

Houston Humane Society

Financial Statements

For the Years Ended December 31, 2021 and 2020

HOUSTON HUMANE SOCIETY

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
<u>Financial Statements</u>	
Statements of Financial Position	3
Statement of Activities - December 31, 2021	5
Statement of Activities - December 31, 2020	6
Statement of Functional Expenses - December 31, 2021	7
Statement of Functional Expenses - December 31, 2020	8
Statements of Cash Flows	9
Notes to Financial Statements	10



SPAIN PRICE READER
& THOMPSON, P.C.
ACCOUNTANTS & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Houston Humane Society
Houston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Houston Humane Society, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Houston Humane Society as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston Humane Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Humane Society's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Humane Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Humane Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Spain, Price, Reader & Thompson P.C.

Houston, Texas
September 29, 2022

HOUSTON HUMANE SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2021 AND 2020

	2021	2020
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 2,118,856	\$ 2,406,972
Investments	14,629,154	12,707,914
Other assets	12,517	14,661
	16,760,527	15,129,547
 <u>Property and equipment</u>		
Automobiles	350,311	249,244
Furniture and fixtures	394,847	389,587
Computer equipment	180,420	180,420
Machinery and equipment	1,255,725	1,255,725
Buildings and land	12,179,650	11,972,371
Construction in progress	12,500	-
	14,373,453	14,047,347
Less accumulated depreciation and amortization	4,920,435	4,567,223
	9,453,018	9,480,124
 <u>Endowment investments</u>		
Investments	838,163	838,163
	\$ 27,051,708	\$ 25,447,834

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2021 AND 2020

	2021	2020
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 186,164	\$ 184,214
Accrued expenses	96,172	86,570
	282,336	270,784
<u>Net assets</u>		
Without donor restrictions	24,126,358	22,488,379
With donor restrictions	2,643,014	2,688,671
	26,769,372	25,177,050
	\$ 27,051,708	\$ 25,447,834

