

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

Audited Financial Statements

For the year ended June 30, 2022

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.

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, 2022, 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, 2022, 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 KLEWER & ASSOCIATES, PLLC

October 25, 2022

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,261,264
Accounts and other receivables	69,890
Unconditional promises to give, capital campaign, current portion	323,669
Bequests receivable, current portion	469,058
Inventory	329,302
Prepaid expenses and other assets	223,944

Total current assets	2,677,127
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Unconditional promises to give, capital campaign, non-current portion, net	323,299
Bequests receivable, non-current portion, net	117,362
Investments	7,151,195
Beneficial interest in perpetual trusts	3,185,065
Beneficial interest in charitable remainder trust	402,338
Property and equipment, net	13,723,079

Total assets	\$ 27,579,465
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 539,492
Accrued payroll and taxes	237,188
Other accrued expenses	59,320
Line of credit	1,430,698
Conditional grants	3,997
Capital leases payable, current portion	17,952
Beneficiary annuity obligations, current portion	7,558

Total current liabilities	2,296,205
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Capital lease payable, non-current portion	15,846
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Total liabilities	2,312,051
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Net assets:

Without donor restrictions:

Expended for property and equipment	12,258,583
Board-designated operating reserve	2,569,671
Available for operations	4,214,429

Total net assets without donor restrictions	19,042,683
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With donor restrictions:

Purpose restrictions	2,545,230
Time-restricted for future periods	402,338
Perpetual in nature	3,277,163

Total net assets with donor restrictions	6,224,731
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Total net assets	25,267,414
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Total liabilities and net assets	\$ 27,579,465
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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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Support:			
Contributions	\$ 2,518,527	\$ 869,715	\$ 3,388,242
Trusts and bequests	1,016,451	56,347	1,072,798
Grants - Paycheck Protection Program	721,704	-	721,704
Special events	424,958	-	424,958
Thrift store, net	339,576	-	339,576
Gift in-kind goods and services	271,145	45,436	316,581
Grants	54,794	159,590	214,384
Government grants	123,004	-	123,004
Merchandise sales, net	84,932	-	84,932
Total support	5,555,091	1,131,088	6,686,179
Revenue and other income:			
Shelter services	235,603	-	235,603
Adoptions	379,524	-	379,524
Veterinary services	591,459	-	591,459
Investment loss, net	(813,845)	-	(813,845)
Education services	101,380	-	101,380
Other income	9,127	-	9,127
Loss on beneficial interest in charitable remainder trust	-	(94,645)	(94,645)
Loss on beneficial interest in perpetual trusts	-	(695,515)	(695,515)
Total revenue and other income	503,248	(790,160)	(286,912)
Net assets released from restrictions:			
Satisfaction of donor restrictions	570,840	(570,840)	-
Total revenue and support	6,629,179	(229,912)	6,399,267
Expenses:			
Program services	6,233,977	-	6,233,977
Administrative	435,328	-	435,328
Fund-raising	1,324,801	-	1,324,801
Total functional expenses	7,994,106	-	7,994,106
Special events - costs of direct donor benefits	143,195	-	143,195
Total expenses	8,137,301	-	8,137,301
Change in net assets	(1,508,122)	(229,912)	(1,738,034)
Net assets, beginning of year	20,550,805	6,454,643	27,005,448
Net assets, end of year	\$ 19,042,683	\$ 6,224,731	\$ 25,267,414

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, 2022

Program Services

	Animal Shelter	Adoptions	Veterinary Clinic	Education and Outreach	Total Program Services	Administrative	Fund-raising	Total
Personnel:								
Salaries and wages	\$ 1,607,185	\$ 220,241	\$ 1,189,944	\$ 257,521	\$ 3,274,891	\$ 263,604	\$ 363,198	\$ 3,901,693
Employee benefits	150,924	16,673	116,330	32,481	316,408	27,636	27,268	371,312
Payroll taxes	120,426	16,538	88,746	19,089	244,799	19,553	26,577	290,929
Total personnel	1,878,535	253,452	1,395,020	309,091	3,836,098	310,793	417,043	4,563,934
Supplies	533,535	14,864	344,088	36,917	929,404	11,206	91,018	1,031,628
Other purchased services	195,063	7,316	62,084	1,462	265,925	26,142	288,982	581,049
Advertising and promotion	146,111	23,864	79,358	29,373	278,706	5,453	231,432	515,591
Depreciation	222,201	2,306	62,954	18,011	305,472	10,003	18,482	333,957
Professional services	32,894	8,546	34,128	39,825	115,393	26,075	154,376	295,844
Other expenses	44,770	13,745	37,934	7,281	103,730	17,887	106,851	228,468
Facilities	128,367	17,298	46,262	17,517	209,444	7,886	4,225	221,555
Insurance	55,565	4,571	25,340	9,095	94,571	3,835	3,512	101,918
Information technology	24,372	3,472	19,655	4,579	52,078	15,453	6,884	74,415
Vehicle and travel	28,961	4,316	7,194	2,685	43,156	595	1,996	45,747
Total functional expenses	\$ 3,290,374	\$ 353,750	\$ 2,114,017	\$ 475,836	\$ 6,233,977	\$ 435,328	\$ 1,324,801	\$ 7,994,106

