

HUMANE SOCIETY OF SOUTHERN ARIZONA

Audited Financial Statements

For the years ended June 30, 2020 and 2019

HUMANE SOCIETY OF SOUTHERN ARIZONA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Humane Society of Southern Arizona

We have audited the accompanying financial statements of the Humane Society of Southern Arizona (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society of Southern Arizona as of June 30, 2020 and 2019, 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.

LUDWIG KLEWER & RUDNER PLLC

November 24, 2020



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HUMANE SOCIETY OF SOUTHERN ARIZONA

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 1,552,957	\$ 2,708,208
Accounts and other receivables	51,987	89,395
Investments - other	249,217	2,205,779
Unconditional promises to give, capital campaign, current portion	48,615	125,225
Bequests and memorials receivable, net	737,518	670,942
Inventory	150,705	150,415
Prepaid expenses and other assets	94,503	105,511
Total current assets	2,885,502	6,055,475
Unconditional promises to give, capital campaign, non-current portion, net	48,861	33,895
Investments	6,941,599	3,106,698
Beneficial interest in perpetual trusts	3,316,243	3,360,829
Beneficial interest in charitable remainder trust	412,791	424,871
Property and equipment, net	10,501,186	10,496,627
Total assets	\$ 24,106,182	\$ 23,478,395

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 170,981	\$ 150,351
Accrued payroll and taxes	308,353	285,349
Other accrued expenses	93,003	126,181
Capital lease payable, current portion	10,894	14,058
Beneficiary annuity obligations, current portion	7,181	7,509
Total current liabilities	590,412	583,448
Capital lease payable, non-current portion	-	10,894
Beneficiary annuity obligations, non-current portion	12,900	20,157
Total liabilities	603,312	614,499
Net assets:		
Without donor restrictions:		
Expended for property and equipment	10,490,292	10,471,675
Board-designated operating reserve	3,404,484	3,206,885
Available for operations	5,337,396	4,846,542
Total net assets without donor restrictions	19,232,172	18,525,102
With donor restrictions:		
Purpose restrictions	449,566	460,291
Time-restricted for future periods	412,791	424,871
Subject to appropriation and expenditure	-	705
Perpetual in nature	3,408,341	3,452,927
Total net assets with donor restrictions	4,270,698	4,338,794
Total net assets	23,502,870	22,863,896
Total liabilities and net assets	\$ 24,106,182	\$ 23,478,395

See independent auditor's report
and notes to financial statements.

HUMANE SOCIETY OF SOUTHERN ARIZONA

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Support:			
Contributions	\$ 1,440,896	\$ 763,218	\$ 2,204,114
Trusts and bequests	1,903,646	-	1,903,646
Special events	336,915	-	336,915
Grant - Paycheck Protection Program	499,000	-	499,000
Donated supplies and services	402,603	-	402,603
Grants	102,971	87,500	190,471
Merchandise sales, net	66,991	-	66,991
Thrift store, net	39,144	-	39,144
Gain on sale of property and equipment	2,545	-	2,545
Total support	4,794,711	850,718	5,645,429
Revenue and other income:			
Animal services	798,076	-	798,076
Investment income, net	405,403	-	405,403
Loss on beneficial interest in perpetual trusts	-	(44,586)	(44,586)
Loss on beneficial interest in charitable remainder trust	-	(2,971)	(2,971)
Other income	50,610	-	50,610
Total revenue and other income	1,254,089	(47,557)	1,206,532
Net assets released from restrictions:			
Satisfaction of donor restrictions	871,257	(871,257)	-
Total revenue and support	6,920,057	(68,096)	6,851,961
Expenses:			
Program services	5,014,826	-	5,014,826
Administrative	230,505	-	230,505
Fund-raising	801,844	-	801,844
Special events - costs of direct donor benefits	165,812	-	165,812
Total expenses	6,212,987	-	6,212,987
Change in net assets	707,070	(68,096)	638,974
Net assets, beginning of year	18,525,102	4,338,794	22,863,896
Net assets, end of year	\$ 19,232,172	\$ 4,270,698	\$ 23,502,870

See independent auditor's report
and notes to financial statements.

