

ARIZONA ANIMAL WELFARE LEAGUE

FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

ARIZONA ANIMAL WELFARE LEAGUE

FINANCIAL STATEMENTS

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CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 25



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

ARIZONA ANIMAL WELFARE LEAGUE

Opinion

We have audited the financial statements of **Arizona Animal Welfare League** (the "Organization"), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 GAAS 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.

In performing an audit in accordance with GAAS, 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 Organization'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 Organization'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.

CBIZ CPAs P.C.

November 3, 2025

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENTS OF FINANCIAL POSITION

December 31, 2024 and 2023

ASSETS

	<u>2024</u>	<u>2023</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,522,414	\$ 2,645,696
Bequests receivable	1,397,127	1,156,047
Pledges receivable	287,155	272,044
Accounts receivable	3,209	8,198
Inventories	103,877	148,225
Prepaid expenses and other current assets	118,320	98,257
TOTAL CURRENT ASSETS	5,432,102	4,328,467
PLEDGES RECEIVABLE, net of current portion	40,000	50,000
PROPERTY AND EQUIPMENT, net	5,671,764	5,558,747
OPERATING LEASE RIGHT-OF-USE ASSET, net	310,895	221,929
INVESTMENTS	7,879,614	7,025,445
ASSETS HELD BY OTHERS FOR BOARD DESIGNATED - QUASI ENDOWMENT	293,742	266,622
BENEFICIAL INTERESTS IN PERPETUAL TRUSTS	4,502,000	4,273,000
TOTAL ASSETS	<u>\$ 24,130,117</u>	<u>\$ 21,724,210</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 9,886	\$ 42,571
Accrued liabilities	178,441	155,578
Deferred revenue	113,896	-
Current portion of operating lease liability	117,257	116,882
Current portion of finance lease liability	11,916	11,498
TOTAL CURRENT LIABILITIES	431,396	326,529
OPERATING LEASE LIABILITY, net of current portion	195,971	107,364
FINANCE LEASE LIABILITY, net of current portion	28,399	40,316
TOTAL LIABILITIES	655,766	474,209
NET ASSETS		
Without donor restrictions		
Board designated	293,742	266,622
Undesignated	16,245,538	14,892,026
Total net assets without donor restrictions	16,539,280	15,158,648
With donor restrictions	6,935,071	6,091,353
TOTAL NET ASSETS	23,474,351	21,250,001
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,130,117</u>	<u>\$ 21,724,210</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2024

	Without Donor Restrictions	With Donor Restrictions	2024
SUPPORT AND REVENUES			
Contributions	\$ 2,604,549	\$ 481,619	\$ 3,086,168
Bequests	2,959,079	430,000	3,389,079
Donated materials and services	179,872	-	179,872
Clinic operations	158,155	-	158,155
Adoption fees	709,104	-	709,104
Investment income	531,017	56,847	587,864
Income from beneficial interests in perpetual trusts	206,534	-	206,534
Change in value of beneficial interests in perpetual trusts	-	229,000	229,000
Other	81,599	-	81,599
Total support and revenues before special events revenue, retail store sales and net assets released from restrictions	<u>7,429,909</u>	<u>1,197,466</u>	<u>8,627,375</u>
Special events revenues	383,254	-	383,254
Less direct donor benefit	(154,213)	-	(154,213)
Gross profit on special events	<u>229,041</u>	<u>-</u>	<u>229,041</u>
Retail store sales	127,608	-	127,608
Less related costs of sales	(59,195)	-	(59,195)
Gross profit on retail store sales	<u>68,413</u>	<u>-</u>	<u>68,413</u>
Net assets released from restrictions	<u>353,748</u>	<u>(353,748)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>8,081,111</u>	<u>843,718</u>	<u>8,924,829</u>
EXPENSES			
Program services			
Adoptions	2,099,967	-	2,099,967
Medical (Shelter)	3,087,447	-	3,087,447
Community Engagement	314,834	-	314,834
Medical (Public)	386,635	-	386,635
Total program services	<u>5,888,883</u>	<u>-</u>	<u>5,888,883</u>
Supporting services			
Management and general	329,335	-	329,335
Fundraising and development	482,261	-	482,261
Total supporting services	<u>811,596</u>	<u>-</u>	<u>811,596</u>
TOTAL EXPENSES	<u>6,700,479</u>	<u>-</u>	<u>6,700,479</u>
CHANGE IN NET ASSETS	1,380,632	843,718	2,224,350
NET ASSETS, BEGINNING OF YEAR	<u>15,158,648</u>	<u>6,091,353</u>	<u>21,250,001</u>
NET ASSETS, END OF YEAR	<u>\$ 16,539,280</u>	<u>\$ 6,935,071</u>	<u>\$ 23,474,351</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	2023
SUPPORT AND REVENUES			
Contributions	\$ 2,903,155	\$ 41,706	\$ 2,944,861
Bequests	1,762,067	1,661,079	3,423,146
Donated materials and services	216,851	-	216,851
Clinic operations	307,083	-	307,083
Adoption fees	818,257	-	818,257
Investment income	574,916	24,198	599,114
Income from beneficial interests in perpetual trusts	164,853	-	164,853
Change in value of beneficial interests in perpetual trusts	-	466,000	466,000
Other	59,907	-	59,907
Total support and revenues before special events revenue, retail store sales and net assets released from restrictions	<u>6,807,089</u>	<u>2,192,983</u>	<u>9,000,072</u>
Special events revenues	225,141	-	225,141
Less direct donor benefit	(57,189)	-	(57,189)
Gross profit on special events	<u>167,952</u>	<u>-</u>	<u>167,952</u>
Retail store sales	172,054	-	172,054
Less related costs of sales	(73,323)	-	(73,323)
Gross profit on retail store sales	<u>98,731</u>	<u>-</u>	<u>98,731</u>
Net assets released from restrictions	<u>174,930</u>	<u>(174,930)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>7,248,702</u>	<u>2,018,053</u>	<u>9,266,755</u>
EXPENSES			
Program services			
Adoptions	2,016,588	-	2,016,588
Medical (Shelter)	2,489,166	-	2,489,166
Community Engagement	276,350	-	276,350
Medical (Public)	559,352	-	559,352
Total program services	<u>5,341,456</u>	<u>-</u>	<u>5,341,456</u>
Supporting services			
Management and general	409,544	-	409,544
Fundraising and development	433,790	-	433,790
Total supporting services	<u>843,334</u>	<u>-</u>	<u>843,334</u>
TOTAL EXPENSES	<u>6,184,790</u>	<u>-</u>	<u>6,184,790</u>
CHANGE IN NET ASSETS	1,063,912	2,018,053	3,081,965
NET ASSETS, BEGINNING OF YEAR	<u>14,094,736</u>	<u>4,073,300</u>	<u>18,168,036</u>
NET ASSETS, END OF YEAR	<u>\$ 15,158,648</u>	<u>\$ 6,091,353</u>	<u>\$ 21,250,001</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2024

