



**Humane Society of Washington County,  
Incorporated and Subsidiary**

**Consolidated Financial Statements**

June 30, 2022



HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED AND SUBSIDIARY

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## Independent Auditor's Report

To the Board of Directors  
Humane Society of Washington County,  
Incorporated and Subsidiary  
Hagerstown, Maryland

### Opinion

We have audited the consolidated financial statements of the Humane Society of Washington County, Incorporated and Subsidiary (the Society), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as of June 30, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society 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 the Society's ability to continue as a going concern within one year after the date that the financial statements are issued or 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

RKL LLP

January 25, 2023  
Chambersburg, Pennsylvania

## HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2022

<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 346,187
Accounts receivable	500
Prepaid expenses and deposits	52,875
Inventory	847
	<hr/>
TOTAL CURRENT ASSETS	400,409
<u>PROPERTY AND EQUIPMENT</u>	
Land	337,489
Buildings and improvements	4,251,684
Furniture and fixtures	58,791
Equipment	627,723
Vehicles	452,992
	<hr/>
	5,728,679
Less accumulated depreciation	2,323,808
	<hr/>
	3,404,871
<u>OTHER ASSETS</u>	
Beneficial interest in perpetual trust	417,802
Investments	2,792,942
	<hr/>
TOTAL OTHER ASSETS	3,210,744
	<hr/>
TOTAL ASSETS	\$ 7,016,024
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Current portion of mortgage payable	\$ 70,683
Line of credit	50,000
Accounts payable	74,646
Accrued expenses	125,171
	<hr/>
TOTAL CURRENT LIABILITIES	320,500
<u>NONCURRENT LIABILITIES</u>	
Long-term portion of mortgage payable less unamortized mortgage closing costs	950,752
	<hr/>
TOTAL LIABILITIES	1,271,252
<u>NET ASSETS</u>	
Without donor restriction	5,043,467
With donor restriction	
Restricted for a specific purpose	283,503
Restricted in perpetuity	417,802
	<hr/>
TOTAL NET ASSETS	5,744,772
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 7,016,024
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

## HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
<b><u>REVENUES, GAINS, AND OTHER SUPPORT</u></b>			
Contract services	\$ 1,436,640	\$ -	\$ 1,436,640
Program service revenue	238,872	-	238,872
Contributions and grants	649,322	208,270	857,592
In-kind contributions	15,930	-	15,930
Clinic and retail revenue	112,378	-	112,378
Investment (loss), net	(438,601)	(111,502)	(550,103)
Other income	7,157	-	7,157
Net assets released from restrictions	125,658	(125,658)	-
	<u>2,147,356</u>	<u>(28,890)</u>	<u>2,118,466</u>
<b><u>EXPENSES</u></b>			
Program services	2,362,763	-	2,362,763
Supporting services:			
Management and general	304,842	-	304,842
Fundraising	205,887	-	205,887
	<u>2,873,492</u>	<u>-</u>	<u>2,873,492</u>
CHANGE IN NET ASSETS	(726,136)	(28,890)	(755,026)
NET ASSETS - BEGINNING OF YEAR	<u>5,769,603</u>	<u>730,195</u>	<u>6,499,798</u>
NET ASSETS - END OF YEAR	<u>\$ 5,043,467</u>	<u>\$ 701,305</u>	<u>\$ 5,744,772</u>

The Notes to Financial Statements are an integral part of this statement.

## HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2022

	Fundraising	Management and General	Program Service	Total
Advertising	\$ 175	\$ -	\$ -	\$ 175
Bank Fees	-	20,761	93	20,854
Cleaning services	-	6,450	-	6,450
Communications	-	106	16,454	16,560
Dues and subscriptions	-	16,695	9,274	25,969
Employee/Client Relations	28	186	622	836
Human resources	161,481	101,697	1,667,475	1,930,653
Insurance	564	867	29,501	30,932
Interest	462	711	24,171	25,344
Licenses and permits	-	800	273	1,073
Miscellaneous	-	357	-	357
Postage and delivery	563	3,290	861	4,714
Printing	-	165	1,019	1,184
Professional development and training	-	95	3,389	3,484
Professional fees	-	10,990	-	10,990
Programs and services	37,668	111,311	47,619	196,598
Repairs and maintenance	-	8,687	90,378	99,065
Supplies	25	12,729	177,250	190,004
Travel	-	-	1,035	1,035
Utilities	1,940	2,980	101,386	106,306
Vehicle expense	-	68	35,363	35,431
Volunteers	-	1,316	775	2,091
Depreciation	2,981	4,581	155,825	163,387
	<u>\$ 205,887</u>	<u>\$ 304,842</u>	<u>\$ 2,362,763</u>	<u>\$ 2,873,492</u>

The Notes to Financial Statements are an integral part of this statement.

## HUMANE SOCIETY OF WASHINGTON COUNTY, INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2022

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$	(755,026)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash interest expense associated with mortgage closing costs		1,581
Depreciation		163,387
Realized (gain) on sale of investments		(70,263)
Unrealized losses on investments and perpetual trusts		672,562
(Increase) decrease in:		
Accounts receivable		(500)
Pledges receivable		625
Prepaid expenses		2,549
Inventory		183
Increase (decrease) in:		
Accounts payable		24,391
Accrued expenses		(36,867)
		<u>2,622</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		2,622
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment		(232,738)
Distributions from investment portfolios		179,342
Purchase of investments		(396,303)
Proceeds from redemption of investments		344,107
		<u>(105,592)</u>
NET CASH (USED) BY INVESTING ACTIVITIES		(105,592)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net proceeds on line of credit		50,000
Principal payments on long-term debt		(69,154)
		<u>(19,154)</u>
NET CASH (USED) BY FINANCING ACTIVITIES		(19,154)
NET (DECREASE) IN CASH		(122,124)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		<u>468,311</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$	<u><u>346,187</u></u>
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$	<u><u>23,763</u></u>

The Notes to Financial Statements are an integral part of this statement.



# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Humane Society of Washington County, Inc.** (the Society) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Society's management, who is responsible for their integrity and objectivity.

**Principles of consolidation:** In conformity with FASB ASC 810, the financial statements include the accounts of Humane Society of Washington County, Inc. and Humane Society of Washington County Holding, LLC, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Nature of operations:** The Society was formed in 1921 to improve the quality of life for all animals. Through education, legislation, action and leadership, the Society strives to eliminate overpopulation and to foster an environment of respect, responsibility, and compassion. The Society currently operates a shelter for animals and provides animal control services under a contract with the Board of County Commissioners of Washington County, Maryland.

Humane Society of Washington County Holding, LLC, a wholly owned subsidiary, holds investments and loans for the Society.

**Principles of accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of presentation:** The Society reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restriction. Net assets with donor restrictions are comprised of funds whose use has been limited by donors to a specific time period or purpose or funds in which the principal is held in perpetuity.

**Effect of Adopting New Accounting Standard:** The Society adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on July 1, 2021. This standard clarifies the presentation and disclosure of contributed nonfinancial assets, with the intention of providing the reader of the financial statements with a clearer understanding of what type of nonfinancial assets were received by the organization, and how they are used and recognized. Implementation of this standard did not result in any change to beginning net asset balances.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the Society include fair value determinations provided by the third-party investment companies.

**Cash and cash equivalents:** The Society considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents.

**Contributions and promises to give:** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts on non-current amounts are computed using risk-adjusted rates of return applicable to the years in which the promises are received. Amortization of the discount is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2022, the Society had no promises to give.

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions that are restricted by the donor are reported as increases in net assets without restriction if the restrictions are met in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, net assets with restriction are reclassified to net assets without restriction.

