

Houston Humane Society

Financial Statements

For the Years Ended December 31, 2022 and 2021

HOUSTON HUMANE SOCIETY

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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, 2022 and 2021, 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, 2022 and 2021, 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
November 10, 2023

HOUSTON HUMANE SOCIETY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 5,240,066	\$ 2,118,856
Investments	14,477,788	14,629,154
Other assets	11,660	12,517
	19,729,514	16,760,527
 <u>Property and equipment</u>		
Automobiles	411,304	350,311
Furniture and fixtures	394,846	394,847
Computer equipment	180,420	180,420
Machinery and equipment	1,361,036	1,255,725
Buildings and land	12,295,846	12,179,650
Construction in progress	26,400	12,500
	14,669,852	14,373,453
Less accumulated depreciation and amortization	5,292,555	4,920,435
	9,377,297	9,453,018
 <u>Endowment investments</u>		
Investments	838,163	838,163
	\$ 29,944,974	\$ 27,051,708

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2022 AND 2021

	2022	2021
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 350,324	\$ 186,168
Accrued expenses	125,893	96,172
	476,217	282,340
<u>Net assets</u>		
Without donor restrictions	26,675,828	24,126,354
With donor restrictions	2,792,929	2,643,014
	29,468,757	26,769,368
	\$ 29,944,974	\$ 27,051,708

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>Revenues and other support</u>			
Contributions	\$ 9,308,503	\$ 252,017	\$ 9,560,520
Special events, net of costs of direct benefit to donors of \$15,359	152,039	-	152,039
Merchandise sales	16,818	-	16,818
Service fees	3,198,118	-	3,198,118
Interest and dividend income	323,155	-	323,155
Other income	69,491	-	69,491
Net loss on investments	(928,170)	-	(928,170)
Net assets released from restrictions:			
Appropriation for expenditure	43,584	(43,584)	-
Satisfaction of donor restrictions	58,518	(58,518)	-
	<u>12,242,056</u>	<u>149,915</u>	<u>12,391,971</u>
<u>Expenses</u>			
Program service:			
Shelter	4,666,167	-	4,666,167
Spay/Neuter Clinic	3,585,317	-	3,585,317
Cruelty Rescue	547,130	-	547,130
Supporting services:			
Fund-raising	709,892	-	709,892
General and administrative	184,076	-	184,076
	<u>9,692,582</u>	<u>-</u>	<u>9,692,582</u>
Change in net assets	2,549,474	149,915	2,699,389
Net assets, beginning of year	<u>24,126,354</u>	<u>2,643,014</u>	<u>26,769,368</u>
Net assets, end of year	<u>\$ 26,675,828</u>	<u>\$ 2,792,929</u>	<u>\$ 29,468,757</u>

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>22,488,375</u>	<u>2,688,671</u>	<u>25,177,046</u>
Net assets, end of year	<u>\$ 24,126,354</u>	<u>\$ 2,643,014</u>	<u>\$ 26,769,368</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<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	\$ 1,314,342	\$ 1,308,661	\$ 176,237	\$ 187,013	\$ 33,167	\$ 3,019,420
Payroll taxes and benefits	238,735	121,064	13,630	16,036	2,884	392,349
	<u>1,553,077</u>	<u>1,429,725</u>	<u>189,867</u>	<u>203,049</u>	<u>36,051</u>	<u>3,411,769</u>
<u>Operating expenses</u>						
Accounting	23,674	41,344	4,384	12,417	9,850	91,669
Advertising	77,407	78,358	570	294	-	156,629
General education and publicity	87,745	86,820	-	-	-	174,565
Bank charges	48,113	70,102	10,120	4,807	23,496	156,638
Contracted services	115,879	463,827	222,143	49,888	-	851,737
Cost of sales	2,066,379	936,114	39,875	-	-	3,042,368
Insurance	94,018	197,177	14,965	40,821	61,232	408,213
Maintenance and repairs	117,993	71,372	23,251	-	-	212,616
Office equipment	20,999	27,000	5,022	5,029	-	58,050
Postage	378	1,700	189	64,742	-	67,009
Printing	-	-	-	276,711	-	276,711
Supplies - office	6,515	8,824	2,144	4,288	-	21,771
Supplies - other	29,437	24,574	182	3,498	-	57,691
Telephone	10,182	25,454	5,090	4,791	2,396	47,913
Travel, education and seminars	9,924	5,516	9,629	3,343	6,188	34,600
Utilities	91,350	17,087	297	12,792	6,396	127,922
Other expenses	84,977	24,723	8,602	1,645	2,467	122,414
Special events	-	-	-	177	-	177
	<u>2,884,970</u>	<u>2,079,992</u>	<u>346,463</u>	<u>485,243</u>	<u>112,025</u>	<u>5,908,693</u>
Total operating expenses and salaries before depreciation	4,438,047	3,509,717	536,330	688,292	148,076	9,320,462
Depreciation and amortization	228,120	75,600	10,800	21,600	36,000	372,120
	<u>\$ 4,666,167</u>	<u>\$ 3,585,317</u>	<u>\$ 547,130</u>	<u>\$ 709,892</u>	<u>\$ 184,076</u>	<u>\$ 9,692,582</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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 2,699,389	\$ 1,592,322
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	372,120	353,212
Gain on SBA loan forgiveness	-	(10,059)
Interest on SBA loan forgiveness		59
Net realized/unrealized gain on investments	928,170	(398,695)
(Increase) decrease in assets:		
Inventory	(743)	545
Prepaid expenses	1,600	1,599
Increase (decrease) in liabilities:		
Accounts payable	164,156	1,950
Accrued expenses	29,721	9,602
	<u>4,194,413</u>	<u>1,550,535</u>
 <u>Cash flows from investing activities</u>		
Purchases of fixed assets	(257,499)	(313,606)
Construction in progress	(38,900)	(12,500)
Proceeds from sales of marketable securities	15,057,922	5,651,282
Purchases of marketable securities	<u>(15,834,726)</u>	<u>(7,173,827)</u>
	<u>(1,073,203)</u>	<u>(1,848,651)</u>
 <u>Cash flows from financing activities</u>		
Proceeds from SBA loan	<u>-</u>	<u>10,000</u>
	<u>-</u>	<u>10,000</u>
Net increase (decrease) in cash and cash equivalents	3,121,210	(288,116)
Cash and cash equivalents, beginning of year	<u>2,118,856</u>	<u>2,406,972</u>
Cash and cash equivalents, end of year	<u>\$ 5,240,066</u>	<u>\$ 2,118,856</u>
 Supplemental cash flow disclosures:		
SBA paycheck protection program loan forgiven including interest	<u>\$ -</u>	<u>\$ 10,059</u>

