

VANDEBURGH HUMANE SOCIETY, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

(With Independent Accountant's Review Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vanderburgh Humane Society, Inc.

We have reviewed the accompanying financial statements of Vanderburgh Humane Society, Inc. (an Indiana nonprofit organization), 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 year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Vanderburgh Humane Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Basis for Qualified Conclusion

As disclosed in Note 3 to the financial statements, the Organization has excluded certain beneficial interests in assets held by others in the financial statements due to its inability to obtain fair value information. Accounting principles generally accepted in the United States of America require that such beneficial interests in assets held by others be recorded at fair value at the date of notification of existence. Quantification of the effects on the financial statements of the preceding practice is not practicable.

Vanderburgh Humane Society, Inc.

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Qualified Conclusion

Based on our review, except for effect of the matter described in the Basis for Qualified Conclusion paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Riney Hancock CPAs PSC

Evansville, Indiana

July 14, 2023

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 405,119	\$ 253,667
Contributions receivable	843,097	933,909
Operating lease right-to-use assets	3,931	-
Other current assets	<u>42,854</u>	<u>61,352</u>
Total current assets	1,295,001	1,248,928
Property and equipment, net	1,925,860	2,053,316
Other assets:		
Beneficial interests in assets held by others	539,662	637,957
Cash surrender value of life insurance	80,263	76,958
Noncurrent operating lease right-to-use assets	<u>13,205</u>	<u>-</u>
Total other assets	<u>633,130</u>	<u>714,915</u>
Total assets	<u><u>\$ 3,853,991</u></u>	<u><u>\$ 4,017,159</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 4,154	\$ 33,879
Noncurrent lease liabilities	3,931	-
Accounts payable	89,542	25,934
Accrued expenses	<u>84,222</u>	<u>74,049</u>
Total current liabilities	181,849	133,862
Other liabilities:		
Lease liabilities	13,205	-
Long-term debt	<u>145,846</u>	<u>415,881</u>
Total other liabilities	<u>159,051</u>	<u>415,881</u>
Total liabilities	340,900	549,743
Net assets:		
Without donor restrictions	2,973,429	2,829,459
With donor restrictions	<u>539,662</u>	<u>637,957</u>
Total net assets	<u>3,513,091</u>	<u>3,467,416</u>
Total liabilities and net assets	<u><u>\$ 3,853,991</u></u>	<u><u>\$ 4,017,159</u></u>

