



**Financial Statements**

**December 31, 2022**

**Nevada Humane Society**

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***Cupit, Milligan,  
Ogden & Williams***  
*Certified Public Accountants*

**Shareholders**

*Edward R. Cupit, CPA (1943 - 2010)  
Ronald A. Milligan, CPA (1949-2022)  
Melvin L. Williams, CPA*

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**Independent Auditor's Report**

To the Board of Directors of the Nevada Humane Society

**Opinion**

We have audited the accompanying financial statements of Nevada Humane Society (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 the Nevada Humane Society 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 (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 Nevada Humane 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 Nevada Humane Society's ability to continue as a going concern for one year after the date that the financial statements are 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 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.

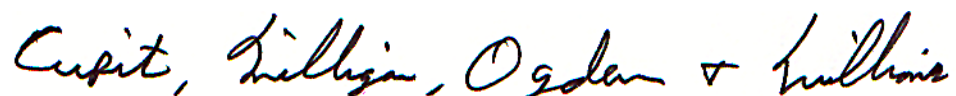
In performing an audit in accordance with GAAS, we:

- 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 Nevada Humane 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 Nevada Humane 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.

#### **Report on Summarized Comparative Information**

We have previously audited the Nevada Humane Society's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Reno, Nevada  
October 24, 2023

**Nevada Humane Society**  
Statement of Financial Position  
December 31, 2022 (with comparative totals at December 31, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	(Memorandum Only) Total
<b>Assets</b>				
<i>Current Assets</i>				
Cash and cash equivalents	\$ 2,047,959	\$ 578,350	\$ 2,626,309	\$ 3,349,525
Contracts receivable	67,725	-	67,725	69,104
Prepaid expenses	42,206	-	42,206	62,016
Prepaid facility lease, current portion	-	-	-	117,905
Other current assets	98,143	-	98,143	18,173
<i>Total Current Assets</i>	<u>2,256,033</u>	<u>578,350</u>	<u>2,834,383</u>	<u>3,616,723</u>
<i>Property and Equipment, net</i>	<u>885,317</u>	<u>-</u>	<u>885,317</u>	<u>922,325</u>
<i>Other Assets</i>				
Investments	10,913,523	1,809,216	12,722,739	14,345,289
Right-of-use lease assets	2,190,746	-	2,190,746	-
Land held for investment	6,000	-	6,000	6,000
Prepaid facility lease, net of current portion	-	-	-	2,141,940
<i>Total Other Assets</i>	<u>13,110,269</u>	<u>1,809,216</u>	<u>14,919,485</u>	<u>16,493,229</u>
<b>Total Assets</b>	<u>\$ 16,251,619</u>	<u>\$ 2,387,566</u>	<u>\$ 18,639,185</u>	<u>\$ 21,032,277</u>
<b>Liabilities and Net Assets</b>				
<i>Current liabilities</i>				
Accounts payable	\$ 137,979	\$ -	\$ 137,979	\$ 174,633
Accrued employee benefits	122,481	-	122,481	143,549
Accrued payroll liabilities	81,472	-	81,472	60,457
Deferred revenue	100,000	-	100,000	-
Right-of-use lease obligations, current portion	13,966	-	13,966	-
Accrued interest	-	-	-	5,763
<i>Total Current Liabilities</i>	<u>455,898</u>	<u>-</u>	<u>455,898</u>	<u>384,402</u>
<i>Long-term Liabilities</i>				
Paycheck Protection Program note payable	-	-	-	670,112
Right-of-use lease obligations, net of current portion	34,840	-	34,840	-
<i>Total Long-term Liabilities</i>	<u>34,840</u>	<u>-</u>	<u>34,840</u>	<u>670,112</u>
<b>Total Liabilities</b>	<u>490,738</u>	<u>-</u>	<u>490,738</u>	<u>1,054,514</u>
<b>Net Assets</b>				
<i>Without Donor Restrictions</i>				
Board designated endowment	11,587,439	-	11,587,439	12,957,150
Undesignated	4,173,442	-	4,173,442	4,589,188
<i>With Donor Restrictions</i>	<u>-</u>	<u>2,387,566</u>	<u>2,387,566</u>	<u>2,431,425</u>
<b>Total Net Assets</b>	<u>15,760,881</u>	<u>2,387,566</u>	<u>18,148,447</u>	<u>19,977,763</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 16,251,619</u>	<u>\$ 2,387,566</u>	<u>\$ 18,639,185</u>	<u>\$ 21,032,277</u>

The accompanying notes are an integral part of these financial statements.