**Investments:** The Society's investments are stated at fair value. The fair values of marketable equity and debt securities are based on quoted prices in active markets. Realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restriction unless their use is restricted by the donor or by law and included in net investment return. Also, included in net investment return is other investment income, such as dividends and interest, which is recognized in the period earned as an increase in net assets without donor restriction unless the use is limited by donor-imposed restrictions. Investment income that is restricted by the donor and subsequently used in the same period is reported as an increase in net assets without donor restriction. Return on investments is shown net of related investment fees.

**Fair value measurements:** The Society conforms with FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

**Level 2:** Inputs to the valuation methodology include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset 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.

**Inventory:** Inventory is stated at the lower of cost or net realizable value, on a first-in, first-out basis and consists of medication.

**Beneficial interest in trust:** The Society is an irrevocable beneficiary of a split-interest agreement relating to the Margaret E. Stickell Charitable Foundation (the Trust). Under the terms of the agreement, the Society is entitled to an annual distribution of 4% of the fair market value as of December 31. The timing of the distribution is received quarterly, and is to be used for the general welfare of the Society. Accounting principles generally accepted in the United States of America require not-for-profit beneficiaries of such trust to record, as an asset, the present value of the estimated future cash receipts to be received from the Trust, over the life of the Trust. Due to the perpetual nature of this Trust, the future cash flows cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the Society's share of the fair market value of the Trust's assets. Changes in the Trust's fair value are included in the unrealized gain on investments in the statement of activities. The annual distribution of the

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Society's 4% distributive share of the Trust is recognized as bequest income and are included in contributions and grant income in the accompanying statements of activities.

**Property and equipment:** Property and equipment is stated at cost, if purchased, or fair market value, if donated. Maintenance and repairs are charged to expense as incurred; major improvements over \$2,500 that increase the useful lives of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income in the period realized. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets ranging from three to forty years.

**Long-lived assets:** Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value amount. Fair value estimates are based on assumptions concerning the amount and timing of the estimated future cash flows and discount rates reflecting varying degrees of perceived risk. Management of the Society concluded that no impairment adjustments were required during the year ended June 30, 2022.

**Contributed services and goods:** A substantial number of unpaid volunteers have made significant contributions of time to develop the Society's programs. The Society also receives various donated goods to be used in its operations. Donations of services are recorded at their estimated fair values at the date of donation given that the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. Donations of goods and equipment are also recorded at their estimated fair market values at date of donation. See Note 12 for further details.

**Functional allocation of expenses:** Certain costs have been allocated among the programs and supporting services benefited. Allocations of costs by function are based principally on specific identification of costs to program, management and general, or fundraising. Non-specifically identified costs are based on management's allocation of square footage and/or time requirements for the various functions based on its analysis of historical activities.

**Advertising:** The Society's policy is to expense advertising costs as the costs are incurred.

**Income tax status:** The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore, has made no provision for federal income taxes in the accompanying financial statements. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Society complies with ASC 740-10, which establishes a threshold for determining when an income tax benefit of a tax position can be recognized. Under ASC 740-10, a tax position includes, among other things, (a) a decision not to file a tax return (b) an allocation or a shift of income between jurisdictions (c) the characterization of income or a decision to exclude reporting taxable income in a tax return (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt and (e) an entity's status, including its status as a tax-exempt not-for-profit entity. Based on its interpretation of the requirements of ASC 740-10, management believes that the Society has no uncertain tax positions that qualify for either recognition or disclosure. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Society is no longer subject to income tax examinations for years prior to 2019.

**Mortgage closing costs:** The Society incurred mortgage closing costs associated with obtaining financing. These costs are being amortized using the straight-line method over the life of the related debt. Amortization of mortgage closing costs is reported as a component of interest expense and is computed using the straight line method which is not materially different than the effective interest method. The unamortized amount is

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

recorded as a direct deduction from the carrying amount of the related obligation on the statement of financial position.

