accrued vacation	<u>6,575</u>
Total current liabilities	<u>39,366</u>
Net assets	
Without donor restrictions:	
Undesignated	2,923,434
Board designated	<u>365,205</u>
	<u>3,288,639</u>
With donor restrictions:	
Restricted by purpose	65,965
Restricted in perpetuity	<u>144,552</u>
Total net assets with donor restrictions	<u>210,517</u>
Total net assets	<u>3,499,156</u>
	<u>\$ 3,538,522</u>

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

Heritage Humane Society, Inc.

Statement of Activities and Net Assets

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Support			
Contributions	\$ 794,147	\$ 7,500	\$ 801,647
Contributions - United Way	19,105	-	19,105
Bequests	10,200	-	10,200
Grants	24,100	-	24,100
Contribution - PPP	128,600	-	128,600
In-kind contributions	12,500	-	12,500
Special events - net	104,708	-	104,708
Net assets released from restriction	33,693	(33,693)	-
Total support	1,127,053	(26,193)	1,100,860
Revenue			
Adoption fees	108,374	-	108,374
Government shelter management fees	100,346	-	100,346
Return to owner fees	7,362	-	7,362
Education and camps	1,049	-	1,049
Spay/neuter fees	7,167	-	7,167
Shop sales - net	5,428	-	5,428
Investment return - net	7,726	(3,246)	4,480
Other	19,073	-	19,073
Total revenue	256,525	(3,246)	253,279
Total support and revenue	1,383,578	(29,439)	1,354,139
Expenses			
Program services	929,680	-	929,680
Management and general	117,455	-	117,455
Fundraising	44,890	-	44,890
Total expenses	1,092,025	-	1,092,025
Change in net assets	291,553	(29,439)	262,114
Net assets - beginning of year	3,002,148	234,894	3,237,042
Reclassification adjustment	(5,062)	5,062	-
Net assets - end of year	\$ 3,288,639	\$ 210,517	\$ 3,499,156

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

Heritage Humane Society, Inc.

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total
Advertising	\$ 3,289	\$ -	\$ 365	\$ 3,654
Bank charges	-	9,517	-	9,517
Conferences and education	2,990	332	-	3,322
Depreciation	103,131	11,459	-	114,590
Dues and subscriptions	2,559	284	-	2,843
Employee benefits	45,355	6,275	3,081	54,711
Insurance	10,769	1,197	-	11,966
Legal and professional fees	-	12,661	-	12,661
Meals and entertainment	1,393	155	-	1,548
Miscellaneous	165	-	-	165
Office supplies	2,351	261	-	2,612
Payroll taxes	33,585	4,471	2,845	40,901
Postage	1,373	76	76	1,525
Printing and copying	14,209	789	789	15,787
Repairs and maintenance	16,586	1,843	-	18,429
Salaries and wages	463,656	58,446	37,193	559,295
Taxes and licenses	-	960	-	960
Telephone	20,155	2,239	-	22,394
Uniforms	-	-	541	541
Utilities	37,398	4,155	-	41,553
Vehicles	2,118	-	-	2,118
Veterinarian care and animal supplies	168,598	-	-	168,598
Volunteer and Board expenses	-	2,335	-	2,335
	\$ 929,680	\$ 117,455	\$ 44,890	\$ 1,092,025

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

Heritage Humane Society, Inc.

Statement of Cash Flows

Year Ended June 30, 2020

Cash flows from operating activities

Change in net assets	\$ 262,114
Adjustments to reconcile to net cash from operating activities:	
Depreciation	114,590
Net realized and unrealized losses on investments	19,999
Changes in:	
Contract receivables	(11,134)
Prepaid expenses	(345)
Inventory	(1,529)
Accounts payable	(14,427)
Accrued payroll	2,999
Accrued vacation	(1,260)
Deferred revenue	(7,862)

Net cash from operating activities 363,145

Cash flows from investing activities

Purchases of property and equipment	(68,369)
Purchases of investments	(503,280)
Proceeds from sale of investments	958,230

Net cash from investing activities 386,581

Net change in cash and cash equivalents 749,726

Cash and cash equivalents - beginning of year 80,720

Cash and cash equivalents - end of year \$ 830,446

Supplemental disclosure of non cash activities

Donated services	\$ 12,500
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The accompanying notes are an integral part of these financial statements.

Heritage Humane Society, Inc.

Notes to Financial Statements

June 30, 2020

1. Organization and Nature of Activities

Heritage Humane Society, Inc. (Society) is a non-stock, not-for-profit organization that serves as a compassionate haven for stray or unwanted companion animals, educates the local community about humane care and treatment, advocates for animal welfare, and promotes adoption to measurably reduce overpopulation and homelessness of animals.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Society have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Society is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The classes of net assets are described as follows:

- **Without Donor Restrictions** – Those resources not subject to donor-imposed restrictions and are available for general operations. The Board of Directors (Board) has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose.
- **With Donor Restrictions** – Those resources subject to donor-imposed restrictions that will be satisfied by action of Society or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity

Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that temporarily limit the use of the donated assets or are for future periods. When a donor restriction is satisfied, by either passage of time or action, net assets with donor restrictions are reclassified to net assets without donor restrictions. When restrictions are met in the same fiscal year in which donor restricted support is received, the gift is classified as support without donor restrictions.

