

HUMANE SOCIETY OF NORTH TEXAS

AUDITED FINANCIAL STATEMENTS

**Years Ended December 31, 2021 and 2020
With Independent Auditors' Report**

HUMANE SOCIETY OF NORTH TEXAS
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Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Humane Society of North Texas

Opinion

We have audited the accompanying financial statements of the Humane Society of North Texas (a nonprofit organization), 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 financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of North Texas as of December 31, 2021 and 2020, and the changes in the net assets and 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Humane Society of North Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 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.

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

Auditors' 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 auditors' 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 the Humane Society of North Texas'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 the Humane Society of North Texas to continue as 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.

J. Taylor & Associates, LLC

Fort Worth, Texas
September 29, 2022

HUMANE SOCIETY OF NORTH TEXAS
Statements of Financial Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 1,079,901	\$ 665,760
Pledges receivable	279,159	885,534
Accounts and grants receivable	108,609	85,865
Prepaid expenses and other current assets	122,384	112,219
Investments	16,312,012	14,864,013
Beneficial interest in charitable trusts	1,500,447	1,601,837
Mineral interest	1,462,978	213,245
Land, buildings, and equipment, net	<u>2,698,671</u>	<u>2,779,285</u>
Total Assets	<u><u>\$ 23,564,161</u></u>	<u><u>\$ 21,207,758</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 212,631	\$ 347,826
Accrued liabilities	<u>314,526</u>	<u>199,176</u>
Total current liabilities	527,157	547,002
Paycheck Protection Program loan	712,017	620,732
Total liabilities	<u>1,239,174</u>	<u>1,167,734</u>
Net assets		
Without donor restrictions	21,021,898	18,611,071
With donor restrictions	<u>1,303,089</u>	<u>1,428,953</u>
Total net assets	<u>22,324,987</u>	<u>20,040,024</u>
Total Liabilities and Net Assets	<u><u>\$ 23,564,161</u></u>	<u><u>\$ 21,207,758</u></u>

See accompanying notes to the financial statements.

HUMANE SOCIETY OF NORTH TEXAS
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Public support	\$ 2,536,365	\$ 777,290	\$ 3,313,655	2,415,937	\$ 288,665	\$ 2,704,602
Bequests	2,335,601	-	2,335,601	1,191,138	-	1,191,138
Special events, net	(1,085)	-	(1,085)	10,252	-	10,252
In-kind contributions	216,880	-	216,880	187,920	-	187,920
Program revenue	1,012,620	-	1,012,620	892,452	-	892,452
Investment income	1,796,804	(37,903)	1,758,901	1,626,584	29,079	1,655,663
Other income	863,716	-	863,716	269,901	-	269,901
Paycheck Protection Program forgiveness	620,732	-	620,732	-	-	-
Net assets released from restrictions	865,251	(865,251)	-	597,774	(597,774)	-
Total support and revenue	10,246,884	(125,864)	10,121,020	7,191,958	(280,030)	6,911,928
Expenses						
Program services						
Animal care	5,642,589	-	5,642,589	5,210,784	-	5,210,784
Cruelty investigations	247,749	-	247,749	191,520	-	191,520
Community outreach	807,772	-	807,772	588,746	-	588,746
Total program services	6,698,110	-	6,698,110	5,991,050	-	5,991,050
General and administrative	525,783	-	525,783	483,159	-	483,159
Fundraising	612,164	-	612,164	492,175	-	492,175
Total expenses	7,836,057	-	7,836,057	6,966,384	-	6,966,384
Change in net assets	2,410,827	(125,864)	2,284,963	225,574	(280,030)	(54,456)
Net assets at beginning of year	18,611,071	1,428,953	20,040,024	18,385,497	1,708,983	20,094,480
Net assets at end of year	\$ 21,021,898	\$ 1,303,089	\$ 22,324,987	\$ 18,611,071	\$ 1,428,953	\$ 20,040,024

See accompanying notes to the financial statements.