HUMANE SOCIETY OF SOUTHERN ARIZONA

STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Support:			
Trusts and bequests	\$ 3,683,114	\$ -	\$ 3,683,114
Contributions	1,377,656	578,645	1,956,301
Grants	89,789	60,000	149,789
Special events	412,567	-	412,567
Donated supplies and services	282,070	-	282,070
Merchandise sales, net	122,380	-	122,380
Thrift store, net	35,093	-	35,093
Gain on sale of property and equipment	86,248	-	86,248
Total support	6,088,917	638,645	6,727,562
Revenue and other income:			
Animal services	790,791	-	790,791
Investment income, net	362,875	4,159	367,034
Gain on beneficial interest in perpetual trusts	-	10,030	10,030
Gain on beneficial interest in charitable remainder trust	-	6,279	6,279
Other income	63,226	-	63,226
Total revenue and other income	1,216,892	20,468	1,237,360
Net assets released from restrictions:			
Satisfaction of donor restrictions	604,924	(604,924)	-
Total revenue and support	7,910,733	54,189	7,964,922
Expenses:			
Program services	5,165,655	-	5,165,655
Administrative	195,726	-	195,726
Fund-raising	805,127	-	805,127
Special events - costs of direct donor benefits	87,553	-	87,553
Total expenses	6,254,061	-	6,254,061
Change in net assets	1,656,672	54,189	1,710,861
Net assets, beginning of year	16,868,430	4,284,605	21,153,035
Net assets, end of year	\$ 18,525,102	\$ 4,338,794	\$ 22,863,896

See independent auditor's report
and notes to financial statements.

Personnel:

- Salaries and wages
- Employee benefits
- Payroll taxes

Total personnel

Other operating expenses

- Veterinary services and supplies
- Advertising and promotion

Office expenses

- Depreciation
- Occupancy

Professional services

- Auto and travel

Total functional expenses

Total functional expenses

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Program Services

See independent auditor's report and notes to financial statements.

HUMANE SOCIETY OF SOUTHERN ARIZONA

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 638,974	\$ 1,710,861
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	316,464	317,458
Donated property and equipment	(180,000)	(22,378)
Donated fees related to sale of property	-	(24,000)
Gain on sale of property and equipment and property held for sale	(2,545)	(86,248)
Realized and unrealized gain on investments	(86,290)	(119,917)
Loss (gain) on beneficial interest in perpetual trusts	44,586	(10,030)
Loss on beneficial interest in charitable remainder trusts	2,971	(6,279)
Change in the allowance for net present value, uncollectible promises to give	(959)	(4,621)
Change in the provision for uncollectible promises to give	1,035	(11,759)
Contributions restricted for capital purposes	(270,176)	(26,777)
Changes in operating assets and liabilities:		
Accounts and other receivables	37,408	(54,365)
Bequests and memorials receivable	(66,576)	771,883
Inventory	(290)	(1,110)
Prepaid expenses and other assets	11,008	(24,067)
Accounts payable	20,630	(129,068)
Accrued payroll and taxes	23,004	19,085
Other accrued expenses	(33,178)	65,928
Total adjustments	(182,908)	653,735
Net cash provided by operating activities	456,066	2,364,596
Cash flows from investing activities:		
Purchases of marketable securities	(5,317,113)	(4,342,583)
Purchases of investments - other	(245,000)	(2,204,000)
Proceeds from sales of marketable securities	1,564,230	5,384,606
Proceeds from the redemption of investments - other	2,205,834	-
Purchases related to property held for sale	-	(9,339)
Purchases of property and equipment	(141,023)	(262,062)
Distributions from charitable remainder trusts	9,109	9,614
Proceeds from sale of property and equipment and property held for sale	2,545	434,183
Net cash used in investing activities	(1,921,418)	(989,581)
Cash flows from financing activities:		
Collection on contributions restricted for capital purposes	331,744	169,082
Repayments on note payable	-	(992,188)
Payments on capital lease payable	(14,058)	(15,871)
Payments on gift annuity obligations	(7,585)	(7,105)
Net cash provided by (used in) financing activities	310,101	(846,082)
Change in cash and cash equivalents	(1,155,251)	528,933
Cash and cash equivalents, beginning of year	2,708,208	2,179,275
Cash and cash equivalents, end of year	\$ 1,552,957	\$ 2,708,208

See independent auditor's report
and notes to financial statements.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

1. Organization

Humane Society of Southern Arizona (Society) was organized in March 1944 to promote the prevention of cruelty to animals, to promote the welfare of animals through legislation, to maintain a shelter for animals and to promote the reduction of animal over-population through spaying and neutering. The Society provides these services throughout Pima County and all of Southern Arizona. Its main campus is located in central Tucson, Arizona. The Society also offers an additional adoption site and operates a thrift store to help fund animal services. Funding for the Society comes primarily from contributions, bequests and trusts, and animal services.

