Operation Kindness

Financial Statements

June 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation Kindness
Carrollton, Texas

Opinion

We have audited the accompanying financial statements of Operation Kindness, which comprise the statements of financial position as of June 30, 2024 and 2023, 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 Operation Kindness as of June 30, 2024 and 2023, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Operation Kindness 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 these 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 Operation Kindness's ability to continue as a going concern within one year after the date that the financial statements are 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 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 Operation Kindness'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 Operation Kindness'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.

Armanino LLP

Armanino[LLP]
Dallas, Texas

January 28, 2025

Operation Kindness
Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
Cash and cash equivalents	$ 1,187,386	$ 942,899
Investments, at fair value	11,900,416	9,923,641
Contributions receivable, net	-	19,618
Government grants receivable	748,277	-
Prepaid expenses and other assets	403,649	226,336
Finance lease right-of-use asset, net	1,054,869	1,174,288
Cash and cash equivalents held for acquisition of property and equipment	143,548	71,426
Property and equipment, net	12,461,946	11,291,075
Endowment investments, at fair value	556,557	-
Total assets	$ 28,456,648	$ 23,649,283
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 438,370	$ 109,364
Accrued expenses and other liabilities	554,388	251,611
Deferred revenue	343,728	27,852
Finance lease liability	1,119,277	1,201,347
Total liabilities	2,455,763	1,590,174
Net assets		
Without donor restrictions	25,224,070	21,667,698
With donor restrictions	776,815	391,411
Total net assets	26,000,885	22,059,109
Total liabilities and net assets	$ 28,456,648	$ 23,649,283

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

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support			
Contributions	$ 4,791,863	$ 4,678,538	$ 9,470,401
Contributions from estate settlements	4,908,736	-	4,908,736
Endowment contributions	-	500,000	500,000
In-kind donations	829,699	-	829,699
Government grants revenue	748,277	-	748,277
Adoption income	819,054	-	819,054
Special events income	779,944	-	779,944
Less: direct benefit to donors	(323,609)	-	(323,609)
Interest and dividends, net	324,345	16,034	340,379
Net realized and unrealized gains on investments	852,695	40,523	893,218
Loss on disposal of property and equipment	(16,260)	-	(16,260)
Other income	634,991	-	634,991
Net assets released from restriction	4,849,691	(4,849,691)	-
Total revenues, gains (losses) and other support	19,199,426	385,404	19,584,830
Functional expenses			
Program	12,428,169	-	12,428,169
Management and general	1,625,546	-	1,625,546
Fundraising	1,589,339	-	1,589,339
Total functional expenses	15,643,054	-	15,643,054
Change in net assets	3,556,372	385,404	3,941,776
Net assets, beginning of year	21,667,698	391,411	22,059,109
Net assets, end of year	$ 25,224,070	$ 776,815	$ 26,000,885

Operation Kindness
Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses) and other support			
Contributions	$ 4,380,999	$ 1,104,313	$ 5,485,312
Contributions from estate settlements	4,025,682	-	4,025,682
Capital campaign contributions	-	4,000	4,000
In-kind donations	331,883	-	331,883
Adoption income	825,609	-	825,609
Special events income	770,046	-	770,046
Less: direct benefit to donors	(262,086)	-	(262,086)
Interest and dividends, net	218,297	-	218,297
Net realized and unrealized gains on investments	756,680	-	756,680
Loss on disposal of property and equipment	(11,846)	-	(11,846)
Other income	534,856	-	534,856
Net assets released from restriction	1,500,923	(1,500,923)	-
Total revenues, gains (losses) and other support	13,071,043	(392,610)	12,678,433
Functional expenses			
Program	9,112,762	-	9,112,762
Management and general	1,101,721	-	1,101,721
Fundraising	1,256,574	-	1,256,574
Total functional expenses	11,471,057	-	11,471,057
Change in net assets	1,599,986	(392,610)	1,207,376
Net assets, beginning of year	20,067,712	784,021	20,851,733
Net assets, end of year	$ 21,667,698	$ 391,411	$ 22,059,109

