

ARIZONA ANIMAL WELFARE LEAGUE

FINANCIAL STATEMENTS

Year Ended December 31, 2021

ARIZONA ANIMAL WELFARE LEAGUE

FINANCIAL STATEMENTS

Year Ended December 31, 2021

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 18



4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors

ARIZONA ANIMAL WELFARE LEAGUE

Opinion

We have audited the financial statements of **Arizona Animal Welfare League** (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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, 2021, 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 ("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 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 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.

Mayer Hoffman McCann P.C.

September 21, 2022

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 3,485,893
Bequests receivable	138,653
Accounts receivable	4,798
Inventories	177,599
Prepaid expenses and other current assets	<u>103,054</u>
TOTAL CURRENT ASSETS	3,909,997
PROPERTY AND EQUIPMENT, net	5,708,346
INVESTMENTS	5,962,677
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	
Cash	3,000
Contribution receivable	<u>10,000</u>
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	13,000
ASSETS HELD BY OTHERS FOR BOARD DESIGNATED - QUASI ENDOWMENT	270,079
BENEFICIAL INTERESTS IN PERPETUAL TRUSTS	<u>4,852,000</u>
TOTAL ASSETS	<u>\$ 20,716,099</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 37,961
Accrued liabilities	121,883
Deferred revenue	<u>20,000</u>
TOTAL CURRENT LIABILITIES	179,844
NET ASSETS	
Without donor restrictions	15,394,053
With donor restrictions	<u>5,142,202</u>
TOTAL NET ASSETS	<u>20,536,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,716,099</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions and bequests	\$ 3,045,549	\$ 246,404	\$ 3,291,953
Donated materials and services	362,464	-	362,464
Clinic operations	316,016	-	316,016
Adoption fees	871,421	-	871,421
Education	48,034	-	48,034
Investment income	362,275	-	362,275
Income from beneficial interests in perpetual trusts	213,781	-	213,781
Change in value of beneficial interests in perpetual trusts	-	396,000	396,000
Other	<u>37,478</u>	<u>-</u>	<u>37,478</u>
Total support and revenues before special events, retail store sales, and net assets released from restrictions	<u>5,257,018</u>	<u>642,404</u>	<u>5,899,422</u>
Special events revenues	404,909	-	404,909
Less costs of direct donor benefits	<u>(86,358)</u>	<u>-</u>	<u>(86,358)</u>
Gross profit on special events	<u>318,551</u>	<u>-</u>	<u>318,551</u>
Retail store sales	136,867	-	136,867
Less related costs of sales	<u>(86,959)</u>	<u>-</u>	<u>(86,959)</u>
Gross profit on retail store sales	<u>49,908</u>	<u>-</u>	<u>49,908</u>
Net assets released from restrictions	<u>353,134</u>	<u>(353,134)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>5,978,611</u>	<u>289,270</u>	<u>6,267,881</u>
EXPENSES			
Program services			
Shelter - Chandler	439,360	-	439,360
Shelter - Phoenix	3,459,118	-	3,459,118
Education	124,246	-	124,246
Clinic services	<u>454,682</u>	<u>-</u>	<u>454,682</u>
Total program services	<u>4,477,406</u>	<u>-</u>	<u>4,477,406</u>
Supporting services			-
Management and general	318,140	-	318,140
Fundraising and development	<u>650,128</u>	<u>-</u>	<u>650,128</u>
Total supporting services	<u>968,268</u>	<u>-</u>	<u>968,268</u>
TOTAL EXPENSES	<u>5,445,674</u>	<u>-</u>	<u>5,445,674</u>
GAIN ON FORGIVENESS OF PPP LOAN	525,987	-	525,987
CHANGE IN NET ASSETS	1,058,924	289,270	1,348,194
NET ASSETS, BEGINNING OF YEAR	<u>14,335,129</u>	<u>4,852,932</u>	<u>19,188,061</u>
NET ASSETS, END OF YEAR	<u>\$ 15,394,053</u>	<u>\$ 5,142,202</u>	<u>\$ 20,536,255</u>