Cash and Cash Equivalents

The Society considers all highly liquid investments including time deposits with an initial maturity of three months or less to be cash equivalents.

Credit Risk

Financial instruments that subject the Society to concentrations of credit risk consist principally of cash and cash equivalents and contract receivables. The Society maintains cash accounts in a national bank.

Collected funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to the legal limit. At June 30, 2020, the bank's collected balances exceeded the FDIC coverage by \$176,546.

Management believes that its billing and collection policies are adequate to minimize the potential credit risk associated with contract receivables.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. While not an agency of the United States government, like the FDIC, the Securities Investor Protection Corporation (SIPC) insures accounts (not the underlying investments) with each brokerage firm up to a maximum of \$500,000.

Property and Equipment

Property and equipment are stated at cost. Donated property is recorded at fair market value at the date of receipt. The Society follows the practice of capitalizing all expenditures for property and equipment in excess of \$500. When an asset is sold, retired, or otherwise disposed and the cost and related accumulated depreciation are eliminated from the accounts, any resulting gain or loss is included in the statement of activities and net assets.

	<u>Years</u>
Building and improvements	15 - 39
Equipment and vehicles	5 - 7
Furniture and fixtures	3 - 39
Software	3

Functional Expenses

The Society allocates its expenses, on a functional basis, among its various programs and supporting services. Expenses that relate to a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated based on personnel time and space utilization, as well as identification of direct costs for each activity.

Income Taxes

The Society has been recognized by the Internal Revenue Service as a qualified charitable organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Society has determined that it does not have any material unrecognized income tax benefits or obligations as of June 30, 2020. Fiscal years ending on or after June 30, 2017, remain subject to examination by federal and state tax authorities.

Inventory

The Society values its inventory, which consists of retail merchandise and other products for animals, at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

Advertising Costs

Advertising costs are expensed as incurred and were \$3,654 for 2020.

Donated Materials and Services

The Society records the value of donated materials or services when there is an objective basis available to measure their value. The Society recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance nonfinancial assets.
- The services received require special skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Donated services of \$12,500 have been reflected in the statement of activities and net assets for 2020. In addition, a substantial number of volunteers donated significant amounts of time in the Society's program services, which do not meet the criteria above.

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 support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

New Accounting Pronouncements (not yet adopted)

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes a comprehensive revenue recognition standard for virtually all industries under accounting principles generally accepted in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2019. Early adoption is permitted.

In 2016, the FASB issued ASU 2016-02 - *Leases (Topic 842)*. The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU was initially effective for non-public entities for years beginning after December 15, 2019. The effective date for this ASU has been extended to years beginning after December 15, 2021. Early adoption is permitted.

Reclassification Adjustment

Net assets with donor restrictions at June 30, 2019 did not include \$5,062 of funds for which donor restrictions had not been satisfied. Accordingly, a reclassification adjustment of \$5,062 to net assets with donor restrictions is reflected on the statement of activities and net assets. The reclassification adjustment had no impact on the previously reported change in net assets.

Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through September 9, 2020, the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment at June 30, 2020 consist of the following:

Building and improvements	\$ 2,772,800
Equipment and vehicles	442,858
Furniture and fixtures	45,147
Software	31,361
Construction in progress	48,262
	<hr/>
	3,340,427
Less - accumulated depreciation	(1,256,451)
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	\$ 2,083,976

Depreciation expense for 2020 was \$114,590.

4. Investments

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable assets (level 3 measurements). The three levels of the fair value hierarchy under applicable accounting standards are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Society has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
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If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Mutual Funds: Valued at the official closing price of, or the last reported sale price, on the exchange or market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Prices for each security are taken from the principal exchange or market on which the security trades.

Exchange-Traded Products: Listed on the national stock exchange and can be bought and sold in the equity trading markets. These investments encompass a number of structures that track an underlying benchmark, index or portfolio of securities. Prices for each security are taken from the principal exchange or market on which the security trades.

Stocks: Valued at the closing price reported in the active market on which the securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the investment assets at fair value:

Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 524,307	\$ -	\$ -	\$ 524,307
Exchange-traded products	65,692	-	-	65,692
Stocks	5,658	-	-	5,658
	<u>\$ 595,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 595,657</u>

The cost and estimated fair value of investment securities at June 30, 2020 are as follows:

	Cost	Fair Value	Net Unrealized Gains (Losses)
Mutual funds	\$ 476,280	\$ 524,307	\$ 48,027
Exchange-traded products	64,779	65,692	913
Stocks	6,088	5,658	(430)
	<u>\$ 547,147</u>	<u>\$ 595,657</u>	<u>\$ 48,510</u>

At June 30, 2020, cash of \$414,714 was held in money market accounts and is included in cash and cash equivalents on the statement of financial position.