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

Operation Kindness
Statement of Functional Expenses
For the Year Ended June 30, 2024

	Program	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Personnel expenses					
Salaries & wages	$ 6,113,733	$ 909,431	$ 710,314	$ -	$ 7,733,478
Employee benefits	1,489,796	183,110	237,541	-	1,910,447
Payroll taxes	488,291	62,178	56,317	-	606,786
Total personnel expenses	8,091,820	1,154,719	1,004,172	-	10,250,711
Non-personnel expenses					
Direct animal care	2,044,766	-	-	-	2,044,766
Occupancy	629,078	21,570	19,355	-	670,003
Professional fees	5,520	369,916	-	-	375,436
Office expenses	54,797	4,731	55,333	-	114,861
Technology	132,793	14,238	36,220	-	183,251
Training conference	163,513	-	-	-	163,513
Bank & credit card fees	24,845	1,127	46,645	-	72,617
Advertising & recruiting	19,550	690	59,250	-	79,490
Insurance	129,671	9,464	5,685	-	144,820
Travel and vehicle expense	240,011	1,818	4,472	-	246,301
Direct event expenses	-	-	-	323,609	323,609
Letter postage & production	-	-	298,010	-	298,010
Other expenses	51,978	30,684	47,279	-	129,941
Depreciation & amortization	839,827	16,589	12,918	-	869,334
Total non-personnel expenses	4,336,349	470,827	585,167	323,609	5,715,952
Less expenses included with revenues on the statement of activities					
Direct event expenses	-	-	-	(323,609)	(323,609)
Total expenses included in the expense section on the accompanying statements of activities	$ 12,428,169	$ 1,625,546	$ 1,589,339	$ -	$ 15,643,054

Operation Kindness
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Personnel expenses					
Salaries & wages	$ 4,931,446	$ 684,320	$ 568,469	$ -	$ 6,184,235
Employee benefits	848,027	70,568	115,399	-	1,035,832
Payroll taxes	405,970	49,256	44,696	-	499,922
Total personnel expenses	6,185,443	804,144	728,564	-	7,719,989
Non-personnel expenses					
Direct animal care	1,541,096	-	-	-	1,541,096
Occupancy	268,827	14,150	22,106	-	305,083
Professional fees	24,320	205,279	2,491	-	230,252
Office expenses	44,699	4,474	36,156	-	85,329
Technology	118,872	12,232	30,883	-	161,987
Bank & credit card fees	17,216	1,499	39,173	-	57,888
Advertising & recruiting	23,365	1,073	59,288	-	83,726
Insurance	78,755	7,507	4,808	-	91,070
Travel and vehicle expense	129,144	2,301	3,738	-	135,183
Direct event expenses	-	-	-	262,086	262,086
Capital campaign	10,677	-	-	-	10,677
Letter postage & production	-	-	277,256	-	277,256
Other expenses	31,883	16,162	18,972	-	67,017
Depreciation & amortization	638,465	32,900	33,139	-	704,504
Total non-personnel expenses	2,927,319	297,577	528,010	262,086	4,013,154
Less expenses included with revenues on the statement of activities:					
Direct event expenses	-	-	-	(262,086)	(262,086)
Total expenses included in the expense section on the accompanying statements of activities	$ 9,112,762	$ 1,101,721	$ 1,256,574	$ -	$ 11,471,057