See Independent Accountant's Review Report and Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:						
Contributions	\$ 1,312,093	\$ -	\$ 1,312,093	\$ 1,668,451	\$ -	\$ 1,668,451
PPP loan forgiven	-	-	-	188,349	-	188,349
Adoption and surrender fees	294,452	-	294,452	344,085	-	344,085
Spay/neuter clinic fees	492,683	-	492,683	403,285	-	403,285
Thrift shop	260,388	-	260,388	172,781	-	172,781
River Kitty Cat Café:						
Lounge fees	102,252	-	102,252	66,953	-	66,953
Food and beverage sales	80,000	-	80,000	97,578	-	97,578
Cost of goods sold	(42,212)	-	(42,212)	(41,465)	-	(41,465)
Net sales	37,788	-	37,788	56,113	-	56,113
Merchandise:						
Sales	81,535	-	81,535	80,372	-	80,372
Cost of goods sold	(30,312)	-	(30,312)	(46,029)	-	(46,029)
Net sales	51,223	-	51,223	34,343	-	34,343
Special events:						
Special events revenue	179,548	-	179,548	93,194	-	93,194
Cost of direct benefits to donors	(71,364)	-	(71,364)	(26,212)	-	(26,212)
Net special event revenue	108,184	-	108,184	66,982	-	66,982
Change in value of beneficial interest in assets held by others	-	(82,368)	(82,368)	-	92,083	92,083
Investment income	44,093	-	44,093	31,678	-	31,678
Other	22,929	-	22,929	14,061	-	14,061
Net assets released from restrictions	15,927	(15,927)	-	10,617	(10,617)	-
Total revenues and support	<u>2,742,012</u>	<u>(98,295)</u>	<u>2,643,717</u>	<u>3,057,698</u>	<u>81,466</u>	<u>3,139,164</u>
Expenses:						
Program services:						
Adoption/shelter	1,351,054	-	1,351,054	1,109,963	-	1,109,963
Spay/neuter & medical clinic	546,718	-	546,718	498,874	-	498,874
River Kitty Café	238,445	-	238,445	198,008	-	198,008
Education and other	186,755	-	186,755	82,733	-	82,733
Total program services	2,322,972	-	2,322,972	1,889,578	-	1,889,578
Supporting services:						
General and administrative	159,691	-	159,691	148,796	-	148,796
Fundraising	115,379	-	115,379	136,760	-	136,760
Total supporting services	275,070	-	275,070	285,556	-	285,556
Total expenses	<u>2,598,042</u>	<u>-</u>	<u>2,598,042</u>	<u>2,175,134</u>	<u>-</u>	<u>2,175,134</u>
Change in net assets	143,970	(98,295)	45,675	882,564	81,466	964,030
Net assets, beginning of year	<u>2,829,459</u>	<u>637,957</u>	<u>3,467,416</u>	<u>1,946,895</u>	<u>556,491</u>	<u>2,503,386</u>
Net assets, end of year	<u>\$ 2,973,429</u>	<u>\$ 539,662</u>	<u>\$ 3,513,091</u>	<u>\$ 2,829,459</u>	<u>\$ 637,957</u>	<u>\$ 3,467,416</u>

See Independent Accountant's Review Report and Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2022 and 2021

