

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

Audited Financial Statements

For the years ended June 30, 2021 and 2020

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Humane Society of Southern Arizona, Inc.

We have audited the accompanying financial statements of The Humane Society of Southern Arizona, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, 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, Inc. as of June 30, 2021 and 2020, 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 1, 2021



THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	\$ 1,762,780	\$ 1,551,546
Accounts and other receivables	113,851	51,987
Contributions receivable	59,318	-
Unconditional promises to give, capital campaign, current portion	292,968	48,615
Bequests receivable, current portion	955,756	666,223
Investments - other	-	249,217
Inventory	198,933	150,705
Prepaid expenses and other assets	171,389	95,914
Total current assets	3,554,995	2,814,207
Unconditional promises to give, capital campaign, non-current portion, net	327,449	48,861
Bequests receivable, non-current portion, net	239,978	71,295
Investments	8,766,443	6,941,599
Beneficial interest in perpetual trusts	3,880,580	3,316,243
Beneficial interest in charitable remainder trust	507,123	412,791
Property and equipment, net	12,516,728	10,501,186
Total assets	<u>\$ 29,793,296</u>	<u>\$ 24,106,182</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 557,289	\$ 170,981
Accrued payroll and taxes	306,498	308,353
Other accrued expenses	91,199	93,003
Line of credit	1,049,842	-
Capital leases payable, current portion	16,596	10,894
Beneficiary annuity obligations, current portion	5,189	7,181
Refundable advance - Paycheck Protection Program	721,704	-
Total current liabilities	2,748,317	590,412
Capital leases payable, non-current portion	31,820	-
Beneficiary annuity obligations, non-current portion	7,711	12,900
Total liabilities	2,787,848	603,312
Net assets:		
Without donor restrictions:		
Expended for property and equipment	11,418,470	10,490,292
Board-designated operating reserve	3,337,607	3,404,484
Available for operations	5,794,728	5,337,396
Total net assets without donor restrictions	20,550,805	19,232,172
With donor restrictions:		
Purpose restrictions	1,974,842	449,566
Time-restricted for future periods	507,123	412,791
Perpetual in nature	3,972,678	3,408,341
Total net assets with donor restrictions	6,454,643	4,270,698
Total net assets	27,005,448	23,502,870
Total liabilities and net assets	<u>\$ 29,793,296</u>	<u>\$ 24,106,182</u>

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Support:			
Contributions	\$ 1,836,616	\$ 1,883,676	\$ 3,720,292
Trusts and bequests	1,978,231	-	1,978,231
Grants	154,267	219,620	373,887
Special events	305,510	-	305,510
Donated supplies and services	265,167	-	265,167
Thrift store, net	194,564	-	194,564
Merchandise sales, net	64,173	-	64,173
Loss on sale of property and equipment	(9,777)	-	(9,777)
Total support	4,788,751	2,103,296	6,892,047
Revenue and other income:			
Investment income, net	1,600,421	-	1,600,421
Animal services	1,168,317	-	1,168,317
Gain on beneficial interest in perpetual trusts	-	564,337	564,337
Gain on beneficial interest in charitable remainder trust	-	103,640	103,640
Other income	54,642	-	54,642
Total revenue and other income	2,823,380	667,977	3,491,357
Net assets released from restrictions:			
Satisfaction of donor restrictions	587,328	(587,328)	-
Total revenue and support	8,199,459	2,183,945	10,383,404
Expenses:			
Program services	5,506,477	-	5,506,477
Administrative	258,124	-	258,124
Fund-raising	1,057,860	-	1,057,860
Special events - costs of direct donor benefits	58,365	-	58,365
Total expenses	6,880,826	-	6,880,826
Change in net assets	1,318,633	2,183,945	3,502,578
Net assets, beginning of year	19,232,172	4,270,698	23,502,870
Net assets, end of year	\$ 20,550,805	\$ 6,454,643	\$ 27,005,448

