



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 YEARS ENDED JUNE 30, 2025 AND 2024

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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 statements of financial position as of June 30, 2025 and 2024, and the related statements of activities, expenses by function and nature, and cash flows for the years then 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, 2025 and 2024, 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 ("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 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 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
November 18, 2025

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2025	2024
Assets		
Current assets		
Cash and cash equivalents	\$ 2,696,778	\$ 1,202,239
Accounts and other receivables	62,287	50,587
Unconditional promises to give	17,136	42,127
Bequests receivable, current, net	1,007,991	1,445,469
Inventory	353,778	361,968
Prepaid expenses and other assets	89,221	95,162
Total current assets	4,227,191	3,197,552
Bequests receivable, non-current	522,099	554,458
Investments	9,264,608	7,302,162
Beneficial interest in perpetual trusts	3,694,796	3,507,484
Beneficial interest in charitable remainder trusts	433,344	455,800
Property and equipment, net	14,369,767	14,629,627
Operating lease right-of-use assets	105,792	145,198
Total assets	<u>\$ 32,617,597</u>	<u>\$ 29,792,281</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 171,591	\$ 245,298
Accrued payroll and taxes	228,784	218,637
Other accrued expenses	180,434	89,376
Loan management account	-	2,622,235
Operating lease liability, current	19,096	23,659
Finance leases payable, current	412	537
Beneficial annuity obligations, current	7,282	6,859
Total current liabilities	607,599	3,206,601
Note Payable, non-current	3,969,267	-
Operating lease liability, non-current	35,564	54,661
Finance leases payable, non-current	-	412
Beneficial annuity obligations, non-current	24,653	31,935
Total liabilities	4,637,083	3,293,609
Net Assets		
Without donor restrictions	22,509,320	22,106,218
With donor restrictions	5,471,194	4,392,454
Total net assets	27,980,514	26,498,672
Total liabilities and net assets	<u>\$ 32,617,597</u>	<u>\$ 29,792,281</u>

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Support						
Contributions	\$ 3,015,621	\$ 221,876	\$ 3,237,497	\$ 2,466,628	\$ 120,908	\$ 2,587,536
Trusts and bequests	2,903,499	835,479	3,738,978	3,126,147	51,005	3,177,152
Special events	4,950	-	4,950	69,268	-	69,268
Gifts in-kind goods and services	1,494,629	-	1,494,629	1,645,008	-	1,645,008
Governmental grants	-	-	-	213,450	-	213,450
Total support	7,418,699	1,057,355	8,476,054	7,520,501	171,913	7,692,414
Revenue and other income						
Merchandise sales, net	1,477,572	-	1,477,572	1,566,963	-	1,566,963
Animal services	983,807	-	983,807	1,301,817	-	1,301,817
Rent revenue	30,403	-	30,403	42,704	-	42,704
Investment income, net	809,264	-	809,264	695,386	-	695,386
Other income	61,867	-	61,867	101,661	-	101,661
(Loss) gain on beneficial interest in charitable remainder trust	-	(12,128)	(12,128)	-	46,917	46,917
Gain on beneficial interest in perpetual trusts	-	187,312	187,312	-	163,349	163,349
Loss on uncollectible promises to give	-	-	-	(55,958)	(304,200)	(360,158)
Total revenue and other income	3,362,913	175,184	3,538,097	3,652,573	(93,934)	3,558,639
Net assets released from restrictions						
Satisfaction of donor restrictions	153,799	(153,799)	-	2,277,139	(2,277,139)	-
Total revenue and support	10,935,411	1,078,740	12,014,151	13,450,213	(2,199,160)	11,251,053
Expenses						
Program services	6,569,499	-	6,569,499	7,469,589	-	7,469,589
General and administrative	649,742	-	649,742	646,907	-	646,907
Revenue Generating Activities-Thrift Store	2,457,171	-	2,457,171	2,391,845	-	2,391,845
Fundraising	855,897	-	855,897	1,066,035	-	1,066,035
Total functional expenses	10,532,309	-	10,532,309	11,574,376	-	11,574,376
Special events - costs of direct donor benefits	-	-	-	23,337	-	23,337
Total expenses	10,532,309	-	10,532,309	11,597,713	-	11,597,713
Change in net assets	403,102	1,078,740	1,481,842	1,852,500	(2,199,160)	(346,660)
Net assets, beginning of year	22,106,218	4,392,454	26,498,672	20,253,718	6,591,614	26,845,332
Net assets, end of year	\$ 22,509,320	\$ 5,471,194	\$ 27,980,514	\$ 22,106,218	\$ 4,392,454	\$ 26,498,672

