

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

Audited Financial Statements

For the year ended June 30, 2023

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of The Humane Society of Southern Arizona, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Southern Arizona, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Humane Society of Southern Arizona, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Humane Society of Southern Arizona, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

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



## INDEPENDENT AUDITOR'S REPORT, CONTINUED

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Humane Society of Southern Arizona, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Humane Society of Southern Arizona, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

LUDWIG KLEWERT & BUDNICK PLLC

December 19, 2023

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 840,705
Accounts and other receivables	208,603
Unconditional promises to give, capital campaign, current portion	255,192
Bequests receivable, current portion	377,536
Inventory	424,780
Prepaid expenses and other assets	196,212

Total current assets 2,303,028

Unconditional promises to give, capital campaign, non-current portion, net 185,295

Bequests receivable, non-current portion, net 294,034

Investments 7,083,269

Operating lease right-of-use assets 187,838

Beneficial interest in perpetual trusts 3,344,135

Beneficial interest in charitable remainder trust 418,497

Property and equipment, net 15,055,123

Total assets \$ 28,871,219

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 283,890
Accrued payroll and taxes	295,490
Other accrued expenses	193,633
Line of credit	1,129,272
Operating lease liabilities, current portion	27,501
Finance leases payable, current portion	14,898
Beneficiary annuity obligations, current portion	1,934

Total current liabilities 1,946,618

Operating lease liabilities, non-current portion 78,320

Finance leases payable, non-current portion 949

Total liabilities 2,025,887

Net assets:

Without donor restrictions:

Expended for property and equipment	13,910,004
Board-designated operating reserve	2,558,474
Available for operations	3,785,240

Total net assets without donor restrictions 20,253,718

With donor restrictions:

Purpose restrictions	2,736,884
Time-restricted for future periods	418,497
Perpetual in nature	3,436,233

Total net assets with donor restrictions 6,591,614

Total net assets 26,845,332

Total liabilities and net assets \$ 28,871,219

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Support:			
Contributions	\$ 2,633,368	516,288	\$ 3,149,656
Trusts and bequests	3,410,564	45,308	3,455,872
Special events	343,880	-	343,880
Thrift store, net	515,600	-	515,600
Gifts in-kind goods and services	549,356	1,500	550,856
Grants	13,000	478,387	491,387
Government grants	346,667	-	346,667
Merchandise sales, net	117,483	-	117,483
Total support	7,929,918	1,041,483	8,971,401
Revenue and other income:			
Shelter services	228,936	-	228,936
Adoptions	311,312	-	311,312
Veterinary services	667,367	-	667,367
Investment income, net	830,900	-	830,900
Education services	127,124	-	127,124
Other income	93,806	-	93,806
Gain on beneficial interest in charitable remainder trust	-	27,466	27,466
Gain on beneficial interest in perpetual trusts	-	159,070	159,070
Total revenue and other income	2,259,445	186,536	2,445,981
Net assets released from restrictions:			
Satisfaction of donor restrictions	861,136	(861,136)	-
Total revenue and support	11,050,499	366,883	11,417,382
Expenses:			
Program services	7,582,237	-	7,582,237
Administrative	497,969	-	497,969
Fund-raising	1,580,180	-	1,580,180
Total functional expenses	9,660,386	-	9,660,386
Special events - costs of direct donor benefits	179,078	-	179,078
Total expenses	9,839,464	-	9,839,464
Change in net assets	1,211,035	366,883	1,577,918
Net assets, beginning of year	19,042,683	6,224,731	25,267,414
Net assets, end of year	\$ 20,253,718	6,591,614	\$ 26,845,332

