



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

Houston Humane Society

Financial Statements

For the Years Ended December 31, 2020 and 2019

HOUSTON HUMANE SOCIETY

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
<u>Financial Statements</u>	
Statements of Financial Position	2
Statement of Activities - December 31, 2020	4
Statement of Activities - December 31, 2019	5
Statement of Functional Expenses - December 31, 2020	6
Statement of Functional Expenses - December 31, 2019	7
Statements of Cash Flows	8
Notes to Financial Statements	9



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Houston Humane Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Humane Society as of December 31, 2020 and 2019, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Spain, Price, Reader & Thompson P.C.

Houston, Texas
October 20, 2021

HOUSTON HUMANE SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 2,406,972	\$ 2,060,554
Investments	12,707,914	10,606,485
Other assets	14,661	15,332
	15,129,547	12,682,371
 <u>Property and equipment</u>		
Automobiles	249,244	214,772
Furniture and fixtures	389,587	389,587
Computer equipment	180,420	180,420
Machinery and equipment	1,255,725	1,106,285
Buildings and land	11,972,371	11,972,371
	14,047,347	13,863,435
Less accumulated depreciation and amortization	4,567,223	4,219,728
	9,480,124	9,643,707
 <u>Endowment investments</u>		
Investments	838,163	838,163
	\$ 25,447,834	\$ 23,164,241

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2020 AND 2019

	2020	2019
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 184,214	\$ 159,609
Accrued expenses	86,570	37,093
	270,784	196,702
<u>Net assets</u>		
Without donor restrictions	22,488,379	20,113,958
With donor restrictions	2,688,671	2,853,581
	25,177,050	22,967,539
	\$ 25,447,834	\$ 23,164,241

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)	-
	9,451,067	(164,910)	9,286,157
<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
	7,076,647	-	7,076,647
Change in net assets	2,374,420	(164,910)	2,209,510
Net assets, beginning of year	20,113,959	2,853,581	22,967,540
Net assets, end of year	\$ 22,488,379	\$ 2,688,671	\$ 25,177,050