Operation Kindness
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Change in net assets	$ 3,941,776	$ 1,207,376
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	749,915	684,601
Amortization of finance lease right-of-use asset	119,419	19,903
Imputed interest on finance lease liability	41,796	7,156
Net realized and unrealized gains on investments	(893,218)	(756,680)
Net unrealized gains on investments related to deferred compensation	(2,522)	-
Loss on disposal of property and equipment	16,260	11,846
Contributions revenue restricted for acquisition of property and equipment	(1,826,805)	(194,500)
Contributions revenue restricted for endowment	(500,000)	-
Changes in operating assets and liabilities		
Contributions receivable, net	19,618	(19,618)
Government grants receivable	(748,277)	-
Prepaid expenses and other assets	(177,313)	(85,168)
Accounts payable	270,526	(6,242)
Accrued expenses and other liabilities	302,777	88,143
Deferred revenue	315,876	27,852
Net cash provided by operating activities	1,629,828	984,669
Cash flows from investing activities		
Purchases of investments	(9,673,364)	(20,214,915)
Proceeds from sales of investments	8,035,772	18,448,765
Purchases of property and equipment	(1,941,587)	(547,931)
Proceeds from sale of property and equipment	63,021	-
Net cash used in investing activities	(3,516,158)	(2,314,081)
Cash flows from financing activities		
Cash collected on contributions restricted for acquisition of property and equipment	1,826,805	194,500
Cash collected on contributions restricted for endowment	500,000	-
Payments on finance lease liability	(123,866)	-
Net cash provided by financing activities	2,202,939	194,500
Net increase (decrease) in cash, cash equivalents and cash held for acquisition of property and equipment	316,609	(1,134,912)
Cash, cash equivalents and cash held for acquisition of property and equipment, beginning of year	1,014,325	2,149,237
Cash, cash equivalents and cash held for acquisition of property and equipment, end of year	$ 1,330,934	$ 1,014,325
Cash, cash equivalents and cash held for acquisition of property and equipment consisted of the following:		
Cash and cash equivalents	$ 1,187,386	$ 942,899
Cash and cash equivalents held for acquisition of property and equipment	143,548	71,426
	$ 1,330,934	$ 1,014,325

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

Operation Kindness
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	2024	2023
Supplemental schedule of noncash investing and financing activities		
Property and equipment included in accounts payable	$ 58,480	$ -
Finance lease right-of-use asset obtained in exchange for finance lease liability	$ -	$ 1,194,191

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

1. NATURE OF OPERATIONS

Operation Kindness was incorporated in June 1977 in the state of Texas, for the purpose of providing quality care for homeless or unwanted cats and dogs in a compassionate, no-kill environment until they are adopted into responsible, loving homes, and to be a leader in the community in promoting humane values through education and awareness.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions. The Organization's governing Board of Directors (the "Board") may designate net assets without restrictions for specific purposes.
- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions also include the portion of donor-restricted endowment funds that are not required to be maintained in perpetuity, until such funds are appropriated for expenditure by the Organization. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions 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 assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as transfers between the applicable classes of net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326).* This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of expected credit losses for the remaining estimated life of the financial asset using historical experience, current conditions and reasonable and supportable forecasts.

The Organization adopted the standard effective July 1, 2023. The adoption of this standard had no impact on the Organization's financial statements.

Cash and cash equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short term maturities of those financial instruments.

Cash and cash equivalents held for acquisition of property and equipment represent cash and cash equivalents designated by the Board or restricted by donors for the acquisition of property and equipment in the accompanying statements of financial position.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires the Organization to disclose the fair value of each of its assets and liabilities based on the level of observable inputs. The three levels of the fair value hierarchy are as follows:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* - Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's assumptions and best estimates on available data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

As of June 30, 2023, the Organization held an investment in a partnership within Level 3. The fair value of the investment in the partnership was based on the Organization's ownership percentage of the partnership's net assets at the close of the last business day of the statement period. No Level 3 investments were held as of June 30, 2024.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes the valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

Investments, at fair value

Investments are recorded at fair value. Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses and interest and dividends are classified as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor restriction or by law. Interest and dividends are reported net of investment management fees on the accompanying statements of activities. Cash and cash equivalents designated for purchases of investments are included within the investment balance as presented in the accompanying statements of financial position.

