



Homeward Pet Adoption Center

Financial Statements

December 31, 2022 and 2021

Homeward Pet Adoption Center

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Independent Auditors' Report

To the Board of Directors of
Homeward Pet Adoption Center

Opinion

We have audited the accompanying financial statements of Homeward Pet Adoption Center (a 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 years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeward Pet Adoption Center as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Homeward Pet Adoption Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Homeward Pet Adoption Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

Baker Tilly US, LLP

Seattle, Washington
November 20, 2023

Homeward Pet Adoption Center

Statements of Financial Position

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 887,407	\$ 1,119,881
Receivables:		
Accounts receivable, net	6,452	1,072
Pledges	6,050	8,412
Inventory	48,289	48,080
Investments	959,870	1,086,018
Prepaid expenses	31,634	30,285
	<u>1,939,702</u>	<u>2,293,748</u>
Total current assets	1,939,702	2,293,748
Pledges Receivable, Noncurrent, Net	4,294	16,924
Leasehold Improvements and Equipment, Net	138,927	40,915
Right of Use Asset, Net	1,583,558	-
Other	37,000	37,000
	<u>\$ 3,703,481</u>	<u>\$ 2,388,587</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 17,597	\$ 27,561
Accrued expenses	126,752	108,928
Lease liability	96,891	-
Deferred rent	-	235
	<u>241,240</u>	<u>136,724</u>
Total current liabilities	241,240	136,724
Lease Liability, Net of Current Portion	1,555,492	-
Deferred Rent, Net of Current Portion	-	15,420
	<u>1,796,732</u>	<u>152,144</u>
Total liabilities	1,796,732	152,144
Net Assets		
Without donor restrictions	1,594,570	2,006,602
With donor restrictions	312,179	229,841
	<u>1,906,749</u>	<u>2,236,443</u>
Total net assets	1,906,749	2,236,443
Total liabilities and net assets	<u>\$ 3,703,481</u>	<u>\$ 2,388,587</u>

See notes to financial statements

Homeward Pet Adoption Center

Statement of Activities

Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support			
Contributions	\$ 1,394,618	\$ 278,964	\$ 1,673,582
Adoptions	153,213	-	153,213
Special events, net of expenses of \$183,193	155,879	-	155,879
In-kind contributions	174,178	-	174,178
Other	683	-	683
Net investment return	(128,070)	-	(128,070)
Net assets released from restrictions	<u>196,626</u>	<u>(196,626)</u>	<u>-</u>
Total revenue and support	<u>1,947,127</u>	<u>82,338</u>	<u>2,029,465</u>
Expenses			
Program	1,551,837	-	1,551,837
Management and general	418,685	-	418,685
Fundraising	<u>388,637</u>	<u>-</u>	<u>388,637</u>
Total expenses	<u>2,359,159</u>	<u>-</u>	<u>2,359,159</u>
Change in net assets	(412,032)	82,338	(329,694)
Net Assets, Beginning	<u>2,006,602</u>	<u>229,841</u>	<u>2,236,443</u>
Net Assets, Ending	<u>\$ 1,594,570</u>	<u>\$ 312,179</u>	<u>\$ 1,906,749</u>

See notes to financial statements

Homeward Pet Adoption Center

Statement of Activities

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support			
Contributions	\$ 1,715,410	\$ 290,854	\$ 2,006,264
Adoptions	134,332	-	134,332
Special events, net of expenses of \$87,778	113,023	-	113,023
In-kind contributions	132,408	-	132,408
Government grant	221,298	-	221,298
Net investment return	37,419	-	37,419
Loss on capital campaign pledges	-	(93,636)	(93,636)
Net assets released from restrictions	115,089	(115,089)	-
	<u>2,468,979</u>	<u>82,129</u>	<u>2,551,108</u>
Total revenue and support			
	<u>2,468,979</u>	<u>82,129</u>	<u>2,551,108</u>
Expenses			
Program	1,400,389	-	1,400,389
Management and general	287,851	-	287,851
Fundraising	450,097	-	450,097
	<u>2,138,337</u>	<u>-</u>	<u>2,138,337</u>
Total expenses			
	<u>2,138,337</u>	<u>-</u>	<u>2,138,337</u>
Change in net assets	330,642	82,129	412,771
Net Assets, Beginning	<u>1,675,960</u>	<u>147,712</u>	<u>1,823,672</u>
Net Assets, Ending	<u>\$ 2,006,602</u>	<u>\$ 229,841</u>	<u>\$ 2,236,443</u>