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>Revenues and other support</u>			
Contributions	\$ 2,669,129	\$ 141,541	\$ 2,810,670
Special events, net of costs of direct benefit to donors of \$16,982	91,420	-	91,420
Merchandise sales	24,745	-	24,745
Service fees	3,738,393	-	3,738,393
Interest income	232,458	26,990	259,448
Other income	9,515	-	9,515
Net gain on investments	441,330	86,068	527,398
Net assets released from restrictions:			
Appropriation for expenditure	113,058	(113,058)	-
Satisfaction of donor restrictions	227,922	(227,922)	-
	<u>7,547,970</u>	<u>(86,381)</u>	<u>7,461,589</u>
<u>Expenses</u>			
Program service:			
Shelter	1,952,192	-	1,952,192
Spay/Neuter Clinic	3,433,678	-	3,433,678
Cruelty Rescue	229,525	-	229,525
Supporting services:			
Fund-raising	443,936	-	443,936
General and administrative	177,404	-	177,404
	<u>6,236,735</u>	<u>-</u>	<u>6,236,735</u>
Change in net assets	1,311,235	(86,381)	1,224,854
Net assets, beginning of year	<u>18,802,723</u>	<u>2,939,962</u>	<u>21,742,685</u>
Net assets, end of year	<u>\$ 20,113,958</u>	<u>\$ 2,853,581</u>	<u>\$ 22,967,539</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
Loss on asset disposal	-	-	-	-	-	-
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
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<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	\$ 972,402	\$ 1,264,575	\$ 142,424	\$ 68,499	\$ 34,560	\$ 2,482,460
Payroll taxes and benefits	159,602	120,084	11,132	5,951	3,005	299,774
	<u>1,132,004</u>	<u>1,384,659</u>	<u>153,556</u>	<u>74,450</u>	<u>37,565</u>	<u>2,782,234</u>
<u>Operating expenses</u>						
Accounting	21,368	40,263	1,047	7,049	12,305	82,032
Advertising	14,412	14,239	363	51	-	29,065
General education and publicity	60,167	59,641	-	-	-	119,808
Bank charges	34,546	56,585	7,149	2,822	17,842	118,944
Contracted services	50,279	227,332	5,796	20,535	-	303,942
Cost of sales	207,685	1,227,178	3,309	-	-	1,438,172
Insurance	55,624	198,425	10,535	35,278	52,917	352,779
Maintenance and repairs	16,603	48,192	16,018	-	-	80,813
Office equipment	11,711	20,069	3,894	3,894	-	39,568
Postage	147	661	88	82,470	-	83,366
Printing	-	-	-	174,380	-	174,380
Supplies - office	5,827	7,733	1,933	3,867	-	19,360
Supplies - other	6,298	22,003	47	3,230	-	31,578
Telephone	4,839	12,097	2,419	2,277	1,138	22,770
Travel, education and seminars	2,574	5,922	1,888	1,385	2,078	13,847
Utilities	59,675	11,318	252	8,382	4,190	83,817
Other expenses	47,234	20,364	10,124	1,150	1,752	80,624
Loss on asset disposal	-	-	-	-	11,207	11,207
Disaster relief expenses	3,399	532	182	-	-	4,113
Special events	-	-	-	869	-	869
	<u>602,388</u>	<u>1,972,554</u>	<u>65,044</u>	<u>347,639</u>	<u>103,429</u>	<u>3,091,054</u>
Total operating expenses and salaries before depreciation	1,734,392	3,357,213	218,600	422,089	140,994	5,873,288
Depreciation and amortization	217,800	76,465	10,925	21,847	36,410	363,447
	<u>\$ 1,952,192</u>	<u>\$ 3,433,678</u>	<u>\$ 229,525</u>	<u>\$ 443,936</u>	<u>\$ 177,404</u>	<u>\$ 6,236,735</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 2,209,511	\$ 1,224,854
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	347,495	363,447
Gain on SBA loan forgiveness	(557,700)	-
Interest on SBA loan forgiven	3,170	-
Net realized/unrealized gain on investments	(433,786)	(527,398)
Loss on disposal of assets	-	29,386
(Increase) decrease in assets:		
Inventory	15,332	-
Prepaid expenses	(14,661)	(15,332)
Increase (decrease) in liabilities:		
Accounts payable	24,605	626
Accrued expenses	49,477	(47,798)
	<u>1,643,443</u>	<u>1,027,785</u>
 <u>Cash flows from investing activities</u>		
Purchases of fixed assets	(183,912)	(162,180)
Proceeds from sales of marketable securities	10,413,198	5,530,752
Purchases of marketable securities	<u>(12,080,841)</u>	<u>(6,987,420)</u>
	<u>(1,851,555)</u>	<u>(1,618,848)</u>
 <u>Cash flows from financing activities</u>		
Proceeds from SBA loan	564,530	-
Payments to SBA loan	<u>(10,000)</u>	<u>-</u>
	<u>554,530</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	346,418	(591,063)
Cash and cash equivalents, beginning of year	<u>2,060,554</u>	<u>2,651,617</u>
Cash and cash equivalents, end of year	<u>\$ 2,406,972</u>	<u>\$ 2,060,554</u>
 Supplemental cash flow disclosures:		
Interest	<u>\$ 58</u>	<u>\$ -</u>
SBA paycheck protection program loan forgiven including interest	<u>\$ 557,700</u>	<u>\$ -</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 \$22,488,379 and \$20,113,958 as of December 31, 2020 and 2019, 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 \$2,688,671 and \$2,853,581 as of December 31, 2020 and 2019, 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

In November 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Organization early adopted ASU 2016-18 for the fiscal

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

Significant accounting policies (continued)

Restricted cash (continued)

year ended December 31, 2020 using a retrospective transition method for each period presented. There is no restricted cash in fiscal years ended December 31, 2020 and 2019.