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

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
Grants - Paycheck Protection Program	499,000	-	499,000
Special events	336,915	-	336,915
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
Other income	50,610	-	50,610
Loss on beneficial interest in charitable remainder trust	-	(2,971)	(2,971)
Loss on beneficial interest in perpetual trusts	-	(44,586)	(44,586)
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.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Program Services							
	Animal Shelter	Offsite	Spay and Neuter Clinic	Humane Education and Cruelty Prevention	Total Program Services	Administrative	Fund-raising	Total
Personnel:								
Salaries and wages	\$ 1,488,351	\$ 180,776	\$ 935,397	\$ 242,539	\$ 2,847,063	\$ 123,275	\$ 340,779	\$ 3,311,117
Employee benefits	134,287	12,497	75,889	28,747	251,420	12,165	21,114	284,699
Payroll taxes	131,975	15,656	82,924	19,068	249,623	9,725	28,927	288,275
Total personnel	1,754,613	208,929	1,094,210	290,354	3,348,106	145,165	390,820	3,884,091
Other operating expenses	402,671	17,036	75,333	56,006	551,046	51,482	269,319	871,847
Veterinary services and supplies	312,721	-	332,675	-	645,396	-	-	645,396
Advertising and promotion	113,492	8,390	80,886	39,356	242,124	2,784	143,453	388,361
Office expenses	63,567	15,649	37,081	20,188	136,485	9,044	208,562	354,091
Depreciation	203,144	1,745	52,652	16,968	274,509	23,582	14,385	312,476
Occupancy	120,297	15,680	39,795	12,065	187,837	16,323	97	204,257
Professional services	44,584	11,841	39,550	2,569	98,544	9,405	28,139	136,088
Auto and travel	14,406	977	3,580	3,467	22,430	339	3,085	25,854
Total functional expenses	\$ 3,029,495	\$ 280,247	\$ 1,755,762	\$ 440,973	\$ 5,506,477	\$ 258,124	\$ 1,057,860	\$ 6,822,461

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

	Program Services							
	Animal Shelter	Offsite	Spay and Neuter Clinic	Humane Education and Cruelty Prevention	Total Program Services	Administrative	Fund-raising	Total
Personnel:								
Salaries and wages	\$ 1,239,299	\$ 179,393	\$ 835,522	\$ 216,205	\$ 2,470,419	\$ 123,201	\$ 320,055	\$ 2,913,675
Employee benefits	129,837	11,977	57,564	24,236	223,614	17,851	21,112	262,577
Payroll taxes	104,427	14,547	69,961	17,034	205,969	9,408	26,387	241,764
Total personnel	1,473,563	205,917	963,047	257,475	2,900,002	150,460	367,554	3,418,016
Other operating expenses	397,808	15,621	66,042	36,111	515,582	22,631	107,756	645,969
Veterinary services and supplies	421,233	-	218,125	171	639,529	-	-	639,529
Office expenses	63,133	15,405	42,751	17,376	138,665	7,693	204,905	351,263
Advertising and promotion	113,183	46,947	87,551	26,570	274,251	3,389	94,525	372,165
Depreciation	195,500	1,900	61,735	16,612	275,747	22,326	14,199	312,272
Occupancy	117,632	12,725	38,820	11,955	181,132	17,479	332	198,943
Professional services	31,100	5,152	17,971	10,989	65,212	5,988	9,167	80,367
Auto and travel	14,088	1,100	5,375	4,143	24,706	539	3,406	28,651
Total functional expenses	<u>\$ 2,827,240</u>	<u>\$ 304,767</u>	<u>\$ 1,501,417</u>	<u>\$ 381,402</u>	<u>\$ 5,014,826</u>	<u>\$ 230,505</u>	<u>\$ 801,844</u>	<u>\$ 6,047,175</u>