	2022							
	Program Services					Supporting Services		
	Adoption/ Shelter	Spay/Neuter & Medical Clinic	River Kitty Cat Café	Education & Other	Total	General & Admin.	Fund- raising	Total
Salaries	\$ 662,436	\$ 266,664	\$ 130,315	\$ 147,208	\$ 1,206,623	\$ 77,245	\$ 47,946	\$ 1,331,814
Employee benefits	53,592	21,573	10,543	11,909	97,617	6,249	3,879	107,745
Payroll taxes	48,859	19,668	9,612	10,858	88,997	5,697	3,537	98,231
Animal supplies	38,156	-	-	-	38,156	-	-	38,156
Medical & vet	129,147	184,047	-	-	313,194	-	-	313,194
Advertising	-	49	368	-	417	5,272	-	5,689
Bank charges	17,853	3,343	4,477	-	25,673	-	-	25,673
Depreciation	116,614	13,313	3,990	3,256	137,173	3,256	6,333	146,762
Direct mail	-	-	-	-	-	-	31,088	31,088
Insurance	36,251	4,148	-	1,078	41,477	1,092	1,092	43,661
Interest	12,970	-	2	1,466	14,438	160	-	14,598
Maintenance	102,134	11,686	4,478	3,038	121,336	2,979	2,978	127,293
Miscellaneous	3,166	-	85	-	3,251	3,785	-	7,036
Office	-	145	1,581	1,698	3,424	6,865	4,250	14,539
Professional fees	-	-	298	-	298	26,594	-	26,892
Rent & service agreements	-	-	41,376	267	41,643	8,897	-	50,540
Software & subscriptions	6,857	2,487	2,446	2,743	14,533	4,113	10,788	29,434
Supplies	9,974	7,154	17,337	-	34,465	3,999	-	38,464
Travel & education	4,313	-	-	-	4,313	-	-	4,313
Utilities	108,732	12,441	11,537	3,234	135,944	3,488	3,488	142,920
	<u>\$ 1,351,054</u>	<u>\$ 546,718</u>	<u>\$ 238,445</u>	<u>\$ 186,755</u>	<u>\$ 2,322,972</u>	<u>\$ 159,691</u>	<u>\$ 115,379</u>	<u>\$ 2,598,042</u>
	2021							
	Program Services					Supporting Services		
	Adoption/ Shelter	Spay/Neuter & Medical Clinic	River Kitty Cat Café	Education & Other	Total	General & Admin.	Fund- raising	Total
Salaries	\$ 510,882	\$ 270,522	\$ 102,742	\$ 58,440	\$ 942,586	\$ 78,904	\$ 44,784	\$ 1,066,274
Employee benefits	45,352	24,015	9,121	5,187	83,675	7,004	3,976	94,655
Payroll taxes	36,390	19,269	7,318	4,164	67,141	5,620	3,190	75,951
Animal supplies	29,146	-	-	-	29,146	-	-	29,146
Medical & vet	140,490	138,344	-	-	278,834	-	-	278,834
Advertising	-	50	231	-	281	3,249	-	3,530
Bank charges	5,746	6,745	5,445	-	17,936	-	-	17,936
Depreciation	115,049	13,249	3,776	3,239	135,313	3,238	6,316	144,867
Direct mail	-	-	-	-	-	-	56,621	56,621
Insurance	32,994	3,775	-	981	37,750	993	993	39,736
Interest	16,737	-	2,239	99	19,075	640	-	19,715
Maintenance	62,815	7,187	3,745	1,869	75,616	1,843	1,843	79,302
Miscellaneous	1,142	1,568	756	-	2,985	3,391	-	6,376
Office	-	-	-	-	-	7,970	5,265	13,235
Professional fees	-	-	1,048	-	1,048	20,082	-	21,130
Rent & service agreements	-	-	41,376	-	41,376	5,208	-	46,584
Software & subscriptions	8,767	2,506	1,235	3,507	16,015	5,260	10,788	32,063
Supplies	9,385	1,074	9,201	279	20,420	2,410	-	22,830
Travel & education	3,090	46	-	2,232	5,368	-	-	5,368
Utilities	91,978	10,524	9,775	2,736	115,013	2,984	2,984	120,981
	<u>\$ 1,109,963</u>	<u>\$ 498,874</u>	<u>\$ 198,008</u>	<u>\$ 82,733</u>	<u>\$ 1,889,578</u>	<u>\$ 148,796</u>	<u>\$ 136,760</u>	<u>\$ 2,175,134</u>

See Independent Accountant's Review Report and Notes to Financial Statements.

VANDERBURGH HUMANE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 45,675	\$ 964,030
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	147,413	145,794
Change in beneficial interests in assets held by others	82,368	(92,083)
Increase in cash surrender value of life insurance	(3,305)	(3,197)
Decrease (increase) in assets:		
Contributions receivable	90,812	(828,087)
Prepaid expenses	18,498	(14,918)
Increase (decrease) in liabilities:		
Accounts payable	63,608	(15,090)
Accrued expenses	10,173	20,618
	455,242	177,067
Cash flows from investing activities:		
Principal payments received from remainder trust	15,927	10,617
Purchases of property and equipment	(19,306)	-
	(3,379)	10,617
Cash flows from financing activities:		
Repayments on long-term debt	(300,411)	(70,909)
	(300,411)	(70,909)
Net increase in cash and cash equivalents	151,452	116,775
Cash and cash equivalents, beginning of year	253,667	136,892
Cash and cash equivalents, end of year	\$ 405,119	\$ 253,667
Supplemental disclosure of cash flow information:		
Interest paid	\$ 13,947	\$ 19,866
Cash paid for amounts included in measurement of operating lease liabilities	\$ 3,498	\$ -
Supplemental disclosure of noncash financing activities:		
Lease assets obtained in exchange for lease liabilities	\$ 15,840	\$ -

See Independent Accountant's Review Report and Notes to Financial Statements.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies**