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Programs					Supporting Services			Total
	Shelter - Chandler	Shelter - Phoenix	Education	Clinic Services	Program Total	Management and General	Fundraising and Development	Support Total	
Salaries	\$ 273,031	\$ 1,658,434	\$ 74,920	\$ 210,693	\$ 2,217,078	\$ 226,920	\$ 327,911	\$ 554,831	\$ 2,771,909
Employee insurance and benefits	2,259	117,303	2,729	21,592	143,883	18,488	13,076	31,564	175,447
Supplies/medical expenses	13,510	1,176,794	8,254	181,964	1,380,522	12,475	6,958	19,433	1,399,955
Occupancy	109,067	260,254	22,556	16,402	408,279	4,844	31,222	36,066	444,345
Travel and related expenses	5,617	30,484	3,212	1,204	40,517	-	1,655	1,655	42,172
Office supplies and small equipment	2,434	23,509	4,824	5,717	36,484	2,786	16,969	19,755	56,239
Outside services	11,341	11,963	1,436	7,638	32,378	39,998	239,708	279,706	312,084
Depreciation	22,101	180,377	6,315	9,472	218,265	12,629	12,629	25,258	243,523
Total expenses	439,360	3,459,118	124,246	454,682	4,477,406	318,140	650,128	968,268	5,445,674
Special events direct donor benefits	-	-	-	-	-	-	86,358	86,358	86,358
Retail store costs of sales	60,612	26,347	-	-	86,959	-	-	-	86,959
Total functional expenses	\$ 499,972	\$ 3,485,465	\$ 124,246	\$ 454,682	\$ 4,564,365	\$ 318,140	\$ 736,486	\$ 1,054,626	\$ 5,618,991

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,348,194
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	243,523
Realized and unrealized gains on investments	(254,651)
Change in value of beneficial interests in perpetual trusts	(396,000)
Contributions restricted to investment in long-lived assets	(13,000)
Donated vehicles	(115,000)
Gain on forgiveness of PPP loan	(525,987)
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Bequests receivable	65,758
Contributions receivable	5,069
Accounts receivable	(1,548)
Inventories	(31,175)
Prepaid expenses and other current assets	(32,081)
Increase (decrease) in:	
Accounts payable	(112,377)
Accrued liabilities	36,371
Deferred revenue	20,000
Net cash provided by operating activities	237,096

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	1,185,793
Purchases of investments	(1,430,824)
Purchases of property and equipment	(254,597)
Proceeds from the sale of donated vehicles	115,000
Net cash used in investing activities	(384,628)

CASH FLOWS FROM FINANCING ACTIVITIES

Collection of contributions restricted to investment in long-lived assets	3,000
Proceeds from PPP loan	525,987
Net cash provided by financing activities	528,987

NET CHANGE IN CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS	381,455
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,107,438
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,488,893

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents	\$ 3,485,893
Cash restricted to investment in property and equipment	3,000
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS	\$ 3,488,893

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:

Purchase of property, plant and equipment in accounts payable	\$ 28,141
---	-----------

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(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 450 volunteers who donate 60,000 volunteer hours annually along with a foster parent network of approximately 90 families. 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, seminars on dog behavior issues, youth programs, 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 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

Year Ended December 31, 2021

(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 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 – 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, 2021, 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 to be collectible in full and, accordingly, an allowance for uncollectible bequests receivable is not considered necessary.

Contributions receivable – Unconditional promises to give 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. At December 31, 2021, all contributions receivable were due within one year.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

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

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 receivables based on its assessment of the current status of individual accounts. 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, 2021 and, accordingly, an allowance for doubtful accounts has not been provided.

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 securities and debt securities at fair value. Investments are classified as noncurrent in the accompanying statement of financial position based on management's intent.

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 \$270,079 at December 31, 2021 and are included in the accompanying statement 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, 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 accounting principles generally accepted in the United States of America 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

Year Ended December 31, 2021

(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 year ended December 31, 2021.

