

Vancouver Humane Society & SPCA

DBA Humane Society for Southwest Washington

Financial Statements

Year Ended December 31, 2022



VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Financial Statements

Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington
Vancouver, WA

Opinion

We have audited the accompanying financial statements of Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington as of December 31, 2022, and the changes in its net assets and its cash flows for the year 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. 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington 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 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility 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 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.

INDEPENDENT AUDITOR'S REPORT, 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington 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 Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington 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.

Aldrich CPAs + Advisors LLP

Lake Oswego, Oregon
December 21, 2023

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Statement of Financial Position

December 31, 2022

ASSETS

Cash	\$	2,982,394
Unconditional promises to give, net		587,698
Receivables from contracts with customers		243,938
Investments		3,186,644
Inventories		115,382
Other assets		50,675
Land, buildings, and equipment, net of accumulated depreciation		6,890,495
Right of use asset		<u>2,171,657</u>

Total Assets \$ 16,228,883

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$	70,165
Accrued expenses		305,443
Operating lease liabilities		<u>2,250,256</u>
Total Liabilities		2,625,864

Net Assets:

Without donor restrictions		9,415,552
With donor restrictions:		
Purpose and time restricted		2,178,847
Perpetual in nature		<u>2,008,620</u>
Total with donor restrictions		4,187,467
Total Net Assets		<u>13,603,019</u>

Total Liabilities and Net Assets \$ 16,228,883

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Statement of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions and grants	\$ 3,374,070	\$ 467,266	\$ 3,841,336
Contract services	1,143,832	-	1,143,832
Adoption services	522,123	-	522,123
Net investment return	10,824	(330,515)	(319,691)
Loss on disposal of assets	(12,263)	-	(12,263)
Other service fees	195,274	-	195,274
Retail sales	65,292	-	65,292
Net assets released from purpose restriction	151,061	(151,061)	-
Net assets released from time restrictions	18,478	(18,478)	-
Total Support and Revenue	5,468,691	(32,788)	5,435,903
Expenses:			
Program:			
Adoption	610,770	-	610,770
Animal Care Shelter	2,291,902	-	2,291,902
Clinic	1,208,346	-	1,208,346
Other	129,092	-	129,092
Total Program	4,240,110	-	4,240,110
Supporting services:			
Fundraising	899,877	-	899,877
Management and general	570,558	-	570,558
Total Expenses	5,710,545	-	5,710,545
Other Organizational Activities:			
Thrift store sales	1,621,047	-	1,621,047
Thrift store expenses	(1,344,675)	-	(1,344,675)
Special event revenue	769,428	-	769,428
Special event expenses	(309,325)	-	(309,325)
Total Other Organizational Activities	736,475	-	736,475
Change in Net Assets	494,621	(32,788)	461,833
Net Assets, beginning of year	8,920,931	4,220,255	13,141,186
Net Assets, ending of year	\$ 9,415,552	\$ 4,187,467	\$ 13,603,019

See accompanying notes to financial statements.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Statement of Functional Expenses