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, 2023

	Program Services							
	Animal Shelter	Adoptions	Veterinary Clinic	Education and Outreach	Total Program Services	Administrative	Fund-raising	Total
Personnel:								
Salaries and wages	\$ 1,778,192	\$ 519,689	\$ 1,433,700	\$ 309,447	\$ 4,041,028	\$ 235,408	\$ 451,953	\$ 4,728,389
Employee benefits	144,631	29,898	98,406	32,136	305,071	20,895	30,188	356,154
Payroll taxes	130,197	39,098	110,825	23,333	303,453	17,754	33,960	355,167
Total personnel	2,053,020	588,685	1,642,931	364,916	4,649,552	274,057	516,101	5,439,710
Supplies	506,714	37,281	379,512	57,245	980,752	19,668	494,301	1,494,721
Advertising and promotion	166,752	51,744	108,143	67,769	394,408	103,465	285,893	783,766
Other purchased services	384,713	10,871	114,226	14,684	524,494	23,279	12,451	560,224
Depreciation	214,844	7,581	67,007	17,460	306,892	10,948	16,903	334,743
Professional services	26,217	9,635	25,170	47,892	108,914	18,859	168,439	296,212
Facilities	133,671	26,270	67,142	22,121	249,204	10,529	5,752	265,485
Information technology	31,525	19,504	28,183	18,727	97,939	18,373	58,149	174,461
Insurance	59,426	9,413	28,884	11,231	108,954	4,684	3,187	116,825
Other expenses	54,128	1,643	12,081	1,811	69,663	3,295	11,939	84,897
Vehicle and travel	45,260	5,478	8,268	9,763	68,769	2,540	4,823	76,132
Interest expense	10,438	2,713	7,861	1,684	22,696	8,272	2,242	33,210
Total functional expenses	\$ 3,686,708	\$ 770,818	\$ 2,489,408	\$ 635,303	\$ 7,582,237	\$ 497,969	\$ 1,580,180	\$ 9,660,386

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

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENT OF CASH FLOWS  
For the year ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	\$ 1,577,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	411,348
Donated property and equipment	(1,500)
Realized and unrealized gain on investments	(496,279)
Gain on beneficial interest in perpetual trusts	(159,070)
Gain on beneficial interest in charitable remainder trusts	(27,466)
Change in the allowance for net present value, uncollectible promises to give	(25,073)
Contributions restricted for capital purposes	(263,173)
Changes in operating assets and liabilities:	
Accounts and other receivables	(138,713)
Unconditional promises to give	(16,956)
Bequests and memorials receivable	(85,150)
Inventory	(95,478)
Prepaid expenses and other assets	(54,285)
Accounts payable	(255,602)
Accrued payroll and taxes	58,302
Other accrued expenses	134,313
Conditional grants	(3,997)
Total adjustments	<u>(1,018,779)</u>
Net cash provided by operating activities	559,139
Cash flows from investing activities:	
Purchases of marketable securities	(2,451,350)
Proceeds from sales of marketable securities	3,015,555
Purchases of property and equipment	(1,741,892)
Distributions from charitable remainder trusts	<u>11,307</u>
Net cash used in investing activities	(1,166,380)
Cash flows from financing activities:	
Collection on contributions restricted for capital purposes	511,683
Borrowings on line of credit	1,125,000
Repayments on line of credit	(1,426,426)
Payments on finance leases payable	(17,951)
Payments on gift annuity obligations	<u>(5,624)</u>
Net cash provided by financing activities	186,682
Change in cash and cash equivalents	(420,559)
Cash and cash equivalents, beginning of year	<u>1,261,264</u>
Cash and cash equivalents, end of year	<u>\$ 840,705</u>

See independent auditor's report.



# THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2023

### 1. Organization

Since its founding in 1944, The Humane Society of Southern Arizona (HSSA) has evolved to become a full-spectrum animal services organization, dedicated to compassionately serving pets and the people who love them. HSSA is a private, not-for-profit corporation that is not affiliated with any other humane society or animal shelter. Our work is guided by three pillars of care: *Shelter and Placement*, *Prevention*, and *Education and Outreach*.

#### Shelter and Placement

HSSA prides itself on providing the highest level of quality service to the pets in its care. The happier, healthier, and more confident pets are, the more likely it is that with our help, they will find their forever homes.

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 - chosen for their calming properties which help promote faster healing. Here, pets are welcomed, assessed for any immediate medical needs, and cared for during their stay.

The New Beginnings team assesses each pet's behavior and works with those pets who need help with socialization and 'manners'. The enrichment team ensures that each pet receives daily stimulation and treats to keep their bodies and brains as healthy and happy as possible during their stay, while our shelter medical team provides regular medical care.

Adoptable pets meet their forever families at our three PAWSH retail locations as well as offsite adoption events.

#### Prevention

Prevention takes many forms. 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 to its rescue partners and the public, which help reduce the number of homeless and unwanted pets throughout southern Arizona. Vaccinations and dental services help pets stay healthy. School-based humane education programs – we bring our animal ambassadors to more than 500 classrooms a year – and on-site camps teach kindness towards animals, generating huge benefits for our community in the reduction of domestic and other human violence for decades to come.