**Nevada Humane Society**

Statement of Activities

For the year ended December 31, 2022 (with comparative totals for the year ended December 31, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	(Memorandum Only) Total
<b>Support and Revenue</b>				
Grants and contributions	\$ 4,119,489	\$ 339,744	\$ 4,459,233	\$ 7,359,261
Contributions of nonfinancial assets	650,503	-	650,503	442,975
Program income and fees (net of fee discounts of \$97,317 and \$84,400 in 2022 and 2021, respectively)	1,343,728	-	1,343,728	1,354,473
Special events				
Revenue	480,882	-	480,882	247,325
Cost of direct benefits to donors	(228,294)	-	(228,294)	(97,338)
Net special events revenue	252,588	-	252,588	149,987
Net assets released from restrictions	31,039	(31,039)	-	-
<b>Total Support and Revenue</b>	<b>6,397,347</b>	<b>308,705</b>	<b>6,706,052</b>	<b>9,306,696</b>
<b>Expenses</b>				
<i>Program Services</i>				
Public Service	295,472	-	295,472	274,875
Animal Care				
Clinics	2,070,946	-	2,070,946	1,809,617
Shelters	3,719,215	-	3,719,215	3,409,111
<i>Supporting Services</i>				
General and administrative	1,027,125	-	1,027,125	972,485
Fundraising	178,599	-	178,599	181,260
<b>Total Expenses</b>	<b>7,291,357</b>	<b>-</b>	<b>7,291,357</b>	<b>6,647,348</b>
<b>Other Income (Expense)</b>				
Net investment (loss) income	(1,569,577)	(352,564)	(1,922,141)	1,628,042
Other income	678,130	-	678,130	677,584
<b>Total Other Income (Expense)</b>	<b>(891,447)</b>	<b>(352,564)</b>	<b>(1,244,011)</b>	<b>2,305,626</b>
<b>Changes in Net Assets</b>	<b>(1,785,457)</b>	<b>(43,859)</b>	<b>(1,829,316)</b>	<b>4,964,974</b>
<b>Net Assets, Beginning of Year</b>	<b>17,546,338</b>	<b>2,431,425</b>	<b>19,977,763</b>	<b>15,012,789</b>
<b>Net Assets, End of Year</b>	<b>\$ 15,760,881</b>	<b>\$ 2,387,566</b>	<b>\$ 18,148,447</b>	<b>\$ 19,977,763</b>

The accompanying notes are an integral part of these financial statements.

**Nevada Humane Society**

## Statement of Functional Expenses

For the year ended December 31, 2022 (with comparative totals for the year ended December 31, 2021)

	<b>Program Services</b>			<b>Total Program Services</b>
	<b>Public Service</b>	<b>Animal Care</b>		
		<b>Clinics</b>	<b>Shelters</b>	
Salaries and wages	\$ 241,453	\$ 1,171,476	\$ 2,020,008	\$ 3,432,937
Payroll taxes	18,413	85,759	150,842	255,014
Employee benefits	24,708	66,624	195,005	286,337
<b>Total Salaries and Related Costs</b>	<b>284,574</b>	<b>1,323,859</b>	<b>2,365,855</b>	<b>3,974,288</b>
Accounting	-	-	-	-
Advertising	-	-	-	-
Bank and credit card processing fees	-	2,943	16,308	19,251
Communication	2,860	1,472	23,884	28,216
Computer services	-	842	29,019	29,861
Depreciation	-	22,758	59,167	81,925
Donated supplies and services	-	-	340,449	340,449
Dues and subscriptions	-	1,864	387	2,251
Equipment rental and maintenance	-	5,230	64,768	69,998
Facility lease	-	23,581	275,544	299,125
Insurance	5,883	5,883	45,658	57,424
Interest	-	-	-	-
Janitorial and facility maintenance	-	-	171,784	171,784
Meals and entertainment	-	-	74	74
Miscellaneous	-	-	-	-
Office expense	27	946	6,859	7,832
Postage	-	-	9	9
Printing	700	737	185	1,622
Professional services	-	161,000	34,231	195,231
Staff development	530	7,359	44,913	52,802
Supplies	-	477,455	131,504	608,959
Travel	408	10,321	20,479	31,208
Uniforms	-	-	1,738	1,738
Utilities	-	24,696	86,400	111,096
Volunteer expense	490	-	-	490
<b>Total Expenses</b>	<b>\$ 295,472</b>	<b>\$ 2,070,946</b>	<b>\$ 3,719,215</b>	<b>\$ 6,085,633</b>

The accompanying notes are an integral part of these financial statements.