Nature of Organization

Vanderburgh Humane Society, Inc. is a not-for-profit organization that was founded in 1957 to provide protection for homeless animals, intervention for animals in abusive environments, and community education to encourage prevention of animal abuse and pet overpopulation in Vanderburgh County, Indiana and the surrounding areas. The Organization serves as a surrender and adoption agency for unwanted pets. The Organization operates a low-cost spay & neuter clinic, which has prevented hundreds of thousands of unwanted litters and provides medical services to animals. The Organization also operates River Kitty Cat Café in downtown Evansville, Indiana. The café maintains a lounge that displays cats available for adoption and allows the public to interact with these cats in addition to selling food and beverages.

Cash, Cash Equivalents, and Restricted Cash

The Organization considers all highly liquid investments with an original maturity of less than 90 days to be cash equivalents. Cash and highly liquid financial instruments restricted to long-term purposes are excluded from this definition. Cash that has donor-imposed restrictions limiting its use to long-term purposes is reported as restricted cash in the financial statements. The Organization had no restricted cash at December 31, 2022 and 2021.

Contributions Receivable

Contributions receivable consist of unconditional promises to give, including bequests, which are recognized as revenues in the period received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Management utilizes the allowance method of accounting for uncollectible accounts. The allowance is based on historical collection experience and changes in current economic conditions in the area. Management believes all contributions receivable will be collected in full, therefore no allowance has been recorded.

Beneficial Interest in Assets Held by Others

Beneficial interests in assets held by others are carried at fair market value, if determinable. Assets donated with explicit restrictions regarding their use are reported as restricted support until such restrictions expire. Absent donor stipulations, contributions of beneficial interests in assets held by others are recorded as unrestricted support.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies, Continued**

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Acquisitions of property and equipment in excess of \$500 and with estimated useful lives in excess of one year are capitalized.

Donated property and equipment are recorded as contributions at their estimated values at the date of receipt. If donors stipulate a time period during which the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. All contributions are considered available for the Organization's general programs unless specifically restricted by the donor.

Net assets with donor restrictions: Net assets subject to donor (or certain grantor) 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 be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.

Revenue and Revenue Recognition

Program service revenues, which include adoption fees, clinic service fees, and sales of medical supplies and merchandise, are recognized as earned when the service is provided or when supplies or merchandise are delivered, and payment is due at that time. The Organization also operates a retail thrift store and a café. Revenue from these sales is recognized at the point of sale. Sales taxes collected from customers are excluded from revenue. The Organization recognizes special event revenue equal to the fair value of the direct benefits to donors and contribution revenue for the difference when the event takes place.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies, Continued**

Contributions

Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is 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 substantially met. Amounts received prior to incurring qualifying expenditures or conditions are reported as deferred revenue in the statement of financial position.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

In-Kind Contributions

Contributed goods are recorded at fair value at the date of donation. The Organization's policy related to in-kind contributions is to utilize the assets given to carry out the Organization's mission. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value. No significant contributions of such assets were received during the years ended December 31, 2022 and 2021.

Volunteers contribute significant amounts of time to the Organization; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Advertising

Advertising costs are expensed as incurred.

Functional Allocation of Expenses

The costs of providing various services and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries, benefits, payroll taxes and office expenses have been allocated based on time and effort. Occupancy, insurance, interest, and depreciation expenses have been allocated based on square footage of building.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date were as follows at December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 405,119	\$ 253,667
Contributions receivable	843,097	933,909
Distributions from beneficial interest in assets held by others	3,950	2,984
Other current assets	<u>7,065</u>	<u>29,644</u>
	<u>\$ 1,259,231</u>	<u>\$ 1,220,204</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments, including money market accounts and certificates of deposit.

