

HUMANE SOCIETY OF SAN ANTONIO
dba
SAN ANTONIO HUMANE SOCIETY

Audited Financial Statements

December 31, 2022

ADKF, P. C.
Certified Public Accountants

SAN ANTONIO HUMANE SOCIETY
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INDEPENDENT AUDITOR’S REPORT

To The Board of Directors
San Antonio Humane Society
San Antonio, Texas

Opinion

We have audited the accompanying financial statements of Humane Society of San Antonio, dba San Antonio Humane Society (the 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 financial statements referred to above present fairly, in all material respects, the financial position of San Antonio Humane Society as of December 31, 2022 and 2021, and the results of its activities, functional expenses, 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. 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 the 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 the Society’s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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.

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Auditor's Responsibilities for the Audit of the Financial Statements – continued

In performing an audit in accordance with generally accepted auditing standards, 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 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 the 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.

ADKF, PC

ADKF, P.C.
San Antonio, Texas
May 16, 2023

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Operating Assets:		
Cash and cash equivalents		
Available for operations, unrestricted	\$ 548,119	\$ 578,179
Board, designated for projects	<u>1,763,041</u>	<u>2,175,406</u>
Total cash and cash equivalents	2,311,160	2,753,585
Pledges receivable, net	153,322	584,247
Other receivables	84,529	39,961
Inventory	97,171	114,017
Prepaid expenses and other current assets	66,571	70,456
Property and equipment, net	12,889,783	13,442,093
Land held for sale	<u>10,250</u>	<u>10,250</u>
Total operating assets	15,612,786	17,014,609
Investments, Trusts and Charitable Gifts:		
Investments:		
Unrestricted for general operations	5,649,187	6,534,956
Board designated endowment	561,996	716,728
Donor restricted endowment	965,994	1,215,208
Beneficial interests in trusts	60,245	111,506
Assets held in charitable gift annuities	<u>9,329</u>	<u>29,787</u>
Total investments, trusts and charitable gifts	7,246,751	8,608,185
Other Assets:		
Operating lease right-of-use assets	<u>46,385</u>	<u>-</u>
Total Assets	<u><u>\$ 22,905,922</u></u>	<u><u>\$ 25,622,794</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 190,867	\$ 469,057
Deferred revenue	90,770	407
Liabilities under charitable gift annuities	31,594	36,035
Operating lease liabilities, current portion	31,260	-
Total current liabilities	<u>344,491</u>	<u>505,499</u>
Long-term Liabilities:		
Operating lease liabilities, non-current portion	15,125	-
Total liabilities	<u>359,616</u>	<u>505,499</u>
Net Assets:		
Without donor restrictions	21,366,745	23,171,334
With donor restrictions	1,179,561	1,945,961
Total net assets	<u>22,546,306</u>	<u>25,117,295</u>
Total Liabilities and Net Assets	<u><u>\$ 22,905,922</u></u>	<u><u>\$ 25,622,794</u></u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues						
Program fees, net of direct costs	\$ 1,412,311	\$ -	\$ 1,412,311	\$ 1,471,751	\$ -	\$ 1,471,751
Bequests/special donations	743,305	-	743,305	653,425	-	653,425
Contributions and grants	2,414,031	-	2,414,031	3,000,863	35,000	3,035,863
In-kind donations	19,609	-	19,609	34,487	-	34,487
Other income	15,430	-	15,430	5,192	-	5,192
Special events, net of expenses of \$62,062 and \$26,748	81,441	-	81,441	72,171	-	72,171
Total support and revenues	4,686,127	-	4,686,127	5,237,889	35,000	5,272,889
Expenses						
Program	5,007,441	-	5,007,441	4,850,160	-	4,850,160
General and administrative	646,359	-	646,359	464,715	-	464,715
Fundraising	374,681	-	374,681	393,196	-	393,196
Total expenses	6,028,481	-	6,028,481	5,708,071	-	5,708,071
Operating (Loss)	(1,342,354)	-	(1,342,354)	(470,182)	35,000	(435,182)
Investment Earnings						
Investment earnings (loss), net of fees	(1,014,105)	(196,856)	(1,210,961)	667,445	210,937	878,382
Changes in value of beneficial interests in trusts	-	(11,616)	(11,616)	-	(39,412)	(39,412)
Changes in value of charitable gift annuities	-	(6,058)	(6,058)	-	(8,342)	(8,342)
Investment earnings (loss), net	(1,014,105)	(214,530)	(1,228,635)	667,445	163,183	830,628
Change in Net Assets	(2,356,459)	(214,530)	(2,570,989)	197,263	198,183	395,446
Net assets released from restrictions	551,870	(551,870)	-	779,265	(779,265)	-
Net assets at beginning of year	23,171,334	1,945,961	25,117,295	22,194,806	2,527,043	24,721,849
Net Assets at End of Year	<u>\$ 21,366,745</u>	<u>\$ 1,179,561</u>	<u>\$ 22,546,306</u>	<u>\$ 23,171,334</u>	<u>\$ 1,945,961</u>	<u>\$ 25,117,295</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Animal care	\$ 561,103	\$ -	\$ -	\$ 561,103
Bad debts	-	5,100	-	5,100
Education	19,769	-	-	19,769
Printing, postage and newsletter	162,917	-	150,683	313,600
Occupancy and maintenance	521,793	17,204	5,057	544,054
Other expenses	246,522	23,557	65,715	335,794
Professional	5,241	46,190	636	52,067
Salaries, wages and benefits	2,927,159	402,640	131,299	3,461,098
Travel, meetings, and other	6,190	663	592	7,445
Depreciation	556,747	151,005	20,699	728,451
	<u>\$ 5,007,441</u>	<u>\$ 646,359</u>	<u>\$ 374,681</u>	<u>\$ 6,028,481</u>