**Nevada Humane Society**

Statement of Functional Expenses

For the year ended December 31, 2022 (with comparative totals for the year ended December 31, 2021)

	Supporting Services			Totals	
	General and Administrative	Fund-Raising	Total Supporting Services	2022	(Memorandum Only) 2021
Salaries and wages	\$ 494,063	\$ 76,294	\$ 570,357	\$ 4,003,294	\$ 3,595,117
Payroll taxes	42,390	6,110	48,500	303,514	247,257
Employee benefits	65,354	2,864	68,218	354,555	356,101
<b>Total Salaries and Related Costs</b>	<b>601,807</b>	<b>85,268</b>	<b>687,075</b>	<b>4,661,363</b>	<b>4,198,475</b>
Accounting	23,400	-	23,400	23,400	22,500
Advertising	78,758	-	78,758	78,758	78,575
Bank and credit card processing fees	6,055	24,474	30,529	49,780	47,984
Communication	29,616	448	30,064	58,280	60,819
Computer services	33,583	8,388	41,971	71,832	78,626
Depreciation	9,102	-	9,102	91,027	124,402
Donated supplies and services	-	23,455	23,455	363,904	442,975
Dues and subscriptions	1,868	100	1,968	4,219	5,595
Equipment rental and maintenance	11,512	-	11,512	81,510	53,318
Facility lease	13,091	-	13,091	312,216	314,837
Insurance	3,209	-	3,209	60,633	57,652
Interest	2,537	-	2,537	2,537	7,607
Janitorial and facility maintenance	1,764	-	1,764	173,548	118,406
Meals and entertainment	1,293	-	1,293	1,367	885
Miscellaneous	-	-	-	-	25,568
Office expense	7,083	60	7,143	14,975	11,377
Postage	2,835	11,895	14,730	14,739	17,248
Printing	54,407	5,751	60,158	61,780	59,778
Professional services	53,116	-	53,116	248,347	245,797
Staff development	27,993	250	28,243	81,045	11,906
Supplies	-	18,510	18,510	627,469	523,012
Travel	22,353	-	22,353	53,561	33,472
Uniforms	15,735	-	15,735	17,473	9,935
Utilities	12,348	-	12,348	123,444	85,923
Volunteer expense	13,660	-	13,660	14,150	10,676
<b>Total Expenses</b>	<b>\$ 1,027,125</b>	<b>\$ 178,599</b>	<b>\$ 1,205,724</b>	<b>\$ 7,291,357</b>	<b>\$ 6,647,348</b>

The accompanying notes are an integral part of these financial statements.



**Nevada Humane Society**

## Statement of Cash Flows

For the year ended December 31, 2022 (with comparative totals for the year ended December 31, 2021)

	<u>2022</u>	<u>(Memorandum Only) 2021</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (1,829,316)	\$ 4,964,974
<i>Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities</i>		
Depreciation	91,027	124,402
Amortization of prepaid facility lease	-	117,905
Amortization of right-of-use assets	133,517	-
Forgiveness of Paycheck Protection Program note payable	(670,112)	(670,114)
Net realized and unrealized loss (gain) on investments	2,033,264	(1,605,822)
<i>Changes in operating assets and liabilities</i>		
Contracts receivable	1,379	182,955
Prepaid expenses	19,810	(18,635)
Other current assets	(79,970)	(5,398)
Accounts payable	(36,654)	30,701
Accrued payroll liabilities and employee benefits	(53)	31,891
Deferred revenue	100,000	(37,300)
Accrued interest	(5,763)	967
Payment of lease liabilities	(15,612)	-
<b>Net Cash (Used) Provided by Operating Activities</b>	<u>(258,483)</u>	<u>3,116,526</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(54,020)	(71,318)
Net purchases of investments	(410,713)	(2,111,494)
<b>Net Cash Used by Investing Activities</b>	<u>(464,733)</u>	<u>(2,182,812)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Paycheck Protection Program note payable	-	670,112
<b>Net Cash Provided by Investing Activities</b>	<u>-</u>	<u>670,112</u>
<b>Net Change in Cash and Cash Equivalents</b>	(723,216)	1,603,826
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,349,525</u>	<u>1,745,699</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,626,309</u>	<u>\$ 3,349,525</u>

The accompanying notes are an integral part of these financial statements.