HUMANE SOCIETY OF NORTH TEXAS
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services				Supporting Services		Total
	Animal Care	Cruelty Investigations	Community Outreach	Total Program Services	General and Administrative	Fundraising	
Salaries	\$ 2,546,291	\$ 151,008	\$ 444,359	\$ 3,141,658	\$ 284,601	\$ 286,502	\$ 3,712,761
Payroll taxes	191,554	11,303	32,757	235,614	16,272	19,706	271,592
Employee benefits	297,750	16,875	64,658	379,283	32,557	19,199	431,039
Total salaries and related expenses	<u>3,035,595</u>	<u>179,186</u>	<u>541,774</u>	<u>3,756,555</u>	<u>333,430</u>	<u>325,407</u>	<u>4,415,392</u>
Advertising and promotion	209,070	3,784	4,222	217,076	-	9,396	226,472
Bank fees	12,843	-	4,125	16,968	132	21,175	38,275
Contract services	407,769	2,198	12,661	422,628	97,984	20,146	540,758
Equipment	78,553	17,250	4,554	100,357	6,411	1,959	108,727
Insurance	226,299	5,302	10,764	242,365	11,114	4,045	257,524
Maintenance and repairs	92,375	116	3,367	95,858	2,875	-	98,733
Miscellaneous	98,838	5,292	12,156	116,286	23,578	51,464	191,328
Occupancy Costs	50,905	-	14,937	65,842	26,489	7,862	100,193
Office expense	12,062	650	3,742	16,454	1,797	1,112	19,363
Printing and postage	4,624	-	1,638	6,262	749	163,270	170,281
Seminars and training	26,045	4,613	2,240	32,898	1,818	2,798	37,514
Supplies	871,518	6,974	153,991	1,032,483	66	-	1,032,549
Telephone	53,568	4,105	5,828	63,501	6,123	3,877	73,501
Utilities	117,445	5,162	14,733	137,340	11,127	-	148,467
Vehicle and travel	59,427	2,544	870	62,841	535	63	63,439
Total expenses before depreciation	<u>5,356,936</u>	<u>237,176</u>	<u>791,602</u>	<u>6,385,714</u>	<u>524,228</u>	<u>612,574</u>	<u>7,522,516</u>
Depreciation	285,653	10,573	16,170	312,396	1,555	675	314,626
Total expenses	<u>5,642,589</u>	<u>247,749</u>	<u>807,772</u>	<u>6,698,110</u>	<u>525,783</u>	<u>613,249</u>	<u>7,837,142</u>
Less special event direct costs	-	-	-	-	-	(1,085)	(1,085)
Total	<u>\$ 5,642,589</u>	<u>\$ 247,749</u>	<u>\$ 807,772</u>	<u>\$ 6,698,110</u>	<u>\$ 525,783</u>	<u>\$ 612,164</u>	<u>\$ 7,836,057</u>

See accompanying notes to the financial statements.

HUMANE SOCIETY OF NORTH TEXAS
Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services			Supporting Services			Total
	Animal Care	Cruelty Investigations	Community Outreach	Total Program Services	General and Administrative	Fundraising	
Salaries	\$ 2,446,168	\$ 110,363	\$ 294,590	\$ 2,851,121	\$ 259,146	\$ 185,602	\$ 3,295,869
Payroll taxes	180,450	8,290	22,128	210,868	18,293	13,641	242,802
Employee benefits	214,132	10,538	55,956	280,626	29,807	15,184	325,617
Total salaries and related expenses	2,840,750	129,191	372,674	3,342,615	307,246	214,427	3,864,288
Advertising and promotion	176,187	234	7,639	184,060	150	57,718	241,928
Bank fees	14,126	-	2,420	16,546	(173)	19,553	35,926
Contract services	491,621	4,804	10,661	507,086	68,716	37,124	612,926
Equipment	53,592	4,041	5,720	63,353	5,187	138	68,678
Insurance	177,770	3,237	7,174	188,181	9,134	2,393	199,708
Maintenance and repairs	96,597	713	3,553	100,863	4,674	-	105,537
Miscellaneous	77,407	1,172	12,942	91,521	38,987	52,241	182,749
Occupancy Costs	57,846	13,320	13,490	84,656	21,696	7,844	114,196
Office expense	10,164	286	4,580	15,030	3,766	112	18,908
Printing and postage	3,414	236	1,676	5,326	774	102,468	108,568
Seminars and training	11,103	746	443	12,292	29	493	12,814
Supplies	733,181	6,231	109,948	849,360	461	131	849,952
Telephone	49,375	4,086	6,910	60,371	7,359	3,020	70,750
Utilities	109,784	9,068	13,239	132,091	13,418	-	145,509
Vehicle and travel	44,349	4,390	742	49,481	300	86	49,867
Total expenses before depreciation	4,947,266	181,755	573,811	5,702,832	481,724	497,748	6,682,304
Depreciation	263,518	9,765	14,935	288,218	1,435	593	290,246
Total expenses	5,210,784	191,520	588,746	5,991,050	483,159	498,341	6,972,550
Less special event direct costs	-	-	-	-	-	(6,166)	(6,166)
Total	\$ 5,210,784	\$ 191,520	\$ 588,746	\$ 5,991,050	\$ 483,159	\$ 492,175	\$ 6,966,384

