

**YAVAPAI HUMANE SOCIETY  
(A NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2021**  
With Summarized Financial Information  
For the Year Ended December 31, 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Yavapai Humane Society

### **Opinion**

We have audited the accompanying financial statements of Yavapai Humane Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yavapai Humane Society as of December 31, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Yavapai Humane Society 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 Yavapai Humane Society's ability to continue as a going concern within 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 auditor's report that includes our opinion.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Yavapai Humane Society'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 Yavapai Humane Society'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.

### **Report on Summarized Comparative Information**

We have previously audited Yavapai Humane Society's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Prescott, Arizona  
October 6, 2022

**YAVAPAI HUMANE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2021**  
**(with summarized financial information for December 31, 2020)**

ASSETS	2021	2020
Current Assets		
Cash and cash equivalents	\$ 1,921,693	\$ 2,433,442
Certificates of deposit	253,277	620,729
Accounts receivable	8,558	15,365
Inventory	31,500	20,750
Prepaid expenses	27,804	10,081
	<hr/>	<hr/>
Total current assets	2,242,832	3,100,367
Property and equipment, net	3,267,933	2,621,739
Assets held for sale	-	166,771
Investments held by ACF	2,752,007	3,030,750
Other investments	530,476	-
Other assets	6,700	4,950
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 8,799,948</u>	<u>\$ 8,924,577</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 75,063	\$ 36,659
Accrued liabilities	159,949	121,292
Deferred revenue	-	4,997
	<hr/>	<hr/>
Total current liabilities	235,012	162,948
Paycheck Protection Program loan obligation	-	352,300
	<hr/>	<hr/>
TOTAL LIABILITIES	235,012	515,248
NET ASSETS		
Without donor restrictions		
Undesignated	4,717,159	4,808,218
Board designated	3,282,483	3,030,750
With donor restrictions		
Restricted by time and purpose	552,949	558,016
Held in perpetuity	12,345	12,345
	<hr/>	<hr/>
TOTAL NET ASSETS	<u>8,564,936</u>	<u>8,409,329</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,799,948</u>	<u>\$ 8,924,577</u>

See accompanying notes  
and independent auditors' report

**YAVAPAI HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**(with summarized financial information for December 31, 2020)**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Totals
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 1,767,958	\$ 23,000	\$ 1,790,958	\$ 5,145,247
Program grants	25,000	24,000	49,000	60,200
In-kind contributions	26,676	-	26,676	174,384
Event revenue	13,725	-	13,725	14,670
Program revenue				
Lost & found/animal intake	416,227	-	416,227	391,183
Spay/neuter & shelter clinic	281,324	-	281,324	388,324
Adoption shelter	136,872	-	136,872	123,195
Thrift store	565,942	-	565,942	250,897
Equine center	16,269	-	16,269	21,110
Interest and net investment income (loss), net of fees	281,869	-	281,869	241,326
Forgiveness of Paycheck Protection Program obligation	352,300	-	352,300	-
Gain (loss) on disposition of assets	1,600	-	1,600	1,418
Total revenue, support, gains	<u>3,885,762</u>	<u>47,000</u>	<u>3,932,762</u>	<u>6,811,954</u>
Reclassification and release from net asset restrictions	52,067	(52,067)	-	-
<b>TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS</b>	<b>\$ 3,937,829</b>	<b>\$ (5,067)</b>	<b>\$ 3,932,762</b>	<b>\$ 6,811,954</b>
<b>EXPENSES</b>				
Program services				
Lost & found/animal intake	409,767	-	409,767	381,999
Spay/neuter & shelter clinic	917,538	-	917,538	1,042,504
Adoption shelter	917,327	-	917,327	862,391
Thrift store	642,980	-	642,980	280,129
Equine center	183,999	-	183,999	157,104
Support services				
Administrative costs	294,451	-	294,451	287,227
Fund development	411,093	-	411,093	385,495
<b>TOTAL EXPENSES</b>	<u>3,777,155</u>	<u>-</u>	<u>3,777,155</u>	<u>3,396,849</u>
<b>INCREASE IN NET ASSETS</b>	<b>160,674</b>	<b>(5,067)</b>	<b>155,607</b>	<b>3,415,105</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>7,838,968</u>	<u>570,361</u>	<u>8,409,329</u>	<u>4,994,224</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 7,999,642</u>	<u>\$ 565,294</u>	<u>\$ 8,564,936</u>	<u>\$ 8,409,329</u>