2. Summary of Significant Accounting Policies

Financial Statement Presentation and Contributions

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions. Net assets without donor restrictions at June 30, 2020 and 2019 include \$3,404,484 and \$3,206,885, respectively, designated by the Board of Directors as an operating reserve, which is equal to 50% of the operating budget for the current year.
- Net assets with donor restrictions – net assets subject to donor (or grantor) restrictions. Some donor-imposed 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, where the donor stipulates that resources be maintained in perpetuity.

The Society reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

The Society considers cash and highly liquid investments with a maturity of three months or less to be cash equivalents. The Society maintains its cash in brokerage accounts and in bank deposit accounts which may exceed federally insured limits. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time. At June 30, 2020 and 2019, the Society had \$841,112 and \$433,408, respectively, on deposit in excess of FDIC limitations.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Investments - Other

Investments - other consists of certificates of deposits held for investment that are not debt securities. Certificates of deposit with original maturities greater than one year with remaining maturities less than one year are classified as current. Certificates of deposit with remaining maturities greater than one year are classified as non-current. All of the certificates of deposit are current as of June 30, 2020 and 2019.

Income Tax Status

The Society is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and from Arizona income tax under Arizona Revised Statute section 43-1201(4). Therefore, no provision has been made for income taxes in the accompanying financial statements. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). There were no taxes paid by the Society during the years ended June 30, 2020 and 2019.

The Society's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2020, there were no uncertain tax positions that are potentially material.

Bequests Receivable

Bequests are recognized as contribution revenue when the Society 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.

Unconditional Promises to Give

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 years ended June 30, 2020 and 2019, the discounts on these amounts are computed using a risk-free interest rate of 3.75%. Amortization of the discount is included in contribution revenue. Management uses the allowance method to account for uncollectible unconditional promises to give. The allowance for uncollectible promises to give is \$12,092 and \$42,135 at June 30, 2020 and 2019, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

The Securities Investor Protection Corporation (SIPC) protects investments up to \$500,000 per institution. However, SIPC does not protect against losses in market value. At June 30, 2020 and 2019, the Society had \$11,538,911 and \$6,845,464, respectively, on deposit in excess of SIPC limitations. It is the opinion of management that the solvency of the referenced brokerage institutions is not of concern at this time.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the presentation in the 2020 financial statements.

Inventory

Inventories consist primarily of medical supplies and retail pet items (sold at offsite adoption centers and shelter) and are stated at the lower of cost or market determined by the average cost method. Inventory for the thrift store is valued using a rolling three month average of sales.

Property and Equipment

Expenditures in excess of \$5,000, for major improvements or items that benefit future periods, are capitalized at cost if purchased or at fair market value at the date of gift if donated. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	10 - 50 years
Vehicles	5 years
Equipment	3 - 10 years

Donated Services and Materials

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Although the Society 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 accounting principles generally accepted in the United States of America.

Advertising

Advertising costs are expensed as incurred. The Society does not participate in direct-response advertising which requires the capitalization and amortization of related costs. Advertising expense for the years ended June 30, 2020 and 2019 was \$372,165 and \$349,038, respectively, and includes in-kind expenses of \$118,836 and \$89,989, respectively.

Functional Expenses

The Society reports its expenses on a functional basis by program and support service. Expenses that can be identified with a specific program or support service are charged directly according to their natural classification. This includes the majority of operating expenses such as all types of payroll related costs and direct operating supplies. These expenses also include specific fundraising or administrative costs. All such costs are coded by department and include account descriptions reflecting their natural classification. Expenses not identified to a specific program or support service are allocated among the services benefited. Most of these costs are initially allocated based on occupied square footage. These allocated expenses include depreciation, professional fees, repairs and maintenance, utilities, insurance and other expenses. Certain other costs such as marketing costs, joint costs or pooled administrative costs are allocated to program services and support services based on the underlying purpose of the expenditures or estimates of time, effort or use.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

3. Change in Accounting Principle

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among non-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis during the year ended June 30, 2020. As a result, there was no cumulative effect adjustment to opening net assets, with or without donor restrictions, as of July 1, 2019. In addition, there was no impact of adopting this new accounting principle to the financial statements as of and for the year ended June 30, 2020.

4. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of:

	2020	2019
Cash and cash equivalents	\$ 1,552,957	\$ 2,708,208
Accounts and other receivables	51,987	89,395
Unconditional promises to give, current portion	48,615	125,225
Bequests and memorials receivable, net	737,518	670,942
Inventory held for sale	107,738	112,957
Total financial assets available within one year	2,498,815	3,706,727
Less:		
Amounts unavailable for general expenditures within one year due to:		
Purpose restrictions	449,566	460,291
Subject to appropriation and expenditure	-	705
Total amounts unavailable for general expenditures within one year	449,566	460,996
Amounts unavailable to management without Board approval:		
Cash portion of Board-designated operating reserve	150,336	695,307
Cash held in investment accounts	327,638	1,320,948
Total financial assets available to management for general expenditure within one year	\$ 1,571,275	\$ 1,229,476

The Society 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. The Society 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 \$3,404,484 at June 30, 2020 should current operations not provide sufficient funds. The Society opened a loan management account, which is a line of credit with a maximum credit limit of \$4,400,000 available to be used for operations.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

5. Unconditional Promises to Give

During the year ended June 30, 2011, a capital campaign was launched to raise money for the Society's new facility. The balances due related to this campaign are scheduled to be repaid in future years as follows:

	2020	2019
2020	\$ -	\$ 125,225
2021	48,615	28,344
2022	10,858	10,000
2023	11,450	10,000
2024	10,000	10,000
2025 and beyond	40,000	30,000
Total unconditional promises to give	120,923	213,569
Less discount to present value at 3.75%	(11,355)	(12,314)
Less allowance for uncollectible promises	(12,092)	(42,135)
Unconditional promises to give, net	97,476	159,120
Less current portion	(48,615)	(125,225)
Non-current portion	\$ 48,861	\$ 33,895

6. Investments

Investments, stated at fair value, consist of the following at June 30,:

	2020	2019
Mutual funds	\$ 4,266,410	\$ 1,602,427
Equities	1,418,090	831,380
Fixed income	1,257,099	672,891
Total investments	6,941,599	3,106,698
Less permanently restricted endowments	(92,098)	(92,098)
	\$ 6,849,501	\$ 3,014,600

Investment income is comprised of the following for the years ended June 30,:

	2020	2019
Interest and dividends	\$ 191,949	\$ 107,118
Realized and unrealized gain, net	86,290	119,917
Trust income	174,634	165,852
Investment management fees	(47,470)	(25,853)
Investment income, net	\$ 405,403	\$ 367,034

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019

7. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

- *Common stock, fixed income, other marketable assets:* Valued at fair value based on national trade listing.
- *Mutual and exchange funds:* Valued at the net asset value ("NAV") of shares held by the Society at year end.
- *Beneficial interest in trusts held by third parties:* Valued at the fair value of the underlying investments as reported by the third parties.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

7. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

Investments at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual and exchange funds	\$ 4,266,410	\$ -	\$ -	\$ 4,266,410
Common stocks	1,418,090	-	-	1,418,090
Corporate and government bonds	1,257,099	-	-	1,257,099
Total investments	<u>\$ 6,941,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,941,599</u>
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ 3,316,243</u>	<u>\$ -</u>	<u>\$ 3,316,243</u>
Beneficial interest in charitable remainder trusts	<u>\$ -</u>	<u>\$ 412,791</u>	<u>\$ -</u>	<u>\$ 412,791</u>
Investments at Fair Value as of June 30, 2019				
	Level 1	Level 2	Level 3	Total
Mutual and exchange funds	\$ 1,602,427	\$ -	\$ -	\$ 1,602,427
Common stocks	831,380	-	-	831,380
Corporate and government bonds	672,891	-	-	672,891
Total investments	<u>\$ 3,106,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,106,698</u>
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ 3,360,829</u>	<u>\$ -</u>	<u>\$ 3,360,829</u>
Beneficial interest in charitable remainder trusts	<u>\$ -</u>	<u>\$ 424,871</u>	<u>\$ -</u>	<u>\$ 424,871</u>

8. Trusts, Bequests and Memorials

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

The Society is also the beneficiary of estates which can be reasonably estimated. The net balance of these bequests and memorials receivable is \$737,518 and \$670,942 at June 30, 2020 and 2019, respectively. Management uses the allowance method to account for uncollectible bequests and memorials receivable. As of June 30, 2020 and 2019, the allowance for uncollectible bequests and memorials receivable was \$18,184.