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, 2022

Cash flows from operating activities:	
Change in net assets	\$ (1,738,034)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	404,000
Donated property and equipment and auction items	(48,747)
Donated auction items	(25,508)
Interest expense capitalized	16,983
Realized and unrealized loss on investments	1,184,814
Loss on beneficial interest in perpetual trusts	695,515
Loss on beneficial interest in charitable remainder trusts	94,645
Change in the allowance for net present value, uncollectible promises to give	19,552
Contributions restricted for capital purposes	(600,428)
Changes in operating assets and liabilities:	
Accounts and other receivables	103,279
Bequests and memorials receivable	609,314
Inventory	(130,369)
Prepaid expenses and other assets	(27,047)
Accounts payable	(17,797)
Accrued payroll and taxes	(69,310)
Other accrued expenses	(24,608)
Refundable advance - Paycheck Protection Program	(721,704)
Total adjustments	1,462,584
Net cash used in operating activities	(275,450)
Cash flows from investing activities:	
Purchases of marketable securities	(4,006,839)
Proceeds from sales of marketable securities	4,437,273
Purchases of property and equipment	(1,561,604)
Distributions from charitable remainder trusts	10,140
Net cash used in investing activities	(1,121,030)
Cash flows from financing activities	
Collection on contributions restricted for capital purposes	554,325
Borrowings on line of credit	428,000
Repayments on line of credit	(67,402)
Payments on capital lease payable	(14,617)
Payments on gift annuity obligations	(5,342)
Net cash provided by financing activities	894,964
Change in cash and cash equivalents	(501,516)
Cash and cash equivalents, beginning of year	1,762,780
Cash and cash equivalents, end of year	\$ 1,261,264

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2022

1. Organization

Since its founding in 1944, The Humane Society of Southern Arizona, Inc. (HSSA) has evolved to become a full-spectrum animal services organization. HSSA is continuing an important period of major growth to pursue its mission of compassionately serving pets and the people who love them – expanding its facilities and services in east and west Tucson and throughout southern Arizona, including Cochise County which has many complex needs for sheltering and veterinary services. HSSA's 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 service to the pets in its care. The happier, healthier, and more confident pets are, the more likely it is that they will find their forever home.

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 and regular medical care and enrichment throughout their stay, are behaviorally assessed and trained, and are joyfully paired with their adoptive families. Our marketing team is the best in the business at telling the stories that bring homeless pets and their future adopters together. We are now building additional shelters on the eastside of Tucson and in Bisbee to meet these needs throughout our region.

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 at the shelter and to its rescue partners, which help reduce the number of homeless and unwanted pets throughout southern Arizona. Vaccination 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.

We are now developing the OneHealth program which offers healthcare to people in poverty when they seek care for their pets, increasing access to healthcare for humans and pets alike -- recognizing the strength and the value of the human-animal bond to public 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's College of Veterinary Medicine to help the next generation of veterinary professional 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.

HSSA has been leading advocacy efforts with other animal welfare leaders to achieve important goals in the Arizona Legislature. Last session we dealt with the state's serious veterinary shortage by passing a new Arizona Veterinary Student Loan Assistance Program which will offer up to \$100,000 to defray outstanding student loan debt for each veterinarian who practices in Arizona for at least four years, with at least two of those years working at an animal shelter or in a rural agricultural practice. State funding secured to date is sufficient to bring at least 57 new vets into our state.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022 includes \$2,569,671 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, 2022, HSSA had \$4,987 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, 2022.

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, 2022, 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, 2022

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, 2022, the discount on these amounts are computed using a risk-free 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, 2022.

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, 2022 had \$7,525,315 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 PAWSH. 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

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

2. Summary of Significant Accounting Policies, Continued

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.

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, 2022 is \$443,170 and includes in-kind expenses of \$121,945.