3. Beneficial Interests in Assets Held by Others

Beneficial Interest in Remainder Trust

The Organization is a beneficiary of a charitable remainder trust, the assets of which are held by a local bank. The Organization has the irrevocable right to receive one seventh of the distributable net income until termination of the trust in June 2025, at which time the Organization will receive 15% of principal, without restrictions. The fair market value of this interest was \$495,689 and \$583,774 at December 31, 2022 and 2021, respectively. A loss of \$72,158 and a gain of \$88,219 were included in the change in net assets with donor restrictions for the years ended December 31, 2022 and 2021, respectively.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

3. Beneficial Interests in Assets Held by Others, Continued

Beneficial Interest in Remainder Trust, Continued

This trust is a private foundation under the IRS tax code. As a result, a minimum of 5% of the trust's fair market value is required to be distributed to the charitable beneficiaries annually, and a principal distributions of \$15,927 and \$10,617 were made to the Organization during the years ended December 31, 2022 and 2021, respectively.

Beneficial Interest in Perpetual Trust

The Organization is a beneficiary of a perpetual trust, the assets of which are held by a local bank. The Organization has the irrevocable right to receive one fifty-eighth of the distributable net income in perpetuity, without restrictions. The fair market value of this interest was \$43,973 and \$54,183 at December 31, 2022 and 2021, respectively. A loss of \$10,210 and a gain of \$3,864 were included in the change in net assets with donor restrictions for the years ended December 31, 2022 and 2021, respectively.

Other Estates and Charitable Remainder Trusts

The Organization is also a beneficiary of various other estates and charitable remainder trusts. Due to the difficulty the Organization has encountered in obtaining current fair value information, the Organization has not been able to reasonably value and record its interest in all of these trusts and estates, as required by U. S. generally accepted accounting principles.

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 315,279	\$ 315,279
Buildings and improvements	3,917,713	3,905,449
Equipment	151,188	132,169
Vehicles	<u>75,985</u>	<u>75,985</u>
Total cost	4,460,165	4,443,882
Less accumulated depreciation	<u>(2,534,305)</u>	<u>(2,390,566)</u>
Property and equipment, net	<u>\$ 1,925,860</u>	<u>\$ 2,053,316</u>

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

5. Fair Value Measurements

Fair value of assets measured on a recurring basis was as follows:

	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>December 31, 2022:</u>			
Beneficial interests in assets held by others	\$ 495,689	\$ 43,973	\$ 539,662
Cash surrender value of life insurance	<u>80,263</u>	<u>-</u>	<u>80,263</u>
	<u>\$ 575,952</u>	<u>\$ 43,973</u>	<u>\$ 619,925</u>
<u>December 31, 2021:</u>			
Beneficial interests in assets held by others	\$ 583,774	\$ 54,183	\$ 637,957
Cash surrender value of life insurance	<u>76,958</u>	<u>-</u>	<u>76,958</u>
	<u>\$ 660,732</u>	<u>\$ 54,183</u>	<u>\$ 714,915</u>

Fair value for the cash surrender value of life insurance is determined by the amount that could be realized under the insurance contract and is considered a Level 2 input.

Fair value of the beneficial interest in a remainder trust is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2022 and 2021, which approximates the present value of the expected future cash flows, discounted at 2.5%, and is considered a Level 2 input.

Fair value of the beneficial interest in a perpetual trust is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2022 and 2021. The Organization considers the measurement of this trust to be a Level 3 input because even though that measurement is based on unadjusted fair values of the trust assets, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

6. Income Taxes

The Organization is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The income derived from thrift shop sales are exempt from unrelated business income tax because substantially all sales consist of merchandise that the Organization received as contributions. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

7. Long-Term Debt

Long-term debt consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Note payable to bank, 4.65% interest, \$3,764 monthly through June 2023, when remaining balance is due, secured by all real estate	\$ -	\$ 301,778
Note payable to Small Business Administration, 2.75% interest, \$641 beginning in May 2021, then monthly through May 2050, secured by all tangible and intangible personal property, fully guaranteed by the Federal Government	<u>150,000</u>	<u>150,000</u>
Long-term debt	150,000	451,778
Less deferred loan fees	<u>-</u>	<u>(2,018)</u>
Long-term debt, net of deferred loan fees	150,000	449,760
Less current maturities	<u>(4,154)</u>	<u>(33,879)</u>
Long-term debt, net of current portion	<u>\$ 145,846</u>	<u>\$ 415,881</u>

The Organization reports amortization of deferred loan fees as interest expense.