See accompanying notes and independent auditors' report.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 \$26,675,828 and \$24,126,354 as of December 31, 2022 and 2021, 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 \$2,792,929 and \$2,643,014 as of December 31, 2022 and 2021, 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, 2022 and 2021.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021.

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 2022 or 2021.

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, 2022 AND 2021

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, 2022 and 2021 were \$372,120 and \$353,212, respectively.

Reclassifications

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

Adoption of New FASB Accounting Standard in the Current Year—No Material Effect on the Financial Statements

In 2022, the Company adopted FASB Accounting Standards (“ASU”) 2016-02, Leases—Topic 842, which requires 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 Company analyzed its current leases and noted any right-of-use asset or lease liability would not be material to accompanying financial statements. Refer to Note 9 for additional information.

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, 2022 and 2021 totaled to \$2,188,407 and \$1,437,136, 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, 2022 AND 2021

NOTE 1: Nature of activities and 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 \$156,629 and \$33,263 for the years ended December 31, 2022 and 2021, 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, 2022 AND 2021

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, 2022:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 5,698,248	\$ -	\$ 5,698,248
U.S. Treasury notes	2,565,687	-	-	2,565,687
Equity mutual and index funds	3,409,400	-	-	3,409,400
Equity securities	2,573,428	-	-	2,573,428
Fixed income taxable bond funds	1,069,188	-	-	1,069,188
	<u>\$ 9,617,703</u>	<u>\$ 5,698,248</u>	<u>\$ -</u>	<u>\$ 15,315,951</u>

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 schedule summarizes the fair market value of investments held by the Organization at December 31, 2022:

	Without Restrictions	With Restrictions	Total
Certificates of deposit	\$ 5,698,248	\$ -	\$ 5,698,248
U.S. Treasury notes	2,565,687	-	2,565,687
Equity mutual and index funds	3,131,254	278,146	3,409,400
Equity securities	2,013,411	560,017	2,573,428
Fixed income taxable bond funds	1,069,188	-	1,069,188
	<u>\$ 14,477,788</u>	<u>\$ 838,163</u>	<u>\$ 15,315,951</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 2: Investments (continued)

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

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
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	2,641,491	438,815	3,080,306
Government bonds	1,121,238	-	1,121,238
	<u>\$ 14,629,154</u>	<u>\$ 838,163</u>	<u>\$ 15,467,317</u>

NOTE 3: Liquidity and availability of financial resources

The following reflects the Organization's financial assets as of December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Financial assets, at year-end	\$ 20,567,677	\$ 17,598,690
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	2,792,929	2,643,014
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,774,748</u>	<u>\$ 14,955,676</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, 2022 AND 2021

NOTE 4: 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.