See notes to financial statements

Homeward Pet Adoption Center

Statement of Functional Expenses

Year Ended December 31, 2022

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 1,047,449	\$ 227,656	\$ 296,480	\$ 1,571,585
Facilities	211,386	26,941	26,407	264,734
Animal care	254,836	147	-	254,983
Professional fees	7,348	64,863	818	73,029
Marketing	766	6,153	57,758	64,677
Miscellaneous	-	48,898	-	48,898
Office	13,358	18,771	5,936	38,065
Depreciation	9,901	1,237	1,238	12,376
Travel	115	9,394	-	9,509
Technology	-	6,776	-	6,776
Volunteer expenses	6,678	-	-	6,678
Insurance	-	6,242	-	6,242
Store expenses	-	1,607	-	1,607
Total expenses	<u>\$ 1,551,837</u>	<u>\$ 418,685</u>	<u>\$ 388,637</u>	<u>\$ 2,359,159</u>

See notes to financial statements.

Homeward Pet Adoption Center

Statement of Functional Expenses

Year Ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 927,735	\$ 97,185	\$ 358,116	\$ 1,383,036
Facilities	178,278	22,285	22,285	222,848
Animal care	246,194	-	-	246,194
Professional fees	7,035	86,294	3,992	97,321
Marketing	-	9,219	59,894	69,113
Miscellaneous	-	21,728	572	22,300
Office	7,021	36,993	878	44,892
Depreciation	14,064	1,758	1,758	17,580
Travel	7,618	2,917	2,602	13,137
Technology	-	4,117	-	4,117
Volunteer expenses	12,444	-	-	12,444
Insurance	-	4,830	-	4,830
Store expenses	-	525	-	525
Total expenses	<u>\$ 1,400,389</u>	<u>\$ 287,851</u>	<u>\$ 450,097</u>	<u>\$ 2,138,337</u>

See notes to financial statements.

Homeward Pet Adoption Center

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	\$ (329,694)	\$ 412,771
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	12,376	17,580
Amortization of right-of-use asset	153,711	-
Net realized and unrealized loss (gain) on investments	155,422	(15,245)
Donated investments	(23,355)	(51,192)
Change in operating accounts:		
Pledges receivable	14,992	25,152
Accounts receivable	(5,380)	57,208
Inventory	(209)	(1,306)
Prepaid expenses	(1,349)	(311)
Accounts payable	(9,964)	(14,426)
Accrued expenses	17,824	(18,243)
Lease liability	(100,541)	-
Deferred rent	-	4,137
	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>(116,167)</u>	<u>416,125</u>
Cash Flows From Investing Activities		
Purchases of investments	(47,140)	(105,339)
Proceeds from sale of investments	41,221	81,180
Purchases of leasehold improvements and equipment	(110,388)	(18,630)
	<u>(116,307)</u>	<u>(42,789)</u>
Net cash used in investing activities	<u>(116,307)</u>	<u>(42,789)</u>
Net change in cash and cash equivalents	(232,474)	373,336
Cash and Cash Equivalents, Beginning	<u>1,119,881</u>	<u>746,545</u>
Cash and Cash Equivalents, Ending	<u>\$ 887,407</u>	<u>\$ 1,119,881</u>
Noncash Operating Activities		
Additions to right of use assets obtained through new operating lease liabilities due to adoption of ASC 842, net of deferred rent of \$15,655	<u>\$ 1,737,269</u>	<u>\$ -</u>
Additions to operating lease liabilities due to the adoption of ASC 842	<u>\$ 1,752,924</u>	<u>\$ -</u>

See notes to financial statements

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

1. Organization

Homeward Pet Adoption Center (the Organization), located in Woodinville, is one of the leading no-kill animal shelters in Washington State. Founded in 1990, the Organization transforms the lives of cats and dogs in need through compassionate medical care, positive behavior training and successful adoption while building a more humane community.