**Revenue Recognition for Revenues from Contracts with Customers:** The Society follows FASB Accounting Standards Codification (ASC) 606 for revenue recognition. The Society's revenue streams that fall within the scope of ASC 606 include program service revenue and clinic and retail revenue. Contract services revenue is excluded from the scope of this guidance, as the resource provider does not receive a direct benefit from providing the revenue to the Society. Contract services revenue is accounted for under the scope of ASC 958.

Program service revenues consist primarily of adoption fees and spay/neuter fees. Clinic revenues consist of income earned for providing rabies and other vaccinations, as well as in-house veterinary services. Retail revenue results from the sale of products, including food, toys, and other pet-related merchandise. These revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Society expects to be entitled to in exchange for those goods or services. The fees are set annually by the Society. Revenues are recognized net of discounts, waivers, and refunds.

These revenues result from the Society meeting one or more performance obligations. The transaction price is allocated to each performance obligation based on the relative standalone selling price of each distinct good or service and recognized as revenue when, or as, the performance obligation is satisfied. All of the above revenue streams are recognized at a point in time, when the service is provided, or the merchandise is sold.

The Society had no contract receivables, contract assets, or contract liabilities associated with revenues from contracts with customers at July 1, 2021 or June 30, 2022.

The Society has applied the practical expedient allowed under generally accepted accounting principles for contracts with customers. The Society has applied the portfolio approach to those contracts with a revenue stream that have similar characteristics, as management has determined that this would produce the same results if each contract within a portfolio was analyzed individually.

The Society has also applied the practical expedient allowed under generally accepted accounting principles related to contract costs. All incremental contract costs are expensed as incurred, as the amortization of the asset that the Society would have recognized is one year or less.

The Society has also applied the practical expedient allowed under generally accepted accounting principles related to financing. The Society does not adjust the promised amount of consideration from customers for the effects of a significant financing component due to the Society's expectation that the period between the time the service is provided to a customer and the time a customer pays for the service will be one year or less.

**Recent Accounting Pronouncements:** In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Society beginning July 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Society is currently evaluating the effect that the standard will have on the financial statements.

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. RISKS AND UNCERTAINTIES

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society's management considers those circumstances to be a normal business risk.

From time to time, the Society is involved in litigation and proceedings arising in the ordinary course of business. The Society does not anticipate any material losses to arise from these legal proceedings.

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or shut down of operations for some businesses and created many economic uncertainties. These uncertainties include, but are not limited to, disruption of supply chains, customers, and the Society's workforce. These events could impact our financial condition and operating results. However, the financial impact and duration cannot be reasonably estimated at this time.

Investments of the Society are exposed to various risks, such as interest rate, market, currency, and credit risks. In addition, economic uncertainty and market events have led to volatility in currency, commodity, credit, and equity markets. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

### 3. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Society is the beneficiary of the Margaret E. Stickell Charitable Trust (the Trust) held and administered by independent trustees. Under the terms of the trust, the Society has the right to receive the income earned on trust assets in perpetuity. The fair value of the beneficial interest in a trust is recognized as an asset and as a contribution restricted in perpetuity at the date the trust is established. The Society's estimate of fair value at each reporting date is based on fair value information received from the trustees. These assets are not subject to control or discretion by the Society. Market values are determined based on quoted market prices.

### 4. INVESTMENTS

The fair value of investments by major category consisted of the following as of June 30:

	2022			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Money market funds	\$ 86,992	\$ -	\$ -	\$ 86,992
Fixed income	-	28,102	-	28,102
Mutual funds	2,253,347	-	-	2,253,347
Exchange traded funds	424,501	-	-	424,501
Beneficial interest in perpetual trust	-	-	417,802	417,802
	\$ 2,764,840	\$ 28,102	\$ 417,802	\$ 3,210,744

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net investment return consisted of the following as of June 30:

	2022	
	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION
Interest and dividends	\$ 76,600	\$ -
Realized gains on investment	70,263	-
Unrealized (losses) on investment	(561,060)	(111,502)
	(414,197)	(111,502)
Investment expense	(24,404)	-
	\$ (438,601)	\$ (111,502)

The Society invests in a portfolio that contains a variety of investment types. Such investments are exposed to various risks, such as market, credit and interest rate risk. Due to the level of risk associated with such investments, it is at least reasonably possible that such risk may change in the near term and that such changes could materially affect the fair values of those investments as reported in the Society's financial statements. In addition, recent economic uncertainty and market events have led to unprecedented volatility in the currency, commodity, debt and equity markets that have resulted in the bankruptcy and/or failure of some financial institutions. Such events have highlighted the level of risk inherent in any investment portfolio. Management believes that there has been no significant other-than-temporary reduction of fair value since June 30, 2022.

### 5. LONG-TERM DEBT

At June 30, 2022, the Society had a mortgage payable, collateralized by the building, totaling \$1,042,784. The mortgage is payable in monthly installments of \$7,743 including interest at a rate of 2.65% through the first reset date of December 22, 2020. At the reset date (which subsequently occurs every five years after the initial reset date), the interest rate will adjust to the reset rate, which is calculated as 67% of the sum of the 5-year FHLB rate (FHLB Pittsburgh's five year amortizing fixed rates in effect as published in the Weekly Financial Summary) and 2.65%. with final payment due December 2035. At June 30, 2022 the interest rate was 2.17%. Total interest expense for the mortgage was \$23,763 for the year ended June 30, 2022.

Maturities by year are as follows:

2023	\$	70,683
2024		72,198
2025		73,859
2026		75,500
2027		77,178
Thereafter		673,366
	\$	1,042,784
Less: unamortized		
mortgage closing costs		(21,349)
	\$	1,021,435

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. LINE OF CREDIT

The Society has available a \$250,000 line of credit, secured by the Society's building, that automatically renews on a year by year basis in November. Interest is payable at a variable rate equal to the Prime Rate plus 50 basis points (5.25% at June 30, 2022). The line provides operating cash when needed during slower cash flow periods. As of June 30, 2022, \$50,000 was outstanding. Total interest expense incurred on the line of credit was \$0 for the year ended June 30, 2022.

### 7. RETIREMENT PLAN

The Society sponsors a Saving Incentive Match Plan Individual Retirement Account (Simple IRA) covering all eligible full-time personnel. At the discretion of the Board of Trustees, the Society contributed three percent of each eligible participant's salary to the plan. Total contributions to the plan were \$22,567 for the year ended June 30, 2022, and are included in human resources in the statement of functional expenses.

### 8. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions that are restricted in perpetuity are not available for use by the Society, but income derived from the investment is expendable for general support. Net assets restricted in perpetuity total \$417,802 as of June 30, 2022.

Net assets with donor restrictions that are restricted for a specific purpose consist of the following as of June 30, 2022, and were available for the following purposes:

	2022			
	BALANCE	ADDITIONS	SATISFACTION	BALANCE
	June 30, 2021		OF	June 30, 2022
	June 30, 2021	ADDITIONS	RESTRICTIONS	June 30, 2022
ASPCA Programs	\$ 7,810	\$ 3,818	\$ (592)	\$ 11,036
Catsnip/Dogsnip Programs	419	60	(130)	349
Forrest Freedom Fund	92,268	995	(9,516)	83,747
Foster Care	17,231	7,890	(1,797)	23,324
SNAP Program	15,179	18,848	(24,663)	9,364
TNR Program	17,355	51,902	(58,266)	10,991
Special/Cruelty Cases	8,137	49,203	(25,750)	31,590
Spay/Neuter Clinic	3,000	55,075	(670)	57,405
Promises to give receivable	625	-	(625)	-
Various	38,867	20,479	(3,649)	55,697
	<b>\$ 200,891</b>	<b>\$ 208,270</b>	<b>\$ (125,658)</b>	<b>\$ 283,503</b>