Endowment net assets consist of the following at December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment Fund	\$ 92,290	\$ 838,163	\$ 930,453

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

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

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4: Endowment (continued)

Changes in endowment net assets for the years ended December 31, 2022 and 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2021	\$ 228,206	\$ 838,163	\$ 1,066,369
Investment income	25,261	-	25,261
Unrealized and realized gains	150,937	-	150,937
Amounts appropriated for expenditure	<u>(139,200)</u>	<u>-</u>	<u>(139,200)</u>
Endowment net assets, December 31, 2022	265,204	838,163	1,103,367
Investment income	25,867	-	25,867
Unrealized and realized loss	(53,818)	-	(53,818)
Amounts appropriated for expenditure	<u>(144,963)</u>	<u>-</u>	<u>(144,963)</u>
Endowment net assets, December 31, 2022	<u>\$ 92,290</u>	<u>\$ 838,163</u>	<u>\$ 930,453</u>

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, 2022.

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.

HOUSTON HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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NOTE 5: Special events

Special events consist of revenues and expenses from the following:

	<u>2022</u>	<u>2021</u>
K-9 Fun Run	\$ 1,500	\$ 35,992
Companion Camp	124,623	65,410
Young Adult Professionals	2,268	2,498
Par Fore Pets Golf Tournament	33,728	26,705
Car Auction	<u>5,279</u>	<u>6,634</u>
	167,398	137,239
Less direct benefits to donors	<u>(15,359)</u>	<u>(16,799)</u>
	<u>\$ 152,039</u>	<u>\$ 120,440</u>

NOTE 6: Net assets with donor restrictions

At December 31, 2022 and 2021, net assets with donor restrictions are available for the following:

	<u>2022</u>	<u>2021</u>
Heartworm Treatment Fund	\$ 13,327	\$ 15,639
Pet Crates	-	1,791
Forensic	3,000	-
Wildlife Center Building Fund	161,109	-
Feed Our Shelter Pets	1,395	-
New Home New Start	640	-
Foster	1,601	-
Hurricane IDA	-	2,500
Pet Transportation Fund	-	60
LINK	500	500
Banfield Foundation- medical equipment	-	15,000
Hurricane Harvey Disaster Recovery	1,769,361	1,769,361
Hamill Foundation	3,833	-
Endowment	<u>838,163</u>	<u>838,163</u>
	<u>\$ 2,792,929</u>	<u>\$ 2,643,014</u>

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NOTE 6: Net assets with donor restrictions (continued)

For the years ended December 31, 2022 and 2021, 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:

	2022	2021
Hamill Foundation – Xray Machine	\$ -	\$ 739
The Hamill Foundation	21,167	25,000
Petco Love	6,000	-
Foster Program	1,032	5,000
Pet Transportation Fund	3,112	900
Heartworm Treatment Fund	25,810	12,031
The Denver Foundation	15,000	10,000
Winter Storm	-	60,034
Adoption Fees	1,367	-
Hurricane Harvey Disaster Recovery	-	73,473
Enrichment	219	-
Spay and Neuter Clinic	515	21,850
Pet Pantry	1,533	16,690
Food/Supply	-	5,842
VCA Charities - IDA	2,500	29,259
Wilma Memorial Fund	1,195	100
Education	400	6,155
Pet Crates	7,252	238
Banfield Foundation - Autoclave	15,000	-
	\$ 102,102	\$ 267,311

NOTE 7: 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 8: 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, 2022 and 2021 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.

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NOTE 8: Related party transactions (continued)

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 \$13,625 and \$14,767 for the years ended December 31, 2022 and 2021, respectively.

The secretary of the Board of Directors owns a veterinarian clinic which provided veterinarian services to the organization and was paid \$27,300 and \$25,200 for the years ended December 31, 2022 and 2021, respectively, for these services.

A Board of Directors member received payment of \$78,000 and \$72,000 for consulting services offered for the years ended December 31, 2022 and 2021.

NOTE 9: Operating leases

The Organization leases certain office equipment. Total lease expense amounted to \$49,154 and \$18,004 for the years ended December 31, 2022 and 2021, respectively. Due to the short-term nature of the lease, the Company has elected to apply the short-term lease exemption provided for under ASC 842. The Company will only recognize right-of-use asset and lease liabilities for material leases with a term greater than one year that may have material impact on the financial statements.

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

2023	\$	49,599
2024		32,803
2025		13,044
2026		5,435
		100,881
	\$	100,881

NOTE 10: 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, 2022, the Organization had \$4,657,176 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, 2022, uninsured balances held in money market funds accounts totaled \$331,331. 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.

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NOTE 11: 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, 2022, 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 \$86,210 and \$47,067 for the years ended December 31, 2022 and 2021, respectively.

NOTE 12: 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 \$346,974. Based on a tax rate of 37%, the following is a summary of the deferred taxes at December 31, 2022 and 2021:

	2022	2021
Deferred tax asset	\$ 128,380	\$ 134,020
Valuation allowance	(128,380)	(134,020)
	\$ -	\$ -

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

NOTE 13: 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 14: Subsequent events

The Organization has evaluated subsequent events through the issuance of the financial statements, which occurred on November 10, 2023.