



Keegan Linscott & Associates, PC

Certified Public Accountants

Certified Fraud Examiners

Certified Insolvency & Restructuring Advisors

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2024

TABLE OF CONTENTS

| | |
|------------------------------------|-------|
| INDEPENDENT AUDITOR'S REPORT | 1 – 2 |
|------------------------------------|-------|

AUDITED FINANCIAL STATEMENTS

| | |
|--------------------------------------|---|
| STATEMENT OF FINANCIAL POSITION..... | 4 |
|--------------------------------------|---|

| | |
|-------------------------------|---|
| STATEMENT OF ACTIVITIES | 5 |
|-------------------------------|---|

| | |
|----------------------------------------------------|---|
| STATEMENT OF EXPENSES BY FUNCTION AND NATURE | 6 |
|----------------------------------------------------|---|

| | |
|-------------------------------|---|
| STATEMENT OF CASH FLOWS | 7 |
|-------------------------------|---|

| | |
|------------------------------------|--------|
| NOTES TO FINANCIAL STATEMENTS..... | 8 – 25 |
|------------------------------------|--------|

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Humane Society of Southern Arizona, Inc.

Opinion

We have audited the financial statements of The Humane Society of Southern Arizona, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and cash flows for the year ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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 Organization 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 Organization'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 Organization'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 Organization'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.

Keegan Linscott & Associates, PC

Tucson, Arizona
January 28, 2025

AUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2024

Assets

Current assets

| | |
|-----------------------------------|------------------|
| Cash and cash equivalents | \$ 1,202,239 |
| Accounts and other receivables | 50,587 |
| Unconditional promises to give | 42,127 |
| Bequests receivable, current, net | 1,445,469 |
| Inventory | 361,968 |
| Prepaid expenses and other assets | 95,162 |
| Total current assets | <u>3,197,552</u> |

| | |
|----------------------------------------------------|-----------------------------|
| Bequests receivable, non-current | 554,458 |
| Investments | 7,302,162 |
| Beneficial interest in perpetual trusts | 3,507,484 |
| Beneficial interest in charitable remainder trusts | 455,800 |
| Property and equipment, net | 14,629,627 |
| Operating lease right-of-use assets | 145,198 |
| Total assets | <u><u>\$ 29,792,281</u></u> |

Liabilities

Current liabilities

| | |
|-----------------------------------------|------------------|
| Accounts payable | \$ 245,298 |
| Accrued payroll and taxes | 218,637 |
| Other accrued expenses | 89,376 |
| Loan management account | 2,622,235 |
| Operating lease liability, current | 23,659 |
| Finance leases payable, current | 537 |
| Beneficial annuity obligations, current | 6,859 |
| Total current liabilities | <u>3,206,601</u> |

| | |
|---------------------------------------------|------------------|
| Operating lease liability, non-current | 54,661 |
| Finance leases payable, non-current | 412 |
| Beneficial annuity obligations, non-current | 31,935 |
| Total liabilities | <u>3,293,609</u> |

Net Assets

| | |
|----------------------------------|-----------------------------|
| Without donor restrictions | 22,106,218 |
| With donor restrictions | 4,392,454 |
| Total net assets | <u>26,498,672</u> |
| Total liabilities and net assets | <u><u>\$ 29,792,281</u></u> |

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--------------------------------------------------------------|-------------------------------|----------------------------|----------------------|
| Revenue and support | | | |
| Support | | | |
| Contributions | \$ 2,466,628 | \$ 120,908 | \$ 2,587,536 |
| Trusts and bequests | 3,126,147 | 51,005 | 3,177,152 |
| Special events | 69,268 | - | 69,268 |
| Gifts in-kind goods and services | 1,645,008 | - | 1,645,008 |
| Governmental grants | 213,450 | - | 213,450 |
| Total support | <u>7,520,501</u> | <u>171,913</u> | <u>7,692,414</u> |
| Revenue and other income | | | |
| Merchandise sales, net | 1,566,963 | - | 1,566,963 |
| Animal services | 1,301,817 | - | 1,301,817 |
| Rent revenue | 42,704 | - | 42,704 |
| Investment income, net | 695,386 | - | 695,386 |
| Other income | 101,661 | - | 101,661 |
| Gain on beneficial interest in charitable remainder trust | - | 46,917 | 46,917 |
| Gain on beneficial interest in perpetual trusts | - | 163,349 | 163,349 |
| Loss on uncollectible promises to give | (55,958) | (304,200) | (360,158) |
| Total revenue and other income | <u>3,652,573</u> | <u>(93,934)</u> | <u>3,558,639</u> |
| Net assets released from restrictions | | | |
| Satisfaction of donor restrictions | 2,277,139 | (2,277,139) | - |
| Total revenue and support | <u>13,450,213</u> | <u>(2,199,160)</u> | <u>11,251,053</u> |
| Expenses | | | |
| Program services | 7,469,589 | | 7,469,589 |
| General and administrative | 646,907 | | 646,907 |
| Fundraising | 3,457,880 | | 3,457,880 |
| Total functional expenses | <u>11,574,376</u> | <u>-</u> | <u>11,574,376</u> |
| Special events - costs of direct donor benefits | 23,337 | | 23,337 |
| Total expenses | <u>11,597,713</u> | <u>-</u> | <u>11,597,713</u> |
| Change in net assets | 1,852,500 | (2,199,160) | (346,660) |
| Net assets, beginning of year | 20,253,718 | 6,591,614 | 26,845,332 |
| Net assets, end of year | <u>\$ 22,106,218</u> | <u>\$ 4,392,454</u> | <u>\$ 26,498,672</u> |