#### 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, from the *Hand in Paw Club* for kids to the *Pet VIP* program which brings pets to visit those in care facilities and hospitals, and many programs in between. Public classes teach training skills pets and their people. HSSA partners with Pima Medical Institute, Pima Community College, and the University of Arizona's College of Veterinary Medicine (UA CVM) 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 the people who love them in a way that benefits the entire community.

#### Highlights This Year

A grant from Best Friends allowed HSSA to expand our services in southern Arizona. We partnered with shelters in Benson, Willcox, Douglas, and Nogales, providing supplies and recommendations to help them serve the pets in their own communities. In addition, HSSA received funding from PetSmart Charities for the one-year planning stage of bringing the One Health program to Douglas. This program offers health care services to low-income, unemployed, and others in need along with their pets in a 'one-stop shop' model.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

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, 2023 includes \$2,558,474 designated by the Board of Directors as an operating reserve.
- 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, 2023, HSSA had \$310,873 on deposit in excess of FDIC limitations.

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). HSSA paid \$50 for income taxes during the year ended June 30, 2023.

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, 2023, 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 year ended June 30, 2023

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 year ended June 30, 2023, the discount on these amounts are computed using an interest rate of 4.75%. 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 \$5,000 at June 30, 2023.

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, 2023, HSSA had \$6,862,479 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 sold through the shelter and the clinic and retail items sold at all three PAWSH stores and our online store. These items are stated at the lower of cost or market determined by the average cost method. Thrift store inventory for donated items 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:

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 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.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2023

2. Summary of Significant Accounting Policies, Continued

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 year ended June 30, 2023 is \$801,055 and includes in-kind expenses of \$413,933.

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.

Leases

HSSA adopted FASB ASU 2016-02, *Leases* (Topic 842) effective July 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on HSSA's statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of right-of-use (ROU) assets and lease liabilities for operating leases. The accounting for finance leases (formerly capital leases) remained substantially unchanged. Adoption of the standard required HSSA to restate amounts as of July 1, 2022, resulting in an increase in operating lease ROU assets in exchange for lease liabilities of \$216,374.

3. 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:

Cash and cash equivalents	\$ 840,705
Accounts and other receivables	208,603
Unconditional promises to give, current portion	255,192
Bequests receivable, current portion	377,536
Inventory held for sale	424,780
Total financial assets available within one year	2,106,816
Less:	
Amounts unavailable to management without Board approval:	
Cash portion of Board-designated operating reserve	18,818
Cash held in investment accounts	278,857
Total financial assets available to management for general expenditure within one year	\$ 1,809,141

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

3. Liquidity and Availability, Continued

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 \$2,558,474 at June 30, 2023 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.

4. 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, 2022, a capital campaign was launched to raise money for construction of a planned education and behavioral center. HSSA's unconditional promises to give include the balances due related to these capital campaigns and are scheduled to be repaid in future years as follows:

2024	\$ 255,192
2025	160,900
2026	10,300
2027	10,300
2028 and beyond	20,025
Total unconditional promises to give	456,717
Less discount to present value at 4.75%	(11,230)
Less allowance for uncollectible promises	(5,000)
Unconditional promises to give, net	440,487
Less current portion	(255,192)
Non-current portion	\$ 185,295

5. Investments

Investments, stated at fair value, consist of the following at June 30, 2023:

Mutual and exchange funds	\$ 4,590,064
Common stocks	1,870,659
Corporate and government bonds	622,546
Total investments	7,083,269
Less permanently restricted endowments	(92,098)
	\$ 6,991,171

Investment income is comprised of the following for the years ended June 30, 2023:

Interest and dividends	\$ 226,607
Realized and unrealized gain, net	496,279
Trust income	154,899
Investment management fees	(46,885)
Investment income, net	\$ 830,900

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

6. 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 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, 2023.

- *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.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

6. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

	Investments at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Mutual and exchange funds	\$ 4,590,064	\$ -	\$ -	\$ 4,590,064
Common stocks	1,870,659	-	-	1,870,659
Corporate and government bonds	622,546	-	-	622,546
Total investments	<u>\$ 7,083,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,083,269</u>
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ 3,344,135</u>	<u>\$ -</u>	<u>\$ 3,344,135</u>
Beneficial interest in charitable remainder trusts	<u>\$ -</u>	<u>\$ 418,497</u>	<u>\$ -</u>	<u>\$ 418,497</u>

7. 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 \$671,570 at June 30, 2023. 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, 2023, the allowance for uncollectible bequests and memorials receivable was \$5,255.