**Nevada Humane Society**

## Statement of Cash Flows

For the year ended December 31, 2022 (with comparative totals for the year ended December 31, 2021)

	<u>2022</u>	<u>(Memorandum Only) 2021</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<i>Cash paid during the year for</i>		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Recording of right-of-use assets	<u>\$ 2,322,070</u>	<u>\$ -</u>
Recording of right-of-use liabilities	<u>\$ 62,225</u>	<u>\$ -</u>
Derecognition of prepaid facility lease	<u>\$ 2,259,845</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

## **Nevada Humane Society**

Notes to Financial Statements

December 31, 2022

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### **1. Nature of Operations and Summary of Significant Accounting Policies**

#### Nature of Activities

The Nevada Humane Society (NHS) was established on February 19, 1932, as a domestic non-profit corporation. NHS is the only open-admission, no-kill shelter in the state of Nevada and was originally created to address the suffering of local stray animals. In 2007, the Board of Directors changed the mission of the organization to one of lifesaving, promoting animal welfare while finding homes and providing care for homeless pets in Northern Nevada. In 2014, NHS expanded to include Carson City, Nevada under a public/private partnership between NHS and Carson City Animal Services (CCAS) under which NHS assumed leadership of Animal Services.

#### Description of Program and Supporting Services

##### *Program Services*

- Public Service includes all functions related to:
  - The Trap-Neuter-Return program (TNR) which allows feral cats to be spayed and neutered and provided with rabies and FVRCP vaccinations.
  - Animal Services in Carson City, NV including: dog licensing, bite investigations, reporting lost and found animals and enforcement of state and local animal regulations, except wildlife.
  - Low-cost spay, neuter and vaccination services are provided to the public.
- Animal Care includes all functions related to:
  - The NHS clinic which provides spay or neuter surgeries, vaccinations and care for all dogs and cats passing through the shelter.
  - The NHS shelters provide care primarily to dogs and cats, but also to rabbits, gerbils, hamsters, reptiles, birds and other small animals. All animals receive loving care from trained animal care staff and volunteers. Adoption counselors help match animals to their forever homes based on age and lifestyle. At NHS shelters, the Animal Help Desk provides free assistance and information to anyone who has a question regarding their pet or other animals in the community with the intent of keeping pets in their homes and out of shelters.

##### *Supporting Services*

- General and Administrative - These services include functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination of the NHS's programs, and manage the financial and budgetary responsibilities.
- Fundraising - These services include functions related to generating financial support for NHS and include costs related to special events and donor relations.

### Basis of Accounting

NHS prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, NHS has evaluated events and transactions for potential recognition or disclosure through October 24, 2023, the date the financial statements were available to be issued.

### Financial Statement Presentation

NHS follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Not for Profit Entities. Under ASC No. 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.
- Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NHS or the passage of time. 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.

### Use of Estimates

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

### Reclassifications

Certain balances from the 2021 financial statements have been reclassified to conform to the 2022 financial statement presentation. Such reclassifications had no effect on the previously reported change in net assets for the year ended December 31, 2021.

### New Accounting Standards

Lease accounting - Effective January 1, 2022, NHS adopted *FASB ASC 842, Leases* (ASC 842). NHS determines if an arrangement contains a lease at inception based on whether NHS has the right to control the asset during the contract period and other facts and circumstances.

NHS elected the option to apply the transition provisions at the adoption date instead of the earliest comparative period presented in the financial statements. By making this election, NHS has not applied retrospective reporting for the comparable year. NHS elected the short-term lease exception provided for in the standard and therefore, only recognizes right-of-use assets and lease liabilities for leases with a term greater than one year. NHS elected the package of practical expedients to not re-evaluate existing contracts as containing a lease or the lease classification unless it was not previously assessed against the lease criteria. In addition, NHS did not reassess initial direct costs for any existing leases.

NHS enters into leasing arrangements primarily as a lessee. Leases are classified as operating or finance leases. Both operating and finance leases recognize lease liabilities and associated right-of-use assets. NHS does not have any finance lease agreements as of December 31, 2022.

The adoption of ASC 842 resulted in the recognition of right-of-use-assets of \$2,322,070 and operating lease liabilities of \$62,225 as of January 1, 2022. Results for years beginning prior to January 1, 2022 continue to be reported in accordance with the historical accounting treatment. The adoption of ASC 842 did not have a material impact on NHS's results of operations or cash flows.