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2024

| | Animal Shelter | Adoptions | Veterinary Clinic | Education and Outreach | Total Program Services | Administrative | Fund-raising | Total |
|---------------------------|----------------|------------|----------------------|---------------------------|---------------------------|----------------|--------------|---------------|
| Salaries and wages | \$ 1,457,389 | \$ 588,038 | \$ 1,376,665 | \$ 378,843 | \$ 3,800,935 | \$ 259,095 | \$ 984,460 | \$ 5,044,490 |
| Employee benefits | 124,688 | 36,033 | 88,367 | 43,504 | 292,592 | 16,161 | 72,357 | 381,110 |
| Payroll taxes | 109,161 | 44,385 | 104,619 | 28,656 | 286,821 | 19,572 | 74,265 | 380,658 |
| Total personnel | 1,691,238 | 668,456 | 1,569,651 | 451,003 | 4,380,348 | 294,828 | 1,131,082 | 5,806,258 |
| Advertising and promotion | 16,524 | 4,673 | 13,637 | 8,645 | 43,479 | 12,306 | 111,586 | 167,371 |
| Contracted services | 443,878 | 23,192 | 129,276 | 85,065 | 681,411 | 116,053 | 222,649 | 1,020,113 |
| Cost of sales | 996 | 115,561 | 44,486 | 33 | 161,076 | - | 290 | 161,366 |
| Depreciation | 217,495 | 5,973 | 57,749 | 67,247 | 348,464 | 10,221 | 89,065 | 447,750 |
| Facilities and occupancy | 178,806 | 29,221 | 51,854 | 45,462 | 305,343 | 25,603 | 72,015 | 402,961 |
| In-kind expenses | 99,839 | 9,207 | 101,661 | 15,641 | 226,348 | 58,006 | 1,339,572 | 1,623,926 |
| Information technology | 39,427 | 22,122 | 41,711 | 11,485 | 114,745 | 23,858 | 64,029 | 202,632 |
| Insurance | 86,093 | 10,855 | 28,888 | 17,703 | 143,539 | 6,568 | 37,165 | 187,272 |
| Interest expense | 40,883 | 6,404 | 32,660 | 10,861 | 90,808 | 40,345 | 22,542 | 153,695 |
| Other expense | 29,374 | 1,149 | 7,748 | 1,638 | 39,909 | 41,973 | 7,887 | 89,769 |
| Supplies | 342,097 | 33,098 | 436,068 | 39,366 | 850,629 | 14,470 | 350,245 | 1,215,344 |
| Vehicle and travel | 60,424 | 12,137 | 4,930 | 5,999 | 83,490 | 2,676 | 9,753 | 95,919 |
| Total functional expenses | \$ 3,247,074 | \$ 942,048 | \$ 2,520,319 | \$ 760,148 | \$ 7,469,589 | \$ 646,907 | \$ 3,457,880 | \$ 11,574,376 |

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2024

Cash Flows from Operating Activities

| | |
|----------------------------------------------------------------------------------------|--------------------|
| Change in net assets | \$ (346,660) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | |
| Depreciation | 447,750 |
| Loss on uncollectible promises to give | 360,158 |
| Net realized and unrealized gain on investments | (494,693) |
| Gain on beneficial interest in perpetual trusts | (163,349) |
| Gain on beneficial interest in charitable remainder trusts | (46,917) |
| Gain on sale of property and equipment | (4,098) |
| Reduction in carrying amount of right-of-use assets | 42,640 |
| Change in value of beneficial annuity obligations | 38,794 |
| Changes in operating assets and liabilities | |
| Accounts and other receivables | 158,017 |
| Unconditional promises to give | 38,201 |
| Bequests receivable | (1,328,357) |
| Inventory | 62,813 |
| Prepaid expenses and other assets | 101,051 |
| Accounts payable | (38,592) |
| Accrued payroll and taxes | (76,854) |
| Other accrued expenses | (104,257) |
| Operating lease liability | (27,501) |
| Net cash used in operating activities | <u>(1,381,854)</u> |

Cash Flows from Investing Activities

| | |
|-----------------------------------------------------------------------|----------------|
| Proceeds from sales of investments | 3,058,877 |
| Purchases of investments | (2,783,077) |
| Distributions from beneficial interest in charitable remainder trusts | 9,614 |
| Proceeds from sale of property and equipment | 4,098 |
| Purchases of property and equipment | (22,254) |
| Net cash provided by investing activities | <u>267,258</u> |