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 3,502,578	\$ 638,974
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	323,189	316,464
Donated property and equipment and auction items	(15,917)	(180,000)
Donated auction items	(37,209)	-
Loss (gain) on sale of property and equipment and property held for sale	9,777	(2,545)
Realized and unrealized gain on investments	(1,288,499)	(86,290)
(Gain) loss on beneficial interest in perpetual trusts	(564,337)	44,586
(Gain) loss on beneficial interest in charitable remainder trusts	(103,640)	2,971
Change in the allowance for net present value, uncollectible promises to give	5,396	(959)
Change in the provision for uncollectible promises to give	(4,929)	1,035
Contributions restricted for capital purposes	(1,498,937)	(270,176)
Changes in operating assets and liabilities:		
Accounts and other receivables	(57,647)	37,408
Contributions receivable	(59,318)	-
Bequests and memorials receivable	(458,216)	(66,576)
Inventory	(48,228)	(290)
Prepaid expenses and other assets	(38,266)	9,597
Accounts payable	386,308	20,630
Accrued payroll and taxes	(1,855)	23,004
Other accrued expenses	(1,804)	(33,178)
Refundable advance - Paycheck Protection Program	721,704	-
Total adjustments	(2,732,428)	(184,319)
Net cash provided by operating activities	770,150	454,655
Cash flows from investing activities:		
Purchases of marketable securities	(3,325,139)	(5,317,113)
Proceeds from sales of marketable securities	2,788,794	1,564,230
Purchases of investments - other	-	(245,000)
Proceeds from the redemption of investments - other	245,000	2,205,834
Purchases of property and equipment	(2,282,766)	(141,023)
Distributions from charitable remainder trusts	9,308	9,109
Proceeds from sale of property and equipment and property held for sale	2,000	2,545
Net cash used in investing activities	(2,562,803)	(1,921,418)
Cash flows from financing activities:		
Collection on contributions restricted for capital purposes	975,529	331,744
Borrowings on line of credit	1,049,842	-
Payments on capital lease payable	(14,303)	(14,058)
Payments on gift annuity obligations	(7,181)	(7,585)
Net cash provided by financing activities	2,003,887	310,101
Change in cash and cash equivalents	211,234	(1,156,662)
Cash and cash equivalents, beginning of year	1,551,546	2,708,208
Cash and cash equivalents, end of year	\$ 1,762,780	\$ 1,551,546

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2021 and 2020

1. Organization

Since its founding in 1944, The Humane Society of Southern Arizona, Inc. (HSSA) has evolved to become the full-service animal welfare organization it is today. As the area's oldest and largest nonprofit serving pets and the people who love them, HSSA's work is guided by three pillars of care: *Shelter and Placement*, *Prevention*, and *Education and Outreach*.

Shelter and Placement

The shelter on west Roger Road in Tucson was designed with the care and comfort of the pets in mind, right down to the colors of the paint, which were chosen for their calming and healing properties. Here, pets are welcomed into the shelter, receive emergency medical care if needed, regular medical care and enrichment throughout their stay, and are joyfully paired with their adoptive families. HSSA prides itself on providing the highest level of service to the pets in its care. The happier, healthier, and more confident the pet is, the more likely it is that the pet will find its forever home. We are now building additional shelters on the eastside of Tucson and in Bisbee to meet these needs in new regions.

Prevention

HSSA works tirelessly to promote the prevention of cruelty to animals, and part of that work is done by promoting animal welfare legislation to the Arizona legislature. HSSA offers spay and neuter programs at the shelter and to its rescue partners, which help reduce the number of homeless and unwanted pets in the larger community. Vaccination services help pets stay healthy. School-based humane education programs and camps teach kindness toward animals, generating huge benefits for our community in the reduction of domestic and other human violence for decades to come. We are now piloting the OneHealth program which offers healthcare to people in poverty and their pets, increasing access to healthcare for humans and recognizing the value of the human-animal bond to human health.

Education and Outreach

Animal welfare is not simply an HSSA issue, it's a community issue. HSSA's innovative education and outreach programs support community members of all ages, through the *Hand in Paw Club* for kids to the *Pet VIP* program which brings pets to visit those in care facilities and hospitals. HSSA partners with Pima Medical Institute, Pima Community College, and the University of Arizona College of Veterinary Medicine to help the next generation of veterinary professionals gain valuable experience. HSSA also has staff representatives on many animal welfare committees throughout Arizona to share ideas on how to continue improving the relationship between pets and their people in a way that benefits the entire community.

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, 2021 and 2020 include \$3,337,607 and \$3,404,484, respectively, designated by the Board of Directors as an operating reserve, which is equal to 50% of the operating budget for the current year.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

2. Summary of Significant Accounting Policies, Continued

Financial Statement Presentation and Contributions, continued

- 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.