Scheduled long-term debt maturities are as follows for the years ended December 31:

2023	\$ 4,154
2024	4,055
2025	3,954
2026	3,850
2027	3,743
Thereafter	<u>130,244</u>
	<u>\$ 150,000</u>

8. Payroll Protection Program (PPP) Loan

In January 2021, the Organization qualified and received a PPP loan in the amount of \$188,349. The loan accrued interest at 1%. The Organization received loan forgiveness in February 2022, for the full amount of this loan. The Organization accounted for the loan in accordance with FASB ASC 958-605 as contribution revenue for the year ended December 31, 2022.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

9. Leases

Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases*. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. The adoption of FASB ASC 842 resulted in the recognition of right-of-use-asset and operating lease liability of \$4,150 as of January 1, 2022. The adoption of FASB ASC 842 did not have a material impact on the Organization's statement of activities, cash flows or debt covenants.

The Organization leases equipment and facilities under short-term and long-term operating lease agreements, with remaining lease terms through April 2027. The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less. Lease expense is recognized for these leases on a straight-line basis over the lease term. Lease expense for short-term leases was \$41,376 for the years ended December 31, 2022 and 2021. Total rent expense was \$44,874 and \$41,924 for the years ended December 31, 2022 and 2021, respectively.

The weighted average remaining lease term was four years at December 31, 2022. The Organization has elected to use the risk-free rate as the discount rate. The weighted average discount rate was 3.19% at December 31, 2022.

The maturity of operating lease liabilities are as follows for the years ended December 31:

2023	\$	4,351
2024		4,351
2025		4,351
2026		3,804
2027		<u>853</u>
Total lease payments		17,710
Less interest		<u>(574)</u>
Present value of lease liabilities	\$	<u><u>17,136</u></u>

The Organization subleases part of the leased facilities on a month-to-month basis. Total rents received were \$16,400 and \$10,500 for the years ended December 31, 2022 and 2021, respectively.

VANDEBURGH HUMANE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

10. Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows at December 31:

	<u>2022</u>	<u>2021</u>
Subject to the passage of time:		
Beneficial interest in remainder trust	\$ 495,689	\$ 583,774
Assets to be maintained in perpetuity:		
Beneficial interest in perpetual trust	<u>43,973</u>	<u>54,183</u>
	<u>\$ 539,662</u>	<u>\$ 637,957</u>

Net assets released from donor restrictions were as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Distributions of principal:		
Beneficial interest in remainder trust	<u>\$ 15,927</u>	<u>\$ 10,617</u>
	<u>\$ 15,927</u>	<u>\$ 10,617</u>

The Organization had no board restricted funds at December 31, 2022 and 2021.

11. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of cash on deposit at financial institutions and contributions receivable. Cash in banks may, at times, exceed federal deposit insurance limits. The Organization attempts to minimize this risk by using high-credit quality financial institutions. Contributions receivable are periodically reviewed by management for their collectability and an allowance for doubtful accounts is established, as deemed necessary.

During the year ended December 31, 2022, one bequest accounted for 12% of total revenue and 40% of outstanding contributions receivable at December 31, 2022. During the year ended December 31, 2021, a different bequest accounted for 28% of total revenue and 94% of outstanding contributions receivable at December 31, 2021. In addition, this bequest accounted for 33% of outstanding contributions receivable at December 31, 2022.

12. Subsequent Events

The Organization has evaluated subsequent events through July 14, 2023, the date the financial statements were available to be issued.