Year Ended December 31, 2022

	Program				Total Program	Supporting Services			Total
	Adoption	Animal Care Shelter	Clinic	Other		Fundraising	Management and General	Thrift Store	
Advertising	\$ -	\$ 635	\$ -	\$ -	\$ 635	\$ 6,915	\$ 990	\$ 36,943	\$ 45,483
Animal care	41,268	302,508	201,556	38,782	584,114	17,000	17,336	-	618,450
Depreciation	-	225,697	-	-	225,697	-	-	10,819	236,516
Dues and subscriptions	-	1,938	-	-	1,938	3,025	3,920	-	8,883
Education and volunteer programs	54	116	80	8,077	8,327	25	25	-	8,377
Employee compensation	400,600	1,214,296	716,437	61,066	2,392,399	492,944	361,859	515,504	3,762,706
Employee taxes and benefits	134,418	328,724	184,961	14,823	662,926	107,172	78,510	124,667	973,275
Facility, auto and maintenance	3,164	58,243	26,630	1,338	89,375	7,846	939	85,154	183,314
Fundraising	-	-	-	-	-	9,510	-	-	9,510
Meeting, travel and employee education	851	5,882	4,886	-	11,619	11,562	7,824	25	31,030
Occupancy	7,439	15,843	10,940	-	34,222	3,382	3,449	445,829	486,882
Office expense	10,319	39,200	25,099	2,512	77,130	37,668	20,129	17,347	152,274
Professional fees	83	37,790	21,226	2,400	61,499	62,743	55,811	5,249	185,302
Resale supplies	8,614	18,344	12,667	94	39,719	3,916	3,994	61,762	109,391
Taxes and fees	3,960	42,686	3,864	-	50,510	136,169	15,772	41,376	243,827
Total Operating Expenses	610,770	2,291,902	1,208,346	129,092	4,240,110	899,877	570,558	1,344,675	7,055,220
Special event expenses	-	-	-	-	-	309,325	-	-	309,325
Total Functional Expenses	\$ 610,770	\$ 2,291,902	\$ 1,208,346	\$ 129,092	\$ 4,240,110	\$ 1,209,202	\$ 570,558	\$ 1,344,675	\$ 7,364,545

See accompanying notes to financial statements.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Statement of Cash Flows

Year Ended December 31, 2022

Cash Flows from Operating Activities:	
Change in net assets	\$ 461,833
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	236,516
Unrealized loss on investments	428,653
Loss on sale of equipment	12,263
Non-cash operating lease expense	25,756
Changes in assets and liabilities:	
Unconditional promises to give, net	(142,110)
Receivables from contracts with customers	(114,096)
Inventories	(21,311)
Other assets	(42,871)
Accounts payable	(30,877)
Accrued expenses	31,342
	<u>845,098</u>
Net Cash Provided by Operating Activities	845,098
Cash Flows from Investing Activities:	
Purchase of buildings and equipment	(170,969)
Purchase of investments	(101,880)
	<u>(272,849)</u>
Net Cash Used by Investing Activities	(272,849)
Net Change in Cash	572,249
Cash, beginning	<u>2,410,145</u>
Cash, ending	<u>\$ 2,982,394</u>
Non-Cash Investing Activities	
Right-of-use asset obtained in exchange for new operating lease liabilities	<u>\$ 2,448,768</u>

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 1 - Organization

Nature of Organization

Vancouver Humane Society & SPCA DBA Humane Society for Southwest Washington (the Organization) is a nonprofit organization founded in 1897 and incorporated in 1965. The Organization enriches the lives of people, pets and our community through adoption and outreach, and serves as a resource for animal services and education.

Program Services

The Organization provides program services in the following major areas:

Adoption – The Organization provides quality adoption services to the Southwest Washington community. Adopters are screened to ensure that they will provide good care to the animal being adopted. The Organization has a pet-matching program which works to match pets with potential adopters. All animals adopted from the Organization are vaccinated against disease, treated for parasites, licensed or issued an identification tag, and given a certificate for free health exam with the veterinarian of the adopter's choice. All animals are either spayed or neutered prior to adoption. In addition, the Organization offers training and animal behavior information with each adoption.

Animal Care Shelter – The Organization offers shelter to unwanted, abandoned, lost and homeless animals from Clark and Skamania counties as well as other animals in need that are brought to the Organization. The Organization provides food, water, medication, shelter and, if needed, humane euthanasia.

Clinic – The Organization's veterinary clinic provides vital care to shelter animals including spay and neuter surgeries and minor and major medical services. The clinic is staffed by professional veterinarians, technicians, and assistants and is equipped to facilitate surgeries, x-rays, and dental procedures.