The Society is the sole income beneficiary of one perpetual charitable trust and a 1.5% income beneficiary of another perpetual trust. Both of the trusts are held by third parties. The Society 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 the Society'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.

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

8. Trusts, Bequests and Memorials, Continued

The value of the Society's beneficial interest in these trust assets is \$3,316,243 and \$3,360,829 at June 30, 2020 and 2019, respectively.

The Society is a beneficiary of three charitable remainder trusts held by third parties with beneficial interests of 50%, 25% and 9%. The 9% beneficial interest, in the amount of \$91,580, was contributed to the Society during the year ended June 30, 2017. The Society 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 the Society'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 the Society's beneficial interests in the trust assets is \$412,791 and \$424,871 at June 30, 2020 and 2019, respectively.

During the year ended June 30, 2004, the Society received a charitable gift annuity agreement of \$50,000, discounted at 6%. The beneficiary obligation liability under this agreement at June 30, 2020 and 2019 was \$2,148 and \$4,914, respectively. During the year ended June 30, 2010, the Society received another charitable gift annuity agreement from the same donor in the amount of \$50,000, discounted at 6%. The beneficiary obligation liability under this agreement at June 30, 2020 and 2019 was \$8,571 and \$10,966, respectively. During the year ended June 30, 2011, the Society received a third charitable gift annuity agreement from the same donor in the amount of \$50,000, discounted at 6%. The beneficiary obligation liability under this agreement at June 30, 2020 and 2019 was \$9,362 and \$11,785, respectively.

9. Property and Equipment

Property and equipment consists of the following at June 30,:

	2020	2019
Buildings and improvements	\$ 8,836,558	\$ 8,807,349
Land	1,292,064	1,015,457
Furniture, fixtures and equipment	1,438,908	1,423,702
Vehicles	252,213	273,087
Total property and equipment	11,819,743	11,519,595
Less accumulated depreciation	(1,318,557)	(1,022,968)
Property and equipment, net	<u>\$ 10,501,186</u>	<u>\$ 10,496,627</u>

10. Capital Lease Payable

The Society leases computer equipment under a capital lease agreement. The total cost of the equipment under this lease was \$41,930 and accumulated depreciation was \$18,869 and \$10,483 at June 30, 2020 and 2019, respectively. The capital lease payable consists of the following at June 30,:

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019

10. Capital Lease Payable, Continued

	2020	2019
Cisco Capital, \$1,229 per month including interest through March 2021; collateralized by computer equipment.	\$ 10,894	\$ 24,952
Less current portion	(10,894)	(14,058)
Non-current portion	\$ -	\$ 10,894

The future maximum lease payments due under the capital lease at June 30, 2020 are:

Year ending <u>June 30,</u>	
2021	\$ 11,065
Total lease payments	11,065
Less imputed interest	(171)
Net minimum lease payments	\$ 10,894

11. Loan Management Account

During the year ended June 30, 2020, the Society established a loan management account (LMA) with a financial institution. The maximum credit limit is \$4,400,000, and the account is collateralized by securities held in an account with the financial institution. Interest on any outstanding balance is payable based on the one-month LIBOR (0.16625% at June 30, 2020) which resets weekly, plus a spread as determined by the loan value of the pledged collateral at the time the LMA account is approved. 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 line of credit had no outstanding balance at June 30, 2020.

12. Paycheck Protection Program Conditional Grant

On April 20, 2020, the Society received a loan in the amount of \$499,000 from the Small Business Administration's Paycheck Protection Program ("Program"). Under the terms of the agreement, there are no payments due and interest does not accrue during the period from the loan date through the date the SBA determines the loan forgiveness amount. If the Society does not apply for forgiveness, there are no payments due and interest will not accrue for a period of ten months. If applicable, interest will accrue at the rate of 1%. The Society may apply for forgiveness of the total loan amount, by providing evidence that the loan proceeds were used to fund eligible costs, during either an eight or twenty four-week period, and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full and including interest, on April 20, 2022; however, the Society may negotiate with the lender to extend the maturity date to April 20, 2025.