See accompanying notes to the financial statements.

HUMANE SOCIETY OF NORTH TEXAS
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 2,284,963	\$ (54,456)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	314,627	290,246
Paycheck Protection Program debt forgiveness	(620,732)	-
Unrealized loss on charitable trusts	91,825	-
Realized gain on sale of property	(620,856)	-
Realized gain on sale of investments	(405,100)	(129,197)
Unrealized gain on investment	(1,182,949)	(1,348,741)
Change in operating assets and liabilities:		
Pledges receivable	606,375	(729,164)
Accounts and grants receivable	(22,744)	186,454
Prepaid expenses and other assets	(13,796)	(28,724)
Mineral interest	(1,249,733)	-
Accounts payable	(135,195)	29,208
Accrued liabilities	115,350	(33,888)
Net cash used in operating activities	(837,965)	(1,818,262)
Cash flows from investment activities		
Proceeds from sale of investments	4,223,484	6,160,014
Purchases of investments	(4,083,434)	(3,966,473)
Proceeds from sale of land, buildings, and equipment	694,286	-
Purchases of land, buildings, and equipment	(303,812)	(1,058,092)
Distributions from charitable trusts	9,565	-
Net cash provided by investing activities	540,089	1,135,449
Cash flows from financing activities		
Proceeds from Paycheck Protection Program debt	712,017	620,732
Net cash provided by financing activities	712,017	620,732
Net increase / (decrease) in cash and cash equivalents	414,141	(62,081)
Cash and cash equivalents at beginning of year	665,760	727,841
Cash and cash equivalents at end of year	\$ 1,079,901	\$ 665,760

See accompanying notes to the financial statements.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements
Years Ended December 31, 2021 and 2020

A. Nature of Activities

Since 1905, the Humane Society of North Texas (the “Society”) has worked to eliminate animal cruelty, promote humane values, and end animal homelessness in North Texas. The Society is a nonprofit organization incorporated under the laws of the state of Texas and is not affiliated with any national animal welfare organization. As an independent nonprofit organization, the Society relies on the generosity of the public to help ensure there is a safe place for abused, injured, and homeless animals. Its services include adoptions, spay/neuter surgeries, low-cost vaccinations, humane education, and cruelty investigations. The Society’s current programs include the following:

Animal Care

The Society operated four adoption centers and an equine and livestock ranch where animals are cared for prior to adoption or to being returned to their owners throughout 2021 and 2020. One of the four adoption centers was closed effective October 31, 2021. All dogs, cats, and small animals in the Society’s care receive appropriate vaccinations and medical treatment, are microchipped, and are spayed or neutered prior to adoption. To improve the likelihood of adoption, many pets are transferred to other animal welfare organizations around the country where there is a shortage of adoptable animals.

Cruelty Investigations

The Society works with local law enforcement authorities to investigate animal cruelty cases. The Society cares for animals seized by authorities or surrendered by owners that are the subject of cruelty investigations. After being awarded custody of the animals, the Society provides for their medical, nutritional, and housing needs until they can be rehabilitated and adopted.