Special Events, direct costs not included above:

Value of goods received by guests	\$ 259
Catering	17,410
Other direct costs	<u>44,393</u>
	<u>\$ 62,062</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Animal care	\$ 413,058	\$ 22	\$ -	\$ 413,080
Bad debts	100,000	-	2,050	102,050
Education	17,349	-	154	17,503
Printing, postage and newsletter	170,608	654	168,553	339,815
Occupancy and maintenance	496,698	7,228	2,867	506,793
Other expenses	389,662	25,916	51,420	466,998
Professional	29,042	24,589	2,745	56,376
Salaries, wages and benefits	2,619,820	351,704	133,343	3,104,867
Travel, meetings, and other	3,665	171	488	4,324
Depreciation	610,258	54,431	31,576	696,265
	<u>\$ 4,850,160</u>	<u>\$ 464,715</u>	<u>\$ 393,196</u>	<u>\$ 5,708,071</u>

Special Events, direct costs not included above:

Value of goods received by guests	\$ 1,494
Catering	9,312
Other direct costs	<u>15,942</u>
	<u>\$ 26,748</u>

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Statements of Cash Flows
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in net assets	\$ (2,570,989)	\$ 395,446
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Realized and unrealized loss (gain) on investments	1,377,044	(771,720)
Bad debt expense	5,100	102,050
Depreciation	728,451	696,265
Loss on sale of assets	-	3,917
Change in operating assets and liabilities:		
Pledges receivable	425,825	629,605
Other receivables	(44,568)	18,150
Inventory	16,846	(8,385)
Prepaid expenses and other current assets	3,885	(1,641)
Accounts payable and accrued expenses	(278,190)	(472,161)
Deferred revenue	90,363	(134,593)
Net cash (used) provided by operating activities	<u>(246,233)</u>	<u>456,933</u>
Investing Activities		
Purchases of property and equipment	(176,141)	(1,763,801)
Net investment activity	(66,871)	1,327,932
Change in charitable gift annuities, net of payments	(4,441)	(2,158)
Change in beneficial interests in trusts	51,261	39,412
Net cash (used) by investing activities	<u>(196,192)</u>	<u>(398,615)</u>
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	(442,425)	58,318
Cash, cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<u>2,753,585</u>	<u>2,695,267</u>
Cash, Cash Equivalents and Restricted Cash and Restricted Cash Equivalents at End of Year	<u><u>\$ 2,311,160</u></u>	<u><u>\$ 2,753,585</u></u>
Supplemental Disclosures		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	-	-