HSSA 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

HSSA considers cash and highly liquid investments with a maturity of three months or less to be cash equivalents. HSSA 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, 2021 and 2020, HSSA had \$1,082,655 and \$841,112, respectively, on deposit in excess of FDIC limitations.

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. The certificates of deposit are current as of June 30, 2020, and the balance is \$-0- as of June 30, 2021.

Income Tax Status

HSSA 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, HSSA 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 HSSA during the years ended June 30, 2021 and 2020.

HSSA'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, 2021, there were no uncertain tax positions that are potentially material.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

2. Summary of Significant Accounting Policies, Continued

Bequests Receivable

Bequests are recognized as contribution revenue when HSSA has an irrevocable right to the gift as determined by applicable court declarations, and the amount can be reasonably estimated. The revenue and related receivable are recorded at the present value of the amount which management estimates it will collect. Bequests receivable that are expected to be collected within one year are recorded at their net realizable value and classified as current. Bequests receivable that are expected to be collected in future years are recorded at the estimated net realizable value and classified as non-current.

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, 2021 and 2020, the discounts on these amounts are computed using a risk-free interest rate of 1.9% and 3.75%, respectively. 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 \$5,000 and \$12,092 at June 30, 2021 and 2020, 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, 2021 and 2020, HSSA had \$17,847,647 and \$11,538,911, 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.

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

HSSA capitalizes items with a value of \$5,000 or more with a useful life exceeding one year. These items are depreciated using the straight-line method over the following estimated useful lives and based on the acquisition date of the item:

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.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

2. Summary of Significant Accounting Policies, Continued

Donated Services and Materials, continued

Although HSSA utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Advertising

Advertising costs are expensed as incurred. HSSA does not participate in direct-response advertising which requires the capitalization and amortization of related costs. Advertising expense for the years ended June 30, 2021 and 2020 was \$388,361 and \$372,165, respectively, and includes in-kind expenses of \$142,210 and \$118,836, respectively.

Functional Expenses

HSSA reports its expenses on a functional basis by program and support service. Expenses that can be identified with a specific program or support service are charged directly according to their natural classification. This includes the majority of operating expenses such as all types of payroll related costs and direct operating supplies. These expenses also include specific fundraising or administrative costs. All such costs are coded by department and include account descriptions reflecting their natural classification. Expenses not identified 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.

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.

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 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:

	2021	2020
Cash and cash equivalents	\$ 1,762,780	\$ 1,551,546
Accounts and other receivables	113,851	51,987
Contributions receivable	59,318	-
Unconditional promises to give, current portion	292,968	48,615
Bequests receivable	955,756	666,223
Inventory held for sale	156,866	107,738
Total financial assets available within one year	3,341,539	2,426,109
Less:		
Amounts unavailable for general expenditures within one year due to:		
Purpose restrictions	1,974,842	449,566
Amounts unavailable to management without Board approval:		
Cash portion of Board-designated operating reserve	150,406	150,336
Cash held in investment accounts	341,068	327,638
Total financial assets available to management for general expenditure within one year	\$ 875,223	\$ 1,498,569

HSSA maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due and to generate conservative investment returns on funds not needed by current operations. HSSA attempts to maintain \$150,000 to \$700,000 in working capital available to management for operations. Cash in excess of daily requirements are invested in immediately available money market funds. Procedures are established for management to access Board-designated operating reserve funds of up to \$3,337,607 at June 30, 2021 should current operations not provide sufficient funds. HSSA 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.