Other – The Organization provides free and low-cost services to low-income pet owners in our community. These include Wellness Clinics for the pets of the houseless, free pet food, funding for emergency medical care, temporary emergency boarding, and vaccination clinics. The Organization also offers education information to potential adopters and other animal owners in the community and provides opportunities for community members to participate in a variety of volunteer activities. The Organization provides education information programs via presentations for children, schools, civic groups, and other interested parties as well as periodic newsletters. Volunteers assist by helping with adoptions, filing, answering telephones, walking dogs, feeding animals in the shelter, staffing the Organization's thrift store, socializing with and grooming animals, promoting and staffing special events, and providing foster care for shelter animals.

Note 2 - Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization adopted Accounting Standards update (ASU) 2016-02, *Leases* as of January 1, 2022. The standard provides guidance on the recognition, measurement, presentation, and disclosures of leases. The new standard supersedes previous accounting principles generally accepted in the United States of America (U.S. GAAP) guidance on leases and requires substantially all leases to be reported on statement of financial position as right of use assets and lease liabilities, as well as additional disclosures (see note 11). The Organization adopted this standard using the modified retrospective approach. Upon adoption the Organization recognized right of use assets of \$2,448,768 and operating lease liabilities of \$2,501,611.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 2 - Summary of Significant Accounting Policies, continued

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. GAAP, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Organization's financial instruments, none of which are held for trading purposes, include cash, receivables, and accounts payable. The Organization estimates that the fair value of all of these non-derivative financial instruments at December 31, 2022 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Cash

The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. Although balances may, at times, exceed this limit, the Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant risk on cash.

Unconditional Promises to Give

When a donor has unconditionally promised to contribute funds to the Organization in future periods, the Organization recognizes an unconditional promise to give. Promises to give expected to be collected within one year are recorded as support and a receivable at net realizable value. Promises to give expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible promises to give, if any, is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

Receivables from Contracts with Customers

The Organization has accounts receivable related to contract agreements. Accounts receivable are recorded at estimated net realizable value. Receivables are written off when management determines an account is uncollectible. Past due status is determined on how recently payments have been received. No allowance for doubtful accounts is deemed necessary at December 31, 2022 because management believes all amounts are collectible.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 2 - Summary of Significant Accounting Policies, continued

Investments

Realized and unrealized gains and losses are included in the change in net assets in the statement of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Inventories

Inventories consist of items held for sale in retail operations as well as in the thrift store. The thrift store inventory consists primarily of items that have been donated by individuals in the community. Most of the donations are used items and the value of inventory was based on average sale prices for the past year by category and the estimated number of items on hand at year end based on an analysis of the square footage of the thrift store. Any purchased inventory is recorded at cost and on the first-in, first-out method.

Land, Buildings, and Equipment

Purchased property is stated at cost; donated assets are valued at their estimated fair value on the date donated. Gifts of property with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as an increase to net assets with donor restrictions. Absent explicit donor stipulations about how those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Repairs and maintenance costs are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property in excess of \$500 that meet the capitalization requirements are capitalized. Upon retirement, sale, or other disposition of property, the cost and accumulated depreciation are eliminated from the accounts and gains, or losses are included on the statement of activities. Depreciation of capitalized assets is calculated using the straight-line method over estimated useful lives of 5 to 50 years.

Revenue Recognition

Contracts with Customers

The Organization recognizes revenues from contracts with customers in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. Refer to Note 3 for further details.

Contributions and Grants

Contributions and grants are recorded as revenue when they are considered to be either unconditional, or, if considered to be conditional, once the conditions are met. In order for a contribution or grant to be conditional, it must have both a barrier and a right of return/release. All contributions and grants are considered to be available for the Organization's unrestricted use unless specifically restricted by the donor. Contributions and grants restricted by the donor are recorded as net assets with donor restrictions, as appropriate. When the restrictions are satisfied (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Goods and Services

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are recorded as net assets with donor restrictions. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization considers the restriction to be satisfied when the donated assets are placed in service. At that time, or when a stipulated time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 2 - Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among animal services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Employee compensation	Time and effort
Occupancy	Square footage
Depreciation	Square footage
Other	Headcount

Other expenses are broken out by accounts and can be directly charged to the appropriate function based on actual expenses.