See notes to audited financial statements.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities: The Humane Society of San Antonio, dba San Antonio Humane Society, (the Society) is a not-for-profit corporation whose purpose is to provide effective means for the prevention of cruelty to animals in San Antonio, Bexar County and the surrounding area. The Society receives unwanted or abandoned cats and dogs and places them in adoptive or foster homes. The Society provides temporary shelter until suitable homes are found. Revenue to support the Society’s programs is primarily provided by contributions and grants from individuals, corporations and foundations located in Bexar County and the surrounding areas.

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs of the Society generally are not considered “restricted” under GAAP, though for internal reporting the Society tracks such grants and contributions to verify the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restriction, board designated.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that are more restrictive than the Society’s mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time (such as pledges) or other events specified by the donor. 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition: The Society recognizes as revenue contributions and grants when cash, securities, an unconditional promise to give, or a notification of a beneficial interest are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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

Program fees for various services such as adoptions, veterinary services, microchipping, camps and merchandise sales are recognized as revenue at the time the service is performed or merchandise is delivered, net of related cost of sales of \$148,637 in 2022 and \$265,766 in 2021. Such fees are due at the time of service.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits held by financial institutions and any equivalent securities with a maturity of three months or less. Restricted cash includes cash received from donors for the expansion project and cash in transit to the board designated endowment.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Pledges Receivable: Legally enforceable pledges and contributions, less an allowance for uncollectible amounts, are recorded as receivables in the year made unless the pledge or contribution is dependent upon the occurrence of a specified future and uncertain event to bind the promisor. Conditional pledges and contributions are recognized when the conditions upon which they depend are substantially met or when the possibility that the condition will not be met is remote.

Other Receivables: Other receivables arise primarily from grants. Such receivables are recorded at gross less an allowance for doubtful accounts. The allowance is generally based on an account-by-account review and historical trends. An allowance was not considered necessary at December 31, 2022 and 2021. Accounts are charged off when collection efforts have failed, and the account is deemed uncollectible. The Society generally does not charge interest on other receivables.

Inventory: Inventory consists of pet supplies and medications which are valued at net realizable value determined on a specific identification basis.

Investments: Investments securities are reported at fair market value as determined by quoted market price. Investment earnings are reported net of fees of approximately \$38,000 in 2022 and \$42,000 in 2021. Gains and losses (realized and unrealized) are included in investment earnings on the statement of activities. Investments are reported at fair value determined by quoted market price. Endowment investments are board designated and donor restricted.

Beneficial Interest in Trusts: The Society holds a beneficial interest in certain trusts and records its estimated fair market value of the trusts based on its proportionate share of each trust.

Assets Held in Charitable Gift Annuities: The Society has established certain charitable gift annuities. Under the terms of these agreements, the Society makes distributions to the donors throughout the donor's life. Upon the death of the donors, assets remaining in the charitable gift annuities will be transferred to the Society. The Society records the assets held in charitable gift annuities at their fair market values based on quoted market prices of the underlying investments. A liability is recorded based on the estimated discounted value of the amounts due the annuitant based on the Internal Revenue Service annuity and mortality tables.

Property and Equipment: Property and equipment is stated at historical cost or estimated fair value at date of donation. Expenditures for betterments that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related asset (generally three to seven years for furniture, equipment and vehicles, and fifteen to thirty years for buildings and improvements).

Deferred Revenue: Deferred revenue includes the unspent portion of grants received by the Organization which are conditional on the Organization's use of the grant for a specific purpose.

Functional Allocation of Expenses: The costs of providing the services and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a basis of time and effort (such as for salaries and benefits) as well as on a square footage or other reasonable basis (such as for depreciation, office and occupancy).

Special Events: Costs associated with special events are netted against the related revenues.