Finance lease right-of-use asset, net

The Organization leases a building to carry out its community initiatives program. The Organization determines if an arrangement is a lease at inception. The finance lease is included in the finance lease right-of-use ("ROU") asset and finance lease liability in the accompanying statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent its obligations to make lease payments arising from the lease. Finance lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For the initial measurement of lease liabilities, the discount rate that the Organization uses is either the rate implicit in the lease, if known, or the risk-free rate with a similar term to the lease. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Organization recognizes interest expense on finance lease liabilities utilizing the effective interest method and includes the imputed interest within occupancy expenses in the accompanying statements of functional expenses. Finance lease ROU assets are amortized to depreciation and amortization expense on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance lease right-of-use asset, net (continued)

Leases with an initial term of 12 months or less are considered short-term leases and are not recorded in the accompanying statements of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. The Organization had no short-term leases as of June 30, 2024 and 2023.

Property and equipment, net

The Organization capitalizes all property and equipment with a cost greater than $3,000 per unit and an estimated useful life in excess of one year. Property and equipment are recorded at cost or, if donated, at the estimated fair value on the date of donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. Maintenance and repairs are charged to expense when incurred. Major improvements are capitalized.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	3 - 39 years
Furniture and equipment	3 - 10 years
Vehicles	2 - 5 years
Software	3 - 5 years

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Organization, using its best estimates and projections, reviews the carrying value of long-lived identifiable assets to be held and used in the future for impairment. No long-lived assets were deemed to be impaired existed as of June 30, 2024 or 2023.

Contributions and contributions receivable, net

Contributions received are reported as net assets with or without donor restrictions, depending upon the presence or absence of donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and contributions receivable, net (continued)

Contributions, including unconditional promises to give, are recognized as revenue in the period the promise is received. Contributions that are promised in one year but are not expected to be collected until after the end of that year, are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. Management has deemed that no allowance for doubtful contributions receivable was necessary at June 30, 2023. There were no contributions receivable as of June 30, 2024.

Contributions from estate settlements represent contributions received from bequests made through wills that have been settled through probate and are considered unconditionally payable to the Organization. The Organization has received indications of gifts in the form of bequests and other planned giving instruments which are revocable during the donors' lifetime and through the settlement of the estate. Due to the uncertain nature of these intentions, the Organization has not recognized an asset or contribution revenue from these gifts.

Capital campaign contributions during the year ended June 30, 2023 represented contributions made by donors in order to help fund the Organization's Build, Save, Love: Creating Hope for Homeless Pets capital campaign to expand and improve the Organization's facilities. There were no capital campaign contributions during the year ended June 30, 2024.

Conditional promises to give are not recognized until they become unconditional; that is, when the barriers on which they depend are substantially overcome, and there is no longer a right of return of the asset or right of release from the obligation. As of June 30, 2024 and 2023, the Organization had approximately $1,600,000 and $800,000, respectively, in conditional promises to give, conditioned upon events being held or meeting defined donor objectives.

Contributed goods and services

During the years ended June 30, 2024 and 2023, the Organization received $265,247 and $245,477, respectively, from items contributed and monetized through an auction. These amounts are reflected within event income in the accompanying statements of activities.

Contributed materials and equipment are reflected as contributions in the accompanying statements of activities at their estimated fair values at the date of receipt.

Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization receives donated services from volunteers in carrying out the Organization's mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Organization recognizes revenue from exchange transactions, primarily adoption income, as the goods or services are provided to the customer. Revenues from special events are recognized when the events are held. Investment income is recognized when earned.

Functional allocation of expenses

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Depreciation and amortization and occupancy expenses have been allocated based on a square footage study of the Organization. Personnel expenses are allocated based on the underlying department of the employees' position.

Income taxes

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization has evaluated its current tax positions and has concluded that as of June 30, 2024 and 2023, the Organization does not have any significant uncertain tax positions for which a reserve would be considered necessary.

Use of estimates

The preparation of the financial statements in accordance 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. Uses of estimates include, but are not limited to, the estimated values of in-kind contributions, the estimated useful lives of property and equipment and the allocation of expenses by function. Actual results could differ from those estimates.