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, 2020 and 2019.

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 2020 or 2019.

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, 2020 AND 2019

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, 2020 and 2019 were \$347,495 and \$363,447, 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 June 30, 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, 2020 and 2019 totaled to \$916,775 and \$230,658, 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, 2020 AND 2019

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 \$51,655 and \$29,065 for the years ended December 31, 2020 and 2019, respectively.

NOTE 2: Adoption of accounting standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled to those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB issued ASU No. 2015-14 which delayed the effective date of ASU No. 2014-09 by one year (effective for annual periods beginning after December 15, 2018). This standard has been applied on a retrospective basis to the combined financial statements for the years June 30, 2020 and 2019. Because the timing and amount of revenue recognized previously is not different from revenue recognized under the new guidance,

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2: Adoption of accounting standards (continued)

adoption of this standard had no impact on total beginning or ending net assets or on total changes in net assets for the years ended June 30, 2020 and 2019. Presentation and disclosure pertaining to the years ended June 30, 2020 and 2019 have been updated as appropriate to conform with the new standard.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional and unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. This standard has been applied on a retrospective basis to the combined financial statements for the years December 31, 2020 and 2019. Because the timing and amount of revenue recognized previously is not different from revenue recognized under the new guidance, adoption of this standard had no impact on total beginning or ending net assets or on total changes in net assets for the years ended December 31, 2020 and 2019. Presentation and disclosure pertaining to the years ended December 31, 2020 and 2019 have been updated as appropriate to conform with the new standard.

NOTE 3: 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.

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.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 3: Investments (continued)

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, 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 table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,739,742	\$ -	\$ 5,739,742
U.S. Treasury notes	2,030,007	-	-	2,030,007
Equity mutual and index funds	444,628	-	-	444,628
Equity securities	2,281,677	-	-	2,281,677
Fixed income taxable bond funds	948,594	-	-	948,594
	<u>\$ 5,704,906</u>	<u>\$ 5,739,742</u>	<u>\$ -</u>	<u>\$ 11,444,648</u>

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

	Without Restrictions	With Restrictions	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	2,069,827	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>

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 3: Investments (continued)

The following schedule summarizes the fair market value of investments held by the Organization at December 31, 2019:

	Without Restrictions	With Restrictions	Total
Certificates of deposit	\$ 5,739,742	\$ -	\$ 5,739,742
U.S. Treasury notes	2,030,007	-	2,030,007
Equity mutual and index funds	-	444,628	444,628
Equity securities	1,748,021	533,656	2,281,677
Government bonds	948,594	-	948,594
	<u>\$ 10,466,364</u>	<u>\$ 978,284</u>	<u>\$ 11,444,648</u>

NOTE 4: Liquidity and availability of financial resources

The following reflects the Organization's financial assets as of December 31, 2020 and 2019, 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.

	2020	2019
Financial assets, at year-end	\$ 15,967,711	\$ 13,520,534
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	2,688,671	2,853,581
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,279,040</u>	<u>\$ 10,666,953</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, 2020 AND 2019

NOTE 5: 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. Subsequently, 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 6: 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, 2020 AND 2019

NOTE 6: Endowment (continued)

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>

Endowment net assets consist of the following at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment Fund	<u>\$ 151,603</u>	<u>\$ 838,163</u>	<u>\$ 989,766</u>

Changes in endowment net assets for the years ended December 31, 2020 and 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2018	\$ 40,582	\$ 838,163	\$ 878,745
Contributions	-	-	-
Investment income	-	26,990	26,990
Unrealized and realized gains	-	86,068	86,068
Amounts appropriated for expenditure	<u>111,021</u>	<u>(113,058)</u>	<u>(2,037)</u>
Endowment net assets, December 31, 2019	151,603	838,163	989,766
Contributions	-	-	-
Investment income	23,397	-	23,397
Unrealized and realized loss	(93,555)	-	(93,555)
Amounts appropriated for expenditure	<u>146,761</u>	<u>-</u>	<u>146,761</u>
Endowment net assets, December 31, 2020	<u>\$ 228,206</u>	<u>\$ 838,163</u>	<u>\$ 1,066,369</u>

HOUSTON HUMANE SOCIETY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020 AND 2019

NOTE 6: 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, 2020.