Cash Flows from Financing Activities

| | |
|-------------------------------------------|------------------|
| Borrowings on loan management account | 1,588,963 |
| Repayments on loan management account | (96,000) |
| Payments on finance lease payable | (14,898) |
| Payments on gift annuity obligations | (1,934) |
| Net cash provided by financing activities | <u>1,476,131</u> |

Net change in cash and cash equivalents 361,535

Cash and cash equivalents, beginning of year 840,704

Cash and cash equivalents, end of year \$ 1,202,239

Supplemental Schedule of Non-Cash Investing and Financing Activities

| | |
|--------------------------------------------------------------------|-------------------|
| Cash paid for interest | <u>\$ 144,003</u> |
| Cash paid for amounts included in measurement of lease liabilities | |
| Operating cash outflows - payments on operating leases | <u>\$ 27,501</u> |
| Operating cash outflows - interest payments on finance leases | <u>\$ 366</u> |

NOTES TO FINANCIAL STATEMENTS

1. Organization and Purpose

Since its founding in 1944, The Humane Society of Southern Arizona ("HSSA") has evolved to become a full-spectrum animal services organization, dedicated to compassionately serving pets and the people who love them. HSSA is a private, not-for-profit corporation that is not affiliated with any other humane society or animal shelter. The Organization's work is guided by three pillars of care: *Shelter and Placement, Prevention, and Education and Outreach*.

Shelter and Placement

HSSA prides itself on providing the highest level of quality service to the pets in its care. The happier, healthier, and more confident pets are, the more likely it is that with our help, they will find their forever homes.

The shelter on west Roger Road in Tucson was designed with the care and comfort of the pets in mind, right down to the colors of the paint - chosen for their calming properties, which help promote faster healing. Here, pets are welcomed, assessed for any immediate medical needs, and cared for during their stay.

The New Beginnings team assesses each pet's behavior and works with those pets who need help with socialization and 'manners'. The enrichment team ensures that each pet receives daily stimulation and treats to keep their bodies and brains as healthy and happy as possible during their stay, while our shelter medical team provides regular medical care.

Adoptable pets meet their forever families at our three PAWSH retail locations as well as offsite adoption events.

Prevention

Prevention takes many forms. HSSA works tirelessly to promote the prevention of cruelty to animals, and part of that work is done by promoting animal welfare legislation to the Arizona legislature. HSSA offers spay and neuter programs to its rescue partners and the public, which help reduce the number of homeless and unwanted pets throughout southern Arizona. Vaccinations and dental services help pets stay healthy. School-based humane education programs - we bring our animal ambassadors to more than 500 classrooms a year - and on-site camps teach kindness towards animals, generating huge benefits for our community in the reduction of domestic and other human violence for decades to come.

Education and Outreach

Animal welfare is not simply an HSSA issue, it's a community issue. HSSA's innovative education and outreach programs support community members of all ages, from the Hand in Paw Club for kids to the Pet VIP program which brings pets to visit those in care facilities and hospitals, and many programs in between. Public classes teach training skills pets and their people. HSSA partners with Pima Medical Institute, Pima Community College, and the University of Arizona's College of Veterinary Medicine (UA CVM) to help the next generation of veterinary professionals gain valuable experience. HSSA also has staff representatives on many animal welfare committees throughout Arizona to share ideas on how to continue improving the relationship between pets and the people who love them in a way that benefits the entire community.

Highlights This Year

HSSA achieved significant milestones, including the opening of the Freeman Education Center, which expanded educational programs and strengthened community partnerships. Our Trap-Neuter-Release initiative spayed and neutered over 2,000 cats, reflecting our commitment to humane population control.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

Basis of Presentation

HSSA follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that HSSA follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

HSSA's financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, HSSA is required to provide financial statements which are prepared to focus on HSSA as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for use without restriction unless specifically restricted by the donor. Net assets without donor restrictions at June 30, 2024 includes \$2,558,474 designated by the Board of Directors as an operating reserve.
- **With Donor Restrictions** – Net assets whose use by HSSA is subject to donor-imposed stipulations that can be fulfilled by actions of HSSA pursuant to those stipulations or that expire through the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, HSSA reports the support as increases in net assets without donor restrictions.

Cash and Cash Equivalents

For financial statement reporting purposes, HSSA considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates their fair values. HSSA places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit (See Note 19). HSSA has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give and Bequests Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. For the year ended June 30, 2024, the discount on these amounts are computed using an interest rate of 4.75%. Amortization of the discount is included in contribution revenue. As of June 30, 2024, no discount was remaining.

Bequests are recognized as contribution revenue when HSSA has an irrevocable right to the gift as determined by applicable court declarations, and the amount can be reasonably estimated. The revenue and related receivable are recorded at the present value of the amount which management estimates it will collect. Bequests receivable that are expected to be collected within one year are recorded at their net realizable value and classified as current. Bequests receivable that are expected to be collected in future years are recorded at the estimated net realizable value and classified as non-current.