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2025

	Animal Shelter	Adoptions	Veterinary Clinic	Education and Outreach	Total Program Services	Administrative	Revenue Generating Fund-raising Activities- Thrift Store	Fund-raising	Total
Salaries and wages	\$ 1,437,776	\$ 450,883	\$ 1,209,422	\$ 316,828	\$ 3,414,909	\$ 269,740	\$ 734,039	\$ 392,957	\$ 4,811,645
Employee benefits	134,964	28,663	89,028	43,582	296,237	27,210	76,328	28,563	428,338
Payroll taxes	107,710	34,023	90,695	23,605	256,033	20,250	54,789	29,471	360,543
Total personnel	1,680,450	513,569	1,389,145	384,015	3,967,179	317,200	865,156	450,991	5,600,526
Advertising and promotion	16,101	9,836	12,724	4,099	42,760	14,111	3,763	31,396	92,030
Contracted services	282,669	15,934	89,759	55,807	444,169	67,927	20,797	113,059	645,952
Cost of sales	-	63,733	26,576	-	90,309	-	-	18	90,327
Depreciation	236,908	8,361	56,088	92,251	393,608	10,630	87,162	5,001	496,401
Facilities and occupancy	185,097	15,350	49,498	42,781	292,726	7,655	67,078	4,065	371,524
In-kind expenses	81,861	4,413	66,382	7,309	159,965	25,157	1,290,363	10,945	1,486,430
Information technology	12,744	15,209	27,222	7,633	62,808	6,964	7,941	23,764	101,477
Insurance	97,362	8,075	30,544	19,544	155,525	10,173	43,859	5,887	215,444
Interest expense	64,428	9,906	50,916	16,404	141,654	56,464	15,057	24,567	237,742
Other expense	9,420	686	15,470	1,253	26,829	118,469	1,005	3,722	150,025
Supplies	290,827	23,916	375,585	69,283	759,611	14,210	49,943	181,970	1,005,734
Vehicle and travel	29,735	604	706	1,311	32,356	782	5,047	512	38,697
Total functional expenses	<u>\$ 2,987,602</u>	<u>\$ 689,592</u>	<u>\$ 2,190,615</u>	<u>\$ 701,690</u>	<u>\$ 6,569,499</u>	<u>\$ 649,742</u>	<u>\$ 2,457,171</u>	<u>\$ 855,897</u>	<u>\$ 10,532,309</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	Revenue Generating Fund-raising Activities-Thrift Store	Fund-raising	Total
Salaries and wages	\$ 1,457,389	\$ 588,038	\$ 1,376,665	\$ 378,843	\$ 3,800,935	\$ 259,095	\$ 692,543	\$ 291,917	\$ 5,044,490
Employee benefits	124,688	36,033	88,367	43,504	292,592	16,161	54,304	18,053	381,110
Payroll taxes	109,161	44,385	104,619	28,656	286,821	19,572	52,221	22,044	380,658
Total personnel	1,691,238	668,456	1,569,651	451,003	4,380,348	294,828	799,068	332,014	5,806,258
Advertising and promotion	16,524	4,673	13,637	8,645	43,479	12,306	5,023	106,563	167,371
Contracted services	443,878	23,192	129,276	85,065	681,411	116,053	23,667	198,982	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	84,380	4,685	447,750
Facilities and occupancy	178,806	29,221	51,854	45,462	305,343	25,603	61,191	10,824	402,961
In-kind expenses	99,839	9,207	101,661	15,641	226,348	58,006	1,314,964	24,608	1,623,926
Information technology	39,427	22,122	41,711	11,485	114,745	23,858	8,451	55,578	202,632
Insurance	86,093	10,855	28,888	17,703	143,539	6,568	32,453	4,712	187,272
Interest expense	40,883	6,404	32,660	10,861	90,808	40,345	5,892	16,650	153,695
Other expense	29,374	1,149	7,748	1,638	39,909	41,973	593	7,294	89,769
Supplies	342,097	33,098	436,068	39,366	850,629	14,470	51,098	299,147	1,215,344
Vehicle and travel	60,424	12,137	4,930	5,999	83,490	2,676	5,065	4,688	95,919
Total functional expenses	<u>\$ 3,247,074</u>	<u>\$ 942,048</u>	<u>\$ 2,520,319</u>	<u>\$ 760,148</u>	<u>\$ 7,469,589</u>	<u>\$ 646,907</u>	<u>\$ 2,391,845</u>	<u>\$ 1,066,035</u>	<u>\$ 11,574,376</u>