Contributions of nonfinancial assets - On January 1, 2022, NHS adopted Accounting Standards Update No. 2020-07, "Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets." The new standard increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhanced presentation and disclosure requirements. As the new guidance primarily relates to disclosures, there was no impact on the change in net assets as a result of adopting the new standard.

#### Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. NHS maintains its cash and cash equivalents in bank deposit accounts and brokerage money market accounts which, at times, exceed insured limits. NHS has not experienced any losses in such accounts and does not believe that it is exposed to any significant credit risk on its cash and cash equivalents. Bank deposit accounts and money market accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The uninsured balance at December 31, 2022 totaled \$2,053,633.

#### Contracts Receivable

Support under contracts is recorded when the related amounts are due from the contracting agencies. NHS does not anticipate any collection losses with respect to the receivable balance and therefore, no allowance for doubtful accounts was established at December 31, 2022.

#### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in changes in net assets in the statement of activities. Investment income and gains restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met either by the passage of time or by use in the reporting period in which the income and gains are recognized. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 3. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities without quoted market prices is based on similar types of securities that are traded in the market.

NHS owns property in Lyon County, Nevada valued at its historical cost of \$6,000 at December 31, 2022.

#### Endowment

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. NHS's endowment funds consist of the Dorothy Benson Humane Endowment Trust (Benson Endowment), established in 1987, and a Board designated endowment, established in 2016.

Investment policies related to the endowed funds are as follows:

*Return Objective and Risk Parameters*

NHS has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long term.

The specific goal of NHS is to provide for the good of the wealth entrusted to it. The primary investment objective is to preserve endowment assets by limiting exposure to unnecessary risk. Under this policy, the endowment assets are invested in corporate and government obligations, domestic and international stocks, domestic and international exchange traded funds and mutual funds, and real asset and commodities mutual funds.

*Strategies Employed for Achieving Objectives*

The endowment fund investment strategy is reviewed and evaluated by the Finance Committee of the Board of Directors at least annually with its investment advisors to ensure the portfolio's proper diversification, security and return on investment.

*Interpretation of Relevant Law*

In the absence of explicit donor stipulations to the contrary, NHS follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by enforcing the intent of the donor. Accordingly, NHS may appropriate accumulated funds for expenditures as determined to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established.

NHS takes into consideration the following factors in its determination to appropriate or accumulate donor-restricted endowment funds in accordance with UPMIFA:

- The duration and preservation of the fund
- The purposes of NHS, the board designated and donor-restricted endowment funds
- General economic conditions, including the possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- NHS's investment policies
- Other resources of NHS

*Spending Policy*

Earnings from the Benson Endowment are distributed monthly and are considered to be available for unrestricted use. The principal may be distributed only upon approval of the endowment trust Trustee and approval of a two-thirds majority vote of the Board of Directors of NHS.

Both the corpus and earnings of the Board Designated Endowment may be spent at the discretion of the Board of Directors; however, the Board of Directors has adopted a policy of appropriating for distribution each year up to a maximum of 7% of the endowment fund's average market value, calculated based on 12 rolling calendar quarters ending September 30 of the prior calendar year.

*Underwater Endowment Funds*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as perpetual funds. Such deficiencies are reflected as

decreases in net assets with donor restrictions for the period. At December 31, 2022, there were no endowment fund deficiencies.

#### Property and Equipment

Property and equipment with an acquisition cost in excess of \$1,000 and with an expected useful life of more than one year are capitalized at cost. Donated property is recorded at its estimated fair value at the date it is received. Property and equipment are depreciated over their estimated useful lives of three to thirty-nine years using the straight-line method.

Maintenance and repairs are charged to expense as incurred. Renewals and betterments that materially extend the lives of the assets are capitalized.

#### Leases

All significant lease arrangements are recognized as right-of-use ("ROU") assets and lease liabilities at lease commencement. ROU assets represent NHS's right to use an underlying asset for the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of the future lease payments using the NHS's incremental borrowing rate.

Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease liabilities represent the present value of the future payments.

Leases with an initial term of 12 months or less (short-term leases) are not recognized in the statement of financial position and the related lease payments are recognized as incurred over the lease term. Lease agreements for which all required payments are made on the inception date are reported as a ROU asset with no corresponding liability. NHS separates lease and non-lease components.

#### Compensated Absences

Depending on job classification, length of services and other factors, employees are entitled to paid vacations. Accrued employee benefits represent NHS's liability for the cost of unused employee vacation at year end.

#### Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions restricted by a donor for specific purposes or future periods are reported as net assets with donor restrictions. When a donor restriction expires, 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. Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met either by the passage of time or by use in the reporting period in which the income is recognized.

#### Program Income and Fees and Special Events Income

Revenue from contracts with customers consists of adoption, clinic, contract and other fees and special event registrations. Revenues are recognized when control of the promised goods or services are transferred to customers, in an amount that reflects the consideration NHS expects to be entitled to in exchange for those goods or services. These revenues are recognized net of discounts and refunds. Revenue is recognized using the five-step approach, as follows:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied.

#### *Performance Obligations and Significant Judgments*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each performance obligation identified in the arrangement 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.

Special event revenues are recognized at a point in time when the related event is held. Adoption, clinic and other fees are considered to have a single performance obligation and are recognized when the services are complete. Payment is generally due at the time the services are provided.

#### *Contract Balances*

The timing of billings, cash collections, and revenue recognition result in contract assets and contract liabilities reported in the statement of financial position as receivables and deferred revenue. Contract assets consists of contract receivables which are recognized only to the extent that it is probable that NHS will collect substantially all of the consideration to which it is entitled in exchange for the services provided. Contract liabilities consists of deferred revenue which represents deposits taken for special events occurring after year end.

#### Donated Materials and Services

Donated materials are reflected as contributions of nonfinancial assets in the accompanying statement of activities at their estimated fair values at the date of receipt with a corresponding amount recorded as a shelter expense.

Contributions of services are recognized as contributions of nonfinancial assets when 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 donation in accordance with ASC No. 958-605-25-16, Not for Profit Entities – Contributions Received. Contributions of services are measured at their fair market value.

A significant portion of NHS's functions and programs are conducted by unpaid volunteers. Time donated by volunteers, including those serving on the board of directors, has not been recognized as it does not meet the criteria established by the ASC.

#### Advertising

Advertising costs are charged to program and supporting services when incurred. Advertising costs totaled \$78,758 for the year ended December 31, 2022.



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Exempt Status

NHS is a not-for-profit organization, exempt from federal income tax under Internal Revenue Code Section 501(c)(3), and has been classified as an organization that is not a private foundation under Section 509(a)(2) receiving a substantial part of its support from the general public as provided by Internal Revenue Codes Section 170(b)(1)(A)(VI). Accordingly, no liability for federal income taxes has been provided in the financial statements.

Management has determined that NHS does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

Expense Allocation

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program are applied directly according to their natural expense classification. Non-specific costs have been allocated among the programs and supporting services benefited on the basis of actual expenditures and on estimates used by management.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with NHS's financial statements for the year ended December 31, 2021 from which the summarized information was derived.

**2. Liquidity and Availability of Resources**

The following reflects NHS's financial assets at December 31, 2022, reduced by amounts not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position:

Financial assets at year end	\$ 2,694,034
Less those unavailable for general expenditure within one year due to:	
Contractual or donor-imposed restrictions:	
Cash and cash equivalents included in the donor restricted endowment fund	(138,606)
Cash and cash equivalents restricted for specific programs	(439,744)
Board designations:	
Cash and cash equivalents included in the quasi endowment fund	(673,917)
	<u>  </u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,441,767</u>

As part of NHS'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 to the financial assets reported above, at December 31, 2022, NHS had \$10,913,523 in board designated investments which can be used for general expenditures at the discretion of the board. Additionally, at December 31, 2022, NHS had \$1,809,216 in donor restricted investments. The principal balance can be made available to NHS upon request and approval of the Trustee and two-thirds majority vote of the Board of Directors.

### 3. Fair Value and Investments

Fair value accounting establishes 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1*      Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2*      Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3*      Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

At December 31, 2022, NHS's financial instruments consisted of Level 1 measurements. NHS did not have any Level 2 or Level 3 financial instruments measured at fair value on a recurring or nonrecurring basis for the year ended December 31, 2022. The following are major categories of assets measured at fair value (Level 1) on a recurring basis for the year ended December 31, 2022:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Fixed Income:			
Domestic investment grade	\$ 3,518,857	\$ 677,798	\$ 4,196,655
Domestic high yield mutual funds	-	39,683	39,683
Reinsurance	-	82,307	82,307
Other fixed income	-	48,622	48,622
	<u>3,518,857</u>	<u>848,410</u>	<u>4,367,267</u>
Equities:			
Domestic individual holdings	-	468,541	468,541
Domestic exchange traded funds	7,394,666	234,876	7,629,542
Developed markets individual holdings	-	86,017	86,017
Developed markets exchange traded funds	-	45,530	45,530
Foreign emerging exchange traded funds	-	46,700	46,700
	<u>7,394,666</u>	<u>881,664</u>	<u>8,276,330</u>
Real assets mutual funds	-	35,145	35,145
Commodities mutual funds	-	43,997	43,997
Cash alternatives	<u>673,917</u>	<u>138,606</u>	<u>812,523</u>
Total	<u>\$ 11,587,440</u>	<u>\$ 1,947,822</u>	<u>\$ 13,535,262</u>