The carrying amount of these receivables is reduced by an allowance. The allowance is HSSA's best estimate of the amount of probable bad debt losses in HSSA's existing receivables and is based upon historical loss patterns, and an evaluation of the potential risk of loss associated with specific accounts. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Uncollectible receivables are written off during the year in which they are identified. Recoveries of receivables previously written off are recorded when received. As of June 30, 2024, the allowance for uncollectible promises to give was \$5,200 and the allowance for uncollectible bequests receivable was \$4,790, respectively, and are included in the current portion of these receivables in the accompanying statement of financial position. During the year ended June 30, 2024, HSSA also recognized a loss on uncollectible promises to give of \$360,158 after certain donors rescinded their pledges.

Inventory

Inventories consist primarily of medical supplies sold through the shelter and the clinic and retail items sold at all three PAWSH stores and our online store. These items are stated at the lower of cost or market determined by the average cost method. Thrift store inventory for donated items is valued using a rolling three month average of sales.

Investments

Debt and Equity Securities - Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying statement of financial position. Investment income, gains and losses are reported net of related investment fees in the statement of activities as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis. Donated investments are recorded at fair value.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Investments (continued)

HSSA invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. HSSA employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. HSSA also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. Through June 30, 2024, HSSA has not experienced other-than-temporary impairment losses on its investments.

Property and Equipment

Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation is calculated using the straight-line method over the estimated useful life of the assets as follows:

| | |
|-----------------------------------|---------------|
| Buildings and improvements | 10 - 50 years |
| Furniture, fixtures and equipment | 3 - 10 years |
| Vehicles | 5 years |

HSSA capitalizes all expenditures for property and equipment, including repairs or betterments that materially prolong the useful lives of assets, in excess of \$5,000 with a useful life greater than one year. Repairs and maintenance for normal upkeep are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is recognized.

In accordance with ASC 360-10, *Property, Plant and Equipment*, HSSA periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through June 30, 2024, HSSA had not experienced impairment losses on its long-lived assets.

Leases

Lessee Leases

HSSA determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract (ii) HSSA obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. HSSA also considers whether its service arrangements include the right to control the use of an asset.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

HSSA recognizes most leases on its statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of activities.

HSSA made an accounting policy election available not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less or under the capitalization threshold of \$5,000. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842, *Leases*). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, HSSA made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

HSSA has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to HSSA, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Lessor Leases

HSSA leases certain of its buildings to third parties. These leases may contain extension and termination options that are predominantly at the sole discretion of the lessee, provided certain conditions are satisfied. These residential tenant leases are principally short term in nature.

As a lessor, HSSA's leases with tenants for its real estate assets generally provide for the lease of space, as well as common area maintenance. Under Topic 842, the lease of space is considered a lease component while the common area maintenance billings are considered nonlease components, which fall under revenue recognition guidance in FASB ASC Topic 606, *Revenue from Contracts with Customers*. However, upon adopting the guidance in Topic 842, HSSA determined that its tenant leases met the criteria to apply the practical expedient provided by ASU 2018-11 to recognize the lease and non-lease components together as one single component. This conclusion was based on the consideration that 1) the timing and pattern of transfer of the nonlease components and associated lease component are the same, and 2) the lease component, if accounted for separately, would be classified as an operating lease. As the lease of space is the predominant component of HSSA's leasing arrangements, HSSA accounted for all lease and non-lease components as one single component under Topic 842. As a result, the adoption of Topic 842 did not have any impact on HSSA's timing or pattern of recognition of rental revenues as compared to previous guidance.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Lessor Leases (continued)

In addition, under Topic 842, lessors will only capitalize incremental direct leasing costs. HSSA does not capitalize non-incremental direct leasing costs. These costs are expensed as incurred and are included within administrative expenses on the statement of activities.

Revenue Recognition

Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.
- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a contribution is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, a refundable advance is recorded on the statement of financial position for the amount of funds provided by the donor. Consequently, government funded grants which are considered contributions are recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

Gifts In-Kind Goods and Services – Contributions of donated non-cash assets are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized as contributions at fair value when the services are received and (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. HSSA utilizes the services of many outside volunteers to perform a variety of tasks that assist HSSA. Although HSSA utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP.

Exchange Transactions

HSSA recognizes earned revenues in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Exchange Transactions (continued)

- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Merchandise Sales – HSSA's merchandise sales consist of its retail thrift store operation, medical and pet related merchandise sales. These sales are recorded at a determined transaction price, which varies by item, net of applied discounts, which were not significant to the financial statements. HSSA records revenue from these sales upon delivery of the goods to the customer, which occurs at the point of sale. Performance obligations are determined to be the completed sale of each item.

Animal Services – Animal services revenue include shelter, adoption and veterinary services. HSSA recognizes revenues at a point in time when the related services are provided to the customer, which is when the performance obligation is satisfied. The transaction price is the amount of consideration HSSA expects to be entitled to. Revenues are based primarily on fixed payment terms involving predetermined rates per service (fee-for-service) and typically do not involve variable consideration.