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>Revenues and other support</u>			
Contributions	\$ 5,518,154	\$ 221,654	\$ 5,739,808
Special events, net of costs of direct benefit to donors of \$16,799	120,440	-	120,440
Merchandise sales	27,031	-	27,031
Service fees	3,090,985	-	3,090,985
Interest and dividend income	240,324	-	240,324
SBA loan gain	10,000	-	10,000
Other income	8,727	-	8,727
Net gain on investments	398,695	-	398,695
Net assets released from restrictions:			
Appropriation for expenditure	163,739	(163,739)	-
Satisfaction of donor restrictions	103,572	(103,572)	-
	<u>9,681,667</u>	<u>(45,657)</u>	<u>9,636,010</u>
<u>Expenses</u>			
Program service:			
Shelter	3,376,580	-	3,376,580
Spay/Neuter Clinic	3,341,452	-	3,341,452
Cruelty Rescue	674,348	-	674,348
Supporting services:			
Fund-raising	482,040	-	482,040
General and administrative	169,268	-	169,268
	<u>8,043,688</u>	<u>-</u>	<u>8,043,688</u>
Change in net assets	1,637,979	(45,657)	1,592,322
Net assets, beginning of year	<u>22,488,379</u>	<u>2,688,671</u>	<u>25,177,050</u>
Net assets, end of year	<u>\$ 24,126,358</u>	<u>\$ 2,643,014</u>	<u>\$ 26,769,372</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>Revenues and other support</u>			
Contributions	\$ 4,530,638	\$ 119,171	\$ 4,649,809
Special events, net of costs of direct benefit to donors of \$8,233	123,197	-	123,197
Merchandise sales	25,009	-	25,009
Service fees	3,222,621	-	3,222,621
Interest and dividend income	256,940	-	256,940
SBA loan gain	554,530	-	554,530
Other income	20,265	-	20,265
Net gain on investments	433,786	-	433,786
Net assets released from restrictions:			
Appropriation for expenditure	149,886	(149,886)	-
Satisfaction of donor restrictions	134,195	(134,195)	-
	<u>9,451,067</u>	<u>(164,910)</u>	<u>9,286,157</u>
<u>Expenses</u>			
Program service:			
Shelter	2,660,772	-	2,660,772
Spay/Neuter Clinic	3,377,627	-	3,377,627
Cruelty Rescue	293,048	-	293,048
Supporting services:			
Fund-raising	584,278	-	584,278
General and administrative	160,922	-	160,922
	<u>7,076,647</u>	<u>-</u>	<u>7,076,647</u>
Change in net assets	2,374,420	(164,910)	2,209,510
Net assets, beginning of year	<u>20,113,959</u>	<u>2,853,581</u>	<u>22,967,540</u>
Net assets, end of year	<u>\$ 22,488,379</u>	<u>\$ 2,688,671</u>	<u>\$ 25,177,050</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Shelter Expenses</u>	<u>Spay/Neuter Clinic</u>	<u>Cruelty Rescue</u>	<u>Fund-Raising</u>	<u>General and Administrative</u>	<u>Total</u>
<u>Salaries and related expenses</u>						
Salaries	\$ 1,011,688	\$ 1,326,350	\$ 228,168	\$ 107,174	\$ 30,809	\$ 2,704,189
Payroll taxes and benefits	175,876	115,469	17,634	8,821	2,679	320,479
	<u>1,187,564</u>	<u>1,441,819</u>	<u>245,802</u>	<u>115,995</u>	<u>33,488</u>	<u>3,024,668</u>
<u>Operating expenses</u>						
Accounting	23,601	45,952	650	7,830	13,770	91,803
Advertising	14,733	17,192	1,232	105	-	33,262
General education and publicity	56,148	56,038	-	-	-	112,186
Bank charges	39,526	62,904	8,291	3,393	20,041	134,155
Contracted services	80,086	358,917	219,328	32,687	-	691,018
Cost of sales	1,506,755	904,664	128,141	-	-	2,539,560
Insurance	66,224	200,597	11,128	37,059	55,590	370,598
Maintenance and repairs	22,937	67,123	22,048	-	-	112,108
Office equipment	13,822	23,077	4,240	4,240	-	45,379
Postage	407	1,806	203	83,448	-	85,864
Printing	-	-	-	148,758	-	148,758
Supplies - office	5,486	7,329	1,821	3,642	-	18,278
Supplies - other	5,263	14,309	1,810	1,940	-	23,322
Telephone	6,822	17,056	3,411	3,210	1,606	32,105
Travel, education and seminars	2,041	2,791	5,536	1,382	2,073	13,823
Utilities	76,249	12,832	224	10,507	5,252	105,064
Other expenses	56,916	32,846	9,883	1,665	2,236	103,546
Special events	-	-	-	4,979	-	4,979