	Program Services					Supporting Services				
	Adoptions	Medical (Shelter)	Community Engagement	Medical (Public)	Program Total	Management and General	Fundraising and Development	Support Total	Total	
Salaries	\$ 1,663,763	\$ 1,387,058	\$ 95,777	\$ 302,514	\$ 3,449,112	\$ 212,904	\$ 302,670	\$ 515,574	\$ 3,964,686	
Employee insurance and benefits	159,583	141,441	12,036	23,041	336,101	12,631	31,394	44,025	380,126	
Supplies/medical expenses	31,232	819,425	184,232	38,317	1,073,206	7	12,399	12,406	1,085,612	
Occupancy	114,219	390,163	2,353	463	507,198	14,986	7,194	22,180	529,378	
Travel and related expenses	2,929	48,803	377	2,650	54,759	-	-	-	54,759	
Office supplies and small equipment	5,165	22,687	827	2,495	31,174	2,507	7,710	10,217	41,391	
Outside services	30,092	145,105	5,674	505	181,376	56,546	93,484	150,030	331,406	
Depreciation	92,984	132,765	13,558	16,650	255,957	29,754	27,410	57,164	313,121	
Total expenses	2,099,967	3,087,447	314,834	386,635	5,888,883	329,335	482,261	811,596	6,700,479	
Special events direct donor benefits	-	-	-	-	-	-	154,213	154,213	154,213	
Retail store costs of sales	38,876	20,319	-	-	59,195	-	-	-	59,195	
Total functional expenses	\$ 2,138,843	\$ 3,107,766	\$ 314,834	\$ 386,635	\$ 5,948,078	\$ 329,335	\$ 636,474	\$ 965,809	\$ 6,913,887	

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2023

	Program Services					Supporting Services			
	Adoptions	Medical (Shelter)	Community Engagement	Medical (Public)	Program Total	Management and General	Fundraising and Development	Support Total	Total
Salaries	\$ 1,514,830	\$ 937,056	\$ 211,104	\$ 185,407	\$ 2,848,397	\$ 267,985	\$ 193,890	\$ 461,875	\$ 3,310,272
Employee insurance and benefits	102,079	79,945	15,192	14,485	211,701	17,074	14,672	31,746	243,447
Supplies/medical expenses	113,826	946,707	26,897	320,476	1,407,906	624	695	1,319	1,409,225
Occupancy	115,729	323,652	240	2,407	442,028	14,097	7,610	21,707	463,735
Travel and related expenses	35,078	12,510	8,288	565	56,441	16	1,078	1,094	57,535
Office supplies and small equipment	10,673	30,245	1,360	617	42,895	2,295	8,502	10,797	53,692
Outside services	32,929	59,625	1,177	10,920	104,651	75,438	186,208	261,646	366,297
Depreciation	91,444	99,426	12,092	24,475	227,437	32,015	21,135	53,150	280,587
Total expenses	2,016,588	2,489,166	276,350	559,352	5,341,456	409,544	433,790	843,334	6,184,790
Special events direct donor benefits	-	-	-	-	-	-	57,189	57,189	57,189
Retail store costs of sales	46,469	26,854	-	-	73,323	-	-	-	73,323
Total functional expenses	\$ 2,063,057	\$ 2,516,020	\$ 276,350	\$ 559,352	\$ 5,414,779	\$ 409,544	\$ 490,979	\$ 900,523	\$ 6,315,302