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 statement 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.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

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

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, 2021 based upon the Organization's respective percentage interest in the fair value of the underlying assets held by the trusts.

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, 2021, the Organization received a \$20,000 conditional contribution, the conditions on which had not been met at December 31, 2021. Accordingly, the \$20,000 is included in deferred revenue in the accompanying statement of financial position at December 31, 2021.

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 statement 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 statement 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 year ended December 31, 2021, the Organization received approximately \$57,000 in total support from Board members.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(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 FASB 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.

During the year ended December 31, 2021, 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:

	<u>Supplies/ Medical Expenses</u>	<u>Outside Services</u>	<u>Contributed For Auction</u>	<u>Total</u>
Shelter - Phoenix	\$ 232,774	\$ 14,690	\$ -	\$ 247,464
Vehicles donated for auction	-	-	115,000	115,000
	<u>\$ 232,774</u>	<u>\$ 14,690</u>	<u>\$ 115,000</u>	<u>\$ 362,464</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 statement 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.

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 from contracts 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 statement of financial position.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

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

Education revenue – The Organization holds a variety of options for educating the public including youth programs as well as both private and group dog training. Amounts received for educational services are recorded as revenue at the time the educational course is conducted. Payment is generally due in advance of the event and is recorded as deferred revenue until such time that revenue is recognized. As of December 31, 2021, there was no deferred revenue associated with these events.

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 statement 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 programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of 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:

Salaries and employee insurance and benefits	Time incurred
Depreciation, occupancy, office supplies and small equipment	Purpose and utilization of space

Advertising – Advertising costs, which are included in outside services in the accompanying statement of functional expenses, are expensed as incurred and totaled approximately \$55,900 for the year ended December 31, 2021.

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, 2021, management does not believe any uncertain tax positions exist.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

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

The Organization files informational returns in the U.S. federal jurisdiction and certain state and local jurisdictions. As of December 31, 2021, U.S. federal informational returns for years ended prior to December 31, 2018 and state returns for years ended prior to December 31, 2017 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expense when assessed.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, as amended under ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842). Early adoption is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities* (Topic 958) *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the entity to present contributed nonfinancial assets in a separate line item in the statement of activities and changes in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact adoption would have on the financial statements.

Subsequent events – The Organization evaluated subsequent events through September 21, 2022, which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at December 31, 2021:

Equity mutual funds	\$ 2,237,710
Exchange traded funds	249,634
Bond mutual funds	2,786,288
Money market funds	590,322
Vida Longevity Fund, LP	98,723
Total investments	<u>\$ 5,962,677</u>

Investment income consists of the following for the year ended December 31, 2021:

Interest income	\$ 149,185
Realized and unrealized gains	254,651
Investment fees	(41,561)
Total investment income	<u>\$ 362,275</u>

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(3) Property and equipment

Property and equipment consists of the following at December 31, 2021:

Buildings and improvements	\$ 6,897,471
Land	753,046
Equipment	491,359
Vehicles	297,659
Office and clinic	91,112
Construction in progress	34,457
Total property and equipment	8,565,104
Less – accumulated depreciation	(2,856,758)
Property and equipment	\$ 5,708,346

Depreciation expense totaled \$243,523 for the year ended December 31, 2021.

(4) 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, 2021:

	Level 1	Level 2	Level 3	Total
Investments				
Equity mutual funds	\$ 2,237,710	\$ -	\$ -	\$ 2,237,710
Exchange traded funds	249,634	-	-	249,634
Bond mutual funds	2,786,288	-	-	2,786,288
Money market funds	590,322	-	-	590,322
Total investments	5,863,954	-	-	5,863,954
Beneficial interests in perpetual trusts	-	-	4,852,000	4,852,000
Total assets	\$ 5,863,954	\$ -	\$ 4,852,000	\$ 10,715,954

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"). As a result of ASU No. 2015-07, investments reported at NAV as a practical expedient are excluded from the fair value hierarchy.

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.