Community Outreach

The Society provides many outreach services to underserved areas of Fort Worth and Tarrant County. The Society operates a low-cost spay and neuter surgery clinic and provides low-cost vaccinations to the public. The Society partners with community organizations to provide free basic veterinary care to senior citizens through the Rae of Hope Program. Vouchers for free spay and neuter surgeries are also distributed to the public, where needed. Education programs are presented at local schools and civic organizations on the humane treatment of animals.

B. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Society is presented to assist in the understanding the financial statements. The financial statements and notes are representations of the Society’s management, which is responsible for their integrity and objectivity.

Basis of Accounting

The Society maintains its accounts on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America (“US GAAP”).

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-impose restrictions. Accordingly, the Society reports information regarding its financial positions and activities and changes therein as follows:

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

B. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. However, no such designations exist at December 31, 2021 and 2020.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources that resources be maintained in perpetuity. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Support and revenue are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed and/or time restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. If the restrictions are met in the year of contribution, the amounts of temporarily restricted the gifts are listed as contributions without donor restrictions.

Federal Income Taxes

The Society is a qualified non-profit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Society applied the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 Accounting for Uncertainty in Income Taxes during the years ended December 31, 2021 and 2020. Under ASC Topic 740 Accounting for Uncertainty in Income Taxes, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The ASC Topic Accounting for Uncertainty in Income Taxes has no impact on the Society's financial statements. The Society does not believe there are any unrecognized tax benefits that should be recorded. For the years ended December 31, 2021 and 2020, there were no interest or penalties recorded or included in the statements of activities related to taxes. The Society is still open to examination by taxing authorities from 2018 forward.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates and assumptions. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

B. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Society considers all amounts held in money market accounts and underlying liquid investments with maturities of three months or less to be the cash equivalents unless such assets are unavailable for current use.

Pledges Receivable

Pledges receivable consists of amounts due from bequests. No allowance for doubtful collections or valuation allowance is recorded because management believes collection within one year is reasonably certain.

Pledges are recognized as assets and contributions in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At December 31, 2021 and 2020, the Society was not aware of any conditional promises to give that could be material to the financial statements.

Accounts and Grants Receivable

Accounts and grants receivable represent amounts due from customers and grantors and are stated at the amount management expects to be collected. No allowance for doubtful accounts is recorded as management considers collection of all balances is reasonably certain.

Investments, Beneficial Interest in Charitable Trusts, and Mineral Interest

Investments which are actively traded are stated at fair value based on quoted market prices. Increases and decreases in fair value are recognized as gains and losses in the period in which they occur.

The Society is the sole beneficiary of certain charitable trusts and split-interest agreements. Such assets are stated at fair value based on the Society's share of the investments held by the trusts which are actively traded. Increases and decreases in fair value are recognized as gains and losses in the period in which they occur.

The Society is also a party to certain remainder trusts. Generally, these agreements require payments to other beneficiaries throughout their lifetime before the Society will become the sole beneficiary of a portion of the remaining assets. Such assets are stated at fair value based on the value of investments held by the trust which are actively traded, discounted for the present value of expected future payments to other beneficiaries. The present value discount is calculated using life expectancy tables with discount rates which were approximately 5% for 2021 and 2020. Increases and decreases in fair value are recognized as unrealized gains and losses in the period in which they occur.

Mineral interest is reported at the initial fair value of the donated mineral interest. Changes to this initial value are only recorded if management concludes the carrying value of the asset is impaired. No impairment exists at December 31, 2021 and 2020.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

B. Summary of Significant Accounting Policies (continued)

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair value at the date received if donated. The Society capitalizes all equipment greater than \$1,000 with useful lives greater than one year. Depreciation is calculated over the estimated useful lives of the related assets on the straight-line basis. Estimated useful lives are 10 to 30 years for the buildings and 3 to 25 years for equipment, including vehicles. Expenditures for repairs and maintenance are charged to expense as incurred, while expenditures for major renewals or betterments of buildings and equipment are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation are eliminated from respective accounts, and the resulting gain or loss is included in the statements of activities.

Revenue Recognition

Contributions received are recorded when unconditional promises to give are received. Adoption of animals and service fee revenue is recorded at the time of the animal adoption or when good or services are provided to customers. Interest and dividend income is recognized on the accrual basis as interest is earned and as the right to receive dividends is established. Income from mineral interest is recognized in the month earned.