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,224,350	\$ 3,081,965
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	313,121	280,587
Realized and unrealized gains on investments	(191,087)	(270,603)
Change in value of beneficial interests in perpetual trusts	(229,000)	(466,000)
Contributions restricted for endowment	(430,000)	(490,000)
Contributions restricted for investment in long-lived assets	(300,000)	(869,606)
Non-cash lease expense	115,983	203,065
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Bequests receivable	(241,080)	(577,128)
Pledges receivable	(5,111)	(178,365)
Accounts receivable	4,989	(2,328)
Inventories	44,348	(46,973)
Prepaid expenses and other current assets	(20,063)	(7,136)
Increase (decrease) in:		
Accounts payable	(32,685)	(20,398)
Accrued liabilities	22,863	(36,940)
Deferred revenue	113,896	(29,226)
Operating lease liabilities	(115,967)	(200,687)
Net cash provided by operating activities	<u>1,274,557</u>	<u>370,227</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,424,163	2,031,757
Purchases of investments	(4,114,365)	(3,349,471)
Purchases of property and equipment	(426,138)	(194,816)
Net cash used in investing activities	<u>(1,116,340)</u>	<u>(1,512,530)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in long-lived assets	300,000	869,606
Collection of contributions restricted to endowment	430,000	490,000
Principal portion of payments made on finance leases	(11,499)	(8,510)
Net cash provided by financing activities	<u>718,501</u>	<u>1,351,096</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	876,718	208,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,645,696</u>	<u>2,436,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,522,414</u>	<u>\$ 2,645,696</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Cash paid for interest	<u>\$ -</u>	<u>\$ 1,352</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Right of use assets acquired through financing leases	<u>\$ -</u>	<u>\$ 60,324</u>
Right of use assets acquired through operating leases	<u>\$ 204,949</u>	<u>\$ 89,776</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) Nature of operations and summary of significant accounting policies

Arizona Animal Welfare League (the "Organization") was incorporated in the state of Arizona in August 1971 as a non-profit corporation. The Organization is the largest and oldest no-kill animal shelter for dogs and cats in Arizona. A "no-kill" shelter is an animal shelter that does not kill healthy or treatable animals even when the shelter is full, reserving euthanasia for terminally ill animals or those considered dangerous to public safety. The Organization rescues, rehabilitates and re-homes more than 4,000 dogs and cats that are abandoned or that have been surrendered by their owners. The Organization does this primarily by rescuing them from other shelters in Maricopa County and in underserved rural communities throughout the State, where they are likely to be euthanized due to the lack of time and resources to care for them. At any one time, the Organization's facilities will hold 140 cats and 190 dogs. The Organization also has a robust volunteer program of approximately 562 volunteers who donate 33,045 volunteer hours annually along with a foster parent network of approximately 243 families that donated 40,408 foster hours. This group provides care and shelter in their homes for puppies and kittens that are too young to be adopted, and those animals that are recovering from medical procedures or that need socialization before adoption. All pets offered for adoption have been spayed or neutered, micro-chipped and are current on all vaccinations. Any medical treatments needed, including surgeries, are provided by the Organization's medical team and all animals are evaluated by the Organization's behavior department.

The Organization not only adopts companion animals into loving homes, but also holds a leadership position in the community in education and animal welfare issues. The Organization's other programs are designed to keep animals in their homes and out of the shelter system. These include dog obedience classes, community health worker training programs focused on wellness/preventative vet care, free behavior help for owned animals and a low-cost public clinic.

Over the past 50 years, the Organization has grown from adopting a handful of animals each year to a full-service animal welfare organization and leader in innovative behavior training, medical care, adoption, education and community outreach programs. Today the Organization's shelter has an onsite veterinary wellness/preventative clinic, kennels with a separate cattery, a training center and a freestanding infirmary.

The significant accounting policies followed by the Organization are summarized below:

The Financial Accounting Standards Board ("FASB") sets generally accepted accounting principles in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification ("ASC").

Basis of presentation – The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Management's use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits, savings and money market accounts. The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents temporarily held in investment portfolios are included with investments. Cash deposits are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Bequests – Bequests are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor's estate to be valid, the estate representative has provided information regarding the nature and value of estate assets and liabilities, and any conditions have been substantially met. Bequests receivable are stated at the net amount the Organization expects to receive, based upon the estimated fair value of the estate (net of potential fees and expenses) and the Organization's percentage interest as a beneficiary of the estate. At December 31, 2024 and 2023, bequests receivable are all due within one year. Management provides for probable uncollectible bequests receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual bequests receivable, if necessary. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to bequests receivable. Management considers bequests receivable at December 31, 2024 and 2023 to be collectible in full and, accordingly, an allowance for uncollectible bequests receivable is not considered necessary.

Contributions receivable – Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the contribution receivable is expected to be collected, the creditworthiness of the donors, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts, if any, is included in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible promises to give based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible contributions receivable and a credit to contributions receivable. Management considers contributions receivable to be collectible in full and, accordingly, an allowance for uncollectible contributions receivable is not considered necessary. As of December 31, 2024, all pledges are due within one year, with the exception of one pledge for which a payment of \$25,000 is due in 2026 and another pledge with payments of \$5,000 due each year from 2026 – 2028 for a total of \$15,000. As of December 31, 2023, all pledges were due within one year, with the exception of one pledge for which payments of \$25,000 were due in 2025 and 2026.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

The discount on long-term pledges was determined by management to be immaterial at December 31, 2024 and 2023.