	<u>1,977,016</u>	<u>1,825,433</u>	<u>417,946</u>	<u>344,845</u>	<u>100,568</u>	<u>4,665,808</u>
Total operating expenses and salaries before depreciation	3,164,580	3,267,252	663,748	460,840	134,056	7,690,476
Depreciation and amortization	212,000	74,200	10,600	21,200	35,212	353,212
	<u>\$ 3,376,580</u>	<u>\$ 3,341,452</u>	<u>\$ 674,348</u>	<u>\$ 482,040</u>	<u>\$ 169,268</u>	<u>\$ 8,043,688</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Shelter Expenses</u>	<u>Spay/Neuter Clinic</u>	<u>Cruelty Rescue</u>	<u>Fund-Raising</u>	<u>General and Administrative</u>	<u>Total</u>
<u>Salaries and related expenses</u>						
Salaries	\$ 920,801	\$ 1,459,602	\$ 191,309	\$ 112,484	\$ 29,087	\$ 2,713,283
Payroll taxes and benefits	155,606	111,227	14,812	9,822	2,530	293,997
	<u>1,076,407</u>	<u>1,570,829</u>	<u>206,121</u>	<u>122,306</u>	<u>31,617</u>	<u>3,007,280</u>
<u>Operating expenses</u>						
Accounting	19,517	38,491	579	6,501	11,486	76,574
Advertising	24,842	25,562	1,029	222	-	51,655
General education and publicity	73,561	74,462	-	-	-	148,023
Bank charges	37,061	58,597	7,669	6,033	19,299	128,659
Contracted services	55,839	145,468	5,369	32,455	-	239,131
Cost of sales	983,250	1,001,202	5,587	-	-	1,990,039
Insurance	45,218	213,561	10,726	35,933	53,900	359,338
Maintenance and repairs	22,099	71,419	20,967	256	-	114,741
Office equipment	13,274	22,570	4,099	4,084	-	44,027
Postage	429	1,931	215	86,733	-	89,308
Printing	-	-	-	239,190	-	239,190
Supplies - office	5,149	6,808	1,731	3,478	-	17,166
Supplies - other	9,446	16,491	85	2,062	-	28,084
Telephone	5,155	12,887	2,578	2,426	1,213	24,259
Travel, education and seminars	605	1,171	1,812	478	718	4,784
Utilities	58,337	11,575	251	8,255	4,127	82,545
Other expenses	26,597	29,134	13,449	1,751	2,624	73,555
Disaster relief expenses	241	-	-	-	-	241
Special events	-	-	-	10,553	-	10,553
	<u>1,380,620</u>	<u>1,731,329</u>	<u>76,146</u>	<u>440,410</u>	<u>93,367</u>	<u>3,721,872</u>
Total operating expenses and salaries before depreciation	2,457,027	3,302,158	282,267	562,716	124,984	6,729,152
Depreciation and amortization	203,745	75,469	10,781	21,562	35,938	347,495
	<u>\$ 2,660,772</u>	<u>\$ 3,377,627</u>	<u>\$ 293,048</u>	<u>\$ 584,278</u>	<u>\$ 160,922</u>	<u>\$ 7,076,647</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 1,592,322	\$ 2,209,510
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	353,212	347,495
Gain on SBA loan forgiveness	(10,059)	(557,700)
Interest on SBA loan forgiven	59	3,170
Net realized/unrealized gain on investments	(398,695)	(433,786)
(Increase) decrease in assets:		
Inventory	545	15,332
Prepaid expenses	1,599	(14,661)
Increase (decrease) in liabilities:		
Accounts payable	1,950	24,606
Accrued expenses	9,602	49,477
	<u>1,550,535</u>	<u>1,643,443</u>
 <u>Cash flows from investing activities</u>		
Purchases of fixed assets	(313,606)	(183,912)
Construction in progress	(12,500)	-
Proceeds from sales of marketable securities	5,651,282	10,413,198
Purchases of marketable securities	<u>(7,173,827)</u>	<u>(12,080,841)</u>
	<u>(1,848,651)</u>	<u>(1,851,555)</u>
 <u>Cash flows from financing activities</u>		
Proceeds from SBA loan	10,000	564,530
Payments to SBA loan	<u>-</u>	<u>(10,000)</u>
	<u>10,000</u>	<u>554,530</u>
Net increase (decrease) in cash and cash equivalents	(288,116)	346,418
Cash and cash equivalents, beginning of year	<u>2,406,972</u>	<u>2,060,554</u>
Cash and cash equivalents, end of year	<u>\$ 2,118,856</u>	<u>\$ 2,406,972</u>
 Supplemental cash flow disclosures:		
Interest	<u>\$ -</u>	<u>\$ 58</u>
SBA paycheck protection program loan forgiven including interest	<u>\$ 10,059</u>	<u>\$ 557,700</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: Nature of activities and significant accounting policies