3. LIQUIDITY AND FUNDS AVAILABLE

The Organization monitors its liquidity in order to meet operating needs and other contractual commitments while maintaining sufficient resources to meet donor restrictions placed on contributed financial assets.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

3. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following disclosure describes assets that are available or expected to be available within one year of June 30, 2024 to fund general expenditures and obligations as they become due:

Financial assets:	
Cash and cash equivalents	$ 1,187,386
Investments, at fair value	11,900,416
Cash and cash equivalents held for acquisition of property and equipment	143,548
Endowment investments, at fair value	556,557
	13,787,907
Less amounts unavailable for general expenditure within one year due to:	
Cash and cash equivalents restricted by donors for acquisition of property and equipment	(129,364)
Cash and cash equivalents designated by the Board for acquisition of property and equipment	(14,184)
Other purpose restricted net assets	(90,894)
Donor-restricted endowment funds	(556,557)
	(790,999)
	$ 12,996,908

4. INVESTMENTS, AT FAIR VALUE

A summary of investments, at fair value as of June 30 was as follows:

	2024	2023
Investments, at fair value	$ 11,900,416	$ 9,923,641
Endowment investments, at fair value	556,557	-
	$ 12,456,973	$ 9,923,641

Investments, at fair value consisted of the following:

	2024	2023
Cash and cash equivalents	$ 33,303	$ 1,011,887
Mutual funds	5,662,819	3,274,999
Exchange traded funds	5,905,517	4,655,394
U.S. Treasury notes	855,334	975,875
Investment in partnership	-	5,486
	$ 12,456,973	$ 9,923,641

4. INVESTMENTS, AT FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2024:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	$ 5,662,819	$ -	$ -	$ 5,662,819
Exchange traded funds	5,905,517	-	-	5,905,517
U.S Treasury notes	855,334	-	-	855,334
	$ 12,423,670	$ -	$ -	12,423,670
Cash and cash equivalents				33,303
				$ 12,456,973

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	$ 3,274,999	$ -	$ -	$ 3,274,999
Exchange traded funds	4,655,394	-	-	4,655,394
U.S. Treasury notes	975,875	-	-	975,875
Investment in partnership	-	-	5,486	5,486
	$ 8,906,268	$ -	$ 5,486	8,911,754
Cash and cash equivalents				1,011,887
				$ 9,923,641

During the year ended June 30, 2024, the U.S. Treasury notes were transferred from Level 2 to Level 1 on a retrospective basis after the Organization evaluated their measurement within the fair value hierarchy.

5. FINANCE LEASE

The Organization entered into a finance lease agreement for a facility to carry out its community initiatives program. The lease commencement date was May 1, 2023 with an initial lease term through April 2028 and a five-year option to renew the lease through April 2033. The five-year option is recognized as part of the Organization's finance lease ROU asset and finance lease liability because the Organization is reasonably certain that it will exercise its option to renew the lease.

5. FINANCE LEASE (continued)

Additional information related to the lease is as follows:

	2024	2023
Finance lease costs:		
Amortization of finance lease ROU asset	$ 119,419	$ 19,903
Imputed interest on finance lease liability	41,796	7,156
Total lease costs	$ 161,215	$ 27,059
Other information:		
Cash paid for amounts in the measurement of finance lease liability	123,866	-
Weighted average remaining lease term	8.83 years	9.83 years
Weighted average discount rate	3.59 %	3.59 %

The future maturities of the finance lease liability are as follows:

Year ending June 30,	
2025	$ 127,582
2026	131,410
2027	135,352
2028	141,031
2029	153,354
Thereafter	631,340
	1,320,069
Less: imputed interest	(200,792)
	$ 1,119,277

6. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following:

	2024	2023
Land	$ 213,596	$ 213,596
Buildings and improvements	13,466,773	12,858,447
Furniture and equipment	1,743,639	1,252,772
Vehicles	705,207	351,465
Software	8,075	8,075
Construction in progress	473,930	10,620
	16,611,220	14,694,975
Less: accumulated depreciation	(4,149,274)	(3,403,900)
	$ 12,461,946	$ 11,291,075

Depreciation expense for property and equipment for the years ended June 30, 2024 and 2023, was $749,915 and $684,601, respectively.