Income Taxes

The Organization is a qualified nonprofit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section. However, the Organization remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. The Organization has no significant unrelated business income subject to taxation. Consequently, there is no provision for income taxes.

The Organization follows U.S. GAAP related to the recognition of uncertain tax positions. The Organization recognizes a liability for unrecognized tax benefits when facts and circumstances indicate that an uncertain tax position is more likely than not to be overturned by a taxing authority upon examination. The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized tax benefits, accrued or expensed as of and for the year ended December 31, 2022.

Advertising

The Organization expenses the cost of advertising as incurred. For the year ended December 31, 2022, advertising expenses were \$45,483.

Subsequent Events

The Organization has evaluated subsequent events through December 21, 2023, which is the date on which the financial statements were available to be issued.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 3 - Revenue Recognition from Contracts with Customers

Overview

The Organization earns revenue from contracts with customers primarily through the provision of services through its programs and activities and through sales of products. Revenues are accounted for under Topic 606 which the Organization adopted on January 1, 2020. The Organization recognizes revenue from contracts with customers when its performance obligations are satisfied, regardless of the period in which it is billed. This is typically the point in time in which the customer partakes of the service, or the goods are transferred.

Disaggregated Revenue

Disaggregated revenues from contracts with customers are presented on the face of the statement of activities and include adoption services, contract services, retail sales, thrift store sales, and other services fees.

Performance Obligations

Sales contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer.

Adoption Services, Other Service Fees, and Retail Sales

Revenues for adoption services, other service fees, and retail sales occur entirely through retail point of sale transactions or the provision of services on a single day. Revenues from such transactions are recorded at a single point in time in which the customer partakes of the service or the goods are transferred. Customer discounts are offered for these transactions and while are considered variable consideration, are recorded at the point in time of the sale. These revenues are reported in the statement of activities net of discounts of \$164,264.

Contract Services

The Organization has service contracts with several entities to provide animal shelter services. The contracts extend for multiple years but have predetermined service fees that are based on the volume of services provided rather than a single contract price. Revenues are recognized over time for which the services have been performed.

Thrift Store Sales

Revenues for thrift store sales occur entirely through retail point of sale transactions transferred at a point in time which result in concurrent revenue and cash flows. As thrift store sales are an auxiliary activity to support program operations rather than a distinct program activity, revenues are presented as other revenue generating activities separately on the statement of activities. Customer discounts are offered for these transactions and while are considered variable consideration, are recorded at the point in time of the sale. These revenues are reported in the statement of activities net of discounts of \$59,159.

Contract Balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable and customer advances and deposits (contract liabilities) on the statement of financial position. Payments for program fees are typically received prior to or at the time the good or service is transferred but payment terms may be extended for some customers. The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on the statement of financial position. Accounts receivable represent unconditional rights to consideration from customers and require only the passage of time before payment of the consideration is due. All fees received for which the performance obligation has not yet been met are shown as contract liabilities on the statement of financial position until the obligation has been met. These deposits are liquidated when revenue is recognized.

Receivables from contracts with customers were \$129,842 as of December 31, 2021. There were no other contract assets or contract liabilities as of December 31, 2022.

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 4 - Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2022:

Financial assets at year end:

Cash	\$ 2,982,394
Unconditional promises to give, net	587,698
Receivables from contracts with customers	243,938
Investments	3,186,644
Total financial assets	<u>7,000,674</u>

Less amounts unavailable to be used for general expenditures within one year:

Restricted by donor with time or purpose restrictions	(2,178,847)
Donor restricted funds held in perpetuity	(2,008,620)
Total amounts unavailable to be used for general expenditures within one year	<u>(4,187,467)</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 2,813,207

The Organization receives significant contributions and promises to give from its donors. Contributions restricted for programs which are ongoing, major, and central to its operations are considered to be available to meet cash needs for general expenditures.

The Organization manages its liquidity and reserves following three guiding principles: operating within 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 Organization has a board approved liquidity policy to maintain a reserve of available operating current financial assets of \$1 million, or approximately 60 days of operating expenses, at all times. To achieve these targets, the entity forecasts its future cash flows and continually monitors its liquidity and reserves. During the year ended December 31, 2022, the level of liquidity and reserves was managed within the policy requirements.