Nature of activities

The Houston Humane Society (the "Organization") is a nonprofit organization incorporated July 1958. The Organization, through leadership, education and action, seeks to prevent cruelty to all living creatures, relieve the suffering of animals, and provide educational programs to the general public regarding animal welfare. The Organization is located in Houston, Texas and provides animal care services for several surrounding counties. The Organization's primary sources of revenues are public and private contributions and service fees (clinic and shelter services).

Significant accounting policies

Basis of presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and follows the guidance of the Financial Accounting Standards Board ("FASB") related to financial statements of not-for-profit organizations. Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The Organization had net assets without donor restrictions of \$24,126,358 and \$22,488,379 as of December 31, 2021 and 2020, respectively.

Net assets with donor restrictions– Net assets subject to donor-imposed stipulations. Net assets with donor-imposed restrictions include net assets that are either (i) restricted until the donor-imposed stipulation has been met through the passage of time and/or by actions of the Board of Directors, or (ii) expected to be maintained in perpetuity. When a purpose restriction is accomplished or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions. The Organization had net assets with donor restrictions of \$2,643,014 and \$2,688,671 as of December 31, 2021 and 2020, respectively.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents exclude restricted cash and cash equivalents.

Restricted cash

There is no restricted cash in fiscal years ended December 31, 2021 and 2020.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: Nature of activities and significant accounting policies (continued)

Significant accounting policies (continued)

Contributions

Contributions received are recorded as contributions without donor restrictions and contributions with donor restrictions depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of the restrictions.

Endowment contributions and investments are restricted by the donor. Investment earnings available for distribution are recorded in net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions.

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Management determines the amount necessary to provide as an allowance for uncollectible promises to give based on its evaluation of potential uncollectible contributions receivable at year-end. No allowance for uncollectible promises to give was considered necessary at December 31, 2021 and 2020.

Investments

Investments are composed of equity mutual and index funds, equity securities, fixed income bond funds and certificates of deposit and are recorded at fair market value. The realized and unrealized gains and losses on these investments are reflected in the statement of activities.

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairments were indicated in 2021 or 2020.

Property and equipment

Donated furniture and equipment owned by the Organization is recorded at fair market value at date of contribution. All purchased furniture and equipment is recorded at historical cost.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: Nature of activities and significant accounting policies (continued)

Significant accounting policies (continued)

Property and equipment (continued)

Depreciation of property and equipment is provided using both straight-line and accelerated methods over the following useful lives:

<u>Assets</u>	<u>Years</u>
Automobiles	5
Furniture and fixtures	5 - 15
Computer equipment	3 - 7
Machinery and equipment	5 - 7
Buildings and improvements	15 - 39

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization expense for the years ended December 31, 2021 and 2020 were \$353,212 and \$347,495, respectively.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Recent Accounting Standards

In February 2016, FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases—Topic 842*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. ASU 2016-02 is effective fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The amendments in this Update defer the effective date of Leases by one year for entities in the "all other" category. Therefore, Leases is effective for those entities for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted, including adoption in an interim period. The Organization is planning to adopt ASU 2016-02 in the fiscal year ended December 31, 2022 using a retrospective transition method for each period presented then.

Donated materials and services

The Organization records donated materials as contribution revenue in the period received at fair market value at the date of the gift. Contributed services of professionals are recognized as in-kind contribution revenue at their estimated fair value if they require specialized skills which would need to be purchased if they were not donated. In-kind donations included in contribution revenue at December 31, 2021 and 2020 totaled to \$1,437,137 and \$916,775, respectively, for food and supplies.

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and program activities. These donated services do not meet the criteria for recognition required by accounting principles generally accepted in the United States of America and are not reflected in the accompanying financial statements.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: Nature of activities and significant accounting policies (continued)

Significant accounting policies (continued)

Functional allocation of expenses

The costs of the Organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal income tax

The Organization has been granted tax-exempt status by the Internal Revenue Service under Internal Revenue Code Section 501(c)(3). The Organization has unrelated business taxable income but sustains losses and has a net operating loss carryover. Accordingly, the Organization's financial statements do not include a provision for Federal income taxes.

In 2009, the Organization implemented the provisions of ASC Topic 740-10, *Income Taxes* which clarifies the accounting for uncertainty in income taxes. The Organization concluded there were no uncertain tax positions that result in material unrecognized tax benefits.

Use of estimates

The preparation of the Organization's 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 the reported amounts of revenue and expenses during each reporting period. Actual results could differ from those estimates.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$33,262 and \$51,655 for the years ended December 31, 2021 and 2020, respectively.