5. Net Assets Without Donor Restrictions – Board Designated

The Society's Board has designated funds which are maintained in a savings account for future capital needs.

6. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30, 2020:

Restricted for specific purpose:	
McDuff and Winnie's Way endowment funds	\$ 53,403
Grants and contributions - program activities or capital purchases	<u>12,562</u>
Total restricted for specific purpose	65,965
Not subject to appropriation or expenditure:	
Investment in perpetuity - original gift amount	<u>144,552</u>
	<u>\$ 210,517</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by donors. Those amounts released from restrictions are as follows:

Satisfaction of specific purpose:	
Program activities and/or capital expenses	<u>\$ 33,693</u>

7. Special Events

The Society hosted several fundraising events during 2020. Revenues and expenses related to such special events are as follows:

Special events revenue	\$ 128,945
Less - direct cost of special events	<u>(24,237)</u>
	<u>\$ 104,708</u>

8. Endowment Funds

The Winnie's Way Endowment Fund and the McDuff Endowment Fund were established to provide the Society with a reliable and consistent long-term source of funding.

The Endowment Funds include donor-restricted funds to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board appropriates such amounts for expenditure and any other purpose restrictions have been met. The Society's Board has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Society considers a fund to be underwater 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 in accordance with the direction of the applicable donor gift instrument. The Society has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent

measures required under the law. Additionally, in accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Society and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Society has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide the maximum return within certain constraints. The assets must be invested with the care, skill and diligence that a prudent man acting in this capacity would undertake. All investments will be made within quality, marketability and diversification guidelines. The greatest focus is on long-term appreciation of the assets and consistency of total portfolio returns.

Spending Policy. The Society's Board governs the use of the endowment funds and identifies the mission-related programs and services for which the funds will be used.

Endowment net asset composition is as follows at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount to be maintained in perpetuity	\$ -	\$ 144,552	\$ 144,552
Restricted by purpose	-	53,403	53,403
	<u>\$ -</u>	<u>\$ 197,955</u>	<u>\$ 197,955</u>

Changes in the endowment fund net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds - June 30, 2019	\$ -	\$ 211,951	\$ 211,951
Investment return - net	-	(3,246)	(3,246)
Withdrawals	-	(10,750)	(10,750)
Endowment funds - June 30, 2020	<u>\$ -</u>	<u>\$ 197,955</u>	<u>\$ 197,955</u>

9. Commitments and Contract Receivables

The Society provides animal management services for the Bruton District of York County (County), James City County (JCC) and the City of Williamsburg (City).

Under a contract dated July 1, 2000, the Society agreed to provide animal management services for the County for an agreed-upon amount. The contract is renewed annually. For 2020, the Society received \$15,000 from the County for these services.

The Society entered into a contract with the City on January 1, 2005. The term of the contract is for 40 years. The contract requires the Society to pay the City \$1 per year for the lease of the land on which the Society's shelter sits. Also, the Society is required to act as the City's animal pound for the duration of the contract. For 2020, the Society received \$-0- for these services.

In February 2017, the Society entered into a revised contract with JCC, which began July 1, 2017. The contract has an initial term of five years, and is renewable every five years for eight additional terms, for a total contract term of 45 years. The Society agreed to act as JCC's animal pound. JCC agreed to pay the Society a fixed firm price for providing these services. For 2020, the Society received \$73,962 for these services. In addition, JCC shall reimburse the Society for a portion of its utilities. For 2020, the Society received \$11,384 in reimbursements from JCC. Contract receivables from JCC at June 30, 2020 were \$11,384.

10. Retirement Plan

In 2018, the Society has established a SIMPLE IRA plan for the benefit of eligible employees. Retirement plan expense for 2020 was \$10,926, and is included in employee benefits on the statement of functional expenses.

11. Liquidity and Availability

The Society has approximately \$825,000 of financial assets available to meet its cash needs for general expenditures within one year of the statement of financial position date. Amounts available have been reduced by amounts not available for general use within one year of the statement of financial position date due to donor-imposed restrictions and internal designations. The Society has a goal to maintain financial assets, which consists of cash in hand to meet 60 days of normal operating expenses less depreciation, which are, on average, approximately \$163,000. The Society has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

12. Concentrations

During 2020, the Society received 34% of its total support and revenue from one donor's estate.

13. Contingency

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the financial position or operations of the Society going forward at this time.

14. Contribution - PPP

On April 13, 2020, the Society received loan proceeds in the amount of \$128,600 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 and non-profits for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. The loan 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 maintaining 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 five years at an interest rate of 1% with a deferral of payments for the first six months.

The Society has chosen to follow the guidance included in Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*. The TQA states that in situations in which the PPP's eligibility and loan forgiveness criteria are expected to be met, the non-profit should account for such PPP loan in accordance with ASC Subtopic 958-605 as a conditional contribution. The Society's management believes the Society has used the proceeds for the purposes consistent with the PPP and that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

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