The timing of revenue recognition may not align with the right to invoice the customer. HSSA records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability, such as deferred revenue is also recorded. If revenue is recognized in advance of the right to invoice, a contract asset is recorded. Contract assets and liabilities as of June 30, 2024 and 2023 were not significant to the financial statements.

Rent Revenue – Rent revenue is recognized as rents become due in accordance with ASC 842, *Leases*. Revenue is generated through monthly rental payments from third parties. All revenue received from tenants is recognized when services are provided. Rental receipts received in advance are deferred until earned. Rent revenue totaled \$42,704 for the year ended June 30, 2024.

HSSA has a five-year lease agreement with the University of Arizona for the rental of office space within its EBC building that commenced in March 2023. Revenue from this agreement totaled \$40,738 for the year ended June 30, 2024. Future undiscounted cash flows are expected to be \$30,000 for the years ended June 30, 2025 through 2027, and \$20,000 for the year ended June 30, 2028.

Advertising

Advertising costs are expensed as incurred. HSSA does not participate in direct-response advertising which requires the capitalization and amortization of related costs. Advertising expense for the year ended June 30, 2024 was \$167,371.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

HSSA reports its expenses on a functional basis by program and support service. Expenses that can be identified with a specific program or support service are charged directly according to their natural classification. This includes the majority of operating expenses such as all types of payroll related costs and direct operating supplies. These expenses also include specific fundraising or administrative costs. All such costs are coded by department and include account descriptions reflecting their natural classification. Expenses not identified to a specific program or support service are allocated among the services benefited.

Most of these costs are initially allocated based on occupied square footage. These allocated expenses include depreciation, professional fees, repairs and maintenance, utilities, insurance and other expenses. Certain other costs such as marketing costs, joint costs or pooled administrative costs are allocated to program services and support services based on the underlying purpose of the expenditures or estimates of time, effort or use.

Income Tax Status

HSSA is exempt from federal and state income taxes under the Federal Internal Revenue Code ("IRC") Section 501(c)(3) and Arizona Revised Statute section 43-1201(4), respectively, and is classified as other than a private foundation under IRC Section 509(a)(2). HSSA also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a). Accordingly, no provision for federal or state income taxes is recorded in the accompanying financial statements; however, income from certain activities not directly related to HSSA's tax-exempt purpose may be subject to taxation as unrelated business income.

Management has considered its tax positions in accordance with the accounting standard for uncertainty in income taxes and believes that all positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. In addition, management is not aware of any matters which would cause HSSA to lose its tax-exempt status. HSSA's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Should HSSA ever be subject to interest and penalties related to unrecognized tax benefits, they would be classified in administrative expenses in its accompanying financial statements. During the year ended June 30, 2024, HSSA did not recognize any interest and penalties.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

3. Recent Accounting Pronouncements

Adopted as of June 30, 2024

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)***Adopted as of June 30, 2024 (continued)***

expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. HSSA adopted ASC 326 and all related subsequent amendments thereto effective July 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost. The adoption of ASC 326 and all related subsequent amendments thereto did not materially impact the financial statements and therefore, did not result in new disclosures nor a cumulative-effect adjustment to opening net assets.

4. Liquidity and Availability of Resources

The following table shows a determination of HSSA's financial assets that are available to meet cash needs for general expenditures within one year as of June 30, 2024:

| | |
|----------------------------------------------------------------------------------------|---------------------|
| Cash and cash equivalents | \$ 1,202,239 |
| Accounts and other receivables | 50,587 |
| Unconditional promises to give | 42,127 |
| Bequests receivable, current portion | <u>1,445,469</u> |
| Total financial assets available within one year | 2,740,422 |
| Less amounts unavailable to management without Board approval: | |
| Cash portion of Board-designated operating reserve | 483,066 |
| Cash held in investment accounts | <u>302,787</u> |
| Total financial assets available to management for general expenditure within one year | <u>\$ 1,954,569</u> |

HSSA maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due and to generate conservative investment returns on funds not needed by current operations. HSSA attempts to maintain \$150,000 to \$700,000 in working capital available to management for operations. Cash in excess of daily requirements are invested in immediately available money market funds. Procedures are established for management to access Board-designated operating reserve funds of up to \$2,558,474 as of June 30, 2024, should current operations not provide sufficient funds. HSSA opened a loan management account, which is a line of credit with a maximum credit limit of \$4,400,000 available to be used for operations.

5. Investments

Investments consist of the following as of June 30, 2024:

| | |
|--------------------------------|---------------------|
| Mutual funds | \$ 3,843,249 |
| Common stocks | 2,044,360 |
| Corporate and government bonds | <u>1,414,553</u> |
| Total investments | <u>\$ 7,302,162</u> |

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

Investment income, net related to the HSSA's investments consists of the following for the year ended June 30, 2024:

| | |
|--------------------------------------------------|-------------------|
| Interest and dividend income | \$ 250,881 |
| Realized and unrealized gain on investments, net | 494,693 |
| Investment fees | <u>(50,188)</u> |
| Investment income, net | <u>\$ 695,386</u> |

6. Fair Value Measurements

HSSA utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that HSSA has the ability to access at the measurement date.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

HSSA defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. HSSA defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

HSSA's investments are generally classified within Level 1 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include HSSA's mutual funds, common stocks, and corporate and government bonds. Such instruments are classified within Level 1 of the fair value hierarchy.