NOTE 2: Investments

In accordance with accounting guidance, fair value is defined as the price that the Organization would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. Various inputs are used in determining the value of the investments. A three-tier hierarchy of inputs is used to establish a classification of fair value measurements and disclosure. The three-tier hierarchy of inputs is summarized below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Level 1 inputs - The fair value of the organization's mutual funds, common stocks, corporate bonds, and fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2: Investments (continued)

Level 2 inputs - The fair value of certificates of deposit is based on yields for security of comparable maturity, quality, and type as obtained from market makers, which are observable inputs other than the quoted market prices.

Level 3 inputs - The fair value of hedge funds, real estate backed investments, and commodities are determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,083,821	\$ -	\$ 5,083,821
U.S. Treasury notes	5,772,168	-	-	5,772,168
Equity mutual and index funds	409,784	-	-	409,784
Equity securities	3,080,306	-	-	3,080,306
Fixed income taxable bond funds	1,121,238	-	-	1,121,238
	<u>\$ 10,383,496</u>	<u>\$ 5,083,821</u>	<u>\$ -</u>	<u>\$ 15,467,317</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,926,854	\$ -	\$ 5,926,854
U.S. Treasury notes	3,588,974	-	-	3,588,974
Equity mutual and index funds	351,226	-	-	351,226
Equity securities	2,752,345	-	-	2,752,345
Fixed income taxable bond funds	926,678	-	-	926,678
	<u>\$ 7,619,223</u>	<u>\$ 5,926,854</u>	<u>\$ -</u>	<u>\$ 13,546,077</u>

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2021:

	Without Restrictions	With Restrictions	Total
Certificates of deposit	\$ 5,083,821	\$ -	\$ 5,083,821
U.S. Treasury notes	5,772,168	-	5,772,168
Equity mutual and index funds	10,436	399,348	409,784
Equity securities	2,393,163	687,143	3,080,306
Fixed income taxable bond funds	1,121,238	-	1,121,238
	<u>\$ 14,380,826</u>	<u>\$ 1,086,491</u>	<u>\$ 15,467,317</u>

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2: Investments (continued)

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2020:

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
Certificates of deposit	\$ 5,926,854	\$ -	\$ 5,926,854
U.S. Treasury notes	3,588,974	-	3,588,974
Equity mutual and index funds	-	351,226	351,226
Equity securities	2,069,827	682,518	2,752,345
Government bonds	926,678	-	926,678
	<u>\$ 12,512,333</u>	<u>\$ 1,033,744</u>	<u>\$ 13,546,077</u>

NOTE 3: Liquidity and availability of financial resources

The following reflects the Organization's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the financial position date. Amounts not available include amounts restricted for a donor specified purpose.

	<u>2021</u>	<u>2020</u>
Financial assets, at year-end	\$ 17,598,690	\$ 15,967,710
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	2,643,014	2,688,671
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,955,676</u>	<u>\$ 13,279,039</u>

The Organization is substantially supported by individual contributors in the form of one-time donations, bequests which usually come from individuals who have previously adopted animals from the Organization or have another personal connection to the Organization, and fundraising events held at various times throughout the year. Other revenue sources include in-kind contributions from sponsor companies and other restricted contributions from major donors.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4: SBA paycheck protection program loan

On April 30, 2020, the Organization was granted a loan from a bank in the amount of \$564,530, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The loan, which was in the form of a note dated April 30, 2020 issued by the Organization, had an original maturity of April 30, 2022 and bears interest at a rate of .98% per annum, commencing on October 30, 2020. Funds from the loan could only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations.

The Organization used the loan amount for qualifying expenses and the loan was partially forgiven on December 2, 2020. The Organization paid unforgiven portion, including interest, of \$10,059 on December 7, 2020. The \$10,059 was forgiven and received on February 23, 2021. The Organization has adopted ASC 470 to account for the loan and has recorded an SBA loan gain from the forgiven portion of the loan in the statement of activities.

NOTE 5: Endowment

The Organization's endowment consists of a memorial fund in the name of Royce Clark and Gordon Watson at JPMorgan Chase Bank, N.A. The income from the fund is restricted to the funding of special events and other non-routine expenditures.