The Society is accounting for the proceeds as a conditional contribution under FASB ASC 958-605 *Not-for-Profit Entities – Revenue Recognition*. Under this guidance, the loan forgiveness is recognized as contribution revenue as the conditions of forgiveness are substantially met. As of June 30, 2020, the Society has expended 100% of the proceeds for eligible expenses during the period from the date the proceeds were disbursed through June 30, 2020. The Society has also evaluated additional forgiveness criteria under the Program, including FTE and wage reduction requirements and exceptions, and management believes that these additional forgiveness criteria have been substantially met as of June 30, 2020. As a result, the Society has recognized grant revenue in the amount of \$499,000 for the year ended June 30, 2020. The Society has applied for forgiveness of the entire amount as of November 24, 2020, that date the financial statements were available to be issued.

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

13. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30,:

	2020	2019
Subject to expenditure for specified purpose:		
New beginnings	\$ 96,429	\$ 53,084
Special needs (2nd Chance)	77,885	50,735
Other	68,346	50,665
Pet visitation program	47,129	62,878
Spay and neuter fund	47,126	43,194
Wellness program	45,000	50,116
Education fund	37,355	6,650
Rescue fund	13,806	19,262
YODI	11,750	100,888
Sponsored adoptions	4,740	7,000
Capital improvement fund	-	15,819
Total subject to purpose restrictions	449,566	460,291
Subject to the passage of time:		
Beneficial interest in charitable remainder trusts	412,791	424,871
Endowments:		
Subject to appropriation and expenditure:		
Accumulated earnings on original endowment gifts	-	705
Not subject to spending policy or appropriation:		
Original endowment gifts	92,098	92,098
Perpetual trusts held by third-party	3,316,243	3,360,829
Net assets with donor restrictions	<u>\$ 4,270,698</u>	<u>\$ 4,338,794</u>

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019

13. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2020:

	Contributions	Investment Income (loss)	Change in Beneficial Interest in Funds Held by Others	Transfers	Releases
Subject to expenditure for specified purpose:					
New beginnings	\$ 151,841	\$ -	\$ -	\$ -	\$ (108,496)
Special needs (2nd Chance)	203,390	-	-	-	(176,240)
Other	51,024	-	-	(3,651)	(29,692)
Pet visitation program	30,441	-	-	-	(46,190)
Spay and neuter fund	56,295	-	-	-	(52,363)
Wellness program	2,200	-	-	-	(7,316)
Education fund	29,253	-	-	3,651	(2,199)
Rescue fund	675	-	-	-	(6,131)
YODI	3,065	-	-	-	(92,203)
Sponsored adoptions	56,518	-	-	-	(58,778)
Capital improvement fund	266,016	-	-	-	(281,835)
	<u>850,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(861,443)</u>
Subject to the passage of time:					
Beneficial interest in charitable remainder trusts	-	-	(2,971)	-	(9,109)
Endowments:					
Subject to appropriation and expenditure:					
Accumulated earnings on original endowment gifts	-	-	-	-	(705)
Perpetual trusts held by third-party	-	-	(44,586)	-	-
Net assets with donor restrictions	<u>\$ 850,718</u>	<u>\$ -</u>	<u>\$ (47,557)</u>	<u>\$ -</u>	<u>\$ (871,257)</u>

See independent auditor's report.

HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019

13. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2019:

	Contributions	Investment Income (loss)	Change in Beneficial Interest in Funds Held by Others	Transfers	Releases
Subject to expenditure for specified purpose:					
YODI	\$ 100,010	\$ -	\$ -	\$ 4,074	\$ (3,196)
Pet visitation program	32,410	-	-	-	(51,718)
New beginnings	209,445	-	-	-	(189,794)
Special needs (2nd Chance)	127,083	-	-	14,857	(160,987)
Other	58,300	-	-	(4,074)	(52,265)
Wellness program	2,500	-	-	-	(2,384)
Spay and neuter fund	38,070	-	-	7,679	(72,048)
Rescue fund	10,095	-	-	-	(10,823)
Capital improvement fund	48,857	-	-	-	(44,626)
Sponsored adoptions	7,000	-	-	-	-
Education fund	8,600	-	-	-	(2,198)
Shelter food fund	275	-	-	(14,857)	-
Supported (Indigent) Care	-	-	-	(7,679)	-
	638,645	-	-	-	(590,039)
Subject to the passage of time:					
Beneficial Interest in charitable remainder trusts	-	-	6,279	-	(9,614)
Endowments:					
Subject to appropriation and expenditure:					
Accumulated earnings on original endowment gifts	-	4,159	-	-	(5,271)
Perpetual trusts held by third-party	-	-	10,030	-	-
Net assets with donor restrictions	\$ 638,645	\$ 4,159	\$ 16,309	\$ -	\$ (604,924)