The Organization finds new homes for over 1,000 cats, dogs, puppies and kittens every year. The Organization also provides extensive community outreach programs including distributing food and supplies to 21 area food banks and offering reduced fees for pet services through their Public Spay and Neuter program.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets and Revenue Recognition

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations that consist of assets, liabilities, revenue, and expenses available for current programs and administration. It also consists of capital assets acquired through expenditure of unrestricted funds or in satisfaction of restrictions on funds contributed to purchase capital assets.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations, and grantors. Some donor 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, 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. When donor restrictions are met in the same time period in which the contribution is received, the Organization reports the support as without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Revenue is recognized once the Organization's performance obligation to the customer is completed and control of the product or service is transferred to the customer. Revenue for adoption services is recognized at a point-in-time, which is generally when the customer signs the adoption agreement. The Organization sells items needed for animal care that are recognized upon the sale of items, net of sales taxes and discounts. Revenue for pet services is recognized as the services are provided.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

Cash and Cash Equivalents

The Organization considers demand deposit accounts and other unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with financial institutions and, at times, balances may exceed federally insured limits.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Net investment return is reported on the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Fair Value Measurements

The framework for measuring fair value 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). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are unobservable for the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market and mutual funds are valued at quoted market prices in active markets, which represent the net asset value of shares held by the Organization at year-end (Level 1).

There have been no changes in the valuation techniques used during the years ended December 31, 2022 and 2021.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Receivables are considered delinquent if payments are not received in accordance with the contractual terms. Specific accounts are written off against the allowance after management has used all reasonable means to collect. Management has determined there was no need for an allowance at December 31, 2022 and 2021.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

Inventory

Inventory is stated at the lower of cost and net realizable value under the first-in, first-out method of accounting and consists of medical and other supplies, and pet foods. Donated inventory is valued at estimated fair value using a blended price times the quantity received of the donated item.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are recorded at cost, except for donated items which are stated at their estimated fair value at the date of the gift. All assets with costs of at least \$2,500 and estimated useful lives exceeding one year are capitalized. Repairs and maintenance are charged to expense as incurred.

Depreciation on equipment is computed using the straight-line method based on an estimated useful life of five years for most assets. Leasehold improvements are amortized over the shorter of the life of the lease, including renewal periods reasonably certain to be exercised, or the useful life of the asset, which is currently six years.

Impairment of Long-Lived Assets

The carrying value of long-lived assets, such as property and equipment and right-of-use assets, is reviewed on a regular basis for existence of facts that may indicate the assets are impaired. The carrying value of an asset, or group of assets, is considered nonrecoverable, and the asset(s) impaired, when its estimated, undiscounted, future cash flows are less than its carrying value. If the carrying value of this asset (or group of assets) is deemed nonrecoverable, it is adjusted down to the asset's estimated fair value. There were no impairments for the years ended December 31, 2022 and 2021.

ASC 842 Lease Implementation

Effective January 1, 2022, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2021 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

Topic 842 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancellable lease term. Lease expense for operating leases is comprised of the amortization of the right-of-use asset, interest expense recognized based on the effective interest method, and variable lease expenses. At the date of adoption, the Organization recorded operating lease right-of-use assets and lease liabilities of \$346,912 and \$362,567, respectively. The Organization has no finance leases.

Upon transition to Topic 842, the Organization elected the package of practical expedients permitted under the transition guidance which do not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

In-Kind Contributions

In-kind contributions are reflected as contributions at estimated fair value at the date of donation and are reported as unrestricted support unless the donor has placed restrictions on how or when the donated assets may be used. Donated services are recognized if they create a nonfinancial asset or required specialized skills that would have been purchased by the Organization had they not been donated.

Donated Goods and Services

Donated goods are recorded as support at their estimated fair value at the date of donation. The value of services received which require specialized skills, and which the Organization would have to purchase if the services were not donated, are recorded as support at their fair value at the date of donation with a corresponding amount recognized in the appropriate expense classification.