Accounts receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible accounts receivable based on its assessment of the current status of individual accounts and reasonable and supportable forecasts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivables. Management considers accounts receivable to be fully collectible at December 31, 2024 and 2023 and, accordingly, an allowance for expected credit losses has not been recorded.

Inventories – Inventories consist of veterinary supplies and various pet supply items held for sale at the shelter gift shops and the mall adoption outlet. Inventory value is determined based on the lower of cost, as determined using the first-in, first-out (“FIFO”) method, or net realizable value.

Investments and investment income – The Organization accounts for its investments in equity and debt securities at fair value. The fair value of investments are based on quoted market prices with the exception of the investments report at net asset value (“NAV”) disclosed in Note 5. Investments are classified as noncurrent in the accompanying statements of financial position based on management’s intent. The Organization also holds certain nonmarketable certificates of deposit which are debt instruments and are carried at amortized cost and are held to maturity. Individual certificates of deposit are insured by the FDIC.

FASB ASC 958-605 requires that if a not-for-profit organization (“NPO”) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the NPO must record the fund as an asset and the community foundation must account for the fund as a liability. The Organization has such a fund with the Arizona Community Foundation, Inc. (“ACF”). The amounts held by ACF totaled \$293,742 and \$266,622 at December 31, 2024 and 2023, respectively, and are included in the accompanying statements of financial position as assets held by others for board designated-quasi endowment. The Organization’s funds at ACF are pooled with other funds at ACF to be invested.

Investment income (loss), including realized and unrealized gains and losses, is reported as increases or decreases in net assets without donor restrictions, unless a donor restricts their use.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the inherent risks associated with investment securities, it is possible that at least in the near-term investment balances may differ materially from the amounts reported in the accompanying financial statements.

Fair value measurement – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. It also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Property and equipment – Purchased property and equipment is stated at cost. Maintenance and repairs are charged to operations when incurred. All acquisitions of property and equipment and all costs for repairs and maintenance that materially prolong the useful life of assets in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

Buildings and improvements	5 – 40 years
Equipment	3 – 20 years
Vehicles	3 – 7 years
Office and clinic	3 – 10 years

Donations of property are reported as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment loss was recorded during the years ended December 31, 2024 and 2023.

Beneficial interests in perpetual trusts – The Organization is the income beneficiary of certain perpetual trusts. Under perpetual trust agreements, the Organization records the contribution with donor restrictions at the fair value of the Organization's beneficial interest in the trust assets. The trusts are held and controlled by third-party trustees. Income earned on the trust assets is recorded as income from beneficial interests in perpetual trusts without donor restrictions in the accompanying statements of activities and changes in net assets, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as change in value of beneficial interests in perpetual trusts in the with donor restrictions net asset class.

The Organization is entitled to a specified percentage defined in each trust agreement which ranges from 1.5% to 33.25% of the annual income distributions from each of the trusts. The Organization will also be entitled to a specified percentage of the total amount of the corpus assets that will be distributed if the trusts are ever dissolved. The Organization estimated the fair value of its beneficial interest in perpetual trusts at December 31, 2024 and 2023 based upon the Organization's respective percentage interest in the fair value of the underlying assets held by the trusts.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Contributions – The Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the grantor or resource provider. The transfer of commensurate value from the Organization to the grantor or resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Organization recognizes amounts received from unconditional contributions at the time the Organization receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Organization. During the year ended December 31, 2024, the Organization received various conditional contributions totaling approximately \$313,000 and the revenue from these contributions can only be recognized once the funds have been spent on qualifying costs. As of December 31, 2024, approximately \$114,000 has not yet been earned and is included in deferred revenue in the accompanying statement of financial position. During the year ended December 31, 2023, the Organization did not have any conditional contributions, the conditions on which had not been fully met at December 31, 2023.

The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions with donor restrictions or contributions without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions on the statements of activities and changes in net assets depending on the nature of the restriction. All contributions are considered to be available for use unless specifically restricted by the donor. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to net assets without donor restrictions.

During the years ended December 31, 2024 and 2023, the Organization received approximately \$71,600 and \$76,800, respectively, in support from Board members.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Donated materials and services – Donated materials and services are reflected at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

Donated materials and services are valued using estimated prices of identical or similar services in the local retail markets (Level 2). The Organization’s general practice is to utilize donated items at the program level for which the items were intended to support. During the years ended December 31, 2024 and 2023, the Organization did not monetize any in-kind contributions and there were no donor restrictions on the donated materials and services.

During the year ended December 31, 2024, the Organization received the following donations of materials and services which are included in the statement of activities and changes in net assets and functional expenses as follows:

	Supplies/ Medical Expenses	Outside Services	Total
Medical (Shelter)	<u>\$ 166,855</u>	<u>\$ 13,017</u>	<u>\$ 179,872</u>

During the year ended December 31, 2023, the Organization received the following donations of materials and services which are included in the statements of activities and changes in net assets and functional expenses as follows:

	Supplies/ Medical Expenses	Outside Services	Total
Medical (Shelter)	<u>\$ 202,878</u>	<u>\$ 13,973</u>	<u>\$ 216,851</u>

Special events revenue – The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective method exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events which ultimately benefit the donor rather than the Organization are included in special events revenue and simultaneously recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying statements of activities and changes in net assets.