5. Unconditional Promises to Give

During the year ended June 30, 2011, a capital campaign was launched to raise money for HSSA's main primary facility. During the year ended June 30, 2021, a capital campaign was launched to raise money for construction of a planned education and behavioral center. The balances due related to these campaigns are scheduled to be repaid in future years as follows:

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5. Unconditional Promises to Give, Continued

	2021	2020
2021	\$ -	\$ 48,615
2022	292,968	10,858
2023	172,733	11,450
2024	111,467	10,000
2025	35,000	40,000
2026 and beyond	30,000	-
Total unconditional promises to give	642,168	120,923
Less discount to present value at 1.9% and 3.75%	(16,751)	(11,355)
Less allowance for uncollectible promises	(5,000)	(12,092)
Unconditional promises to give, net	620,417	97,476
Less current portion	(292,968)	(48,615)
Non-current portion	\$ 327,449	\$ 48,861

6. Investments

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

	2021	2020
Mutual and exchange funds	\$ 5,088,956	\$ 4,266,410
Common stocks	2,169,258	1,418,090
Corporate and government bonds	1,508,230	1,257,099
Total investments	8,766,444	6,941,599
Less permanently restricted endowments	(92,098)	(92,098)
	\$ 8,674,346	\$ 6,849,501

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

	2021	2020
Interest and dividends	\$ 163,670	\$ 191,949
Realized and unrealized gain, net	1,288,499	86,290
Trust income	203,300	174,634
Investment management fees	(55,048)	(47,470)
Investment income, net	\$ 1,600,421	\$ 405,403

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:

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NOTES TO FINANCIAL STATEMENTS
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7. Fair Value Measurements, Continued

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HSSA 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, 2021 and 2020.

- *Common stock, corporate and government bonds:* Valued at fair value based on national trade listing.
- *Mutual and exchange funds:* Valued at the net asset value ("NAV") of shares held by HSSA 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 HSSA 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.

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

7. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

Investments at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Mutual and exchange funds	\$ 5,088,956	\$ -	\$ -	\$ 5,088,956
Common stocks	2,169,258	-	-	2,169,258
Corporate and government bonds	1,508,230	-	-	1,508,230
Total investments	<u>\$ 8,766,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,766,444</u>
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ 3,880,580</u>	<u>\$ -</u>	<u>\$ 3,880,580</u>
Beneficial interest in charitable remainder trusts	<u>\$ -</u>	<u>\$ 507,123</u>	<u>\$ -</u>	<u>\$ 507,123</u>
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>

8. Trusts, Bequests and Memorials

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

HSSA is also the beneficiary of estates which can be reasonably estimated. The net balance of these bequests receivable is \$1,195,734 and \$737,518 at June 30, 2021 and 2020, respectively. Bequests receivable that are expected to be collected beyond 12 months from the statement of financial position date are recorded as non-current. Management uses the allowance method to account for uncollectible bequests and memorials receivable. As of June 30, 2021 and 2020, the allowance for uncollectible bequests and memorials receivable was \$5,255 and \$18,184, respectively.

HSSA 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. HSSA recognizes permanently restricted contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits is unconditional and irrevocable. Changes in the fair value of HSSA's interest in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. Distributions received from these trusts are recorded as unrestricted investment income.

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8. Trusts, Bequests and Memorials, Continued

The value of HSSA's beneficial interest in these trust assets is \$3,880,580 and \$3,316,243 at June 30, 2021 and 2020, respectively.

HSSA 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 \$101,208, was contributed to HSSA during the year ended June 30, 2017. HSSA recognizes temporarily restricted contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits is unconditional and irrevocable. Changes in the fair value of HSSA's interests in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. Distributions received from the trusts are recorded as a reduction of the beneficial interest in the trust assets. The value of HSSA's beneficial interests in the trust assets is \$507,123 and \$412,791 at June 30, 2021 and 2020, respectively.

During the year ended June 30, 2004, HSSA received a charitable gift annuity agreement of \$50,000, discounted at 6%. The beneficiary obligation liability under this agreement at June 30, 2021 and 2020 was \$-0- and \$2,148, respectively. During the year ended June 30, 2010, HSSA 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, 2021 and 2020 was \$6,029 and \$8,571, respectively. During the year ended June 30, 2011, HSSA 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, 2021 and 2020 was \$6,871 and \$9,362, respectively.