14. Endowment Funds

Endowments

At June 30, 2020 and 2019, the Society's endowment funds consist of two individual funds established by donors. As required by accounting principles generally accepted in the United States of America, 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. The Society is the beneficiary of two perpetual trusts as discussed in Note 7. The perpetual trusts are administered by a third party, and the assets are not accessible by the Society at any time. They do not meet the definition of an endowment and are classified as net assets with restrictions in accordance with accounting principles generally accepted in the United States of America.

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

14. Endowment Funds, Continued

Endowments, continued

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act). The Board of Directors of the Society 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, the Society 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, the Society 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 the Society to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of June 30, 2020 or 2019.

Return Objectives and Parameters

The Society 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 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, the Society 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 the Society's endowment funds is to provide additional funding for programs and operations while increasing the investment base.

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

14. Endowment Funds, Continued

Spending Policy

The Society's policy allows the Board of Directors to appropriate for expenditure four percent of an endowment fund's average fair market value over the prior year. Accumulated earnings on endowment funds that are not otherwise restricted by a donor will be released from net assets with donor restrictions if appropriated by the Board of Directors.

The Society had the following endowment-related activities during the years ended June 30, 2020 and 2019:

	Without donor restrictions	With donor restrictions	Total
Balance, June 30, 2018	\$ 250,000	\$ 93,915	\$ 343,915
Contributions	-	-	-
Earnings	-	4,159	4,159
Appropriations and releases	(250,000)	(5,271)	(255,271)
Balance, June 30, 2019	-	92,803	92,803
Appropriations and releases	-	(705)	(705)
Balance, June 30, 2020	\$ -	\$ 92,098	\$ 92,098

15. Special Events

The Society's special events during the year ended June 30, 2020 consists of:

	Revenue	Expenses	Net
Puttin' on the Dog (includes in-kind contributions in the amount of \$39)	\$ 471	\$ 12,102	\$ (11,631)
Sweat For Pets (includes in-kind contributions in the amount of \$610)	43,296	11,611	31,685
Other events (includes in-kind contributions in the amount of \$5,045)	293,148	195,657	97,491
Total special events	\$ 336,915	\$ 219,370	\$ 117,545

Special event expenses for the year ended June 30, 2020 include \$165,812 of direct donor benefit costs as reported on the statement of activities, and the remaining \$53,558 of other special event expenses are allocated on the statement of functional expenses as fundraising.

The Society's special events during the year ended June 30, 2019 consists of:

	Revenue	Expenses	Net
Puttin' on the Dog (includes in-kind contributions in the amount of \$72,080)	\$ 230,557	\$ 83,066	\$ 147,491
Sweat For Pets	48,988	7,377	41,611
Other events	133,022	54,181	78,841
Total special events	\$ 412,567	\$ 144,624	\$ 267,943

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

15. Special Events, Continued

Special event expenses for the year ended June 30, 2019 include \$87,553 of direct donor benefit costs as reported on the statement of activities, and the remaining \$57,071 of other special event expenses are allocated on the statement of functional expenses as fundraising.