Revenue from contracts with customers – Revenue from contracts with customers consists of adoption fees, clinic operations, education revenue, and retail store sales. Revenue is recognized when control of the promised goods or services is transferred to the Organization’s customers at an amount that reflects the consideration the Organization expects to be entitled in exchange for those services.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Adoption fees – The Organization charges a fee for the adoption of animals. The adoption fee may include additional goods or services available to the customer, however, the Organization determined that these additional goods and services do not represent a material right to the customer, and therefore there is one performance obligation within the contract. Amounts received for adoption fees are recorded as revenue at the time the animal is adopted. Payment is due at the time of adoption, therefore this transaction does not generally result in contract assets or liabilities.

Clinic operations – The Organization has an onsite low-cost clinic available to the public. Clinic fee revenue is primarily with private pay contracts and is generated through performance obligations satisfied at a point in time as services are rendered. Certain procedures require a deposit to be paid in advance. These deposits are recorded as deferred revenue until services are provided. Payment is generally due at the time the services are rendered and any outstanding balance is invoiced approximately monthly with balances due within 30 days of receipt of the invoice. Outstanding balances are classified as accounts receivable in the statements of financial position.

Retail store sales – The Organization has a retail shop at its adoption locations for sales of products to customers. Amounts received for retail store sales are recorded as revenue at the point in time the goods are transferred to the customer. Payment is due at the time of the sale, therefore this transaction does not generally result in contract assets or liabilities. The Organization does not consider the right of return material to the contract.

All of the Organization's contracts with customers include a single performance obligation to transfer the promised good or service. The Organization does not have any significant financing components as payment is generally received in a customary time frame from the customers. The contracts do not contain material amounts of variable consideration. At contract inception, the Organization evaluates the probability of collecting the transaction price based on the history of payment by the customer.

Functional expenses – The costs of providing the Organization's various programs and other activities have been reported on a functional basis in the accompanying statements of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services based on personnel activity and other appropriate allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization and are allocated based on personnel or other appropriate indicators. The expenses that are allocated include the following:

	<u>Allocation Method</u>
Salaries and employee insurance and benefits	Time incurred
Depreciation, occupancy, office supplies and small equipment	Purpose and utilization of space

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(1) **Nature of operations and summary of significant accounting policies (continued)**

Advertising – Advertising costs, which are included in outside services in the accompanying statements of functional expenses, are expensed as incurred and totaled approximately \$61,400 and \$61,800 for the years ended December 31, 2024 and 2023, respectively.

Income tax status – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and, accordingly, there is no provision for income taxes. In addition the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (“UBTI”) would be taxable. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. As of December 31, 2024 and 2023, management does not believe any uncertain tax positions exist.

The Organization files informational returns in the U.S. federal jurisdiction and certain state and local jurisdictions. As of December 31, 2024, U.S. federal informational returns for years ended prior to December 31, 2021 and state returns for years ended prior to December 31, 2020 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expense when assessed.

Leases – The Organization accounts for leases as required by FASB ASC Topic 842, *Leases*. The Organization determines if a contract or arrangement is, or contains, a lease at inception. Right of Use (“ROU”) assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization elected the practical expedient to use hindsight in determining the lease term for existing leases. The Organization also elected to use the risk-free rate as a practical expedient for the determination of a discount rate for the right-of-use asset and corresponding lease liabilities. The ROU assets include any prepaid lease payments and additional direct costs and excludes lease incentives. The Organization’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. The Organization has made an accounting policy election to not record ROU assets and lease liabilities for leases with an initial term of twelve months or less on the accompanying statement of financial position.

Going concern – The Organization follows the guidance in FASB ASC 205-40, *Presentation of Financial Statements - Going Concern*, which requires management to assess an entity’s ability to continue as a going concern and to provide related disclosure in certain circumstances. There were no conditions or events, when considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern within one year after the date the financial statements are issued.

Subsequent events – The Organization evaluated subsequent events through November 3, 2025, which is the date the financial statements were available to be issued.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(2) Investments

Investments consist of the following at December 31:

	<u>2024</u>	<u>2023</u>
Cash and equivalents	\$ 67,637	\$ -
Equity mutual funds	5,114,832	2,345,011
Exchange traded funds	-	325,455
Bond mutual funds	1,166,710	2,522,348
Marketable certificates of deposit	707,352	1,164,657
Nonmarketable certificates of deposit	500,000	-
Money market funds	-	376,901
Cliffwater Corporate Lending Fund	<u>323,083</u>	<u>291,073</u>
Total investments	<u>\$ 7,879,614</u>	<u>\$ 7,025,445</u>

Investment income consists of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Interest income	\$ 445,244	\$ 370,064
Realized and unrealized gains	191,087	270,603
Investment fees	<u>(48,467)</u>	<u>(41,553)</u>
Total investment income	<u>\$ 587,864</u>	<u>\$ 599,114</u>