9. Property and Equipment

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

	2021	2020
Buildings and improvements	\$ 8,845,919	\$ 8,836,558
Land	1,950,877	1,292,064
Furniture, fixtures and equipment	1,300,619	1,438,908
Vehicles	334,872	252,213
Construction in progress	1,483,064	-
Total property and equipment	13,915,351	11,819,743
Less accumulated depreciation	(1,398,623)	(1,318,557)
Property and equipment, net	\$ 12,516,728	\$ 10,501,186

Construction in progress consists of costs incurred for two major expansions: one on Roger Road, near Tucson Mall, and one on the eastside of Tucson. The Education and Behavioral Center located on Roger Road is expected to cost approximately \$2,600,000 and be complete by June 2022. Costs incurred through June 30, 2021 are \$608,611 and include the purchase of the land. HSSA's eastside expansion is expected to cost approximately \$6,000,000 and be complete by August 2026. Costs incurred through June 30, 2021 are \$1,809,873 and include the purchase of land.

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NOTES TO FINANCIAL STATEMENTS
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10. Capital Leases Payable

HSSA leases computer equipment under capital lease agreements. The total cost of the equipment under these leases was \$51,825 and \$41,930 and accumulated depreciation was \$2,148 and \$18,869 at June 30, 2021 and 2020, respectively. The capital leases payable consists of the following at June 30,:

	2021	2020
Cisco Capital, \$1,229 per month including interest through March 2021; collateralized by computer equipment.	\$ -	\$ 10,894
Cisco Capital, \$475 per month including interest through January 2024; collateralized by computer equipment.	13,372	-
Cisco Capital, \$1,078 per month including interest through June 2024; collateralized by computer equipment.	35,044	-
Total capital leases	48,416	10,894
Less current portion	(16,596)	(10,894)
Non-current portion	<u>\$ 31,820</u>	<u>\$ -</u>

The future maximum lease payments due under the capital lease at June 30, 2021 are:

Year ending June 30.	
2022	\$ 18,636
2023	18,636
2024	14,708
Total lease payments	51,980
Less imputed interest	(3,564)
Net minimum lease payments	<u>\$ 48,416</u>

11. Loan Management Account

During the year ended June 30, 2020, HSSA 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 (0.10250% at June 30, 2021) 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 balance on the line of credit at June 30, 2021 and 2020 was \$1,049,842 and \$0-, respectively.

12. Paycheck Protection Program Loans

On April 30, 2020, HSSA 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 for a period of ten months and interest accrues at 1%. HSSA applied for, and received, full forgiveness of the total loan amount, including accrued interest, during the year ended June 30, 2021 by providing evidence that the loan proceeds were used to fund eligible costs during the covered period and that additional criteria for forgiveness had been met.

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

12. Paycheck Protection Program Loans, Continued

HSSA accounted 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, HSSA had expended 100% of the proceeds for eligible expenses during the date the proceeds were disbursed through June 30, 2020. As a result, HSSA recognized grant revenue in the amount of \$499,000 for the year ended June 30, 2020.

On April 30, 2021, HSSA was awarded a second loan in the amount of \$721,704 from the Small Business Administration's Paycheck Protection Program ("Program"). The proceeds were not received until June 29, 2021. Under the terms of the agreement, there are no payments due for a period of ten months. Interest will accrue at the rate of 1% beginning on the loan disbursement date. HSSA may apply for forgiveness of the total loan amount, including accrued interest, by providing evidence that the loan proceeds were used to fund eligible costs during the covered period and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full and including interest, on April 30, 2026.

HSSA accounted 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. The proceeds from the loan were received on June 29, 2021, and therefore, the covered period began subsequent to June 30, 2021. As a result, HSSA has recorded a refundable advance in the amount of \$721,704 as of June 30, 2021 and will recognize the revenue as the conditions of forgiveness are met during the year ended June 30, 2022.

