

**Humane Heroes, Inc.**  
Financial Statements and  
Independent Auditors' Report  
December 31, 2022 and 2021

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 statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humane Heroes, Inc. 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 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 "DUNAGAN JACK LLC". The signature is stylized with a large, sweeping initial 'D' and 'J'.

Austin, Texas  
June 2, 2023

## **FINANCIAL STATEMENTS**

Humane Heroes, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,551,798	\$ 469,127
Investments	9,330	6,077
Accounts receivable	36,400	6,117
Grants and contributions receivable	621,858	575,000
Other assets	-	812
Property and equipment	<u>1,608,069</u>	<u>1,088,041</u>
Total assets	<u>\$ 3,827,455</u>	<u>\$ 2,145,174</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>\$ 70,193</u>	<u>\$ 67,051</u>
Total liabilities	<u>70,193</u>	<u>67,051</u>
<b>Net assets</b>		
Without donor restrictions	2,687,918	1,503,123
With donor restrictions	<u>1,069,344</u>	<u>575,000</u>
Total net assets	<u>3,757,262</u>	<u>2,078,123</u>
Total liabilities and net assets	<u>\$ 3,827,455</u>	<u>\$ 2,145,174</u>

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

Humane Heroes, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Grants and contributions	\$ 2,260,923	\$ 569,344	\$ 2,830,267
Medical services and vaccinations	910,390	-	910,390
Adoption fees	453,768	-	453,768
Other revenues	54,782	-	54,782
Net assets released from restrictions	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
Total revenues	3,754,863	494,344	4,249,207
<b>Expenses</b>			
Program services	1,874,654	-	1,874,654
General and administrative	451,141	-	451,141
Fundraising	<u>244,273</u>	<u>-</u>	<u>244,273</u>
Total expenses	<u>2,570,068</u>	<u>-</u>	<u>2,570,068</u>
Change in net assets	1,184,795	494,344	1,679,139
Net assets at beginning of year	<u>1,503,123</u>	<u>575,000</u>	<u>2,078,123</u>
Net assets at end of year	<u>\$ 2,687,918</u>	<u>\$ 1,069,344</u>	<u>\$ 3,757,262</u>

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

Humane Heroes, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Grants and contributions	\$ 1,159,110	\$ 575,000	\$ 1,734,110
Medical services and vaccinations	721,833	-	721,833
Adoption fees	533,873	-	533,873
Gain on sale of land	178,940	-	178,940
Other revenues	120,967	-	120,967
Total revenues	2,714,723	575,000	3,289,723
Expenses			
Program services	1,877,710	-	1,877,710
General and administrative	403,314	-	403,314
Fundraising	182,654	-	182,654
Total expenses	2,463,678	-	2,463,678
Change in net assets	251,045	575,000	826,045
Net assets at beginning of year	1,252,078	-	1,252,078
Net assets at end of year	\$ 1,503,123	\$ 575,000	\$ 2,078,123

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

Humane Heroes, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 1,294,060	\$ 276,001	\$ 151,122	\$ 1,721,183
Medical supplies	211,108	-	-	211,108
Occupancy	71,638	11,500	9,655	92,793
Depreciation	55,460	11,829	6,477	73,766
Vaccines and medications	60,771	-	-	60,771
Professional fees	216	12,592	39,937	52,745
Bank and credit card fees	-	47,099	-	47,099
Supplies	44,047	481	126	44,654
Insurance	-	39,550	-	39,550
Medical services	37,589	-	-	37,589
Transportation	31,404	4,894	431	36,729
IT expenses	6,880	4,712	12,493	24,085
Telecommunications	10,546	8,983	2,198	21,727
Pet food	13,976	-	-	13,976
Other expenses	36,959	33,500	21,834	92,293
Total expenses	<u>\$ 1,874,654</u>	<u>\$ 451,141</u>	<u>\$ 244,273</u>	<u>\$ 2,570,068</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, 2021

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 1,056,818	\$ 234,173	\$ 120,407	\$ 1,411,398
Medical supplies	259,965	-	-	259,965
Medical services	170,013	-	-	170,013
Occupancy	91,447	10,438	5,687	107,572
Vaccines and medications	74,489	-	-	74,489
Depreciation	50,964	11,293	5,806	68,063
Supplies	55,048	487	398	55,933
Bank and credit card fees	-	43,323	-	43,323
Insurance	-	35,916	-	35,916
IT expenses	6,650	10,034	12,524	29,208
Transportation	21,441	2,507	375	24,323
Professional fees	-	23,841	-	23,841
Telecommunications	10,751	7,861	1,944	20,556
Pet food	18,051	-	-	18,051
Interest	5,365	1,189	611	7,165
Other expenses	56,708	22,252	34,902	113,862
Total expenses	<u>\$ 1,877,710</u>	<u>\$ 403,314</u>	<u>\$ 182,654</u>	<u>\$ 2,463,678</u>