See accompanying notes  
and independent auditors' report

**YAVAPAI HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
(with summarized financial information for December 31, 2020)

	PROGRAM SERVICES						SUPPORT SERVICES		2021	2020
	LOST & FOUND/ ANIMAL INTAKE	SPAY/NEUTER & SHELTER CLINIC	ADOPTION SHELTER	THRIFT STORE	EQUINE CENTER	TOTAL	ADMINISTRATIVE COSTS	FUND DEVELOPMENT	TOTALS	SUMMARIZED TOTALS
Adoption expense	\$ 172	\$ -	\$ 1,143	\$ -	\$ 500	\$ 1,815	\$ -	\$ -	\$ 1,815	\$ 1,115
Advertising	-	23,359	77	36,342	5,487	65,265	-	130,403	195,668	105,671
Auto expense	53	17,039	4,856	23,388	3,924	49,260	1,865	1,107	52,232	22,636
Bad debt expense	-	-	-	-	-	-	-	-	-	915
Bank fees	1,537	3,254	1,961	2,553	-	9,305	3,313	8,871	21,489	21,902
Board expenses	-	-	-	-	-	-	2,130	-	2,130	971
Clinic supplies	11,228	81,008	13,818	-	3,480	109,534	61	-	109,595	69,702
Computer and technology	266	9,122	2,128	3,075	62	14,653	987	3,137	18,777	19,933
Depreciation	11,180	24,789	61,022	46,054	31,604	174,649	6,382	4,480	185,511	160,552
Dues, licenses and subscriptions	675	1,504	1,637	69	-	3,885	7,144	13,705	24,734	23,019
Employee benefits	19,911	39,373	65,538	33,876	5,608	164,306	46,230	16,342	226,878	232,202
Employee costs	1,549	4,595	5,375	2,246	1,066	14,831	1,343	36	16,210	24,328
Event expenses	-	-	-	-	-	-	-	-	-	2,479
Insurance	10,275	24,206	22,661	9,942	6,554	73,638	7,850	2,820	84,308	101,007
Interest expense	-	-	-	-	-	-	-	-	-	6,621
Maintenance and repairs	4,011	6,788	15,755	52,422	4,738	83,714	624	-	84,338	65,147
Municipalities expense	10,264	7,824	1,460	-	-	19,548	-	-	19,548	19,433
Office supplies	407	474	1,244	3,287	70	5,482	3,147	1,737	10,366	7,954
Operational and medical supplies	43,077	75,243	83,639	54,344	13,296	269,599	3,216	8,524	281,339	288,545
Payroll taxes	18,443	35,179	47,202	24,223	6,098	131,145	5,611	7,020	143,776	124,263
Postage and printing	176	537	4,655	1,740	439	7,547	2,608	113,412	123,567	123,511
Professional fees	160	-	1,098	1,260	350	2,868	34,958	2,205	40,031	29,951
Rent expense	-	35,180	-	8,142	-	43,322	4,050	-	47,372	41,107
Salaries and wages	256,007	447,223	557,470	316,668	88,296	1,665,664	160,307	90,833	1,916,804	1,723,082
Utilities	20,376	13,471	24,588	23,234	7,868	89,537	2,625	5,543	97,705	89,728
Veterinary services	-	67,370	-	-	4,559	71,929	-	-	71,929	90,384
Volunteer expenses	-	-	-	115	-	115	-	918	1,033	691
	<u>\$ 409,767</u>	<u>\$ 917,538</u>	<u>\$ 917,327</u>	<u>\$ 642,980</u>	<u>\$ 183,999</u>	<u>\$ 3,071,611</u>	<u>\$ 294,451</u>	<u>\$ 411,093</u>	<u>\$ 3,777,155</u>	<u>\$ 3,396,849</u>
Percent of 2021 total expense	10.8%	24.3%	24.3%	17.0%	4.8%	81.3%	7.8%	10.9%	100.0%	