HSSA's beneficial interest in the perpetual trusts and beneficial interest in charitable remainder trusts are classified within Level 2 of the fair value hierarchy due to the lack of an active market in which HSSA's beneficial interests could be bought or sold. The fair value of the beneficial interests are measured using the fair value of the underlying assets (net asset value).

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents HSSA's financial assets that are measured at fair value on a recurring basis as of:

| Description | 06/30/2024 | Level 1 | Level 2 |
|----------------------------------------------------|---------------|--------------|--------------|
| Mutual funds | \$ 3,843,249 | \$ 3,843,249 | \$ - |
| Common stocks (a) | 2,044,360 | 2,044,360 | - |
| Corporate and government bonds | 1,414,553 | 1,414,553 | - |
| Total investments | 7,302,162 | 7,302,162 | - |
| Beneficial interest in perpetual trusts | 3,507,484 | - | 3,507,484 |
| Beneficial interest in charitable remainder trusts | 455,800 | - | 455,800 |
| Total | \$ 11,265,446 | \$ 7,302,162 | \$ 3,963,284 |

- (a) On the basis of its analysis of the nature, characteristic and risks of the investments, management has determined that presenting them as a single class is appropriate.

7. Trusts, Bequests and Memorials

HSSA is a remainder beneficiary in certain trusts. Upon the death of the income beneficiaries, the assets of the trusts will be distributed, and HSSA's share of the assets will be recognized as revenue. Because HSSA is a remainder beneficiary, and the remainder amounts cannot be estimated, the assets of the trusts are not reflected in the accompanying financial statements.

HSSA is also the beneficiary of estates which can be reasonably estimated. The net balance of these bequests receivable is \$1,999,927 as of June 30, 2024. Bequests receivable that are expected to be collected beyond 12 months from the statement of financial position date are recorded as non-current. As of June 30, 2024, the allowance for uncollectible bequests receivable was \$4,790.

HSSA is the sole income beneficiary of one perpetual charitable trust and a 1.5% income beneficiary of another perpetual trust. Both of the trusts are held by third parties. HSSA recognizes permanently restricted contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits is unconditional and irrevocable. Changes in the fair value of HSSA's interest in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. Distributions received from these trusts are recorded as unrestricted investment income. The value of HSSA's beneficial interest in these trust assets is \$3,507,484 as of June 30, 2024.

HSSA is a beneficiary of three charitable remainder trusts held by third parties with beneficial interests of 50%, 25% and 9%. HSSA recognizes temporarily restricted contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits is unconditional and irrevocable. Changes in the fair value of HSSA's interests in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. Distributions received from the trusts are recorded as a reduction of the beneficial interest in the trust assets. The value of HSSA's beneficial interests in the trust assets is \$455,800 as of June 30, 2024.

NOTES TO FINANCIAL STATEMENTS

Trusts, Bequests and Memorials (continued)

HSSA is party to three charitable gift annuity agreements from the same donor originally totaling \$150,000 and discounted at 6%. As of June 30, 2024, the gift annuity agreements were revalued at \$45,000 and discounted at 6%. The beneficiary obligation liability under these agreements as of June 30, 2024 was \$38,794.

8. Property and Equipment

Property and equipment consists of the following as of June 30, 2024:

| | |
|-----------------------------------|----------------------|
| Land | \$ 1,986,394 |
| Buildings and improvements | 13,118,399 |
| Furniture, fixtures and equipment | 1,727,984 |
| Vehicles | 346,187 |
| Construction in progress | <u>7,356</u> |
| Total property and equipment | 17,186,320 |
| Less accumulated depreciation | <u>(2,556,693)</u> |
| Property and equipment, net | <u>\$ 14,629,627</u> |

Construction for the Freeman Education and Behavioral Center located on Roger Road completed September 2023, which included costs of land and building of \$3,267,670 and furniture, fixtures and equipment of \$291,837.

9. Loan Management Account

HSSA is party to a loan management account (LMA) with a financial institution. The maximum credit limit is \$4,400,000, and the account is collateralized by securities held in an account with the financial institution. Interest on any outstanding balance is payable based on the one-month LIBOR, which resets weekly, plus a spread as determined by the loan value of the pledged collateral at the time the LMA account is approved (7.133% as of June 30, 2024). The Board policy states that if advances exceed \$1,250,000 and \$1,500,000, the advance requests will be funded 50% and 100%, respectively, with the Board designated operating reserves. The balance on the line of credit as of June 30, 2024 was \$2,622,235.