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2025	2024
Cash Flows from Operating Activities		
Change in net assets	\$ 1,481,842	\$ (346,660)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	496,401	447,750
Interest expense to amortize debt issuance costs	1,904	-
Loss on uncollectible promises to give	-	360,158
Net realized and unrealized gain on investments	(594,039)	(494,693)
Gain on beneficial interest in perpetual trusts	(187,312)	(163,349)
Loss (gain) on beneficial interest in charitable remainder trusts	12,128	(46,917)
Gain on sale of property and equipment	(8,879)	(4,098)
Reduction in carrying amount of right-of-use assets	39,406	42,640
Change in value of beneficial annuity obligations	-	38,794
Changes in operating assets and liabilities		
Accounts and other receivables	(11,700)	158,017
Unconditional promises to give	24,991	38,201
Bequests receivable	469,837	(1,328,357)
Inventory	8,190	62,813
Prepaid expenses and other assets	5,941	101,051
Accounts payable	(73,707)	(38,592)
Accrued payroll and taxes	10,147	(76,854)
Other accrued expenses	91,058	(104,257)
Operating lease liability	(23,660)	(27,501)
Net cash provided by (used in) operating activities	<u>1,742,548</u>	<u>(1,381,854)</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	3,994,694	3,058,877
Purchases of investments	(5,363,101)	(2,783,077)
Distributions from beneficial interest in charitable remainder trusts	10,328	9,614
Proceeds from sale of property and equipment	20,574	4,098
Purchases of property and equipment	(248,236)	(22,254)
Net cash (used in) provided by investing activities	<u>(1,585,741)</u>	<u>267,258</u>
Cash Flows from Financing Activities		
Borrowings on loan management account	421,926	1,588,963
Repayments on loan management account	(3,044,161)	(96,000)
Borrowings on note payable	4,000,000	-
Payment of debt issuance costs	(32,637)	-
Payments on finance lease payable	(537)	(14,898)
Payments on gift annuity obligations	(6,859)	(1,934)
Net cash provided by financing activities	<u>1,337,732</u>	<u>1,476,131</u>
Net change in cash and cash equivalents	1,494,539	361,535
Cash and cash equivalents, beginning of year	<u>1,202,239</u>	<u>840,704</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,696,778</u></u>	<u><u>\$ 1,202,239</u></u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Cash paid for interest	<u>\$ 221,364</u>	<u>\$ 144,003</u>
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - payments on operating leases	<u>\$ 23,659</u>	<u>\$ 27,501</u>
Operating cash outflows - interest payments on finance leases	<u>\$ 20</u>	<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 our community's 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 its three strategic pillars: Animal care and wellbeing, community engagement and support, and lifesaving programs.