7. ENDOWMENT

The Organization's endowment consists of an individual fund established during the year ended June 30, 2024 to support the Organization's animal transportation program. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no funds designated by the Board to function as endowments as of June 30, 2024.

Interpretation of relevant law

The Board has interpreted the State of Texas adopted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board. The remaining portion of the donor-restricted endowment fund that is not to be held in perpetuity is classified as with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

7. ENDOWMENT (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Organization

(7) The investment policies of the Organization

Return objectives and risk parameters

The Organization has adopted investment and spending 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 are diversified, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how investment objectives relate to the spending policy

The Organization has established a policy of appropriating for distribution each year, at the Board's discretion, up to 4% of the trailing twelve-quarter average of the endowment's total asset value. The expectation is that, over time, the total real return (return net of inflation) from investments will exceed the endowment's distribution rate, thus allowing real growth of endowment assets.

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 UPMIFA requires the Organization to be maintained for a perpetual duration. There were no such deficiencies as of June 30, 2024.

7. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2024 was as follows:

	With Donor Restrictions
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	$ 500,000
Unexpended endowment earnings	56,557
	$ 556,557

Changes in endowment net assets for the year ended June 30, 2024 is as follows:

	With Donor Restrictions
Balance, June 30, 2023	$ -
Contributions	500,000
Interest and dividends, net	16,034
Net realized and unrealized gains on investments	40,523
Balance, June 30, 2024	$ 556,557

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2024	2023
Subject to the passage of time:		
Contributions receivable, net	$ -	$ 19,618
Subject to expenditure for specified purpose:		
Technology and capital improvements	129,364	25,632
Other program purpose restrictions	90,894	346,161
	220,258	371,793
Subject to the Organization's spending policy and appropriations: Investments in perpetuity (including amounts above original gift amount of $500,000), the income from which is expendable to support:		
Animal transportation	556,557	-
	$ 776,815	$ 391,411

Net assets released from restriction during the year were as follows:

	2024	2023
Technology and capital improvements	$ 1,723,073	$ 261,040
Shelter and community initiatives	2,500,000	-
Other purpose and time restrictions achieved	626,618	1,239,883
	$ 4,849,691	$ 1,500,923

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

The Board has designated a capital reserve of $14,184 and $45,794 from net assets without donor restrictions as of June 30, 2024 and 2023, respectively.

10. IN-KIND DONATIONS

The Organization received in-kind donations used to provide direct benefits to donors attending the Organization's annual fundraising events.

10. IN-KIND DONATIONS (continued)

In addition to in-kind donations received and monetized during the events, the Organization received and recognized the following in-kind donations:

	2024	2023
Pet food	$ 71,059	$ 257,999
Animal supplies	677,994	72,791
Other supplies	440	1,093
Professional services	80,206	-
	$ 829,699	$ 331,883

All in-kind donations to the Organization for the years ended June 30, 2024 and 2023 were considered without donor restrictions and able to be used by the Organization as determined by management.

The Organization's policy related to in-kind donations is to utilize the assets given to carry out the mission of the Organization. In-kind donations that are utilized by the Organization are reported at fair value at the date of donation. Fair value is determined by the Organization based on the lowest online price for the same item in similar quantities or at the value determined by appraisal or specialist depending on the asset type. In-kind services that are provided to the Organization are valued at the rate of the specialist providing the services.

11. EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit ("ERC"), a refundable tax credit against certain employment taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and was subsequently amended through additional legislation. The tax credit is equal to 50% of the qualified wages, up to $10,000 per employee, that an employer whose business has been financially impacted by COVID-19 pays to employees after March 12, 2020 and before January 1, 2022.

The Organization determined it was eligible to file for the ERC and calculated a total ERC of $748,277 for the wages paid during the period January 1, 2021 through June 30, 2021. As the Organization has substantially met the program’s eligibility conditions, the Organization has recognized government grants revenue as part of the year ended June 30, 2024 on the accompanying statement of activities and government grants receivable as of June 30, 2024 on the accompanying statements of financial position.