### 9. ENDOWMENT NET ASSETS

As of June 30, endowment net assets consisted of the following:

	2022
Endowment fund	\$ 2,587,462
Capital investment fund	205,480
	<b>\$ 2,792,942</b>

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Board of Trustees of the Society has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gifts instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted for a specific purpose until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds: (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

The endowment net assets are included as part of net assets without donor restriction. Activity in the Society's endowment fund consisted of the following for the year ended June 30:

	<b>2022</b>
Endowment net assets, beginning of the year	\$ 3,410,885
Investment return:	
Interest and dividends	76,600
Net appreciation (realized and unrealized)	(490,797)
Release of endowment assets:	
Approved expenditures	(179,342)
Investment expenses	(24,404)
Endowment net assets, end of year	<b>\$ 2,792,942</b>

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

The Society's spending policy will be the previous year's spending for operations plus a 6.5% increase (at the Board's discretion). For the year ended June 30, 2022, the Board elected not to increase the annual distribution from the endowment. Total distributions for the year ended June 30, 2022, including those made for capital purchases were \$179,342. Distributions from the endowment to the Society are made quarterly. Distributions for capital purposes are made at the discretion of the Board, as needed.

The asset allocation target guideline is as follows:



# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Type of Investment	Range	Target
Large Cap Equities	15-35%	25.0%
Mid Cap Equities	0-20%	10.0%
Small Cap Equities	0-15%	5.0%
Fixed Income	15-35%	25.0%
Domestic Equities (Developed)	6-26%	16.0%
Emerging Markets Equity	0-19%	9.0%
Cash	0-10%	0.0%
Alternative Investments	0-20%	10.0%

### 10. COMMITMENTS

In June 2018, the Society entered into a lease for a copier. The lease requires 60 monthly payments of \$110 plus taxes. Future minimum lease payments under the agreement are as follows:

2023	\$	1,210
	\$	<b>1,210</b>

### 11. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<b>2022</b>
Cash and cash equivalents	\$ 62,684
Accounts receivable	500
	<b>\$ 63,184</b>

The Society regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Society has various sources of liquidity at its disposal, including cash and cash equivalents and pledges receivable. Total cash of \$283,503 are excluded due to being restricted by donors for specific purposes as described in Note 8.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Society considers all expenditures related to its ongoing activities of operating an animal shelter and providing animal control services to Washington County, Maryland, as well as the types of services undertaken to support this activity, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Society operates with a Board-approved budget and anticipates collecting sufficient revenue to cover general expenditures. Included in the budget are annual withdrawals from the investment portfolio in the amount of \$145,000.

In the event of an unanticipated liquidity need, the Society could draw upon its investment balance of \$2,792,942.

As discussed in Note 6, the Society also has a \$250,000 line of credit that can be drawn upon if necessary. The Society draws on the line as needed for cash flow purposes.

# HUMANE SOCIETY OF WASHINGTON COUNTY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. IN-KIND CONTRIBUTIONS

The Society received nonfinancial (“in-kind”) contributions totaling \$15,930 during the year ended June 30, 2022. Specifics of these contributions, including how they were utilized by the Society are as follows:

	<b>2022</b>
Food (program)	\$ 5,054
Equipment (program)	4,170
Cleaning services (administrative)	3,326
Litter (program)	921
Staff incentives (administrative)	550
Office (administrative)	24
Computer maintenance (program)	565
Development (fundraising)	1,031
Equipment repairs and maintenance (program)	64
Medications (program)	225
	<u>\$ 15,930</u>

No in-kind contributions were monetized during the year ended June 30, 2022. In addition, there were no donor-imposed restrictions associated with in-kind contributions as of June 30, 2022.

### 13. SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to June 30, 2022 through January 25, 2023, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that occurred subsequent to June 30, 2022 and through January 25, 2023 that require recognition or disclosure in the financial statements.