Advertising: Advertising and marketing costs are expensed as incurred and totaled approximately \$7,000 in 2022 and \$47,000 in 2021.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Joint Costs: The cost of the Society's newsletter and related mailings are allocated between program and fundraising costs as reflected in the statement of functional expenses.

Employee Benefit Plan: The Society has a Simple IRA plan which covers substantially all employees. Employees may contribute a percentage of their annual compensation as allowed by the federal tax code. The Society matches up to 3% of employees' contributions. The Society match to the Plan totaled approximately \$28,000 in 2022 and \$30,000 in 2021.

Income Taxes: The Society is a not-for-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Accordingly, donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Society is not subject to the Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for the last four years remain subject to examination.

Concentrations of Credit Risk: Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, investments, and pledges receivable. The Society places its cash and investments in various investment vehicles allowing for diversification which limits the amount of credit exposure although, it may from time to time, have cash and investments in excess of that insured by the FDIC and SIPC. The Society periodically assesses the financial condition of the institutions holding the cash and investments and believes that the risk of loss due to a failure of the institution is minimal. The Society also has concentrations of credit risk with respect to pledges receivable due to it soliciting primarily in the South Texas area.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 the reporting period. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent auditor's report. Material events, if any, are disclosed in a separate footnote to these financial statements.

Recently Adopted Accounting Pronouncements: In September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit (Topic 958): *Presentation and Disclosures by Not-for Profit entities for Contributed Nonfinancial Assets* to increase the transparency of contributed non-financial assets by enhancing the presentation and disclosures. The update includes the presentation of contributed non-financial assets as a separate line item in the statement of activities while disclosing disaggregated information about the types of contributed non-financial assets, how the contribution was used and various other disclosures. Management adopted this standard effective January 1, 2022 and increased disclosures for in-kind contributions.

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)," for reporting periods beginning after December 15, 2021. A lessee is required to recognize on the balance sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2022 and 2021

NOTE A – SIGNIFICANT ACCOUNTING POLICIES - continued

The Society adopted the new standard effective January 1, 2022, the first day of the lease standard implementation date. Consistent with the optional transition method allowed as part of the modified retrospective transition approach provided in ASU No. 2018-11, the Society did not adjust comparative periods. The new standard applied to leases that have commenced as of the effective date, January 1, 2022. The Society also elected to apply the package of practical expedients allowed in ASC 842-10-65-1 whereby the Society need not reassess whether any expired or existing contracts are, or contain, leases; the Society need not reassess the lease classification for any expired or existing leases; and the Society need not reassess initial direct costs for any existing leases. The Society’s adoption of the ASU resulted in the addition of Operating Lease Right-of-Use Assets on the statement of financial position for the right to use the underlying assets of operating leases. The Society elected to use hindsight for transition when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset. In addition, the corresponding liability for the remaining balance of the operating leases is included in the liability section of the statement of financial position. For all asset classes, the Society elected to not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less. The adoption of this ASU did not have an impact on the statement of activities. At January 1, 2022, the Society recognized right of use assets and a corresponding lease liability of \$146,818.

Reclassification: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no effect on the previously reported change in net assets.

NOTE B – PLEDGES RECEIVABLE

Pledges receivable are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 145,609	\$ 424,454
Receivable in one to five years	<u>7,713</u>	<u>159,793</u>
Total pledges receivable	<u>\$ 153,322</u>	<u>\$ 584,247</u>

Pledges are reported net of an allowance for doubtful accounts of \$7,621 at December 31, 2022 and 2021, respectively. Discounting multi-year pledges to present value is not significant for recognition.