Animal Care and Wellbeing

HSSA prides itself on providing the highest level of quality service to the pets in its care. HSSA's medical team ensures each patient receives exceptional and compassionate care from routine vaccinations to ongoing treatment of ailments or injuries. Throughout a pet's stay, special attention is paid to their mental and behavioral health, with HSSA providing a variety of enrichment activities including walks, playgroups, and puzzle toys. HSSA staff and volunteers take their responsibility as caretakers very seriously and are committed to providing individualized, compassionate care every day. Animal Care and Wellbeing encompasses the Veterinary Services programs.

Community Engagement and Support

HSSA is committed to maintain the human animal bond and keeping pets in their homes with the people who love them. This is accomplished through a variety of safety net programs that make veterinary care, food assistance and training and behavior support accessible to people in need. Community Engagement and Support encompasses the Education and Outreach programs.

Lifesaving Programs

HSSA implements proven strategies and best practices for finding new, loving homes for pets in need. Examples of these programs include foster care, rescue partnerships, pathway planning and conversation-based adoptions. Lifesaving Programs encompasses the Animal Shelter and Adoptions programs.

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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

by the donor. Net assets without donor restrictions at June 30, 2025 and 2024 includes \$4,007,738 and \$2,558,474, respectively, 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.

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 was computed using an interest rate of 4.75%. Amortization of the discount was included in contribution revenue. As of June 30, 2025 and 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, 2025 and 2024, the allowance for uncollectible promises to give was \$0 and \$5,200, respectively, and the allowance

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give and Bequests Receivable (continued)

for uncollectible bequests receivable was \$4,790 for both years, 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 two 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.

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, 2025, 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:

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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, 2025, 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.

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 statements 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lessee Leases (continued)

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 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 non-lease 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 non-lease components and associated lease components 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.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contributions (continued)

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
- 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 includes 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Exchange Transactions (continued)

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, 2025 and 2024 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 \$30,403 and \$42,704 for the years ended June 30, 2025 and 2024, respectively.

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 \$30,000 and \$40,738 for the years ended June 30, 2025 and 2024, respectively. Future undiscounted cash flows are expected to be \$30,000 for the years ended June 30, 2026 and 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 years ended June 30, 2025 and 2024 was \$92,030 and \$167,371, respectively.

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 with 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)***Income Tax Status (continued)***

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 years ended June 30, 2025 and 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.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation, with no effect on net assets.

3. Liquidity and Availability of Resources

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

	2025	2024
Cash and cash equivalents	\$ 2,696,778	\$ 1,202,239
Accounts receivable	62,287	50,587
Unconditional promises to give	17,136	42,127
Bequests receivable, current portion	1,007,991	1,445,469
Total financial assets	3,784,192	2,740,422
Less amounts unavailable for general expenditure without Board approval:		
Cash portion of Board-designated operative reserve	1,287,068	483,066
Cash held in investment accounts	267,769	316,001
Total financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,229,355</u>	\$ <u>1,941,355</u>

NOTES TO FINANCIAL STATEMENTS

Liquidity and Availability of Resources (continued)

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 \$4,007,738 and \$2,558,474 as of June 30, 2025 and 2024, respectively, should current operations not provide sufficient funds.

4. Investments

Investments are stated at fair value and consist of the following as of June 30:

	2025	2024
Mutual funds	\$ 4,272,728	\$ 3,801,823
Common stocks	1,939,887	2,044,360
Corporate and government bonds	3,024,986	1,431,462
Community Foundation of Southern Arizona (CFSA)	27,007	24,517
Total investments	<u>\$ 9,264,608</u>	<u>\$ 7,302,162</u>

Investment income, net, related to the Organization's investments, consists of the following for the years ended June 30:

	2025	2024
Interest and dividend income	\$ 269,432	\$ 250,881
Realized and unrealized gain on investments, net	594,039	494,693
Investment fees	(54,207)	(50,188)
Total investment income, net	<u>\$ 809,264</u>	<u>\$ 695,386</u>

5. 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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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.