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. The value of HSSA's beneficial interest in these trust assets is \$3,344,135 at June 30, 2023.

HSSA is a beneficiary of three charitable remainder trusts held by third parties with beneficial interests of 50%, 25% and 9%. 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 \$418,497 at June 30, 2023.

HSSA is party to three charitable gift annuity agreements from the same donor totaling \$150,000 and discounted at 6%. The beneficiary obligation liability under these agreement at June 30, 2023 was \$1,934.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

8. Property and Equipment

Property and equipment consists of the following at June 30, 2023:

Buildings and improvements	\$ 10,150,602
Land	1,986,394
Furniture, fixtures and equipment	1,452,297
Vehicles	330,022
Construction in progress	3,318,845
Total property and equipment	17,238,160
Less accumulated depreciation	(2,183,037)
Property and equipment, net	<u>\$ 15,055,123</u>

Construction in progress consists primarily of costs incurred for the Freeman Education and Behavioral Center located on Roger Road, which is expected to cost approximately \$3,650,000 and be complete by September 2023. Costs incurred through June 30, 2023 are \$3,575,936 and include the purchase of the land.

9. Loan Management Account

HSSA is party to 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 (5.218% at June 30, 2023) 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, 2023 is \$1,129,272.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2023:

Subject to expenditure for specified purpose:	
Capital improvement fund	\$ 2,373,120
Wellness program	85,595
Other	62,309
One Health	57,258
Spay and neuter fund	51,791
Shelter collaboration	28,289
Education fund	21,806
Pet visitation	18,804
Sponsored adoptions	16,306
Rescue fund	12,937
Special needs (2nd Chance)	8,669
Total subject to purpose restrictions	<u>2,736,884</u>

See independent auditor's report.



THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

10. Net Assets With Donor Restrictions, Continued

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2023 (continued):

Subject to the passage of time:

Beneficial interest in charitable remainder trusts 418,497

Endowments:

Not subject to spending policy or appropriation:

Original endowment gifts 92,098

Perpetual trusts held by third-party 3,344,135

Net assets with donor restrictions \$ 6,591,614

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2023:

	Contributions	Investment Income (loss)	Change in Beneficial Interest in Funds Held by Others	Releases
Subject to expenditure for specified purpose:				
Capital improvement fund	\$ 253,791	\$ -	\$ -	\$ -
Wellness program	45,315	-	-	(64,713)
Other	67,140	-	-	(157,152)
One Health	120,000	-	-	(62,742)
Spay and neuter fund	164,102	-	-	(161,615)
Shelter collaboration	139,000	-	-	(110,711)
Education fund	16,500	-	-	(46,508)
Pet visitation	25,030	-	-	(6,226)
Sponsored adoptions	11,206	-	-	(8,874)
Special needs (2nd Chance)	168,553	-	-	(197,020)
New beginnings	30,846	-	-	(34,266)
	1,041,483	-	-	(849,827)
Subject to the passage of time:				
Beneficial interest in charitable remainder trusts	-	-	27,466	(11,309)
Endowments:				
Subject to appropriation and expenditure:				
Original endowment gifts	-	-	-	-
Perpetual trusts held by third-party	-	-	159,070	-
Net assets with donor restrictions	\$ 1,041,483	\$ -	\$ 186,536	\$ (861,136)

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2023

11. Endowment Funds

Endowments

HSSA's endowment funds consist of two individual funds established by donors and with a combined balance of \$92,098 at June 30, 2023. 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 7. 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.

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, 2023.

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.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

11. Endowment Funds, Continued

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.

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 year ended June 30, 2023, there were no endowment earnings bearing donor restrictions.

12. Special Events

HSSA's special events during the year ended June 30, 2023 consists of:

	Revenue	Expenses	Net
Puttin' on the Dog (includes \$4,171 in-kind)	\$ 180,610	\$ 121,749	\$ 58,861
Raffle 50/50	156,030	116,229	39,801
Raffles other	7,240	-	7,240
Total special events	<u>\$ 343,880</u>	<u>\$ 237,978</u>	<u>\$ 105,902</u>

Special event expenses for the year ended June 30, 2023 include \$179,078 of direct donor benefit costs as reported on the statement of activities, and the remaining \$58,900 of other special event expenses are allocated on the statement of functional expenses as fundraising.