Program revenues, which include adoption and service fees, and portions of other income and special event revenue are derived from contracts with customers as defined by ASC Topic 606, *Revenue from contracts with Customers* ("ASC 606"), further described in the Recently Adopted Accounting Pronouncements disclosure below. In accordance with ASC 606, the Society's revenue is measured based on consideration specified in contracts with customers. The Society recognizes such revenues when it satisfies a performance obligation by transferring control over an animal, product, or service to a customer. Most of these transactions involve either a single performance obligation or multiple obligations where only one is considered material to the contract. For these contracts, the Society has determined that revenue should be recognized at a point in time as control is transferred, generally at the point of adoption or delivery of goods and services. Management does not believe the Society has any significant uncertainty of revenue and cash flows resulting from the geographic location of its customers or the types of customers it pursues. Within the contract price, the Society includes an assurance-type warranty that provides a limited guarantee regarding an adopted pet's health and the quality of goods for a reasonable period after delivery.

Functional Expenses Allocation

The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. In most cases, expenses are assigned to a functional category based on the direct usage. Benefits and other personnel costs are indirectly allocated based on the wages for each functional category as a percentage of total wages. Depreciation is indirectly allocated based on square footage of facility space.

Concentration of Credit Risk

The Society places its cash with quality financial institutions and, by policy, limits its amounts of exposure to any one financial institution; however, at times the balances in accounts may exceed Federal Deposit Insurance Corporation insured limits. The investments and beneficial interest in trust are valued at fair market value and are subject to market risk. Substantially all pledges receivable are due from two donors as of December 31, 2021 and 2020. Approximately 94% of accounts and grants receivable are due from three donors as of December 31, 2021. No such concentration risk is present as of December 31, 2020.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

B. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Society periodically reviews the carrying value of its long-lived assets, including land, buildings, and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. In management's opinion, no impairment of long-lived assets exists as of December 31, 2021 and 2020.

Advertising and Promotion Costs

The Organization expenses advertising costs as incurred. Expenses incurred were approximately \$226,000 and \$242,000 during 2021 and 2020, respectively.

Recent Accounting Pronouncements

Following are the FASB issued Accounting Standards Updates ("ASU") considered potentially significant to current or future financial reporting. This is not intended to be an evaluation of all recent accounting pronouncements.

In February 2016, ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU was initially scheduled to be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. This implementation date has been subsequently modified by the FASB to be effective for fiscal years beginning after December 15, 2021. Management is currently evaluating the impact of this ASU on the financial statements and related disclosures.

Reclassifications

Certain balances for 2020 have been reclassified to conform to the 2021 presentation.

C. Land, Building, and Equipment

The composition of land, buildings, and equipment at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 480,057	\$ 553,509
Buildings and improvements	4,512,425	4,251,751
Office equipment	131,094	121,724
Shelter equipment	683,473	649,707
Vehicles	784,857	784,857
Assets not yet placed in service	48,784	48,784
Total land, buildings, and equipment	<u>6,640,690</u>	<u>6,410,332</u>
Less accumulated depreciation	<u>(3,942,019)</u>	<u>(3,631,047)</u>
Total land, buildings, and equipment, net	<u>\$ 2,698,671</u>	<u>\$ 2,779,285</u>

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

D. Investments

Investments at December 31, 2021 consist of the following:

	Cost	Estimated Fair Value	Unrealized Gain or (Loss)
Marketable equity securities	\$ 7,190,207	\$ 10,856,797	\$ 3,666,590
Hedge Funds	693,068	757,142	64,074
Tangible assets (commodities)	252,942	243,539	(9,403)
Bonds and United States Treasury notes	4,483,178	4,454,534	(28,644)
Total investments	<u>\$ 12,619,395</u>	<u>\$ 16,312,012</u>	<u>\$ 3,692,617</u>

Investments at December 31, 2020 consist of the following:

	Cost	Estimated Fair Value	Unrealized Gain
Marketable equity securities	\$ 7,478,891	\$ 9,811,152	\$ 2,332,261
Hedge funds	701,913	769,273	67,360
Tangible assets (commodities)	253,379	263,362	9,983
Bonds and United States Treasury notes	3,920,162	4,020,226	100,064
Total investments	<u>\$ 12,354,345</u>	<u>\$ 14,864,013</u>	<u>\$ 2,509,668</u>