The investments held at the CFSA are categorized as Level 3 due to the lack of a market in which the Organization's units of participation in CFSA pooled investments could be bought or sold. The Organization measures the fair value of its beneficial interest by taking its proportionate share of the fair value of the underlying assets, which are primarily mutual funds.

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 is measured using the fair value of the underlying assets (net asset value).

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2025:

Description	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 4,272,728	\$ 4,272,728	\$ -	\$ -
Common stocks (a)	1,939,887	1,939,887	-	-
Corporate and government bonds	3,024,986	3,024,986	-	-
CFSA	27,007	-	-	27,007
	<u>9,264,608</u>	<u>9,237,601</u>	<u>-</u>	<u>27,007</u>
Beneficial interest in perpetual trusts	3,694,796	-	3,694,796	-
Beneficial interest in charitable remainder trusts	433,344	-	433,344	-
Total Investments	<u>\$ 13,392,748</u>	<u>\$ 9,237,601</u>	<u>\$ 4,128,140</u>	<u>\$ 27,007</u>

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2024:

Description	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 3,801,823	\$ 3,801,823	\$ -	\$ -
Common stocks (a)	2,044,360	2,044,360	-	-
Corporate and government bonds	1,431,462	1,431,462	-	-
CFSAs	24,517	-	-	24,517
	<u>7,302,162</u>	<u>7,277,645</u>	<u>-</u>	<u>24,517</u>
Beneficial interest in perpetual trusts	3,507,484	-	3,507,484	-
Beneficial interest in charitable remainder trusts	455,800	-	455,800	-
Total Investments	<u>\$ 11,265,446</u>	<u>\$ 7,277,645</u>	<u>\$ 3,963,284</u>	<u>\$ 24,517</u>

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

For the years ended June 30, 2025 and 2024, the change in the Level 3 CFSAs investments measured at fair value were comprised of investment gains of \$2,842 and \$2,846, net of investment fees of \$352 and \$286, respectively.

6. 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 \$1,530,090 and \$1,999,927 as of June 30, 2025 and 2024, respectively. 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, 2025 and 2024, the allowance for uncollectible bequests receivable was \$4,790, respectively.

HSSA is the sole income beneficiary of one perpetual charitable trust and a 1.5% income beneficiary of another perpetual trust. Both 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 \$3,694,796 and \$3,507,484 as of June 30, 2025 and 2024, respectively.

NOTES TO FINANCIAL STATEMENTS

Trusts, Bequests and Memorials (continued)

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 \$433,344 and \$455,800 as of June 30, 2025 and 2024, respectively.

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, 2025 and 2024, the gift annuity agreements were revalued at \$45,000, respectively, and discounted at 6%. The beneficiary obligation liability under these agreements as of June 30, 2025 and 2024 was \$31,935 and \$38,794, respectively.

7. Property and Equipment

Property and equipment, net consist of the following as of June 30:

	2025	2024
Land	\$ 1,986,394	\$ 1,986,394
Buildings and improvements	13,233,197	13,118,399
Furniture, fixtures and equipment	1,775,444	1,727,984
Vehicles	335,171	346,187
Construction in progress	16,338	7,356
Total property and equipment	17,346,544	17,186,320
Less accumulated depreciation	(2,976,777)	(2,556,693)
Property and equipment, net	\$ 14,369,767	\$ 14,629,627

8. 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 as of June 30, 2025 based on the daily SOFR (4.45%), plus a credit spread adjustment as determined by the lender, and as of June 30, 2024 based on the one-month LIBOR (7.133%), which resets weekly, plus a spread as determined by the loan value of the pledged collateral at the time the LMA account is approved, respectively. 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 of the LMA was \$0 and \$2,622,235 as of June 30, 2025 and 2024, respectively.