See accompanying notes  
and independent auditors' report

**YAVAPAI HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**(with summarized financial information for December 31, 2020)**

	2021	2020
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Increase(decrease) in net assets	\$ 155,607	\$ 3,415,105
Adjustments to reconcile increase(decrease) in net assets to net cash (used) by operating activities:		
Bad debt expense	-	915
Depreciation expense	185,511	160,552
(Gain) Loss on disposition of assets	(1,600)	(1,418)
Change in donated inventory	(10,750)	3,650
Realized and unrealized (gain) loss on investments	(258,761)	(219,316)
Donated assets held for sale	-	(166,771)
Donated investments	(58,806)	-
Forgiveness of Paycheck Protection Program loan obligation	(352,300)	-
Decrease (Increase) in:		
Accounts receivable	6,807	(6,192)
Prepaid expenses	(17,723)	25,951
Other assets	(1,750)	-
Increase (Decrease) in:		
Accounts payable	38,404	(21,848)
Accrued liabilities	38,657	25,907
Deferred revenue	(4,997)	4,997
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(281,701)</b>	<b>3,221,532</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(831,705)	(175,462)
Proceeds from sale of property and equipment	1,600	3,000
Proceeds from sale of assets held for sale	166,771	-
Purchases of certificates of deposit	-	(165,000)
Proceeds from maturity of certificates of deposit	369,793	-
Purchases of investments	(526,424)	(1,390,650)
Proceeds from investment withdrawals	612,570	137,300
Reinvested interest and dividends, net of fees	(22,653)	(19,619)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(230,048)</b>	<b>(1,610,431)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	-	(231,022)
Proceeds from Paycheck Protection Program loan obligation	-	352,300
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>-</b>	<b>121,278</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(511,749)</b>	<b>1,732,379</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,433,442</b>	<b>701,063</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 1,921,693</b>	<b>\$ 2,433,442</b>
<b>SUPPLEMENTAL</b>		
Interest paid	\$ -	\$ 6,621

See accompanying notes  
and independent auditors' report



**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 1 – ORGANIZATION AND PURPOSE**

Yavapai Humane Society (a nonprofit corporation) is located in Prescott, Arizona, and was incorporated on April 3, 1972. For almost 50 years, the Yavapai Humane Society has been advocating for, and promoting the care, health and re-homing of cats, dogs and horses. It is instilled in the Lost & Found department that strives to reunite all stray pets with their owners. It is cultivated the moment someone adopts a cat, dog or horse. It flourishes through the sales earned at the Thrift Store. It is implemented in the Spay/Neuter and Wellness clinic. It is harbored at the Equine Center where the bond between animal and human is defined. Yavapai Humane Society fiercely protects the belief that animals are extraordinarily special and will continue to do so for millennia to come. The mission of the Yavapai Humane Society is to promote and protect the health, safety and welfare of companion animals.

Major sources of income include contributions from the general public, grants, adoption fees from the adoption and equine centers, revenues from clinic operations for the care of animals, fees from municipalities for providing sheltering services, contractual fees for caring for lost and found animals, and revenue from the operation of the thrift store.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). Under the accrual basis of accounting, revenues and gains are recognized in the period in which they are earned and expenses and losses are recognized in the period in which the liability is incurred. The significant accounting policies followed are described below.

Financial Statement Presentation

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board (FASB) in accordance with GAAP. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, based upon the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations may be expended for any purpose in performing the primary objectives of the Organization. Certain net assets without donor restrictions are designated for specific purposes or uses by the Organization’s Board and classified as *Board Designated Net Assets*.