A reconciliation of the change in unrealized gain on investment is as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unrealized gain, beginning of year	\$ 2,509,668	\$ 1,160,927
Change in value of investments during the year	1,182,949	1,348,741
Unrealized gain, end of year	<u>\$ 3,692,617</u>	<u>\$ 2,509,668</u>

Investment income comprises the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 346,537	\$ 265,201
Realized gains	405,100	129,197
Unrealized gains on investments	1,182,949	1,348,741
Unrealized loss on charitable trusts	(91,825)	-
Investment fees	(83,860)	(87,476)
Total investment income	<u>\$ 1,758,901</u>	<u>\$ 1,655,663</u>

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

E. Beneficial Interest in Charitable Trusts

The Society has been named as a beneficiary in the following trusts for the years ended December 31, 2021 and 2020:

	2021	2020
<p>The Society is the sole beneficiary of two trusts whose investments consist primarily of bonds and United States Treasury notes. The trustees distribute earnings to the Society, which can be used for general purposes. Although the trusts are intended to be perpetual, one of the trusts expressly permits the trustee, in its sole discretion, to terminate the trust and distribute its assets to the Society. The second trust does not expressly permit such termination, but the Society reflects both trusts as unrestricted based on the conclusion that the permanent nature of the trust is an intention rather than a restriction. The Society does not expect the trusts to liquidate within the next year, and, accordingly, these assets are not available for current use.</p>	\$ 1,310,538	\$ 1,424,197
<p>The Society maintains one-sixth interest in a trust with a fair market value of approximately \$663,000 and \$636,000, respectively, for the years ended December 31, 2021 and 2020. The trust consists primarily of cash and mutual funds. The Society will receive interest-only distributions on a periodic basis until such time as the trustee determines that the assets of the trust are no longer sufficient to warrant the continued administration of the trust, at which time the trustee will terminate the trust and distribute its assets of the trust to the beneficiaries. The Society does not expect the trust to liquidate within the next year, and, accordingly, these assets are not available for current use.</p>	110,463	106,015
<p>The Society records its interest as a beneficiary of three trusts created by an individual estate. The Society recognizes their remainder interest based upon the estimated present value of the assets in the trust. The Society does not expect the trust to liquidate within the next year, and, accordingly, these assets are not available for current use.</p>	71,384	64,357
<p>The Society is a 50% beneficiary of the remaining portion of a trust upon the passing of other beneficiaries. The Society recognizes their remainder interest based upon the estimated present value of the assets in the trust. The Society does not expect the trust to liquidate within the next year, and, accordingly, these assets are not available for current use.</p>	8,062	7,268
	\$ 1,500,447	\$ 1,601,837

F. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis, FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

F. Fair Value Measurements (continued)

The three levels defined in FASB ASC Topic 820 are as follows:

Level 1: Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in active markets;
- Inputs other than quoted prices that are observable for the asset or the liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the assets or liability has specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Marketable Equity Securities, Hedge Funds, and Tangible Assets (Commodities)

The fair values of marketable equity securities, hedge funds, and tangible assets (commodities) are based on quoted market price and are classified in Level 1 of the fair value hierarchy.

Bonds and United States Treasury Notes

Bonds and United States Treasury notes have observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Society. However, they do not have quoted market prices in an active market. Therefore, these assets are classified as in Level 2 of the fair value hierarchy.

Beneficial Interest in Charitable Trusts

The fair values of beneficial interest in charitable trusts, excluding the remainder trusts, are based on the Society's share of the underlying assets held by the trust, which are primarily cash, mutual funds, and bonds and United States treasury notes. The Society classifies these items as Level 2. The fair value of the remainder trusts is based on significant unobservable inputs including estimates of future cash flows and present value discount rates and is there classified in Level 3 of the fair value hierarchy.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

F. Fair Value Measurements (continued)

Beneficial Interest in Charitable Trusts (continued)