Interpretation of relevant law

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- (1) The duration and preservation of the fund
- (2) The purposes of 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 Organization
- (7) The investment policies of the Organization.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 5: Endowment (continued)

Endowment net assets consist of the following at December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment Fund	<u>\$ 265,204</u>	<u>\$ 838,163</u>	<u>\$ 1,103,367</u>

Endowment net assets consist of the following at December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment Fund	<u>\$ 228,206</u>	<u>\$ 838,163</u>	<u>\$ 1,066,369</u>

Changes in endowment net assets for the years ended December 31, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2020	\$ 151,603	\$ 838,163	\$ 989,766
Contributions	-	-	-
Investment income	23,397	-	23,397
Unrealized and realized gains	(93,555)	-	(93,555)
Amounts appropriated for expenditure	<u>146,761</u>	<u>-</u>	<u>146,761</u>
Endowment net assets, December 31, 2021	228,206	838,163	1,066,369
Contributions	-	-	-
Investment income	25,261	-	25,261
Unrealized and realized loss	150,937	-	150,937
Amounts appropriated for expenditure	<u>(139,200)</u>	<u>-</u>	<u>(139,200)</u>
Endowment net assets, December 31, 2022	<u>\$ 265,204</u>	<u>\$ 838,163</u>	<u>\$ 1,103,367</u>

HOUSTON HUMANE SOCIETY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2021 AND 2020

NOTE 5: Endowment (continued)

Fund with deficiency

From time to time, the fair value of assets associated with individual endowment funds with donor restrictions may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. There was no deficiency as of December 31, 2021.

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that seek income and capital growth as well as preservation of principal. It is intended to have an average level of risk and may experience moderate levels of volatility.

Strategies employed for achieving objectives

To satisfy its investment objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The Organization's spending policy is to spend all amounts above the restricted endowment amount on expenditures allowed by the endowment. Typically, the Organization withdraws the excess amounts from the investment endowment assets once a year.

NOTE 6: Special events

Special events consist of revenues and expenses from the following:

	2021	2020
K-9 Fun Run	\$ 35,992	\$ 35,244
Companion Camp	65,410	36,754
Young Adult Professionals	2,498	1,772
Par Fore Pets Golf Tournament	26,705	-
No Ball	-	53,115
Car Auction	6,634	4,545
	<u>137,239</u>	<u>131,430</u>
Less direct benefits to donors	<u>(16,799)</u>	<u>(8,233)</u>
	<u>\$ 120,440</u>	<u>\$ 123,197</u>

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 7: Net assets with donor restrictions

At December 31, 2021 and 2020, net assets with donor restrictions are available for the following:

	<u>2021</u>	<u>2020</u>
Heartworm Treatment Fund	\$ 15,639	\$ 6,935
Pet Crates	1,791	-
Hurricane IDA	2,500	-
Pet Transportation Fund	60	-
LINK	500	-
Banfield Foundation- medical equipment	15,000	-
Hurricane Harvey Disaster Recovery	1,769,361	1,842,834
Hamill Foundation- x-ray machine	-	739
Endowment	838,163	838,163
	<u>\$ 2,643,014</u>	<u>\$ 2,688,671</u>

For the years ended December 31, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2021</u>	<u>2020</u>
Hamill Foundation - x-ray machine	\$ 739	\$ 18,624
The Hamill Foundation	25,000	-
Foster Program	5,000	-
Pet Transportation Fund	900	-
Heartworm Treatment Fund	12,031	7,835
The Denver Foundation	10,000	-
Winter Storm	60,034	-
ACU/Raider Case	-	33,407
Hurricane Harvey Disaster Recovery	73,473	138,221
Grooming Fund	-	100
Spay and Neuter Clinic	21,850	-
Pet Pantry	16,690	64,058
Food/Supply	5,842	450
Hurricane IDA	29,259	-
Wilma Memorial Fund	100	1,161
Special Needs Fund	-	225
Education	6,155	5,000
Pet Crates	238	-
Banfield Foundation - Ultrasound machine	-	15,000
	<u>\$ 267,311</u>	<u>\$ 284,081</u>

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 8: Merchandise sales

Merchandise sales include items sold through the Organizations' clinic and shelter retail store. The revenue generated from merchandise sales is available for program expenses.