10. Lessee Leases

HSSA leases real estate and certain equipment under operating lease agreements that expire within 1 to 5 years. Any options to extend or terminate these leases are included in the lease terms when it is reasonably certain that HSSA will exercise those options. HSSA's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

HSSA also leases certain office equipment under a finance lease agreement with a term of 4 years. HSSA's finance lease generally does not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

The components of lease expense are as follows for the year ended June 30, 2024:

| | | |
|----------------------------------------------------|----|---------------|
| Operating lease cost | \$ | 30,209 |
| Finance lease cost – amortization of ROU assets | | 6,725 |
| Finance lease cost – interest on lease liabilities | | 366 |
| Total lease cost | \$ | <u>37,300</u> |

Supplemental statement of financial position information related to leases is as follows as of June 30, 2024:

| | | |
|----------------------------------------|----|----------------|
| Operating leases: | | |
| Operating lease right-of-use assets | \$ | <u>145,198</u> |
| Operating lease liability, current | \$ | 23,659 |
| Operating lease liability, non-current | | <u>54,661</u> |
| Total operating lease liabilities | \$ | <u>78,320</u> |

| | | |
|------------------------------------------|----|-----------------|
| Finance leases | | |
| Equipment* | \$ | 26,619 |
| Accumulated amortization* | | <u>(26,619)</u> |
| Finance lease, right-of-use assets, net* | \$ | <u>-</u> |
| Finance lease liabilities, current | \$ | 537 |
| Finance lease liabilities, non-current | | <u>412</u> |
| Total finance lease liabilities | \$ | <u>949</u> |

| | |
|----------------------------------------|------------|
| Weighted-average remaining lease term: | |
| Operating leases | 3.68 years |
| Finance leases | 1.75 years |

| | |
|---------------------------------|-------|
| Weighted-average discount rate: | |
| Operating leases | 2.78% |
| Finance leases | 2.78% |

*The ROU assets for the finance lease are included in property and equipment, net in the accompanying statement of financial position.

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the statement of financial position are as follows as of June 30, 2024:

| Year Ending June 30, | Operating Leases | Finance Leases |
|------------------------------------------|------------------|----------------|
| 2025 | \$ 25,465 | \$ 556 |
| 2026 | 20,326 | 417 |
| 2027 | 18,452 | - |
| 2028 | 16,734 | - |
| 2029 | 1,395 | - |
| Total lease payments | 82,371 | 973 |
| Less imputed interest | (4,051) | (24) |
| Total present value of lease liabilities | 78,320 | 949 |
| Less current portion | (23,659) | (537) |
| Long-term portion | \$ 54,661 | \$ 412 |

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2024:

Subject to expenditure for specified purpose:

| | |
|--------------------------|----------------|
| Capital improvement fund | \$ 121,248 |
| Cruelty | 26,766 |
| Education fund | 4,705 |
| Food | 47,567 |
| One Health | 5,172 |
| Other | 6,115 |
| Rescue fund | 12,937 |
| Spay and neuter fund | 38,928 |
| Sponsored adoptions | 18,927 |
| Wellness program | 54,709 |
| | <u>337,074</u> |

Subject to the passage of time:

| | |
|----------------------------------------------------|---------|
| Beneficial interest in charitable remainder trusts | 455,800 |
|----------------------------------------------------|---------|

Endowments:

Not subject to spending policy or appropriation:

| | |
|-----------------------------------------|---------------------|
| Original endowment gifts | 92,098 |
| Beneficial interest in perpetual trusts | 3,507,484 |
| Total | <u>\$ 4,392,454</u> |

NOTES TO FINANCIAL STATEMENTS

12. Endowment Funds

Endowments

HSSA's endowment funds consist of two individual funds established by donors and with a combined balance of \$92,098 as of June 30, 2024. As required by U.S. GAAP, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions. HSSA is the beneficiary of two perpetual trusts as discussed in Note 7. The perpetual trusts are administered by a third party, and the assets are not accessible by HSSA at any time. They do not meet the definition of an endowment and are classified as net assets with restrictions in accordance with U.S. GAAP.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the "Act"). The Board of Directors of HSSA has interpreted the Act 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, HSSA classifies as net assets with donor restrictions, not subject to spending policy or appropriation (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 gift instrument at the time the accumulation is added to the fund. The remaining portion, if any, of the donor-restricted endowment fund that is not classified net assets with donor restrictions, not subject to spending policy or appropriation, is classified as net assets with donor restrictions, subject to appropriation and expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, HSSA considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization.

Funds with Deficiencies

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 the Act requires HSSA to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of June 30, 2024.

Return Objectives and Parameters

HSSA has adopted investment policies 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) and board-designated endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in a combination

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)***Return Objectives and Parameters (continued)***

of fixed income, equities, commodities, hedge fund contracts and cash equivalents, and the maximum allocation by investment type shall be 100%, 49%, 9%, 16% and 25%, respectively, of the total investment portfolio. Actual returns in any given year may vary.