Note 5 - Unconditional Promises to Give

Unconditional promises to give consisted of the following:

Due within one year	\$ 557,574
Due in one to five years	37,900
	<u>595,474</u>
Less:	
Allowance for doubtful accounts	(5,196)
Discount to present value (at a rate of 2.50%)	(2,580)
	<u>\$ 587,698</u>

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 6 - Investments and Fair Value Measurements

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 inputs are unobservable inputs for the investment.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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 at December 31, 2022.

Money market funds: Valued at deposited amount plus accrued interest, which approximates fair value (Level 1).

Common stock, mutual funds, and exchange traded funds: Valued at the closing price reported on the active markets on which the individual securities are traded, which approximates fair value (Level 1).

The following table sets forth by level, within the fair value hierarchy, the Organization's financial instruments at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 91,002	\$ -	\$ -	\$ 91,002
Common Stock:				
Small Cap - Domestic	349,957	-	-	349,957
Mutual Funds				
Bond	1,209,827	-	-	1,209,827
Equity	1,470,172	-	-	1,470,172
Exchange Traded Funds				
Small Cap - Domestic	16,199	-	-	16,199
Large Cap - Domestic	49,489	-	-	49,489
	<u>\$ 3,186,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,186,646</u>

VANCOUVER HUMANE SOCIETY & SPCA
DBA HUMANE SOCIETY FOR SOUTHWEST WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2022

Note 7 - Land, Buildings, and Equipment

At December 31, 2022, land, buildings, and equipment consisted of the following:

Land	\$	717,765
Buildings and related improvements		7,899,282
Furniture and equipment		791,149
Vehicles		87,729
		<u>9,495,925</u>
Less accumulated depreciation		<u>(2,605,430)</u>
	\$	<u>6,890,495</u>

Depreciation expense was \$213,483 for the year ended December 31, 2022.

Note 8 - Net Assets with Donor Restrictions

At December 31, 2022, net assets with donor restrictions were as follows:

Purpose Restrictions:		
Animal care	\$	192,804
Capital improvements		1,945,560
Endowment earnings		(82,864)
Other		82,136
		<u>2,137,636</u>
Time Restricted for Future Periods:		
Promises to give		41,211
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
General use		1,398,470
Building		360,150
Clinic		250,000
		<u>2,008,620</u>
Total Assets with Donor Restrictions	\$	<u>4,187,467</u>

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Notes to Financial Statements

Year Ended December 31, 2022

Note 8 - Net Assets with Donor Restrictions, continued

During the year ended December 31, 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

Satisfaction of purpose restrictions:

Animal care	\$	105,816
Capital improvements		17,957
Other		27,288
		<hr/>
		151,061

Satisfaction of time restrictions		18,478
		<hr/>

Total assets released from restriction	\$	<u>169,539</u>
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Note 9 - Endowment

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds while supporting the operations of the Organization through a set spending rate. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulation to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors 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

Investment and Spending Policies

The Organization's endowment funds investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to achieve a balance return of income consistent with principal growth and to achieve a rate of return, net of fees, to exceed a return of relevant indices or other benchmarks as determined by the Organization's Investment Committee. Amounts distributed from the endowment are determined by the Organization's Investment Committee.

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Notes to Financial Statements

Year Ended December 31, 2022

Note 9 - Endowment, continued

Investment and Spending Policies, continued

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate capital appreciation, in an attempt to provide a predictable stream of funding for grant making while seeking to maintain the purchasing power of the endowment assets.

Within that framework, the investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual return adequate to cover the yearly spending rate, management fees and annual inflation. Actual returns in any given year may vary from this amount.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. As of December 31, 2022, deficiencies of this nature exist in 2 donor-restricted endowment funds, which together have an original gift value of \$1,648,470, a current fair value of \$1,475,521, and a deficiency of \$172,949. These deficiencies resulted from unfavorable market fluctuations.