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Net investment loss for the year ended December 31, 2022 consists of the following:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net realized (losses) gains	\$ (31,626)	\$ 15,782	\$ (15,844)
Net unrealized losses	(1,631,731)	(385,852)	(2,017,583)
Interest and dividends	172,436	41,781	214,217
Investment fees	<u>(78,789)</u>	<u>(24,275)</u>	<u>(103,064)</u>
Net investment loss	(1,569,710)	(352,564)	(1,922,274)
Interest income, cash and cash equivalent accounts	<u>133</u>	<u>-</u>	<u>133</u>
Net investment loss	<u>\$ (1,569,577)</u>	<u>\$ (352,564)</u>	<u>\$ (1,922,141)</u>

**4. Endowment Fund**

Composition of and changes in endowment funds for the year ended December 31, 2022 were as follows:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 12,957,150	\$ 2,331,425	\$ 15,288,575
Investment returns:			
Interest and dividends	172,436	41,781	214,217
Net realized (losses) gains	(31,626)	15,782	(15,844)
Net unrealized losses	<u>(1,631,731)</u>	<u>(385,852)</u>	<u>(2,017,583)</u>
Total return on endowment	(1,490,921)	(328,289)	(1,819,210)
Transfers in	-	-	-
Contributions	200,000	-	200,000
Distributions	-	(31,039)	(31,039)
Investment fees	<u>(78,789)</u>	<u>(24,275)</u>	<u>(103,064)</u>
Endowment net assets, end of year	<u>\$ 11,587,440</u>	<u>\$ 1,947,822</u>	<u>\$ 13,535,262</u>

**5. Property and Equipment**

Property and equipment consisted of the following at December 31, 2022:

Leasehold improvements	\$ 543,326
Furniture and equipment	817,978
Vehicles	718,207
Land	<u>258,278</u>
Total property and equipment	2,337,789
Less accumulated depreciation	<u>(1,452,472)</u>
Property and equipment, net	<u>\$ 885,317</u>

NHS received a donation of real property located at 2825 Longley Lane, restricted to the use of charitable or civic purposes that provide animal services to the community, storage for pet and shelter donations, training center, rehabilitation center, or an animal clinic facility. The property cannot be transferred, sold, exchanged or encumbered without written consent from the donor.

**6. Right-of-Use (ROU) Assets and Lease Liabilities and Other Lease Agreements**

NHS leases their Reno, Nevada facilities from Washoe County, Nevada. The lease originated in January 2006 and is for a period of fifteen years with two renewal options, each for ten years. All monthly payments of \$9,825 were prepaid at the inception of the lease agreement. The prepaid lease payments are reported as a ROU asset with no corresponding ROU lease liability. NHS also leases land used for the operation of a solar energy system. The lease requires monthly payments of \$1,301 through April 2026.

The weighted average remaining life of the lease agreements was 10.75 years with a weighted average interest rate of 4% at December 31, 2022. Lease expense and fixed cash payments related to lease agreements were \$133,517 and \$15,612 for the year ended December 31, 2022, respectively. The following table shows ROU assets and ROU lease liabilities, and the associated financial statement line items, as of December 31, 2022,

	<u>Financial Statement Line Items</u>	<u>Amount</u>
Right-of-use assets:		
Operating leases	Right-of-use lease assets	<u>\$ 2,190,746</u>
Total right-of-use assets		<u>\$ 2,190,746</u>
Lease Liabilities:		
Operating leases	Right-of-use lease obligations, current portion	\$ 13,966
	Right-of-use lease obligations, net of current portion	<u>34,840</u>
Total lease liabilities		<u>\$ 48,806</u>

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Lease liability maturities are as follows for the years ending December 31,