Investment Strategies

To satisfy its long-term rate-of-return objectives, HSSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary purpose of HSSA's endowment funds is to provide additional funding for programs and operations while increasing the investment base.

Spending Policy

Investment income earned on endowment funds is appropriated by HSSA's Board of Directors for expenditure in the year earned. Earnings which do not bear donor restrictions are included in net assets without donor restrictions, and those bearing donor restrictions are included in net assets with donor restrictions. During the year ended June 30, 2024, there were no endowment earnings bearing donor restrictions.

13. Special Events

HSSA's special events during the year ended June 30, 2024 consists of:

| | Revenue | Expenses | Net |
|----------------------|-----------|-----------|-----------|
| Impact Luncheon | \$ 9,338 | \$ 7,144 | \$ 2,194 |
| Raffle 50/50 | 59,380 | 40,940 | 18,440 |
| Raffles other | 550 | - | 550 |
| Total special events | \$ 69,268 | \$ 48,084 | \$ 21,184 |

Special event expenses for the year ended June 30, 2024 include \$23,337 of direct donor benefit costs as reported on the statement of activities, and the remaining \$24,747 of other special event expenses are allocated on the statement of expenses by function and nature as fundraising.

14. Gifts In-Kind Goods and Services

HSSA received gifts in-kind goods and services which consist of the following for the year ended June 30, 2024:

| | |
|----------------------------------|--------------|
| Professional services | \$ 225,132 |
| Operating supplies and materials | 100,480 |
| In-kind thrift shop donations | 1,319,396 |
| Total | \$ 1,645,008 |

Unless otherwise noted, gifts in-kind goods and services were not monetized and did not have donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS

Gifts In-Kind Good and Services (continued)

Professional services– HSSA receives donated services from community professionals primarily for marketing services. The services are valued based on the quantity and market value of the services received, if they had been purchased.

Operating supplies and materials– HSSA receives donated items such pet food and veterinary medications, vaccines, and other supplies. These items are valued based on the quantity of items received and the value claimed by the donor.

In-kind thrift shop donations – HSSA receives donated household goods, clothing, appliances and furniture from corporate and individual donors. HSSA then sells these items to the general public. The fair market value of these items is not readily determinable until the items are sold; therefore, the value is determined by the selling price of the item.

Gifts in-kind goods and services were utilized for the following activities during the year ended June 30, 2024:

| | | |
|---------------------------|----|------------------|
| Program services | \$ | 103,942 |
| Fund-raising activities | | 1,536,480 |
| Administrative activities | | 4,586 |
| Total | \$ | <u>1,645,008</u> |

15. Thrift Store

Thrift store activity for the year ended June 30, 2024 consists of:

| | | |
|----------------------------------------------------------------------------------------------|----|-----------------------|
| Thrift store revenue, including in-kind of \$1,319,396 | \$ | 2,637,838 |
| Other expenses, including in-kind of expenses of \$1,306,493 and depreciation of \$82,888 | | <u>2,303,041</u> |
| Total net revenue | \$ | <u><u>334,797</u></u> |

16. Retirement Plan

HSSA sponsors a 401(k) retirement plan for the benefit of its employees. Employees 21 years of age or older can participate in the plan on the first day of the month following their date of hire. After working 1,000 hours and one full year of service, HSSA matches employee contributions, dollar-for-dollar, up to a maximum of 3% of the employee's compensation. For the year ended June 30, 2024, HSSA contributed \$43,999 to the 401(k) plan.

17. Commitments

HSSA is self-insured for state unemployment purposes. Total expense for unemployment for the year ended June 30, 2024 was \$17,384.

NOTES TO FINANCIAL STATEMENTS

18. Joint Cost Allocations

HSSA sends out newsletters that include information about programs, services, and fundraising events, advertising, and requests for contributions. During the year ended June 30, 2024, HSSA incurred joint costs of \$13,879, which are not specifically attributable to particular components of the publications. HSSA allocated \$11,103 to program services not including public education and \$2,776 to fund-raising.

19. Concentrations of Credit Risk

Cash Deposits at Banks

Financial instruments that potentially subject HSSA to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to \$250,000. As of June 30, 2024, HSSA had approximately \$236,000 in excess of FDIC insured limits.

Investments

Investments held by other institutions are insured up to \$500,000, including up to \$250,000 for cash balances per institution, by the Securities Investor Protection Corporation ("SIPC"). As of June 30, 2024, HSSA had \$6,802,162 in excess of SIPC insured limits.

20. Subsequent Events

HSSA evaluated subsequent events through January 28, 2025, which represents the date the financial statements were available to be issued and concluded that besides the item noted below, no additional disclosures are required.

On December 3, 2024, HSSA executed a promissory note in the amount of \$4,000,000 with a financial institution to pay off the full outstanding balance of the loan management account and address ongoing operational funding needs. The note accrues interest at a 6.5% per annum, and requires monthly interest only payments for the first 24 months, then monthly principal and interest payments of \$25,283 for the next 95 months, with a balloon payment of \$3,573,277 due at maturity on December 1, 2034.