The endowment funds consisted of the following as of December 31, 2022:

	<u>With Donor Restriction</u>
Donor restricted funds:	
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ 2,008,620
Accumulated investment gains	<u>(82,864)</u>
	<u>\$ 1,925,756</u>

The changes in endowment net assets for the year ended December 31, 2022 are as follows:

	<u>With Donor Restriction</u>
Endowment net assets December 31, 2021	\$ 2,256,271
Investment income, net	<u>(330,515)</u>
Endowment net assets December 31, 2022	<u>\$ 1,925,756</u>

Note 10 - Concentration of Credit Risk

For the year ended December 31, 2022, 63% of unconditional promises to give were from two donors and 25% of contributions were from one donor.

The Organization invests in various types of marketable securities and money market funds. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified. The Organization also invests in various investment securities. Investment securities in general are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

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Notes to Financial Statements

Year Ended December 31, 2022

Note 11 – Leasing Arrangements

The Organization has an operating lease of an office building under agreement with a contractual period of 8 years. The lease contains an option to extend. The exercise of lease renewal options is generally at the Organization's sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Certain lease agreements also contain lease incentives, such as tenant improvement allowances and rent holidays. Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees. The Organization elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed the Organization to carry forward the historical lease classification.

The Organization has not elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g. maintenance and operating services). Therefore, for those leases, the lease payments used to measure the lease liability do not include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred.

The Organization determines if an arrangement is or contains a lease at contract inception. The Organization recognizes a right of use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Organization determines the discount rate, the lease term, and the lease payments.

When the discount rate implicit in a lease is not readily determinable, the Organization calculates the lease liability using the risk-free rate.

The amounts contractually due on lease liabilities as of December 31, 2022, were as follows:

<u>Operating Leases</u>	
Operating lease right-of-use assets	\$ <u>2,171,657</u>
Current portion of operating lease liabilities	\$ 262,307
Operating lease liabilities, net of current portion	<u>1,987,949</u>
Total operating lease liabilities	\$ <u><u>2,250,256</u></u>

The amounts contractually due on lease liabilities as of December 31, 2022, were as follows:

	<u>Operating</u>
2023	\$ 284,225
2024	292,752
2025	300,056
2026	309,058
2027	318,329
Thereafter	<u>836,948</u>
Total lease payments	2,341,368
Less interest	<u>(91,112)</u>
Present value of lease liabilities	\$ <u><u>2,250,256</u></u>

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Notes to Financial Statements

Year Ended December 31, 2022

Note 11 – Leasing Arrangements, continued

The following summarizes the line items in the statement of functional expenses which include the components of lease expense for the year ended December 31, 2022:

Operating lease expense	\$	301,702
Variable lease expense, included in occupancy		141,127
Total lease cost	\$	<u>442,829</u>

Supplemental cash flow information related to leases for the year ended December 31, 2022 was as follows:

Cash paid for amounts included in measurement of lease liabilities:

Operating cash flows from operating leases	\$	275,946
Lease assets obtained in exchange for lease liabilities		
Operating leases	\$	2,501,611

Supplemental statement of financial position information related to leases as of December 31, 2022 was as follows:

Weighted average remaining lease term - Operating leases	7.5
Weighted average discount rate - Operating leases	1.04%

Under previous leasing standards, future minimum lease payments for the non-cancellable operating leases at December 31, 2022 were as follows:

2022	\$	280,134
2023		288,413
2024		296,940
2025		151,999
2026		3,490

Note 12 - Retirement Plan

The Organization has a 401(k) retirement plan. Participating employees may elect to contribute, on a tax-deferred basis, a portion of their compensation. Employees are automatically enrolled in the plan contributing 3% of their compensation on the first day of the month after they are hired but may instead elect to contribute a different percent of their compensation (including opting out by electing to contribute 0% of their compensation). The Organization contributes a match of 50% of the first 6% contributed by the employee. The Organization's contribution expense was \$56,993 for the year ended December 31, 2022.