2023	\$ 14,730
2024	15,612
2025	15,612
2026	5,204
Thereafter	<u>-</u>
	51,158
Less: Imputed interest	<u>(2,352)</u>
Total lease liabilities	<u><u>\$ 48,806</u></u>

Other lease agreements - NHS entered into an operating lease agreement on October 30, 2019 with Carson City, Nevada to lease the Carson City Animal Shelter facility for a period of ten years ending on October 30, 2029. No lease payments are required under the agreement and instead, the fair value of rent is recognized as contribution revenue. For the year ended December 31, 2022, the fair value of the rent was determined to be \$180,000. In addition, as noted in Note 9, NHS has entered into a professional service arrangement with the City of Carson City, Nevada, to provide animal services. If the professional services arrangement is terminated, the Carson City facilities agreement terminates.

**7. Net Assets with Donor Restrictions**

Net assets with donor restrictions include the Benson Endowment of \$1,947,822 and purpose restricted grant funding of \$439,744.

**8. Contributions of Nonfinancial Assets**

NHS receives contributed nonfinancial assets for use in its operations. During the year ended December 31, 2022, contributions of nonfinancial assets consisted of the following:

Supplies and materials	\$ 363,904
Rent of the Carson City, NV facilities	180,000
Marketing services	<u>106,599</u>
Total contributions of nonfinancial assets	<u><u>\$ 650,503</u></u>

None of the contributed items had donor-imposed restrictions, all items were used in operations and none were monetized.

Contributed supplies and materials are used to care for pets in the organization's shelters. In valuing supplies and materials, NHS estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products. Contributed rent was valued based on similar properties available for rent in the local market. Contributed marketing services were valued based on reports from the service provider.

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During the year ended December 31, 2022, volunteers donated 20,748 hours of time valued at approximately \$528,243 to NHS. No amounts are reflected for these services in the statement of activities because the criteria for recognition of such volunteer efforts have not been satisfied. If the donated services were reflected in the statement of functional expenses, program service expenses would represent approximately 84% of total expenses each year.

**9. Program Income and Fees**

Program income and fees consist of the following at December 31, 2022:

<u>Program</u>	<u>Gross Program Income and Fees</u>	<u>Fee Discounts</u>	<u>Net Program Income and Fees</u>
Adoption service fees	\$ 594,703	\$ (97,153)	\$ 497,550
Clinic service fees	122,897	(164)	122,733
Contract fees	713,629	-	713,629
Other fees	9,816	-	9,816
	<u>\$ 1,441,045</u>	<u>\$ (97,317)</u>	<u>\$ 1,343,728</u>

Included in contract fees, are fees earned under a professional animal service and enforcement agreement with Carson City under which, NHS functions as the Animal Services Manager of Animal Services for a monthly fee of \$58,333. Under the agreement, NHS provides enforcement staff to perform the necessary duties to protect the welfare and safety of animals and citizens in carrying out the requirements and needs of Title 7 – Animals of the Carson City Municipal Code. The agreement ends on October 30, 2029 unless the agreement is amended, superseded or terminated. At the end of that term, the agreement will automatically renew for 60-day periods until the agreement is terminated, renewed or renegotiated.

**10. Special Events**

NHS has various fundraising events to help assist current operations. The revenue and direct expenses from these events for the years ended December 31, 2022 were as follows:

<u>Special Event</u>	<u>Revenue</u>	<u>Cost of Direct Benefit to Attendees</u>	<u>Net Revenue</u>
Heels & Hounds	\$ 227,081	\$ (114,313)	\$ 112,768
Duck Race	253,801	(113,981)	139,820
	<u>\$ 480,882</u>	<u>\$ (228,294)</u>	<u>\$ 252,588</u>

**11. Other Income**

During the year ended December 31, 2021, the Organization obtained a promissory note under the SBA Paycheck Protection Program in the amount of \$670,112. During the year ended December 31, 2022, the amount due including accrued interest was forgiven in full and \$678,130 was recognized as other income.

**12. Defined Contribution Plan**

NHS sponsors a 401(k) Plan to provide retirement benefits to eligible employees. Employee contributions are limited to a maximum annual amount set by the IRC. There were no matching or discretionary contributions made by NHS for the year ended December 31, 2022.

**13. Professional Services**

Professional services consisted of the following for the year ended December 31, 2022,

Outsourced veterinarian services	\$ 165,662
Consultants and other outside services	38,692
Information technology support	38,679
Marketing and public relations	<u>5,314</u>
Total professional services	<u>\$ 248,347</u>