13. Net Assets With Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose:		
New beginnings	\$ 50,339	\$ 96,429
Special needs (2nd Chance)	12,493	77,885
Other	53,739	68,346
Pet visitation program	25,987	47,129
Spay and neuter fund	143,429	47,126
Cat coalition	37,504	-
Wellness program	95,612	45,000
Education fund	44,339	37,355
Rescue fund	12,937	13,806
YODI	5,214	11,750
Sponsored adoptions	7,862	4,740
Capital improvement fund	1,485,387	-
Total subject to purpose restrictions	1,974,842	449,566

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NOTES TO FINANCIAL STATEMENTS
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13. Net Assets With Donor Restrictions

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

	2021	2020
Subject to the passage of time:		
Beneficial interest in charitable remainder trusts	507,123	412,791
Endowments:		
Subject to appropriation and expenditure:		
Accumulated earnings on original endowment gifts	-	-
Not subject to spending policy or appropriation:		
Original endowment gifts	92,098	92,098
Perpetual trusts held by third-party	3,880,580	3,316,243
Net assets with donor restrictions	<u>\$ 6,454,643</u>	<u>\$ 4,270,698</u>

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2021:

	Contributions	Investment Income (loss)	Change in Beneficial Interest in Funds Held by Others	Transfers	Releases
Subject to expenditure for specified purpose:					
New beginnings	\$ 86,595	\$ -	\$ -	\$ -	\$ (132,685)
Special needs (2nd Chance)	79,954	-	-	-	(145,346)
Other	63,390	-	-	(5,000)	(72,997)
Pet visitation program	26,095	-	-	-	(47,237)
Spay and neuter fund	144,586	-	-	5,000	(53,283)
Cat coalition	100,000	-	-	-	(62,496)
Wellness program	73,036	-	-	-	(22,424)
Education fund	9,441	-	-	-	(2,457)
Rescue fund	-	-	-	-	(869)
YODI	-	-	-	-	(6,536)
Sponsored adoptions	34,812	-	-	-	(31,690)
Capital improvement fund	1,485,387	-	-	-	-
	2,103,296	-	-	-	(578,020)
Subject to the passage of time:					
Beneficial interest in charitable remainder trusts	-	-	103,640	-	(9,308)
Endowments:					
Subject to appropriation and expenditure:					
Accumulated earnings on original endowment gifts	-	-	-	-	-
Perpetual trusts held by third-party	-	-	564,337	-	-
Net assets with donor restrictions	<u>\$ 2,103,296</u>	<u>\$ -</u>	<u>\$ 667,977</u>	<u>\$ -</u>	<u>\$ (587,328)</u>

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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)
	850,718	-	-	-	(861,443)
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	\$ 850,718	\$ -	\$ (47,557)	\$ -	\$ (871,257)

14. Endowment Funds

Endowments

At June 30, 2021 and 2020, HSSA'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. HSSA is the beneficiary of two perpetual trusts as discussed in Note 8. The perpetual trusts are administered by a third party, and the assets are not accessible by HSSA at any time. They do not meet the definition of an endowment and are classified as net assets with restrictions in accordance with accounting principles generally accepted in the United States of America.

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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 HSSA has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HSSA classifies as net assets with donor restrictions, not subject to spending policy or appropriation (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion, if any, of the donor-restricted endowment fund that is not classified net assets with donor restrictions, not subject to spending policy or appropriation, is classified as net assets with donor restrictions, subject to appropriation and expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, HSSA considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires HSSA to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of June 30, 2021 or 2020.

Return Objectives and Parameters

HSSA has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) and board-designated endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in a combination of fixed income, equities, commodities, hedge fund contracts and cash equivalents, and the maximum allocation by investment type shall be 100%, 49%, 9%, 16% and 25%, respectively, of the total investment portfolio. Actual returns in any given year may vary.

Investment Strategies

To satisfy its long-term rate-of-return objectives, HSSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary purpose of HSSA's endowment funds is to provide additional funding for programs and operations while increasing the investment base.

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14. Endowment Funds, Continued

Spending Policy

Investment income earned on endowment funds is appropriated by HSSA's Board of Directors for expenditure in the year earned. Earnings which do not bear donor restrictions are included in net assets without donor restrictions, and those bearing donor restrictions are included in net assets with donor restrictions. During the years ended June 30, 2021 and 2020, there were no endowment earnings bearing donor restrictions.

15. Special Events

HSSA's special events during the year ended June 30, 2021 consists of:

	Revenue	Expenses	Net
Puttin' on the Dog	\$ 128,651	\$ 21,305	\$ 107,346
Other events	176,859	47,906	128,953
Total special events	<u>\$ 305,510</u>	<u>\$ 69,211</u>	<u>\$ 236,299</u>

Special event expenses for the year ended June 30, 2021 include \$58,365 of direct donor benefit costs as reported on the statement of activities, and the remaining \$10,846 of other special event expenses are allocated on the statement of functional expenses as fundraising.