SAN ANTONIO HUMANE SOCIETY
Notes to Audited Financial Statements
December 31, 2022 and 2021

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land, Fredericksburg Road	\$ 1,260,964	\$ 1,260,964
Office furniture and equipment	1,583,293	1,569,219
Shelter equipment	185,513	185,513
Vehicles	110,142	110,142
Facility and improvements	6,120,100	5,958,033
Naylor building	<u>8,300,795</u>	<u>8,300,795</u>
Total property and equipment	17,560,807	17,384,666
Less accumulated depreciation	<u>(4,671,024)</u>	<u>(3,942,573)</u>
Net property and equipment	<u><u>\$ 12,889,783</u></u>	<u><u>\$ 13,442,093</u></u>

NOTE D – ENDOWMENT INVESTMENTS

A roll forward of the endowment investments are as follows:

	<u>2022</u>	<u>2021</u>
<i>Board Designated:</i>		
Endowment investments, beginning of year	\$ 716,728	\$ 666,720
Interest and dividends	13,196	1,967
Net realized and unrealized gain (loss)	(116,681)	49,420
Appropriations	(46,540)	-
Fees and expenses	<u>(4,707)</u>	<u>(1,379)</u>
Endowment investments, end of year	<u><u>\$ 561,996</u></u>	<u><u>\$ 716,728</u></u>
<i>With Donor Restriction:</i>		
Endowment investments, beginning of year	\$ 1,215,208	\$ 1,052,204
Interest and dividends	23,016	19,825
Net realized and unrealized gain (loss)	(214,444)	116,657
Contributions	-	80,033
Fees and expenses	(5,429)	(5,576)
Appropriations	<u>(52,357)</u>	<u>(47,935)</u>
Endowment investments, end of year	<u><u>\$ 965,994</u></u>	<u><u>\$ 1,215,208</u></u>

NOTE D – ENDOWMENT INVESTMENTS – continued

Interpretation of Relevant Law: The Board of Directors of the Society has interpreted the State of Texas 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. The Society has two endowments, one board designation of the Masoro Family Charitable Fund for educational purposes, and the second with donor restriction for veterinarian services. The donor of the board designated endowment indicated the funds be used for the prevention of cruelty to animals and the board determined it should be used as an endowment to support the organization. The donor restricted endowment was for veterinary services and did not include a stipulation that the corpus be held in perpetuity and therefore, the Society may use both the income and corpus of the endowments limited to certain annual spending rates to be determined by the Society's Board. Accordingly, the Society classifies as board designated and with donor restrictions: a) the original value of gifts, b) the original value of subsequent gifts, c) earnings on the gifts, and d) less appropriations. The funds will be classified as with donor restrictions and board designated.

The following factors, among others, are considered in making a determination to appropriate or accumulate donor restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the organization and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the organization.
- 7) The investment policies of the organization.

Return Objectives and Risk Parameters: The Board has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that equal or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. Endowment funds, over time, are expected to provide a positive rate of return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Society 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 Board targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: In accordance with the donor's stipulations, funds will be expended to fulfill the endowment's purpose in accordance with the Society's reasonable annual endowment spending rate which the Society's Board shall determine from time to time. The annual spending rate is based on a target rate set as a percentage of the average market value as of September 30 for the previous year. In determining this rate, the Board may consider, among other things, general economic conditions, the possible effect of inflation or deflation, and the expected total return from income and appreciation of investments in the fund.

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NOTE E – ASSETS HELD IN CHARITABLE GIFT ANNUITIES

The following table summarizes activity in the gift annuities for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Charitable gift, annuity value at beginning of year	\$ 29,787	\$ 29,327
Annuity payments	(10,500)	(10,500)
Change in value	<u>(9,958)</u>	<u>10,960</u>
Charitable gift, annuity value at end of year	9,329	29,787
Less liabilities for expected payments	<u>(31,594)</u>	<u>(36,035)</u>
Net asset (liability)	<u><u>\$ (22,265)</u></u>	<u><u>\$ (6,248)</u></u>

Charitable gifts received by the Society are summarized as follows:

<u>Year</u> <u>Established</u>	<u>Original</u> <u>Gift</u> <u>Amount</u>	<u>Quarterly</u> <u>Payment to</u> <u>Donor</u>	<u>Date of 1st</u> <u>Quarterly Payment</u>
2011	\$ 5,000	\$ 103	September 2011
2010	10,000	193	September 2010
2008	10,000	208	June 2008
2005	10,000	198	June 2009
2004	50,000	950	June 2004
2004	50,000	975	December 2004