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

Humane Heroes, Inc.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,679,139	\$ 826,045
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gains) losses on investments	9,759	-
Donated securities	(310,180)	-
Gain on sale of land	-	(178,940)
Depreciation	73,766	68,063
Increase in accounts receivable	(30,283)	(1,077)
Increase in grants and contributions receivable	(46,858)	(575,000)
Decrease (increase) in other assets	812	(5,876)
Increase in accounts payable and accrued expenses	3,142	11,876
Net cash provided by operating activities	<u>1,379,297</u>	<u>145,091</u>
Cash flows from investing activities:		
Proceeds from sales of securities	297,168	-
Proceeds from sale of land	-	265,346
Purchases of property and equipment	<u>(593,794)</u>	<u>(243,810)</u>
Net cash (used) provided by investing activities	<u>(296,626)</u>	<u>21,536</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>-</u>	<u>(232,956)</u>
Net cash used by financing activities	<u>-</u>	<u>(232,956)</u>
Net increase (decrease) in cash and cash equivalents	1,082,671	(66,329)
Cash and cash equivalents at beginning of year	<u>469,127</u>	<u>535,456</u>
Cash and cash equivalents at end of year	<u>\$ 1,551,798</u>	<u>\$ 469,127</u>
Amount paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ 7,165</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, 2022 and 2021

**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 operated 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 Equivalents

The Organization considers short-term, highly-liquid investments with maturities of three months or less on the date of acquisition to be cash equivalents.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

**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. The Organization reports expiration of restrictions related to its capital campaign as related construction costs and expenses are incurred. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

6. Revenue Recognition

Grants and 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 grants and contributions without restrictions.

Medical services and vaccinations revenues are recognized in the periods services are provided. 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.

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.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

**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 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 - GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable comprised the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Payment due in less than one year	\$ 408,858	\$ 575,000
Payment due in one to five years	213,000	-
Payment due in more than five years	-	-
	<u>621,858</u>	<u>575,000</u>
Contributions receivable, gross	621,858	575,000
Less allowance for uncollectible contributions	-	-
Less discount to present value	-	-
	<u>621,858</u>	<u>575,000</u>
Contributions receivable, net	<u>\$ 621,858</u>	<u>\$ 575,000</u>

**NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment comprised the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 1,638,179	\$ 1,044,385
Vehicles, furniture and equipment	508,459	508,459
Land	146,225	146,225
	<u>2,292,863</u>	<u>1,699,069</u>
Less accumulated depreciation	(684,794)	(611,028)
	<u>\$ 1,608,069</u>	<u>\$ 1,088,041</u>

Depreciation expense totaled \$73,766 and \$68,063 for the years ended December 31, 2022 and 2021.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

**NOTE E - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets were donor restricted for the following purposes/periods at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Just Love capital campaign	\$ 881,344	\$ 500,000
2023 sponsorships	138,000	-
For future periods	50,000	-
Preparing animals for adoption	-	75,000
	<u>\$ 1,069,344</u>	<u>\$ 575,000</u>

**NOTE F - CONCENTRATIONS**

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 balance totaled approximately \$808,000 at December 31, 2022.

Grants and contributions recognized during the year ended December 31, 2022 included \$587,511 from an estate bequest.

Grants and contributions recognized during the year ended December 31, 2021 included \$530,000 from one foundation. \$500,000 promised by this foundation was included in the grants and contributions receivable balance at December 31, 2021.

**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 \$26,595 and \$17,452 for the years ended December 31, 2022 and 2021, respectively.

Humane Heroes, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

**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, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 1,551,798	\$ 469,127
Investments	9,330	6,077
Accounts receivable	36,400	6,117
Grants and contributions receivable (due < one year)	408,858	575,000
Total financial assets	2,006,386	1,056,321
Less donor-imposed restrictions:	(856,344)	(575,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,150,042	\$ 481,321

**NOTE I - SUBSEQUENT EVENTS**

In January 2023, the Board voted to shut down the Killeen location. Killeen operations ceased in April 2023. The Killeen property has since been listed for sale.

In May 2023, the Organization executed construction loan agreements with a bank to finance facilities expansion at its Leander location. Financing includes a \$5,000,000 construction loan with a fixed rate of 5.73%. Interest only payments are due monthly, beginning June 12, 2023, for 12 months. Payments of \$31,654 are due monthly, beginning June 12, 2024, until the maturity date of May 12, 2031, when all unpaid principal and interest is due. Financing also includes a line of credit with a limit of approximately \$1,000,000. The line of credit has a fixed interest rate of 5.73%. Interest only payments are due monthly, beginning June 12, 2023, until the maturity date of May 12, 2024, when all unpaid principal and interest is due. Both loans are secured by the Organization’s real property in Leander, Texas.

In June 2023, the Organization began construction of its new Leander facilities, which include a medical clinic, admin building, and cat houses. The guaranteed maximum price for this phase of construction is approximately \$5.6 million.

Subsequent events have been evaluated through June 2, 2023, the date the financial statements were available to be issued.