16. Donated Supplies and Services

Donated supplies and services consist of the following for the years ended June 30,:

	2020	2019
Property and equipment	\$ 187,044	\$ 22,378
Rent	-	28,176
Food	9,413	11,549
Professional services	127,256	134,486
Shelter and clinic	77,914	67,552
Operating supplies and materials	976	17,929
Total donated supplies and services	<u>\$ 402,603</u>	<u>\$ 282,070</u>

17. Thrift Store and Merchandise Sales

Thrift store and merchandise sales activity for the year ended June 30, 2020 consists of:

	Thrift Store	Merchandise Sales
Revenue	\$ 347,808	\$ 131,709
Expenses, including depreciation of \$4,192	(308,664)	(64,718)
Net revenue	<u>\$ 39,144</u>	<u>\$ 66,991</u>

Thrift store and merchandise sales activity for the year ended June 30, 2019 consists of:

	Thrift Store	Merchandise Sales
Revenue	\$ 357,785	\$ 244,019
Expenses, including depreciation of \$1,056	(322,692)	(121,639)
Net revenue	<u>\$ 35,093</u>	<u>\$ 122,380</u>

18. Retirement Plan

The Society sponsors a 401(k) retirement plan for the benefit of its employees. Employees 21 years of age or older can participate in the plan after completing one year of service. The Society contributes an amount up to three percent of the respective participating employee's salary. For the years ended June 30, 2020 and 2019, pension expense totaled \$41,693 and \$45,655, respectively.

19. Commitments

The Society is self-insured for state unemployment purposes. Total expense for unemployment for the years ended June 30, 2020 and 2019 was \$5,776 and \$19,943, respectively.

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HUMANE SOCIETY OF SOUTHERN ARIZONA

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2020 and 2019

20. Operating Leases

The Society has several non-cancelable operating leases for equipment and facilities that expire at various dates ranging between December 2019 and September 2022. Rental expense related to these leases for the years ended June 30, 2020 and 2019, including in-kind rent expense, was \$119,281 and \$134,621, respectively. Future minimum lease payments under these agreements are:

<u>Year ending June 30,</u>	
2021	\$ 74,359
2022	29,587
2023	4,933
Total future minimum lease payments	<u>\$ 108,879</u>

21. Joint Cost Allocations

The Society sends out newsletters that include requests for contributions, information about fundraising events and advertising, as well as program components. During the year ended June 30, 2020, the Society incurred joint costs of \$24,719 which are not specifically attributable to particular components of the publications. The Society allocated \$18,688 to program services not including public education and \$6,031 to fund-raising.

During the year ended June 30, 2019, the Society incurred joint costs of \$44,775 which are not specifically attributable to particular components of the publications. The Society allocated \$33,850 to program services not including public education and \$10,925 to fund-raising.

22. Related Party Transactions

Members of the board of directors make contributions and volunteer their time to support the Society. Members of the board of directors contributed \$36,651 and \$31,150 for the years ended June 30, 2020 and 2019, respectively.

During March 2016, the Society entered into a contract with Diversified Design and Construction, Inc. (DDC) for the construction of the Society's new animal welfare center. The president of DDC is a member of the Society's board of directors. The construction contract's maximum value is \$7,402,844. During the years ended June 30, 2020 and 2019, total payments made to DDC were \$-0- and \$142,282 respectively.

During December 2016, the Society entered into real estate property listing agreements with Venture West Real Estate Services, LLC (Venture West) for brokerage services for the sale of the Society's properties located at 3450 N. Kelvin Blvd and 3465 E. Kleindale Road in Tucson, Arizona (the Properties). The vice-president and partner of Venture West is a member of the Society's board of directors. In connection with the sale of the Properties during the year ended June 30, 2019, \$24,000 in commissions were earned by Venture West. The entire \$24,000 was donated to the Society and is included with donated professional services for the year ended June 30, 2019.

The Society has a business relationship with Southwest Solutions AZ, Inc. (Southwest). The co-owner of Southwest is a member of the Society's board of directors. During the years ended June 30, 2020 and 2019, the Society made payments totaling \$80,925 and \$66,264, respectively, to Southwest. Accounts payable at June 30, 2020 and 2019 includes \$10,518 and \$1,618, respectively, due to Southwest.

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019

23. Supplemental Cash Flow Disclosures

	2020	2019
Supplemental disclosure of cash flow information:		
Donated property and equipment	\$ 180,000	\$ 22,378
Cash paid for interest	\$ 696	\$ 23,221
Donated fees related to sale of property	\$ -	\$ 24,000

24. Subsequent Events

The Society has experienced reduced operations and a reduction in clients served subsequent to June 30, 2020 as a result of the COVID-19 pandemic. Management believes the ongoing COVID-19 pandemic may continue to impact operations and client enrollment through at least the next fiscal year.

The Society was unaware of any subsequent events as of November 24, 2020, the date the financial statements were available to be issued.

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