11. EMPLOYEE RETENTION TAX CREDIT (continued)

The ERC program is subject to inspection and audit by the Internal Revenue Service ("IRS"). The purpose of such audits is to determine whether entities met eligibility requirements under the program and that funds were used in accordance with guidelines and regulations. While management believes the Organization met the ERC requirements, it is possible that ERC funds recognized could ultimately be disallowed. The ultimate liability, if any, which may result from a governmental audit cannot be reasonably estimated and, accordingly, no provision for the possible disallowance of ERC funds has been recorded on the Organization's financial statements.

12. ACQUISITION OF ASSETS FROM NORTH CENTRAL TEXAS ANIMAL SHELTER COALITION D/B/A TEXAS UNITES

During the year ended June 30, 2024, the Organization acquired the assets of North Central Texas Animal Shelter Coalition d/b/a Texas Unites ("Texas Unites"), a nonprofit organization that provided educational resources to the animal welfare community. The assets acquired, including cash and accounts receivable, were valued at approximately $42,000 and were determined to be immaterial to the financial position and operations of the Organization. No liabilities were assumed as part of the transaction. The transaction was accounted for as an asset acquisition, with the assets acquired recognized as contributions in the statement of activities for the year ended June 30, 2024. Following the transfer of assets, Texas Unites ceased all operations, and its activities were fully integrated into those of the Organization. Texas Unites remained a separate legal entity until its formal dissolution in September 2024.

13. RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) retirement plan (the "403(b) Plan") covering part-time and full-time employees. Employees are eligible to participate in the 403(b) Plan immediately upon employment. The Organization makes a matching contribution of up to 3 percent for participating employees who have been with the Organization for one year. The total contributions to the 403(b) Plan by the Organization were $110,638 and $71,412 for the years ended June 30, 2024 and 2023, respectively.

During the year ended June 30, 2024, the Organization also began sponsoring a 457(b) retirement plan (the "457(b) Plan") for various employees. The Organization provides an annual discretionary contribution to the 457(b) Plan. The Organization contributed $40,000 to the 457(b) Plan during the year ended June 30, 2024.

14. DEFERRED COMPENSATION PLAN

During the year ended June 30, 2024, the Organization established a 457(f) deferred compensation plan (the "457(f) Plan"), which allows eligible employees to defer compensation to future periods. Under the 457(f) Plan, the Organization has obligations to make future payments to eligible employees upon the occurrence of specified events, such as retirement or termination of employment. The Organization’s obligations under the 457(f) Plan are subject to change based on future contributions, withdrawals and the performance of the investments.

14. DEFERRED COMPENSATION PLAN (continued)

As of June 30, 2024, the Organization's obligations associated with the 457(f) Plan were $357,797, which were included within accrued expenses and other liabilities in the accompanying statements of financial position. As of June 30, 2024, the Organization held $28,015 of investments for the 457(f) Plan, which were included within prepaid expenses and other assets in the accompanying statements of financial position.

15. RISKS AND CONCENTRATIONS

Cash and cash equivalents potentially subject the Organization to concentrations of credit risk. The Organization maintains its cash and cash equivalents at institutions with demonstrated financial strength which, at times, exceeds federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization invests in various investment securities. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Contributions represent concentrations of credit risk to the extent they are received from concentrated sources. For the year ended June 30, 2024, two donors provided support to the Organization which equaled approximately 42% of total contributions revenue during the year. For the year ended June 30, 2023, one donor provided support to the Organization which equaled approximately 11% of total contributions revenue during the year.

16. RELATED PARTY TRANSACTIONS

The Organization received contributions, including in-kind donations, totaling approximately $810,000 from Board members during the year ended June 30, 2024.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2025, the date the financial statements were available to be issued.

In September 2024 the Organization received certification by the Secretary of the State of Texas for the termination of the North Central Texas Animal Shelter Coalition d/b/a Texas Unites.

The Organization has determined that no additional subsequent event disclosures were required.