(3) Property and equipment

Property and equipment consists of the following at December 31:

	<u>2024</u>	<u>2023</u>
Buildings and improvements	\$ 7,261,640	\$ 6,975,922
Land	753,046	753,046
Equipment	584,013	567,293
Vehicles	482,553	308,417
Office and clinic	205,775	170,496
Finance lease assets	60,323	60,323
Construction in progress	<u>28,358</u>	<u>114,072</u>
Total property and equipment	9,375,708	8,949,569
Less – accumulated depreciation	<u>(3,703,944)</u>	<u>(3,390,822)</u>
Property and equipment	<u>\$ 5,671,764</u>	<u>\$ 5,558,747</u>

Depreciation expense totaled \$313,121 and \$280,587 for the years ended December 31, 2024 and 2023, respectively.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(4) Line of credit

The Organization has line of credit agreement with a financial institution with a borrowing limit of \$45,000. The line of credit bears interest at a variable rate of the Wall Street Journal prime rate plus 1.45% (8.95% at December 31, 2024) and with a floor of 3%. The line of credit is collateralized by certain assets of the Organization and does not have a stated maturity date but can be cancelled at any time by the financial institution with ninety days advance notice. There were no draws on the line of credit during 2024 or 2023 and there was no outstanding balance under the line of credit as of December 31, 2024 or 2023.

(5) Fair value measurement

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of December 31, 2024:

	Level 1	Level 2	Level 3	Total
Investments				
Equity mutual funds	\$ 5,114,832	\$ -	\$ -	\$ 5,114,832
Bond mutual funds	1,166,710	-	-	1,166,710
Marketable certificates of deposit	-	707,352	-	707,352
Total investments	6,281,542	707,352	-	6,988,894
Beneficial interests in perpetual trusts	-	-	4,502,000	4,502,000
Total	<u>\$ 6,281,542</u>	<u>\$ 707,352</u>	<u>\$ 4,502,000</u>	<u>\$ 11,490,894</u>

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of December 31, 2023:

	Level 1	Level 2	Level 3	Total
Investments				
Equity mutual funds	\$ 2,345,011	\$ -	\$ -	\$ 2,345,011
Exchange traded funds	325,455	-	-	325,455
Bond mutual funds	2,522,348	-	-	2,522,348
Marketable certificates of deposit	-	1,164,657	-	1,164,657
Money market funds	376,901	-	-	376,901
Total investments	5,569,715	1,164,657	-	6,734,372
Beneficial interests in perpetual trusts	-	-	4,273,000	4,273,000
Total	<u>\$ 5,569,715</u>	<u>\$ 1,164,657</u>	<u>\$ 4,273,000</u>	<u>\$ 11,007,372</u>

In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of the investments reported at net asset value ("NAV"). Investments reported at NAV as a practical expedient are excluded from the fair value hierarchy. Investments reported at NAV include the investments held by ACF which totaled \$293,742 and \$266,622 at December 31, 2024 and 2023, respectively, and an investment in a fund which totaled \$323,083 and \$291,073 at December 31, 2024 and 2023, respectively.

The Organization determines the fair value of its investments held by ACF based on its investment percentage in the consolidated ACF investment pool. ACF implements an investment strategy for these pooled funds that includes equity, fixed income, hedge funds and private equity investments. There are no unfunded commitments associated with the investments held at ACF and there are no redemption restriction provisions.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(5) Fair value measurement (continued)

Cliffwater Corporate Lending Fund – The investment objective of the Fund is to seek consistent current income, while the Fund's secondary objective is capital preservation. Under normal market conditions, the Fund seeks to achieve its investment objectives by investing at least 80% of its assets (net assets, plus any borrowings for investment purposes) in loans to companies ("corporate loans"). The fund is a closed-end management investment company which operates as an interval fund and as such, had adopted a fundamental policy to make quarterly repurchase offers, at per-class net asset value, of not less than 5% nor more than 25% of the fund's outstanding shares on the repurchase request deadline. If the value of shares tendered for repurchase exceeds the value the Fund intended to repurchase, the Fund may determine to repurchase less than the full number of Shares tendered. In such event, Shareholders will have their Shares repurchased on a pro rata basis, and tendering Shareholders will not have all of their tendered Shares repurchased by the Fund. There is no assurance that an investor will be able to tender their shares when or in the amount that they desire. There are no unfunded commitments associated with this investment.

The Organization has no other financial instruments subject to fair value measurement on a recurring basis as of December 31, 2024 and 2023.

(6) Employee benefit plan

The Organization has a 401(k) Plan that covers all employees who meet specified age and time of service requirements. The Plan provides for participating employees to defer up to 100% of their annual compensation, as defined by the Plan. The Organization did not make matching contributions to the Plan during 2024 or 2023.