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

The following table sets forth by Level, within the fair value hierarchy, the Society's assets measured at fair value on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Marketable equity securities	\$ 10,856,797	\$ -	\$ -	\$ 10,856,797
Hedge funds	-	757,142	-	757,142
Tangible assets (commodities)	243,539	-	-	243,539
Bonds and United States Treasury notes	4,454,534	-	-	4,454,534
Beneficial interest in charitable trusts	-	1,421,001	79,446	1,500,447
Total	\$ 15,554,870	\$ 2,178,143	\$ 79,446	\$ 17,812,459

The following table sets forth by Level, within the fair value hierarchy, the Society's assets measured at fair value on a recurring basis as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Marketable equity securities	\$ 9,811,152	-	-	\$ 9,811,152
Hedge funds	-	769,273	-	769,273
Tangible assets (commodities)	263,362	-	-	263,362
Bonds and United States Treasury notes	4,020,226	-	-	4,020,226
Beneficial interest in charitable trusts	-	1,530,212	71,625	1,601,837
Total	\$ 14,094,740	\$ 2,299,485	\$ 71,625	\$ 16,465,850

The changes in values for assets reported as Level 3 for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Value at beginning of year	\$ 71,625	\$ 68,280
Contributions	-	7,268
Change in value of assets held in trust	7,821	(3,923)
	\$ 79,446	\$ 71,625

G. Donor Designated Endowments

The Society's endowments consist of two donor-restricted funds at December 31, 2021 and 2020. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

G. Donor Designated Endowments (continued)

The Board of Directors of the Society interprets the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") 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 Society classifies as net assets restricted in perpetuity (a) the original value of the gifts donated to the restricted-in-perpetuity endowment, (b) the original value of subsequent gifts to the restricted-in-perpetuity endowment, and (c) accumulations to the restricted-in-perpetuity endowment made in accordance with applicable donor gift instrument at the time the accumulation is added to the fund (d) and all realized and unrealized gains and losses on investments of restricted-in-perpetuity gifts in accordance with applicable donor gift instruments.

The remaining portion of the donor-restricted endowment funds that is not classified as assets restricted in perpetuity are classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by TUPMIFA.

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

Investment Return Objectives, Risk Parameters, and Strategies

The Society has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for Society operations supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which meets the annual distribution with acceptable levels of risk.

For the Society's current endowment funds, substantially all interest and dividend income, net of fees, is appropriated as it is earned.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities and mutual funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions for operations. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level the donor or TUPMIFA requires the Society to retain as a fund of perpetual duration. The aggregate deficiencies are \$13,568 and \$7,624 at December 31, 2021 and 2020, respectively.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

G. Donor Designated Endowments (continued)

Funds with Deficiencies (continued)

The Society's endowment net asset composition by type of fund as of December 31, 2021 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds	\$ (13,568)	\$ 1,037,697	\$ 1,024,129

The Society's endowment net asset composition by type of fund as of December 31, 2020 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds	\$ (7,624)	\$ 1,075,600	\$ 1,067,976

Changes in Endowment Net Assets

The following discloses changes in total endowment fund net assets for the year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ (7,624)	\$ 1,075,600	\$ 1,067,976
Net realized and unrealized gains	-	(37,903)	(37,903)
Interest and dividend income	30,957	-	30,957
Disbursements	(32,262)	-	(32,262)
Amounts appropriated for expenditure	(4,639)	-	(4,639)
	\$ (13,568)	\$ 1,037,697	\$ 1,024,129

The following discloses changes in total endowment fund net assets for the year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds	\$ (7,624)	\$ 1,075,600	\$ 1,067,976

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 1,046,521	\$ 1,046,521
Net realized and unrealized gains	-	29,079	29,079
Interest and dividend income	34,464	-	34,464
Disbursements	(36,682)	-	(36,682)
Amounts appropriated for expenditure	(5,406)	-	(5,406)
	\$ (7,624)	\$ 1,075,600	\$ 1,067,976