13. Donated Supplies and Services

Donated supplies and services consist of the following for the year ended June 30, 2023:

Professional services	\$ 421,955
Operating supplies and materials	162,429
Auction items	23,809
Property and equipment	1,500
Total donated supplies and services	<u>\$ 609,693</u>

Total donated supplies and services for the year ended June 30, 2023 includes \$56,166 and \$4,171 related to the thrift store and special events, respectively, and is, therefore, reported with thrift store and special event revenue.

Donated supplies and services were utilized for the following activities during the year ended June 30, 2023:

Program services	\$ 111,557
Fund-raising activities	497,500
Administrative activities	636
Total donated supplies and services	<u>\$ 609,693</u>

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

14. Thrift Store and Merchandise Sales

Thrift store and merchandise sales activity for the year ended June 30, 2023 consists of:

	Thrift Store	Merchandise Sales
Revenue (including thrift store in-kind of \$56,166)	\$ 1,444,751	\$ 233,637
Cost of goods sold	-	(116,154)
Other expenses, including depreciation of \$76,605	(929,151)	-
Net revenue	\$ 515,600	\$ 117,483

15. 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 year ended June 30, 2023, HSSA contributed \$49,717 to the 401(k) plan.

16. Commitments

HSSA is self-insured for state unemployment purposes. Total expense for unemployment for the year ended June 30, 2023 was \$6,246.

17. Leases

HSSA has several non-cancelable operating leases for equipment and facilities that expire at various dates ranging between December 2023 and June 2028. In addition, two of the leases contain renewal options for twelve months.

The following summarizes the line items in the statement of financial position which includes amounts for operating and finance leases at June 30, 2023:

Operating Leases:

Operating lease right-of-use assets	\$ 187,838
Operating lease liabilities, current portion	\$ 27,501
Operating lease liabilities, non-current portion	78,320
Total operating lease liabilities	\$ 105,821

Finance Leases:

Property and equipment	26,619
Accumulated depreciation	(19,513)
Property and equipment, net	\$ 7,106
Finance lease liabilities, current portion	\$ 14,898
Finance lease liabilities, non-current portion	949
Total finance lease liabilities	\$ 15,847

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

17. Leases, Continued

The following summarizes the weighted average remaining lease terms and discount rates as of June 30, 2023:

	<u>Leases</u>	<u>Lease</u>
Weighted average remaining lease term	4.42 years	1.01 years
Weighted average discount rates	2.90%	4.78%

The maturities of lease liabilities as of June 30, 2023 are:

<u>Year ending</u> <u>December 31,</u>	<u>Operating</u> <u>Leases</u>	<u>Finance</u> <u>Lease</u>
2024	\$ 30,169	\$ 15,264
2025	25,465	556
2026	20,326	417
2027	18,452	-
2028	16,734	-
Thereafter	1,395	-
Total lease payments	112,541	16,237
Less: interest	(6,720)	(390)
Present value of lease liabilities	<u>\$ 105,821</u>	<u>\$ 15,847</u>

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2023:

Operating lease included in rent expense	<u>\$ 24,041</u>
Finance lease costs:	
Amortization of lease assets included in depreciation expense	\$ 8,873
Interest on lease liabilities included in interest expense	<u>1,241</u>
Total finance lease costs	<u>\$ 10,114</u>

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	<u>\$ 21,187</u>
Operating cash flows from finance lease	<u>\$ 1,241</u>
Financing cash flows from finance lease	<u>\$ 17,951</u>
Lease assets obtained in exchange for lease obligations:	
Operating leases	<u>\$ 216,374</u>

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

18. Joint Cost Allocations

HSSA sends out newsletters that include information about programs, services, fundraising events, advertising, and requests for contributions. During the year ended June 30, 2023, HSSA incurred joint costs of \$31,626 which are not specifically attributable to particular components of the publications. HSSA allocated \$25,301 to program services, not including public education, and \$6,325 to fundraising.

19. Supplemental Cash Flow Disclosures

Schedule of non-cash investing and financing activities:

Interest expense paid with line of credit draw

\$ 28,729

Operating right-of-use lease assets obtained in exchange for  
lease obligations

\$ 216,374

Operating lease liability reduced by prepaid lease

\$ 82,017

Supplemental disclosure of cash flow information:

Donated property and equipment

\$ 1,500

Cash paid for interest

\$ 1,979

20. Subsequent Events

HSSA was unaware of any subsequent events as of December 19, 2023, the date the financial statements were available to be issued.

See independent auditor's report.