(7) Net assets with donor restriction

Net assets with donor restrictions for 2024 consists of the following:

	Balance 1/1/2024	Contributions	Change in Fair Value	Releases	Balance 12/31/2024
Restricted in perpetuity:					
Beneficial interests in trusts	\$ 4,273,000	\$ -	\$ 229,000	\$ -	\$ 4,502,000
Permanently endowed	490,000	430,000	-	-	920,000
Purpose restrictions:					
Veterinarian services/facilities	347,503	189,610	-	(308,029)	229,084
Community outreach	14,865	-	-	(567)	14,298
Adoptions	16,168	-	-	(15,783)	385
Time	75,000	25,032	-	-	100,032
Capital expenditures	869,606	300,000	-	(25,914)	1,143,692
Other	5,211	23,824	-	(3,455)	25,580
Total net assets with donor restrictions	<u>\$ 6,091,353</u>	<u>\$ 968,466</u>	<u>\$ 229,000</u>	<u>\$ (353,748)</u>	<u>\$ 6,935,071</u>

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(7) Net assets with donor restriction (continued)

Net assets with donor restrictions for 2023 consists of the following:

	Balance 1/1/2023	Contributions	Change in Fair Value	Releases	Balance 12/31/2023
Restricted in perpetuity:					
Beneficial interests in trusts	\$ 3,807,000	\$ -	\$ 466,000	\$ -	\$ 4,273,000
Permanently endowed	-	490,000	-	-	490,000
Purpose restrictions:					
Veterinarian services/facilities	28,187	344,929	-	(25,613)	347,503
Community outreach	138,615	567	-	(124,317)	14,865
Adoptions	385	15,783	-	-	16,168
Time	100,000	-	-	(25,000)	75,000
Capital expenditures	-	869,606	-	-	869,606
Other	(887)	6,098	-	-	5,211
Total net assets with donor restrictions	<u>\$ 4,073,300</u>	<u>\$ 1,726,983</u>	<u>\$ 466,000</u>	<u>\$ (174,930)</u>	<u>\$ 6,091,353</u>

(8) Endowment

The Organization's endowment consists of a fund established by the Board of Directors to function as an endowment and a donor-restricted fund, the Mary Carol Sheets endowment, to primarily support the hiring of bilingual veterinarians and secondarily support the Organization's growth, as approved by the trustee. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment composition and changes in the endowments are as follows for the year ended December 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2024	\$ 266,622	\$ 514,198	\$ 780,820
Contributions	-	430,000	430,000
Investment Return:			
Interest and dividends	4,470	31,855	36,325
Realized and unrealized gains	22,650	24,992	47,642
Appropriations for expenditures	-	-	-
Endowment net assets, December 31, 2024	<u>\$ 293,742</u>	<u>\$ 1,001,045</u>	<u>\$ 1,294,787</u>

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(8) Endowment (continued)

Endowment composition and changes in the endowments are as follows for the year ended December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2023	\$ 241,291	\$ -	\$ 241,291
Contributions	-	490,000	490,000
Investment Return:			
Interest and dividends	1,746	5,688	7,434
Realized and unrealized losses	23,585	18,510	42,095
Appropriations for expenditures	-	-	-
Endowment net assets, December 31, 2023	<u>\$ 266,622</u>	<u>\$ 514,198</u>	<u>\$ 780,820</u>

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization invests in domestic and international equities, fixed income, and money market strategies. The Organization targets a diversified asset allocation that places a greater emphasis on preservation of the fair value of endowment assets with the maximization of earnings as a secondary objective.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization adopted a policy, approved by the Board of Directors, which requires a portion of planned giving income to be reinvested until such time as the principal of the endowment fund has reached \$100,000 before distributions will be taken. Only one distribution will be made each year as directed by the Board equal to 5% of the total value of the assets in the Endowment. In establishing this policy, the Organization considered the long-term expected return on its endowments.

The Mary Carol Sheets Endowment does not allow the Organization to withdraw funds until the endowment has been fully funded, as determined by the donor and estimated to be \$3-\$4 million, or upon the seventh anniversary of the endowment agreement (April 2030). Once fully funded, the Organization may withdraw up to 5% of the total value of the assets in the Endowment during the year. The Organization may take multiple distributions up to this 5% limit per year. No distributions were taken in 2024 or 2023 from the endowment funds.

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 MCFA requires the Organization to retain as a fund of perpetual duration. As of December 31, 2024 and 2023, the Organization had no underwater endowments.

(9) Concentrations

Pledges and Bequests Receivable

As of December 31, 2024, two bequests receivable accounted for approximately 19% of total bequests receivable and one pledge receivable accounted for approximately 66% of total pledges receivable.

As of December 31, 2023, one bequest receivable accounted for approximately 75% of total bequests receivable and one pledge receivable accounted for approximately 67% of total pledges receivable.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(9) Concentrations (continued)

Revenue

As of December 31, 2024, two bequests accounted for approximately 46% of total bequests revenue. There were no contribution concentrations during the year ended December 31, 2024.

As of December 31, 2023, three bequests accounted for approximately 54% of total bequests revenue and one contributions accounted for approximately 12% of total contributions revenue.

Uninsured Cash

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits in financial institutions and investments. Cash deposits in excess of amounts insured by the FDIC of \$250,000 and the Securities Investors Protection Corporation ("SIPC") of \$250,000 are exposed to loss in the event of nonperformance by the financial institution. At times during the year, the Organization had cash deposits in excess of the FDIC and SIPC insurance coverage. The Organization does not anticipate nonperformance by financial institutions.