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

H. Restrictions on Net Assets

Net assets with donor restrictions were restricted for the following purposes as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment	\$ 1,024,129	\$ 1,067,976
Cruelty Investigations program	-	84,791
Job placement program	30,000	26,624
Equine related activities	38,862	101,292
Rae of Hope program funds	-	35,172
Transportation	104,598	80,055
Restoring the pastures and hay field at Joshua	-	2,463
Contract behaviorists	-	30,580
Community adoption events	14,500	-
Preparing animals for adoption	37,000	-
Medical Equipment	10,000	-
Security fencing	44,000	-
	<u>\$ 1,303,089</u>	<u>\$ 1,428,953</u>

I. Employee Benefit Plan

Effective January 1, 2020, the Society has adopted the Humane Society of North Texas 401(k) Plan (the Plan) to help its employees save for retirement. Most employees of the Society who are at least 21 years of age and have worked for the Society for at least six months will be eligible to participate in the Plan. The Society may make discretionary matching contributions to the Plan.

Employees will be entitled to receive any such matching contributions if the employee is employed on the last day of the year and worked at least 1,000 hours during the year for the Society. Employees become vested in the matching and employer contribution amounts under a 5-year graded vesting schedule, with vesting increasing by 20% in each year. Costs incurred by the Society related to employer contributions approximated \$45,000 and \$36,000 during 2021 and 2020, respectively.

J. Paycheck Protection Program Loan

The Society received a note payable with the U.S. Small Business Administration (“SBA”) as part of the Paycheck Protection Program. The loan was issued on May 1, 2020, for \$620,732 and originally indicated repayment to begin six months from origination date consisting of 18 monthly payments of principal and interest. In accordance with the Paycheck Protection Flexibility Act, this has been automatically extended to either (1) the date that SBA remits the borrower’s loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period. This loan was eligible for loan forgiveness and accordingly, no payments of principal or interest were made as of December 31, 2021 and 2020. The Society has received formal forgiveness on February 23, 2021 and therefore has included the forgiven total on the statement of activities.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (continued)
Years Ended December 31, 2021 and 2020

J. Paycheck Protection Program Loan (continued)

The Society received a second note payable with the SBA as part of the Paycheck Protection Program. The loan was issued on March 20, 2021 for \$712,017 and originally indicated repayment to begin six months from origination date consisting of 18 monthly payments of principal and interest. This loan was eligible for loan forgiveness and accordingly, no payments of principal or interest have been made as of December 31, 2021. The Society received formal forgiveness subsequent to year-end. This amount is included on the statement of financial position.

K. Commitments and Contingencies

The Society leases certain equipment and office space under non-cancelable operating leases. Rental expense for all leases was approximately \$105,000 and \$119,000 for 2021 and 2020, respectively. Future minimum lease payments under lease commitments for the year ended December 31 are as follows:

2022	\$ 7,952
2023	2,044
2024	1,575
	<u>\$ 11,571</u>

L. Liquidity and Availability of Resources

The Society's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2021	2020
Cash and cash equivalents	\$ 1,079,901	\$ 665,760
Pledges receivable	279,159	885,534
Accounts receivable	108,609	85,865
Investments	16,312,012	14,864,013
Less assets with donor restrictions	(1,303,089)	(1,428,953)
	<u>\$ 16,476,592</u>	<u>\$ 15,072,219</u>

As part of the Society's liquidity management, it has informally decided to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Society regularly monitors liquidity required to meet its operational needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Society manages its liquidity and reserves following three guiding principles:

- Operating with a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets to fund near-term operating needs, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Society has a liquidity policy to maintain current financial assets less current liabilities at an average of 60 days operating expenses.

M. Special Events

Special events are reported net of direct costs of approximately \$1,000 and \$6,000 in 2021 and 2020, respectively.

HUMANE SOCIETY OF NORTH TEXAS
Notes to the Financial Statements (*continued*)
Years Ended December 31, 2021 and 2020

N. Insurance Claim

In March 2020, the Society filed an insurance claim related to hail damage to a facility. Proceeds from insurance of approximately \$209,000 were received from this claim and included as other income on the statement of activities. The Society determined there was no impairment to the building in 2020 or 2021.

O. Subsequent Events

In preparing the accompanying financial statements, management of the Society has evaluated all subsequent events and transactions for potential recognition or disclosure through September 29, 2022, the date the financial statements were available for issuance.

On February 11, 2022, the Society received forgiveness for their outstanding PPP loan originally received on March 20, 2021.