NOTE F – BENEFICIAL INTEREST IN TRUSTS

The Society is named as beneficiary in five trusts:

Naomi Evers 1988 Trust
 John Ender Charitable Remainder Trust
 Bruce Meador Charitable Remainder Trust
 Magie Shackelford Charitable Trust
 Michael Gallegos Trust

The Society is entitled to a distribution of its proportionate share of each trust upon the death of the grantor. The assets of each trust consist primarily of government securities, bond funds, equity and debt securities, and real estate interests, and the Society's net asset value is computed on its proportionate share of the fair value of the net trust assets.

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NOTE F – BENEFICIAL INTEREST IN TRUSTS - continued

A summary of the trusts are as follows at December 31:

	<u>Beneficiary %</u>	<u>Net Asset Value</u>	
		<u>2022</u>	<u>2021</u>
Naomi Evers Trust	25%	\$ -	\$ 39,648
John Ender Charitable Trust	50%	60,245	71,858
Gallegos Trust	100%	- *	-
Meador Trust	15%	- *	-
Shackelford Trust	15%	- *	-
		<u>\$ 60,245</u>	<u>\$ 111,506</u>

* Through 2014, the Society recorded its estimated interest in trusts for which it is a named beneficiary. Effective in 2015, management determined it would no longer recognize its proportionate net asset value of the Trust until such time as the beneficiary designation could not be changed.

NOTE G - NET ASSETS

Net assets released from restriction include the following:

	<u>2022</u>	<u>2021</u>
Operations	\$ 536,118	\$ 769,475
Charitable gift annuities	<u>15,752</u>	<u>10,150</u>
	<u>\$ 551,870</u>	<u>\$ 779,625</u>

Net assets without donor restrictions include the following at December 31:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 20,804,749	\$ 22,454,606
Board-designated:		
Masoro Family Charitable Fund, endowment	<u>561,996</u>	<u>716,728</u>
Total net assets without restrictions	<u>\$ 21,366,745</u>	<u>\$ 23,171,334</u>

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NOTE G - NET ASSETS - continued

Net assets with donor restrictions consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Time restricted:		
Operations (pledges receivable)	\$ 153,322	\$ 584,247
Time restricted grant	-	35,000
Beneficial interest in trusts	<u>60,245</u>	<u>111,506</u>
Time restricted	213,567	730,753
Endowment investments (veterinarian)		
Investment held in perpetuity	800,000	800,000
Earnings available for appropriations	<u>165,994</u>	<u>415,208</u>
Total endowment	<u>965,994</u>	<u>1,215,208</u>
Total net assets with donor restrictions	<u>\$ 1,179,561</u>	<u>\$ 1,945,961</u>

NOTE H – FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles (GAAP) has established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs, as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used to compute fair value:

Money Market: Valued at cost plus accrued interest.

Equities (including common stock, mutual funds and exchange trade funds): Valued at the closing prices reported on the active market which the individual securities are traded.

Fixed income: Bond funds and U.S. Government Securities valued at closing prices reported on the active market which the individual securities are traded. Government and corporate bonds valued using pricing models maximizing the use of observable inputs for similar securities.

Mineral Interests: Valued at the nominal value of \$1 per interest.

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NOTE H – FAIR VALUE MEASUREMENTS – continued

Beneficial Interests in Trusts: Valued at the fair value of the underlying assets, which primarily consist of common stocks and mutual funds.

Charitable Gift Annuities: Valued at the fair value of the underlying assets.