(10) Leasing activities

The Organization entered into a finance lease in 2023 for certain equipment. The lease expires in April 2028. The right-of-use asset associated with the finance lease is included in property and equipment in the accompanying statements of financial position and totaled \$60,323 at December 31, 2024 and 2023. There was \$11,498 and \$9,048 in amortization recorded for the year ended December 31, 2024 and 2023, respectively. Accumulated amortization totaled \$20,546 and \$9,048 at December 31, 2024 and 2023, respectively. The finance lease liability, current and long-term portions, are presented as individual, separate items on the statements of financial position as of December 31, 2024 and 2023.

The maturities of the finance lease liability as of December 31, 2024 are as follows:

Years Ending December 31

2025	\$ 13,148
2026	13,148
2027	13,148
2028	<u>3,288</u>
Total lease payments	42,732
Less: Interest	<u>(2,417)</u>
Present value of lease liabilities	40,315
Less: Current portion	<u>(11,916)</u>
Non-current portion	<u>\$ 28,399</u>

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(10) Leasing activities (continued)

The following summarizes the weighted average remaining finance lease term and discount rate as well as the line items in the statements of activities and changes in net assets which include the components of lease expense and cash flow information related to finance leases for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Remaining term (years)	3.25	4.25
Discount Rate	3.59%	3.59%
Interest expense	\$ 1,650	\$ 1,352
Operating cash flows	\$ 1,650	\$ 1,352
Financing cash flows	\$ 11,498	\$ 8,509

The Organization leases facilities and office equipment under operating lease agreements with terms expiring in various years through August 2041. Most leases include one or more options to renew. The exercise of lease renewal options is at the Organization's sole discretion. Only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. ROU assets and liabilities for leases that are less than one year are not recorded.

The operating lease right-of-use asset and operating lease liability, current and long-term portion, are recorded as individual, separate items on the statements of financial position as of December 31, 2024 and 2023.

The maturities of the operating lease liability as of December 31, 2024 is as follows:

Years Ending December 31

2025	\$ 125,949
2026	123,104
2027	58,748
2028	1,779
2029	1,779
Thereafter	<u>19,568</u>
Total lease payments	330,927
Less: Interest	<u>(17,699)</u>
Present value of lease liabilities	313,228
Less: Current portion	<u>(117,257)</u>
Non-current portion	<u><u>\$ 195,971</u></u>

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(10) Leasing activities (continued)

The following summarizes the weighted average remaining operating lease term and discount rate as well as the line items in the statements of activities and changes in net assets which include the components of lease expense and cash flow information related to operating leases for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Remaining term (years)	3.51	3.01
Discount Rate	3.46%	1.15%
Operating lease costs	\$ 122,864	\$ 207,083
Financing cash flows	\$ 122,864	\$ 207,706

(11) Risks and uncertainties

Litigation – Periodically, the Organization is involved in litigation and claims arising in the normal course of operations. In the opinion of management and based on consultation with legal counsel, losses if any, from these matters are covered by insurance or are immaterial.

ERTC - The Federal Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) provided an employee retention tax credit (“ERTC”) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 (collectively the Acts) expanded the availability of the credit and extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at \$7,500 per quarter. As a result of the changes to the credit, the maximum credit per employee increased from \$10,000 to \$21,000.

In February 2023, the Organization filed for an ERTC of approximately \$368,000 under the criteria that the Organization had a decrease in gross receipts for certain quarters covered by the ERTC. The Organization accounts for the credits by applying FASB ASC 958-605. Under this method, the Organization records contribution revenue when the contribution is deemed to be unconditional, that is when there is no longer a measurable performance or other barrier and a right of return or release from obligation to pay the contribution. Management determined that the conditions were met in 2023 and were included in contribution revenue in the accompanying statement of activities and changes in net assets. The Organization received the first ERTC payment of approximately \$152,000 in July 2023 and the second payment of approximately \$216,000 in March 2025.

The Organization’s credit filings remain open for examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.

(12) Liquidity and availability of resources

The Organization monitors its cash position on a weekly basis to ensure the fulfillment of all obligations and considers the funds necessary to maintain the Organization’s operations within one year of the statement of financial position date with regular reviews of the budget to actual results. Planning for the following year’s budget is created with this information. As part of the Organization’s liquidity plan, excess cash is invested in investments and money market funds.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

(12) Liquidity and availability of resources (continued)

As of December 31, 2024, the Organization's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

	2024	2023
Cash and cash equivalents	\$ 3,522,414	\$ 2,645,696
Bequests receivable	1,397,127	1,156,047
Pledges receivable	287,155	272,044
Accounts receivable	3,209	8,198
Investments	<u>7,879,614</u>	<u>7,025,445</u>
Total current financial assets	13,089,519	11,107,430
Less: net assets with donor restrictions	(2,433,071)	(1,818,353)
Less: investments subject to redemption restrictions	<u>(323,083)</u>	<u>(291,073)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 10,333,365</u>	<u>\$ 8,998,004</u>

While the Organization's investments are classified as long-term in the accompanying statements of financial position based on management's intent, the majority of the investments could be readily liquidated without significant penalty to fund operating cash flow needs, except as designated by the Board of Directors and as restricted by donors.