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. 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	\$ 1,261,264
Accounts and other receivables	69,890
Unconditional promises to give, current portion	323,669
Bequests receivable	469,058
Inventory held for sale	<u>329,302</u>
Total financial assets available within one year	2,453,183
Less:	
Amounts unavailable to management without Board approval:	
Cash portion of Board-designated operating reserve	27,696
Cash held in investment accounts	<u>308,856</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 2,116,631</u>

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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 \$2,569,671 at June 30, 2022 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, 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:

2023	\$ 323,669
2024	241,769
2025	92,233
2026	10,300
2027 and beyond	20,300
Total unconditional promises to give	688,271
Less discount to present value at 4.75%	(36,303)
Less allowance for uncollectible promises	(5,000)
Unconditional promises to give, net	646,968
Less current portion	(323,669)
Non-current portion	\$ 323,299

5. Investments

Investments, stated at fair value, consist of the following at June 30, 2022:

Mutual and exchange funds	\$ 4,808,983
Common stocks	1,747,558
Corporate and government bonds	594,654
Total investments	7,151,195
Less permanently restricted endowments	(92,098)
	\$ 7,059,097

Investment loss is comprised of the following for the years ended June 30, 2022:

Interest and dividends	\$ 248,614
Realized and unrealized loss, net	(1,184,814)
Trust income	186,532
Investment management fees	(64,177)
Investment loss, net	\$ (813,845)

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022.

- *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, 2022

6. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

	Investments at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Mutual and exchange funds	\$ 4,808,983	\$ -	\$ -	\$ 4,808,983
Common stocks	1,747,558	-	-	1,747,558
Corporate and government bonds	594,654	-	-	594,654
Total investments	<u>\$ 7,151,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,151,195</u>
Beneficial interest in perpetual trusts	<u>\$ -</u>	<u>\$ 3,185,065</u>	<u>\$ -</u>	<u>\$ 3,185,065</u>
Beneficial interest in charitable remainder trusts	<u>\$ -</u>	<u>\$ 402,338</u>	<u>\$ -</u>	<u>\$ 402,338</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 \$586,420 at June 30, 2022. 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, 2022, 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 \$3,185,065 at June 30, 2022.

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 \$402,338 at June 30, 2022.

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, 2022 was \$7,558.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

8. Property and Equipment

Property and equipment consists of the following at June 30, 2022:

Buildings and improvements	\$ 10,037,462
Land	1,986,394
Furniture, fixtures and equipment	1,452,297
Vehicles	338,769
Construction in progress	1,699,883
Total property and equipment	15,514,805
Less accumulated depreciation	(1,791,726)
Property and equipment, net	<u>\$ 13,723,079</u>

Construction in progress consists of costs incurred for two expansions. Adding limited adoption and clinic services at HSSA's Wilmot location is expected to cost approximately \$110,000 and be complete by August 2022. Costs incurred through June 30, 2022 are \$103,589. The Freeman Education and Behavioral Center located on Roger Road is expected to cost approximately \$3,500,000 and be complete by January 2023. Costs incurred through June 30, 2022 are \$1,915,813 and include the purchase of the land.

9. Capital Leases Payable

HSSA leases computer equipment under capital lease agreements. The total cost of the equipment under these leases was \$51,825 and accumulated depreciation was \$10,639 at June 30, 2022. The capital leases payable consists of the following at June 30, 2022:

Action Imaging, \$46 per month including interest through March 2026; collateralized by computer equipment.	\$ 1,978
Cisco Capital, \$475 per month including interest through January 2024; collateralized by computer equipment.	8,222
Cisco Capital, \$1,078 per month including interest through June 2024; collateralized by computer equipment.	23,598
Total capital leases	33,798
Less current portion	(17,952)
Non-current portion	<u>\$ 15,846</u>

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

Year ending <u>June 30,</u>	
2023	\$ 19,193
2024	15,262
2025	556
2026	417
Total lease payments	35,428
Less imputed interest	(1,630)
Net minimum lease payments	<u>\$ 33,798</u>

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

10. 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 (1.1787% at June 30, 2022) 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, 2022 \$1,430,698.

11. Paycheck Protection Program Loan

During the year ended June 30, 2021, HSSA was awarded a loan in the amount of \$721,704 from the Small Business Administration's Paycheck Protection Program ("Program"). The proceeds were used to fund eligible costs, and the entire amount was forgiven during the year ended June 30, 2022. As a result, HSSA has recognized grant revenue in the amount of \$721,704 for the year ended June 30, 2022.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2022:

Subject to expenditure for specified purpose:

Capital improvement fund	\$ 2,119,329
Other	152,323
Wellness program	104,993
Education fund	51,814
Spay and neuter fund	49,304
Special needs (2nd Chance)	37,136
Sponsored adoptions	13,974
Rescue fund	12,937
New beginnings	3,420
Total subject to purpose restrictions	2,545,230

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

12. Net Assets With Donor Restrictions, Continued

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2022. continued:

Subject to the passage of time:	
Beneficial interest in charitable remainder trusts	402,338
Endowments:	
Not subject to spending policy or appropriation:	
Original endowment gifts	92,098
Perpetual trusts held by third-party	3,185,065
Net assets with donor restrictions	<u>\$ 6,224,731</u>

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2022:

	Contributions	Investment Income (loss)	Change in Beneficial Interest in Funds Held by Others	Releases
Subject to expenditure for specified purpose:				
Capital improvement fund	\$ 633,942	\$ -	\$ -	\$ -
Other	134,212	-	-	(35,628)
Wellness program	75,089	-	-	(65,708)
Education fund	12,313	-	-	(4,838)
Spay and neuter fund	79,445	-	-	(173,570)
Special needs (2nd Chance)	138,103	-	-	(113,460)
Sponsored adoptions	18,915	-	-	(12,803)
New beginnings	33,937	-	-	(80,856)
Pet visitation program	5,132	-	-	(31,119)
Cat Coalition	-	-	-	(37,504)
YODI	-	-	-	(5,214)
	<u>1,131,088</u>	<u>-</u>	<u>-</u>	<u>(560,700)</u>
Subject to the passage of time:				
Beneficial interest in charitable remainder trusts	-	-	(94,645)	(10,140)
Endowments:				
Subject to appropriation and expenditure:				
Original endowment gifts	-	-	-	-
Perpetual trusts held by third-party	-	-	(695,515)	-
Net assets with donor restrictions	<u>\$ 1,131,088</u>	<u>\$ -</u>	<u>\$ (790,160)</u>	<u>\$ (570,840)</u>

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2022

13. 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, 2022. 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, 2022.

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.

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THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

13. 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, 2022, there were no endowment earnings bearing donor restrictions.

14. Special Events

HSSA's special events during the year ended June 30, 2022 consists of:

	Revenue	Expenses	Net
Puttin' on the Dog	\$ 95,669	\$ 51,879	\$ 43,790
March Muttress	66,533	-	66,533
Cover Dog	59,277	-	59,277
Raffle 50/50 (includes in-kind contributions in the amount of \$450)	120,730	70,417	50,313
Other events	52,220	45,785	6,435
Woofdown Wednesday	13,960	-	13,960
Calendar contest	13,664	1,800	11,864
Raffles other	2,905	-	2,905
Total special events	<u>\$ 424,958</u>	<u>\$ 169,881</u>	<u>\$ 255,077</u>

Special event expenses for the year ended June 30, 2022 include \$143,195 of direct donor benefit costs as reported on the statement of activities, and the remaining \$26,686 of other special event expenses are allocated on the statement of functional expenses as fundraising.

15. Donated Supplies and Services

Donated supplies and services consist of the following for the years ended June 30, 2022:

Professional services	\$ 138,787
Shelter and clinic	87,128
Operating supplies and materials	45,517
Food	7,687
Auction items	25,508
Property and equipment	48,747
Total donated supplies and services	<u>\$ 353,374</u>

Total donated supplies and services for the year ended June 30, 2022 includes \$36,793 related to the thrift store and is, therefore, reported with thrift store revenue.

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

15. Donated Supplies and Services, Continued

Donated supplies and services were utilized for the following activities during the year ended June 30, 2022:

Program services	\$	147,357
Fund-raising activities		188,837
Administrative activities		17,180
Total donated supplies and services	\$	<u>353,374</u>

16. Thrift Store and Merchandise Sales

Thrift store and merchandise sales activity for the year ended June 30, 2022 consists of:

	Thrift Store	Merchandise Sales
Revenue (including thrift store in-kind of \$36,793)	\$ 1,034,926	\$ 162,229
Cost of goods sold	(5,840)	(77,297)
Other expenses, including depreciation of \$10,712	(689,510)	-
Net revenue	<u>\$ 339,576</u>	<u>\$ 84,932</u>

17. 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, 2022, HSSA contributed \$51,278 to the 401(k) plan.

18. Commitments

HSSA is self-insured for state unemployment purposes. Total expense for unemployment for the year ended June 30, 2022 was \$9,904.

19. Operating Leases

HSSA has several non-cancelable operating leases for equipment and facilities that expire at various dates ranging between January 2022 and March 2026. Rental expense related to these leases for the year ended June 30, 2022 was \$40,362. Future minimum lease payments under these agreements are:

<u>Year ending June 30,</u>	
2023	\$ 33,764
2024	29,264
2025	29,264
2026	21,800
Total future minimum lease payments	<u>\$ 114,092</u>

See independent auditor's report.

THE HUMANE SOCIETY OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

20. 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, 2022, HSSA incurred joint costs of \$29,345 which are not specifically attributable to particular components of the publications. HSSA allocated \$19,074 to program services and \$10,271 to fund-raising.

21. Supplemental Cash Flow Disclosures

Supplemental disclosure of cash flow information:

Donated property and equipment	\$ 48,747
Cash paid for interest	\$ 17,867
Donated auction items	\$ 25,508

22. Subsequent Events

HSSA was unaware of any subsequent events as of October 25, 2022, the date the financial statements were available to be issued.

See independent auditor's report.