NOTE 9: Related party transactions

From time to time, the organization purchases goods and services from businesses that are owned or operated by employees and or members of their respective board. There were no transactions during the years ended December 31, 2021 and 2020 that were material to the financial statements. These transactions are done at arm's length and at market rates (that are sometimes discounted). The board has in place a conflict of interest policy that requires disclosure of any Board member that may do business with the organization, and the board members are not allowed to participate on any purchase decisions by the organization involving their respective business.

Family members of the president of the Board of Directors received commissions for insurance sales and referrals related to the Organization's property, casualty, and health insurance policies. Fees for these services totaled \$14,767 and \$12,232 for the years ended December 31, 2021 and 2020, respectively.

The secretary of the Board of Directors owns a veterinarian clinic which provided veterinarian services to the organization and was paid \$25,200 and \$22,000 for the years ended December 31, 2021 and 2020, respectively, for these services.

A Board of Directors member received payment of \$72,000 and \$72,000 for consulting services offered for the years ended December 31, 2021 and 2020.

NOTE 10: Operating leases

The Organization leases certain office equipment. Total lease expense amounted to \$18,004 and \$13,824 for the years ended December 31, 2021 and 2020, respectively.

Future minimum rental payments under the noncancelable operating leases are as follows at December 31:

2022	\$ 23,856
2023	12,238
2024	5,852
	<u>\$ 41,946</u>

NOTE 11: Concentrations of credit risk

The Organization is subject to concentrations of credit risk primarily with respect to its cash and investments. As of December 31, 2021, the Organization had \$1,471,160 of cash over the Federal Deposit Insurance Corporation insured limit. The Organization also deposits cash in money market funds accounts that invest in U.S. government or other highly rated securities but are not insured by FDIC. At December 31, 2021, uninsured balances held in money market funds accounts totaled \$197,214. It is the policy of the Organization's management to continually evaluate the underlying strength of its financial institutions.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 11: Concentrations of credit risk (continued)

Investments consist primarily of certificates of deposit, foreign and domestic corporate stocks, which could subject the Organization to losses in the event of general downturns in foreign or U.S. stock markets. The Organization has reduced its risk related to common stock through diversification into investments in a variety of industries.

NOTE 12: 403(b) Thrift Plan

The Organization has a 403(b) Thrift Plan to provide retirement benefits for its employees. Under the Plan, all employees are eligible to contribute pre-tax dollars to a retirement plan for their future benefit and include an employer-matching component. Participants employed two years or more who have attained age twenty-one will receive the lesser of (a) fifty percent (50%) of their contributions to the Plan or (b) five percent (5%) of their compensation received during that plan years. During the year ended December 31, 2021, the Organization amended the plan document and contributions (based on years of service) will be based on a table ranging from 50% - 120% limited to 10% of compensation. Employer contributions to the Plan were \$47,067 and \$44,853 for the years ended December 31, 2021 and 2020, respectively.

NOTE 13: Deferred taxes

The Organization is required to file a Form 990-T related to one of their programs. The activity has sustained losses in the past that have resulted in a net operating loss of approximately \$288,176. Based on a tax rate of 37%, the following is a summary of the deferred taxes at December 31, 2021 and 2020:

	2021	2020
Deferred tax asset	\$ 106,625	\$ 116,627
Valuation allowance	(106,625)	(116,627)
	\$ -	\$ -

Management has determined that the valuation allowance should be the entire balance based on the continuing net operating losses of this program.

NOTE 14: Commitments and contingencies

The Organization is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of the Organization's management, the liability, if any, for such contingencies will not have a material effect on the Organization's financial position.

NOTE 15: Subsequent events

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic, resulting in economic uncertainties affecting the Organization's risks. The Organization has services and donations that might be impacted by this global pandemic. The effect on the Organization's financial results in the future cannot be reasonably estimated at this time.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 15: Subsequent events (continued)

On September 1, 2022, the Organization and a nonprofit corporation entered into a contribution agreement. The nonprofit corporation contributed assets to the Organization in the amount of \$29,105 as of September 1, 2022.

The Organization has evaluated subsequent events through the issuance of the financial statements, which occurred on September 29, 2022.