Vida Longevity Fund LP Class A – The policy of this fund is to acquire longevity and longevity-backed assets and then seek to maximize gains by either holding their assets to term or selling them to interested parties on the secondary or tertiary market. The fund is managed by Vida Management I, LLC and capital will be distributed at each general partner's discretion, upon liquidation of the fund. 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, 2021.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(5) 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 in 2021.

(6) Net assets with donor restriction

Net assets with donor restrictions consists of the following:

	Balance 12/31/2020	Contributions	Change in Fair Value	Releases	Balance 12/31/2021
Restricted in perpetuity:					
Beneficial interests in trusts	\$ 4,456,000	\$ -	\$ 396,000	\$ -	\$ 4,852,000
Purpose restrictions:					
Building improvements/medical equipment	15,000	-	-	(15,000)	-
Veterinarian services/facilities	358,739	51,444	-	(298,629)	111,554
Community outreach	-	177,500	-	(13,510)	163,990
Adoptions	2,385	-	-	(2,000)	385
Other	20,808	17,460	-	(23,995)	14,273
Total net assets with donor restrictions	<u>\$ 4,852,932</u>	<u>\$ 246,404</u>	<u>\$ 396,000</u>	<u>\$ (353,134)</u>	<u>\$ 5,142,202</u>

(7) Endowment

The Organization's endowment consists entirely of a fund established by the Board of Directors to function as an endowment. As required by US 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 Board-designated endowment, which are classified within net assets without donor restrictions in the accompanying statement of financial position, were as follows:

Balance 12/31/2020	Contributions	Interest income/ Net realized and Unrealized gains	Balance 12/31/2021
\$234,176	\$0	\$35,903	\$270,079

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.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(7) Endowment (continued)

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 will 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 endowment. No distributions were taken in 2021.

(8) Concentrations

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.

(9) Commitments and contingencies

Operating leases – The Organization leases buildings and equipment under operating lease agreements with terms expiring through August 2023. Minimum future rental payments under noncancelable operating leases with remaining terms in excess of one year are as follows:

Years Ending December 31

2022	\$ 65,828
2023	<u>3,934</u>
Total future minimum lease payments	<u>\$ 69,762</u>

Rent expense totaled approximately \$117,200 for the year ended December 31, 2021. In the normal course of business, operating leases are generally renewed or replaced by other leases.

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.

(10) Risks and uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The pandemic has also negatively impacted U.S. and global financial markets, which continue to experience significantly volatility. As a result, the Organization's investments could be negatively impacted.

ARIZONA ANIMAL WELFARE LEAGUE

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

(10) Risks and uncertainties (continued)

The Organization applied for and received a second forgivable Paycheck Protection Program (“PPP”) Loan of approximately \$526,000 as provided under the Federal Coronavirus Aid, Relief and Economic Security (“CARES”) Act and the loan was funded in February 2021. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs and that certain employment levels are maintained. To the extent that a portion of the loan does not meet the criteria to be forgiven, such amount is due and carries an interest rate of 1%. The Organization accounts for this agreement in accordance with FASB ASC 450-20 as debt. Forgiveness of the loan is to be recognized when the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. This is to occur immediately once the debtor is legally released. In October 2021, the Organization received notice from the Small Business Administration that the loan had been fully forgiven and the forgiveness payment had been remitted to the lender of record. The forgiveness of the PPP loan is presented on the statement of activities and changes in net assets as gain on forgiveness of PPP loan.

As of the date the financial statements were available to be issued, the Organization is committed to supporting both employee and animal safety while maintaining continuity of adoption and clinic services. As a result and where possible, the Organization is continuing adoptions and clinic services. The Organization continues to monitor and manage the situation closely. Depending on the severity and duration of the pandemic, the Organization could experience a material negative impact to operations, cash flows and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

(11) 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 operation 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. As of December 31, 2021, the Organization’s financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 3,485,893
Bequests receivable	138,653
Accounts receivable	<u>4,798</u>
Total current financial assets	3,629,344
Less net assets related to above amounts with donor restrictions	<u>(277,202)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,352,142</u>

While the Organization’s investments are classified as long-term in the accompanying statement 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.