NOTES TO FINANCIAL STATEMENTS

9. Long-Term Debt

A summary of long-term debt is as follows as of June 30:

	<u>2025</u>	<u>2024</u>
Promissory note – Interest of 6.5% per annum, 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. Matures December 1, 2034. Collateralized by a Deed of Trust.	\$ 4,000,000	\$ -
	4,000,000	-
Less unamortized debt issuance costs	(30,733)	-
Less current maturities	-	-
Long-term debt	<u>\$ 3,969,267</u>	<u>\$ -</u>

Future aggregate principal maturities of long-term debt are as follows as of June 30:

<u>Year Ending</u>	<u>Amount</u>
2026	\$ -
2027	19,416
2028	45,249
2029	49,000
2030	52,992
Thereafter	3,833,343
	<u>\$ 4,000,000</u>

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 leased 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 years ending June 30:

	<u>2025</u>	<u>2024</u>
Operating lease cost	\$ 25,574	\$ 30,209
Finance lease cost – amortization of ROU assets	-	6,725
Finance lease cost – interest on lease liabilities	20	366
Total lease cost	<u>\$ 25,594</u>	<u>\$ 37,300</u>

Supplemental balance sheet information related to leases is as follows as of June 30:

	<u>2025</u>	<u>2024</u>
Operating lease:		
Operating lease, right-of-use assets	\$ <u>105,792</u>	\$ <u>145,198</u>
Operating lease liability, current	\$ 19,096	\$ 23,659
Operating lease liability, non-current	<u>35,564</u>	<u>54,661</u>
Total operating lease liabilities	<u>\$ 54,660</u>	<u>\$ 78,320</u>

	<u>2025</u>	<u>2024</u>
Finance lease:		
Equipment	\$ 26,619	\$ 26,619
Accumulated amortization	<u>(26,619)</u>	<u>(26,619)</u>
Finance lease, right-of-use assets, net	<u>\$ -</u>	<u>\$ -</u>
Finance lease liability, current	\$ 412	\$ 537
Finance lease liability, non-current	<u>-</u>	<u>412</u>
Total finance lease liability	<u>\$ 412</u>	<u>\$ 949</u>

Weighted-average remaining lease term:

Operating lease	2.93 years	3.68 years
Finance lease	0.75 years	1.75 years

Weighted-average discount rate:

Operating lease	2.69%	2.78%
Finance lease	2.78%	2.78%

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, 2025:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2026	\$ 20,326	\$ 417
2027	18,452	-
2028	16,734	-
2029	1,394	-
2030	-	-
Total lease payments	56,906	417
Less imputed interest	(2,246)	(5)
Total present value of lease liabilities	54,660	412
Less current portion	(19,096)	(412)
Long-term portion	\$ 35,564	\$ -

11. Net Assets with Donor Restrictions

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

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose:		
Capital improvement fund	\$ 121,248	\$ 121,248
Cruelty	27,519	26,766
Education fund	-	4,705
Food	88,626	47,567
One Health	-	5,172
Other	74,043	6,113
Rescue fund	12,937	12,937
Spay and neuter fund	27,325	38,928
Sponsored adoptions	15,793	18,927
Wellness program	47,986	54,709
	<u>415,477</u>	<u>337,072</u>
Subject to the passage of time:		
Beneficial interest in charitable remainder trusts	433,344	455,800
Endowments:		
Not subject to spending policy or appropriation:		
Original endowment gifts	927,577	92,098
Beneficial interest in perpetual trusts	3,694,796	3,507,484
Total	<u>\$ 5,471,194</u>	<u>\$ 4,392,454</u>

NOTES TO FINANCIAL STATEMENTS

12. Endowment Funds

Endowments

HSSA's endowment funds consist of three individual funds established by donors and with a combined balance of \$927,577 and \$92,098 as of June 30, 2025 and 2024, respectively. 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 6. 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, 2025 and 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 from 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 years ended June 30, 2025 and 2024, there was \$24,852 and \$9,730, including \$12,589 and \$3,581 of investment income, net of fees, and \$12,263 and \$6,149 of net appreciation, respectively, in endowment earnings which were appropriated by HSSA's Board of Directors for expenditure. As of June 30, 2025 and 2024, there were no endowment earnings bearing donor restrictions.