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 7: Special events

Special events consist of revenues and expenses from the following:

	2020	2019
K-9 Fun Run	\$ 35,244	\$ 22,430
Companion Camp	36,754	56,051
Young Adult Professionals	1,772	3,493
Par Fore Pets Golf Tournament	-	23,986
No Ball	53,115	-
Car Auction	4,545	2,442
	<u>131,430</u>	<u>108,402</u>
Less direct benefits to donors	<u>(8,233)</u>	<u>(16,982)</u>
	<u>\$ 123,197</u>	<u>\$ 91,420</u>

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8: Net assets with donor restrictions

At December 31, 2020 and 2019, net assets with donor restrictions are available for the following:

	2020	2019
Heartworm	\$ 6,935	\$ -
Benfield Foundation- ultrasound machine	-	15,000
Hurricane Harvey Disaster Recovery	1,842,833	1,981,055
Hamill Foundation- x-ray machine	739	19,363
Endowment	838,163	838,163
	\$ 2,688,670	\$ 2,853,581

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:

	2020	2019
Hamill Foundation - x-ray machine	\$ 18,624	\$ 39,638
Heartworm	7,835	9,139
ACU/Raider Case	33,407	56,135
Hurricane Harvey	138,221	109,113
Grooming Fund	100	60
Spay and Neuter Clinic	-	60
Pet Pantry	64,058	-
Food/Supply	450	1,792
Monty's Task Force	-	25
Wilma Memorial Fund	1,161	-
Special Needs Fund	225	330
Education	5,000	-
PSC-Isolation building	-	11,630
Banfield Foundation - Ultrasound machine	15,000	-
	\$ 284,081	\$ 227,922

NOTE 9: 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 10: 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, 2020 and 2019 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

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 10: Related party transactions (continued)

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 \$13,528 and \$12,232 for the years ended December 31, 2020 and 2019, respectively.

The secretary of the Board of Directors owns a veterinarian clinic which provided veterinarian services to the organization and was paid \$16,500 and \$22,000 for the years ended December 31, 2020 and 2019, respectively, for these services.

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

NOTE 11: Operating leases

The Organization leases certain office equipment. Total lease expense amounted to \$13,824 and \$13,667 for the years ended December 31, 2020 and 2019, respectively.

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

2021	\$	13,824
2022		13,824
2023		2,206
		<u>29,854</u>
	\$	<u>29,854</u>

NOTE 12: 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, 2020, the Organization had \$1,906,377 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, 2020, uninsured balances held in money market funds accounts totaled \$204,095. It is the policy of the Organization's management to continually evaluate the underlying strength of its financial institutions.

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.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 13: 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, 2020, 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 \$44,853 and \$49,276 for the years ended December 31, 2020 and 2019, respectively.

NOTE 14: 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 \$315,207. Based on a tax rate of 37%, the following is a summary of the deferred taxes at December 31, 2020 and 2019:

	2020	2019
Deferred tax asset	\$ 116,627	\$ 125,880
Valuation allowance	(116,627)	(125,880)
	\$ -	\$ -

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

NOTE 15: 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 16: 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.

On August 10, 2021, the Organization and a nonprofit corporation entered into a non-binding letter of intent for a potential business combination between the organizations (the “Letter of Intent”). As of date of issuance of the financials, there has not been an agreement reached or signed.

The Organization has evaluated subsequent events through the issuance of the financial statements, which occurred on October 20, 2021.