HSSA'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	<u>\$ 336,915</u>	<u>\$ 219,370</u>	<u>\$ 117,545</u>

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.

16. Donated Supplies and Services

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

	2021	2020
Professional services	\$ 153,237	\$ 127,256
Shelter and clinic	64,779	77,914
Operating supplies and materials	118	976
Food	5,720	9,413
Auction items	25,396	-
Property and equipment	15,917	187,044
Total donated supplies and services	<u>\$ 265,167</u>	<u>\$ 402,603</u>

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17. Thrift Store and Merchandise Sales

Thrift store and merchandise sales activity for the year ended June 30, 2021 consists of:

	Thrift Store	Merchandise Sales
Revenue	\$ 667,537	\$ 125,024
Expenses, including depreciation of \$10,712	(472,973)	(60,851)
Net revenue	<u>\$ 194,564</u>	<u>\$ 64,173</u>

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>

18. Retirement Plan

HSSA sponsors a 401(k) retirement plan for the benefit of its employees. Employees 21 years of age or older can participate in the plan on the first day of the month following their date of hire. After working 1,000 hours and one full year of service, HSSA matches employee contributions, dollar-for-dollar, up to a maximum of 3% of the employee's compensation. For the years ended June 30, 2021 and 2020, HSSA contributed \$39,980 and \$41,693, respectively, to the 401(k) plan.

19. Commitments

HSSA is self-insured for state unemployment purposes. Total expense for unemployment for the years ended June 30, 2021 and 2020 was \$15,273 and \$5,776, respectively.

20. Operating Leases

HSSA has several non-cancelable operating leases for equipment and facilities that expire at various dates ranging between December 2020 and March 2026. Rental expense related to these leases for the years ended June 30, 2021 and 2020, including in-kind rent expense, was \$115,417 and \$119,281, respectively. Future minimum lease payments under these agreements are:

<u>Year ending June 30,</u>	
2022	\$ 40,873
2023	13,675
2024	1,775
2025	1,775
2026	1,184
Total future minimum lease payments	<u>\$ 59,282</u>

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21. Joint Cost Allocations

HSSA 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, 2021, HSSA incurred joint costs of \$23,102 which are not specifically attributable to particular components of the publications. HSSA allocated \$17,465 to program services not including public education and \$5,637 to fund-raising.

During the year ended June 30, 2020, HSSA incurred joint costs of \$24,719 which are not specifically attributable to particular components of the publications. HSSA allocated \$18,688 to program services not including public education and \$6,031 to fund-raising.

22. Related Party Transactions

Members of the board of directors make contributions and volunteer their time to support HSSA. Members of the board of directors contributed \$23,652 and \$36,651 for the years ended June 30, 2021 and 2020, respectively.

HSSA has a business relationship with Southwest Solutions AZ, Inc. (Southwest). The co-owner of Southwest is a member of HSSA's board of directors. During the years ended June 30, 2021 and 2020, HSSA made payments totaling \$83,690 and \$80,925, respectively, to Southwest. Accounts payable at June 30, 2021 and 2020 includes \$-0- and \$10,518, respectively, due to Southwest.

23. Supplemental Cash Flow Disclosures

	2021	2020
Supplemental disclosure of cash flow information:		
Donated property and equipment	\$ 15,917	\$ 180,000
Cash paid for interest	\$ 5,962	\$ 696
Donated auction items	\$ 37,209	\$ -
Property and equipment purchased with capital leases	\$ 51,825	\$ -

24. Subsequent Events

Subsequent to June 30, 2021, HSSA executed a contract, in the amount of \$1,848,893, for construction of the Education and Behavioral Center discussed in Note 9. In addition, HSSA has executed a retainer with the current project architect in the amount of \$6,000 per month for construction support and liaison services over the duration of the construction project.

HSSA was unaware of any additional subsequent events as of November 1, 2021, the date the financial statements were available to be issued.

See independent auditor's report.