A number of volunteers have made significant contributions of time to the Organization's programs and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under U.S. GAAP, and accordingly, is not reflected in the accompanying financial statements.

Functional Expenses

The costs of providing the various programs and other 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.

Advertising

Advertising costs are recognized as an operating expense when incurred. Advertising expense was approximately \$1,231 and \$990 for the years ended December 31, 2022 and 2021, respectively.

Federal Income Tax

The Internal Revenue Service has determined the Organization to be exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred by the Organization as of the date of the financial statements and the amount can be reasonably estimated.

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 the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year have been reclassified to conform with current year presentation.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

Subsequent Events

The Organization has evaluated subsequent events through November 20, 2023, the date which the financial statements were available to be issued.

3. Liquidity and Availability

The Organization has liquid financial assets sufficient to cover at least 90 days of general expenditures. Financial assets in excess of daily cash requirements are primarily invested in mutual and money market funds.

The following table reflects the Organization's financial assets as of December 31, 2022 and 2021, reduced by the amounts that are not available to meet general expenditures within one year of the statement of financial position dates because of donor restrictions or internal board designations. The Organization receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

The Board of Directors has designated \$4,944 and \$2,744 of net assets without donor restrictions to be set aside as Board Scholarship Fund as of December 31, 2022 and 2021, respectively. These funds are to be used for staff and volunteer education and training. These funds may be reclassified as non-designated by an approved motion from the Board of Directors.

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 887,407	\$ 1,119,881
Investments	959,870	1,086,018
Pledges receivable	6,050	8,412
Accounts receivable	6,452	1,072
	<u>1,859,779</u>	<u>2,215,383</u>
Total financial assets		
	1,859,779	2,215,383
Donor restricted funds	(312,179)	(229,841)
Board designated funds	(4,944)	(2,744)
	<u>(317,123)</u>	<u>(232,585)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,542,656</u>	<u>\$ 1,982,798</u>

4. Unconditional Promises to Give

Unconditional promises to give are recorded as pledges receivable and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Unconditional promises to give are recorded after being discounted to the anticipated net present value of the future cash flows.

There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

As of December 31, 2022, pledges receivable included the following unconditional promises to give:

	2022	2021
Receivable in less than one year	\$ 6,050	\$ 8,412
Receivable in one to five years	5,450	23,987
	11,500	32,399
Less unamortized discount (3.25%)	1,156	7,063
	<u>\$ 10,344</u>	<u>\$ 25,336</u>

During 2021, the Organization amended their facility lease to extend through September 2024, and in 2022, extended their lease further through September 2031. As a result of this decision, the Organization elected to defer the capital campaign that was started to fund the search for the new space during 2020. As part of this process, the Organization contacted each of the donors that had pledged or made payments towards the capital campaign to notify them of the changes.

Certain donors elected to cancel the remaining balance of their pledge entirely. These pledges that have been written off during the year ended December 31, 2021 are presented as a loss on capital campaign pledges on the statement of activities in the amount of \$93,636.

The remaining donors elected to either reallocate payments that had been made (if the remaining balance of their pledge was canceled) or their total original pledge to the remodel fund that was established during the year ended December 31, 2022, to improve the current facility or leave it in the capital campaign for future use. The amount of pledges reallocated to the remodel fund is \$88,755.

5. Investments

Investments consisted of the following as of December 31:

	2022	2021
Money market funds	\$ 24,047	\$ 11,000
Mutual funds	935,823	1,075,018
	<u>\$ 959,870</u>	<u>\$ 1,086,018</u>

Net investment return consisted of the following:

	2022	2021
Realized and unrealized gain (loss)	\$ (148,082)	\$ 24,846
Interest and dividend income	27,352	22,174
Investment fees	(7,340)	(9,601)
	<u>\$ (128,070)</u>	<u>\$ 37,419</u>

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

6. Inventory

Inventory consisted of the following:

	<u>2022</u>	<u>2021</u>
Animal food	\$ 32,469	\$ 33,059
Clinic medicine and supplies	15,820	15,021
	<u>\$ 48,289</u>	<u>\$ 48,080</u>

7. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 285,212	\$ 286,449
Transportation equipment	37,763	37,763
Animal kennels	60,640	60,640
Clinic and surgery equipment	45,244	45,244
Office furniture and equipment	43,293	41,224
	472,152	471,320
Less accumulated depreciation	(441,544)	(430,405)
Construction in progress	108,319	-
	<u>\$ 138,927</u>	<u>\$ 40,915</u>

8. Volunteers (Unaudited)

The Organization is dependent on its volunteers who are important to the operations of the Organization. These types of contributed labor do not meet the provisions under accounting principles generally accepted in the United States of America to be recorded in the accompanying financial statements. Management believes over 160,000 and 150,000 hours were contributed by approximately 900 and 890 volunteers during the year ended December 31, 2022 and 2021, respectively. These amounts are unaudited.

9. ASC 842 Lease Implementation

The Organization is committed under an operating lease agreement through September 30, 2024 for its office location. In April 2022, the Organization's operating lease for its office location was extended to September 30, 2031. In general, the lease provides that the Organization is responsible for certain operating expenses associated with the property. The lease includes escalation clauses and provisions for early termination.

Homeward Pet Adoption Center

Notes to Financial Statements
December 31, 2022 and 2021

Leases, Prior to January 1, 2022

Lease expense was being recognized on a straight-line basis over the term of the lease. The accumulated difference in actual payments and the recorded lease expense was recognized as deferred rent. Total rent expense for the year ended December 31, 2021 was \$126,656.

Leases, January 1, 2022 and After

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

The Organization's lease includes an option to terminate the lease. The exercise of early termination option is at the Organization's sole discretion. The Organization regularly evaluates the early termination option and when they are reasonably certain of exercise, the Organization includes such option in the term lease.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term. The right-of-use assets and lease liabilities were calculated using a discount rate of 1.25% at adoption and 2.39% at the date the lease was modified.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization made significant assumptions and judgements in applying the requirements of Topic 842. In particular, the Organization evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.

The Organization does not have any material leasing transactions with related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of December 31, 2022:

Operating lease right-of-use assets	<u>\$ 1,583,558</u>
Operating lease liabilities:	
Current	\$ 96,891
Long-term	<u>1,555,492</u>
Total operating lease liabilities	<u>\$ 1,652,383</u>

Below is a summary of expenses incurred pertaining to leases during the year ended December 31, 2022:

Amortization of right-of-use assets	\$ 153,711
Interest expense	<u>28,102</u>
Total lease expense	<u>\$ 181,813</u>

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Future minimum lease payments under noncancelable operating leases for years ending December 31, are as follows:

Years ending December 31:		
2023	\$	135,072
2024		154,557
2025		199,650
2026		210,498
2027		221,022
Thereafter		<u>929,630</u>
Total lease payments		1,850,429
Less present value discount		<u>198,046</u>
Total lease liability		1,652,383
Less current portion		<u>96,891</u>
Long-term lease liabilities	\$	<u>1,555,492</u>

10. Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for the following purposes for the year ended:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 1,589,626	\$ 2,003,858
Board designated operating reserves	<u>4,944</u>	<u>2,744</u>
	<u>\$ 1,594,570</u>	<u>\$ 2,006,602</u>

Board-designated funds have been set aside by the Organization's governing body and are available to meet staff and volunteer development as needed.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes for the year ended:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Whoopi's Fund	\$ 100,973	\$ 70,398
Homeward Vet	16,990	18,510
Public Spay and Neuter	34,130	20,023
Behavior program	15,944	16,544
Remodel Campaign	110,885	-
Pay it Forward	16,762	15,611
Capital Campaign	<u>16,495</u>	<u>88,755</u>
	<u>\$ 312,179</u>	<u>\$ 229,841</u>

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12. Employee Benefit Plan

The Organization has a Savings Incentive Match Plan for Employees (SIMPLE/IRA) for employees who earn \$5,000 in gross wages or more annually. The Organization made total contributions of \$28,988 and \$27,158 to the SIMPLE/IRA for the years ended December 31, 2022 and 2021, respectively.