

Humane Heroes, Inc.
Financial Statements and
Independent Auditors' Report
December 31, 2020

Humane Heroes, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Humane Heroes, Inc.

Opinion

We have audited the accompanying financial statements of Humane Heroes, Inc. (a Texas nonprofit corporation), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Heroes, Inc. as of December 31, 2020, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humane Heroes, Inc. 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 Humane Heroes, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

A handwritten signature in black ink that reads "Jonathan Jack, CPA". The signature is written in a cursive, flowing style.

Austin, Texas
June 7, 2021

FINANCIAL STATEMENTS

Humane Heroes, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2020

ASSETS

| | | |
|---------------------------|----|------------------|
| Cash and cash equivalents | \$ | 535,456 |
| Accounts receivable | | 5,040 |
| Other assets | | 1,013 |
| Property and equipment | | <u>998,700</u> |
| Total assets | \$ | <u>1,540,209</u> |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------------|----|------------------|
| Liabilities | | |
| Accounts payable and accrued expenses | \$ | 55,175 |
| Notes payable | | <u>232,956</u> |
| Total liabilities | | <u>288,131</u> |
| Net assets | | |
| Without donor restrictions | | 1,252,078 |
| With donor restrictions | | <u>-</u> |
| Total net assets | | <u>1,252,078</u> |
| Total liabilities and net assets | \$ | <u>1,540,209</u> |

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

Humane Heroes, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|---------------------|
| Revenues | | | |
| Grants and contributions | \$ 1,091,823 | \$ - | \$ 1,091,823 |
| Adoption fees | 488,373 | - | 488,373 |
| Medical services and vaccinations | 456,543 | - | 456,543 |
| Perpetual easement sale | 167,345 | - | 167,345 |
| Paycheck Protection Program grant | 164,000 | - | 164,000 |
| Other revenues | 103,052 | - | 103,052 |
| Total revenues | 2,471,136 | - | 2,471,136 |
| Net assets released from restrictions | - | - | - |
| Total revenues and other support | 2,471,136 | - | 2,471,136 |
| Expenses | | | |
| Program services | 1,429,608 | - | 1,429,608 |
| General and administrative | 362,402 | - | 362,402 |
| Fundraising | 206,167 | - | 206,167 |
| Total expenses | 1,998,177 | - | 1,998,177 |
| Change in net assets | 472,959 | - | 472,959 |
| Net assets at beginning of year | 779,119 | - | 779,119 |
| Net assets at end of year | <u>\$ 1,252,078</u> | <u>\$ -</u> | <u>\$ 1,252,078</u> |

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

Humane Heroes, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2020

| | Program Services | General and Administrative | Fundraising | Total |
|---------------------------|---------------------|-------------------------------|-------------------|---------------------|
| Personnel | \$ 809,866 | \$ 196,894 | \$ 105,883 | \$ 1,112,643 |
| Medical supplies | 175,681 | - | - | 175,681 |
| Medical services | 141,292 | - | - | 141,292 |
| Occupancy | 69,917 | 16,288 | 4,638 | 90,843 |
| Professional fees | 550 | 17,462 | 49,551 | 67,563 |
| Vaccines and medications | 67,125 | - | - | 67,125 |
| Depreciation | 40,112 | 9,752 | 5,244 | 55,108 |
| Supplies | 46,717 | 2,462 | 681 | 49,860 |
| Bank and credit card fees | - | 38,429 | - | 38,429 |
| Insurance | 2,346 | 26,032 | - | 28,378 |
| IT expenses | 2,327 | 7,454 | 10,915 | 20,696 |
| Transportation | 15,231 | 1,734 | 1,099 | 18,064 |
| Telecommunications | 6,898 | 6,485 | 1,337 | 14,720 |
| Pet food | 14,394 | - | - | 14,394 |
| Interest | 8,812 | 2,142 | 1,152 | 12,106 |
| Other expenses | 28,340 | 37,268 | 25,667 | 91,275 |
| Total expenses | <u>\$ 1,429,608</u> | <u>\$ 362,402</u> | <u>\$ 206,167</u> | <u>\$ 1,998,177</u> |

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

Humane Heroes, Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

| | |
|--|-------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 472,959 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 55,108 |
| Decrease in accounts receivables | 20,494 |
| Decrease in other assets | 10,269 |
| Decrease in accounts payable and accrued expenses | <u>(31,536)</u> |
| Net cash provided by operating activities | <u>527,294</u> |
| Cash flows from investing activities: | |
| Purchases of property and equipment | <u>(213,866)</u> |
| Net cash used by investing activities | <u>(213,866)</u> |
| Cash flows from financing activities: | |
| Draws on line of credit | 70,000 |
| Principal payments on line of credit | (70,000) |
| Proceeds from notes payable | 47,999 |
| Principal payments on notes payable | <u>(45,514)</u> |
| Net cash provided by financing activities | <u>2,485</u> |
| Net increase in cash and cash equivalents | 315,913 |
| Cash and cash equivalents at beginning of year | <u>219,543</u> |
| Cash and cash equivalents at end of year | <u>\$ 535,456</u> |
| Amount paid during the year for: | |
| Income taxes | <u>\$ -</u> |
| Interest | <u>\$ 12,106</u> |

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

NOTES TO FINANCIAL STATEMENTS

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

Humane Heroes, Inc. (Organization) is a Texas nonprofit corporation. The Organization's mission is to save the lives of adoptable dogs and cats from shelters throughout Texas that are often forced to euthanize for space, to decrease overpopulation of animals through low-cost veterinary services, and to enhance the lives of pets through educational resources for the community. The Organization operates dog and cat adoption centers in Leander (Greater Austin Metropolitan area) and Killeen, Texas. Funding for the Organization is primarily received through donations, pet adoption fees, and modest fees for medical services.

2. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

3. Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor imposed stipulations.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

4. Cash and Cash Equivalents

The Organization classifies as cash and cash equivalents all checking, savings, and money market accounts and all highly liquid investments with initial maturities of three months or less.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Property and Equipment

Acquisitions of property and equipment are capitalized at cost, if purchased, or fair market value on the date of donation, if received as a gift. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, generally five to ten years for furniture and equipment and fifteen to thirty-nine years for buildings and improvements. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of restrictions when the assets are placed into service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

6. Revenue Recognition

Contributions received are recorded as increases in net assets without donor restrictions or as increases in net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. As purpose or time restrictions are satisfied, net assets are reclassified to net assets without donor restrictions. The Organization's policy is to report support with restrictions satisfied in the year of receipt as contributions without restrictions.

The Organization considers the forgivable loan it received under the U.S. Small Business Administration's Paycheck Protection Program (PPP) to be a conditional grant. The Organization substantially met the conditions of the PPP grant during the year ended December 31, 2020 and recognized grant revenue during the year.

Adoption fees are recognized upon placement with an adopting family, at which time payment is received.

7. Functional Expenses

Expenses are categorized by function as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Estimates

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

NOTE B - TAX EXEMPT STATUS

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Organization is further classified as a public charity described in Section 170(b)(1)(A)(vi). No provision for federal income tax is reported in these financial statements.

NOTE C - CONCENTRATION

All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, are insured by the FDIC up to the maximum deposit insurance amount (\$250,000). The Organization's uninsured cash balances totaled approximately \$248,000 at December 31, 2020.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31, 2020:

| | | |
|-------------------------------|----|------------------|
| Buildings and improvements | \$ | 956,739 |
| Land | | 232,631 |
| Furniture and equipment | | 219,402 |
| Vehicles | | <u>132,893</u> |
| | | 1,541,665 |
| Less accumulated depreciation | | <u>(542,965)</u> |
| | \$ | <u>998,700</u> |

Depreciation expense totaled \$55,108 for the year ended December 31, 2020.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020

NOTE E - NOTES PAYABLE

In August 2014, the Organization executed a \$205,000 note payable with a bank. The loan is secured by certain real property owned by the Organization. In August 2019, the Organization extended the maturity date of the note. Monthly payments of \$1,799 are due through September 2024, at which time all outstanding principal and interest is due. The note accrues interest at 4.6%. The outstanding balance at December 31, 2020 was \$155,434.

In May 2018, the Organization executed a \$44,561 unsecured note payable with a bank. Monthly payments of \$866 are due through May 2023, at which time all outstanding principal and interest are due. The note accrues interest at 6.1%. The outstanding balance at December 31, 2020 was \$23,260.

In April 2019, the Organization executed a \$18,149 note payable with a bank to purchase a vehicle. The note is secured by the vehicle. Monthly payments of principal and interest are due through April 2024. The note accrues interest at 3.99%. The outstanding balance at December 31, 2020 was \$11,795.

In April 2020, the Organization executed a \$17,504 note payable with a bank to purchase a vehicle. The note is secured by the vehicle. Monthly payments of interest and principal are due through May 2024. The note accrues interest at 3.55%. The outstanding balance at December 31, 2020 was \$15,151.

In July 2020, the Organization executed a \$30,495 note payable with a bank to purchase a vehicle. The note is secured by the vehicle. Monthly payments of principal and interest are due through July 2024. The note accrues interest at 3.5%. The outstanding balance at December 31, 2020 was \$27,316.

At December 31, 2020, principal payments were due as follows:

| <u>Years ending December 31,</u> | <u>Principal Payments</u> |
|--------------------------------------|-------------------------------|
| 2021 | \$ 39,048 |
| 2022 | 40,876 |
| 2023 | 36,596 |
| 2024 | <u>116,436</u> |
| | <u>\$ 232,956</u> |

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020

NOTE F - LINE OF CREDIT

The Organization has a \$72,000 open line of credit with a bank. The Organization did not have any outstanding balances on the line of credit at December 31, 2020.

NOTE G - RETIREMENT PLAN

In 2019, the Organization established the defined contribution Texas Humane Heroes 401(k) Plan for the benefit of its employees. The Organization matches participant contributions up to 4% of eligible compensation. Employees are fully vested in employer contributions after 3 years of service. Retirement expense totaled \$14,760 for the year ended December 31, 2020.

NOTE H - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The following reflects the Organization's financial assets, reduced by amounts not available for general use within one year because of donor-imposed restrictions, as of December 31, 2020:

| | | |
|---|----|-----------------------|
| Cash and cash equivalents | \$ | 535,456 |
| Accounts receivable | | <u>5,040</u> |
| Total financial assets | | 540,496 |
| Less donor imposed restrictions: | | <u>-</u> |
| Financial assets available to meet cash needs for general expenditures within one year | \$ | <u><u>540,496</u></u> |

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020

NOTE I - PRIOR PERIOD ADJUSTMENT

2019 balances have been adjusted to remove property and equipment balances that management has determined were disposed of in prior years. Net assets as of December 31, 2019 have been restated as follows:

| | <u>Beginning net assets</u> |
|------------------------|---------------------------------|
| As previously reported | \$ 967,923 |
| Restatement | <u>(188,804)</u> |
| As restated | <u><u>\$ 779,119</u></u> |

NOTE J - SUBSEQUENT EVENTS

In May 2021, the Organization sold approximately 9 acres of its land in Bell County for a sales price of \$285,000.

Subsequent events have been evaluated through June 7, 2021, the date the financial statements were available to be issued.