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

The following table sets forth, by level within the fair value hierarchy, the Society's investment assets measured at fair value:

<u>December 31, 2022:</u>	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments and Endowed Investments:				
Money market	\$ 461	\$ -	\$ -	\$ 461
Equities	2,792,303	-	-	2,792,303
Fixed income	4,384,402	-	-	4,384,402
Mineral interests *	-	-	11	11
Beneficial interests in trusts	-	60,245	-	60,245
Charitable gift annuities	-	9,329	-	9,329
	<u>\$ 7,177,166</u>	<u>\$ 69,574</u>	<u>\$ 11</u>	<u>\$ 7,246,751</u>
<u>December 31, 2021:</u>				
Investments and Endowed Investments:				
Money market	\$ 506,287	\$ -	\$ -	\$ 506,287
Equities	5,484,165	-	-	5,484,165
Fixed income	117,889	2,358,540	-	2,476,429
Mineral interests *	-	-	11	11
Beneficial interests in trusts	-	111,506	-	111,506
Charitable gift annuities	-	29,787	-	29,787
	<u>\$ 6,108,341</u>	<u>\$ 2,499,833</u>	<u>\$ 11</u>	<u>\$ 8,608,185</u>

* Mineral interests are recorded at a nominal amount of \$11.

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NOTE I – CONTRIBUTED SERVICES

The Society receives a substantial amount of contributed services from volunteers. Though an integral part of the Society’s manpower, the value of the services are not included as contributed revenue or expense in the statement of activities because they are not provided by professionals, which is a requirement for recognition under U.S. generally accepted accounting principles. Based on a value of \$10.50 per hour in 2022 and 2021, which approximates the cost of individuals employed by the Society to perform similar services, the Society received the following economic value:

<u>Year</u>	<u>Hours</u>	<u>Value of Services</u>
2022	18,523	\$ 194,492
2021	17,126	179,823

NOTE J – IN-KIND DONATIONS

The Society received in-kind donations in the amount of \$19,609 in 2022 and \$34,487 in 2021, which are recorded as in-kind contributions on the statement of activities. These goods are primarily pet food and pet supplies which are used in the Society’s program and are not donor restricted. These program supplies are valued at fair value based on the research done by the Society for purchasing similar goods.

A summary of in-kind donations is as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Program supplies	\$ 19,609	\$ 7,382
Facility improvements	-	27,105
Total	<u>\$ 19,609</u>	<u>\$ 34,487</u>

NOTE K – LEASES

The Society determines if an arrangement is an operating lease or financing lease at commencement. The Society has determined that it has no finance lease arrangements at December 31, 2022 or 2021. Other lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. For office equipment, the Society utilizes the risk-free discount rate, according to the Society’s elected policy for this class of assets.

The Society has third-party operating leases for office equipment. Operating lease expense is recognized on a straight-line basis over the lease term. The lease term for the office equipment extends through 2024. Lease expense associated with the non-cancellable operating lease agreements approximated \$31,000 in 2022 and 2021.

At December 31, 2022, the weighted-average remaining lease term was 1.5 years and the weighted-average discount rate was 1.37%. Minimum lease payments are \$31,260 in 2023 and \$15,630 in 2024 with imputed interest is \$505.

SAN ANTONIO HUMANE SOCIETY
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NOTE K – LEASES – continued

City of San Antonio – Animal Care Services: The Society leases, at the nominal rate of \$1 per year, the land and building to operate the Brooks Spay and Neuter Facility, under a lease agreement with the City of San Antonio that extended through March 6, 2023. The Society did not renew the lease after the termination date. No estimated fair value of this lease has been recorded as the estimated fair value of the lease was not readily determinable.

NOTE L – CURRENT ECONOMIC CONDITIONS

The impact of current economic events, including increasing inflation and interest rates, supply chain constraints, availability of capital and labor, and geopolitical events, remains uncertain. Any related financial impact cannot be reasonably estimated at this time.

NOTE M – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Society has approximately \$8,760,000 in financial assets at year-end consisting of unrestricted cash, current portion of pledges receivable, other receivables and unrestricted investments available to support operations. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditures. Management budgets a 4% annual withdrawal from unrestricted investment portfolio to supplement operating costs. Accordingly, the Society will continue to actively earn program fees as well as solicit memberships, contributions and bequests to fund current operations. The Society has a goal to maintain financial assets to meet at least 12 months of recurring operating expenses, which on average, total approximately \$502,000 per month given full programmatic operations.