13. Special Events

HSSA's special events during the year ended June 30, 2025 consists of:

	Revenue	Expenses	Net
Raffles other	\$ 4,950	\$ -	\$ 4,950
Total special events	\$ 4,950	\$ -	\$ 4,950

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.

NOTES TO FINANCIAL STATEMENTS

14. Gifts In-Kind Goods and Services

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

	2025	2024
Professional Services	\$ 111,158	\$ 225,132
Operating supplies and materials	91,617	100,480
In-kind thrift shop donations	1,291,854	1,319,396
	<u>\$ 1,494,629</u>	<u>\$ 1,645,008</u>

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

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 utilized for the following activities during the years ended June 30:

	2025	2024
Program Services	\$ 159,965	\$ 226,348
Fund-raising activities	10,945	24,608
Revenue generating activities	1,298,562	1,336,046
Administrative activities	25,157	58,006
	<u>\$ 1,494,629</u>	<u>\$ 1,645,008</u>

15. Thrift Store

Thrift store activity for the year ended June 30, 2025 consists of:

Thrift store revenue, including in-kind of \$1,291,854	\$ 2,595,573
Other expenses, including in-kind expenses of \$1,283,655 and depreciation of \$84,327	<u>(2,314,574)</u>
Total net revenue	<u>\$ 280,999</u>

NOTES TO FINANCIAL STATEMENTS

Thrift Store (continued)

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 expenses of \$1,306,493 and depreciation of \$82,888	(2,303,041)
Total net revenue	<u>\$ 334,797</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 employees' compensation. For the years ended June 30, 2025 and 2024, HSSA contributed \$39,645 and \$43,999, respectively, to the 401(k) plan.

17. Commitments

HSSA is self-insured for state unemployment purposes. Total expense for unemployment for the years ended June 30, 2025 and 2024 was \$14,370 and \$17,384, respectively.

18. Joint Cost Allocations

HSSA sends out newsletters that include information about programs, services, and fundraising events, advertising, and requests for contributions. During the years ended June 30, 2025 and 2024, HSSA incurred joint costs of \$26,750 and \$13,879, respectively, which are not specifically attributable to particular components of the publications. For the year ended June 30, 2025, HSSA allocated \$16,719 to program services not including public education and \$10,031 to fund-raising. For the year ended June 30, 2024, HSSA allocated \$11,103 to program services not including public education and \$2,776 to fund-raising.

19. Concentrations of Credit and Other Risks

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, 2025 and 2024, HSSA had approximately \$925,000 and \$236,000, respectively 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, 2025 and 2024, HSSA had \$9,282,779 and \$6,802,162, respectively, in excess of SIPC insured limits.

NOTES TO FINANCIAL STATEMENTS

Concentrations of Credit and Other Risks (continued)

Litigation

The Organization was a defendant in a case that is in the Pima County Superior Court. The plaintiff alleged injuries from a bite from a foster dog. Damages sought included general and special damages, costs, and interest. The Organization denied liability and contested the allegations and asserted appropriate defenses consistent with Arizona law while also seeking early settlement. There is limited liability insurance coverage that will likely cover the plaintiff's medical expenses, which total approximately \$25,000. According to representations from outside counsel, the case was settled on November 6, 2025 for \$115,000. As of June 30, 2025, a contingent liability for \$115,000 has been recorded and is included in other accrued expenses and other expenses in the accompanying financial statements.

20. Subsequent Events

HSSA evaluated subsequent events through November 18, 2025, which represents the date the financial statements were available to be issued and concluded that no additional disclosures are required.