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 donors have stipulated that the funds or assets be maintained in perpetuity.

**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. When a donor restriction ends or purpose is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions, and are reported in the statement of activities as net assets released from restrictions.

During the year ended December 31, 2020, two donors accounted for 40% of total revenue. No donor concentrations were noted for the year ended December 31, 2021.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents. As of December 31, 2021 and 2020, the Organization had cash deposits in excess of the Federal Deposit Insurance Corporation limits in the amount of \$1,341,199 and \$1,686,511, respectively. The Organization has not experienced any losses from these accounts. Amounts held in excess of FDIC coverage are held in major institutions and management believes there is no significant exposure of credit risk on cash and cash equivalents.

Certificates of Deposit

As of December 31, 2020, the Organization held three certificates of deposit at separate banking institutions. Two of the certificates matured and were liquidated in 2021. The third was renewed and matures in July 2022. All certificates of deposit are included with current assets in the Statement of Financial Position.

Accounts Receivable

Accounts receivable consist primarily of fees due from program services. Accounts deemed uncollectible are either charged to an allowance or written off to bad debt. As of December 31, 2021 and 2020, the Organization considers all receivables to be fully collectible. Therefore, the allowance for doubtful accounts is \$0 at December 31, 2021 and 2020.

**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Inventories

Inventories consist of donated goods and items held for resale at the Thrift Store. Items are valued by using estimates, averages, and computational approximations, which are believed to approximate the fair value of the contributed inventory. This valuation method is considered a Level 3 fair value methodology, meaning that the inputs are based on assumptions, as described above, because observable inputs in an active market are not available.

Prepaid Expenses

As of December 31, 2020, prepaid expenses consist of insurance premiums paid in advance. As of December 31, 2021, prepaid expenses consist of insurance premiums, supplies, and rent paid in advance. Prepaid expenses are amortized ratably over the life of the insurance policy, when supplies are used, and in the month that rent payments made in advance are applicable.

Property and Equipment

Property and equipment are stated at cost at date of acquisition or completion, or fair market value at date of donation in the case of gifts. The Organization's policy is to record purchases of property and equipment at costs in excess of \$2,500 as capital assets.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support 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 support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The Organization was deeded a parcel of land from the City of Prescott in 1976. Under conditions of the deed, the land must be used for a nonprofit animal hospital and/or shelter, and upon demise or termination of the Organization, the land will revert to the City of Prescott. The value of the land is included in net assets with donor restrictions, held in perpetuity.

Fixed assets are depreciated using the straight-line method over the estimated useful lives of individual assets as follows:

Buildings and improvements	5 to 39 years
Equipment	3 to 15 years
Furniture and fixtures	7 years
Software	3 years
Vehicles	7 years

Repair and maintenance costs are expensed as incurred.

**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets Held for Sale

During the year ended December 31, 2020, the Organization received donated property from an estate, valued at \$166,771, which was sold in February 2021.

Note Payable

As of December 31, 2019, the Organization had a note payable in the amount of \$231,022 due to National Bank of Arizona, with monthly payments of \$2,621, including principal and interest, due in full in October 2033. The note payable was paid in full during 2020.

Contributions

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, purpose and time restricted net assets are reclassified to undesignated net assets and reported in the Statements of Activities as *Reclassification and release from net asset restrictions*.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give at December 31, 2021 or 2020.

In-Kind Contributions

The Organization records various types of in-kind contributions, including professional services, advertising, and goods and materials. Generally, professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation.

Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or property and equipment. Contributions of tangible assets to the Thrift Store are reported as inventory.

The Organization receives a significant amount of unskilled, contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements. During the years ended December 31, 2021 and 2020, the Organization received 25,501 and 11,934 unskilled volunteer hours, respectively. The volunteer opportunities were significantly curtailed in 2020 due to the COVID-19 pandemic, which is reflected in the reduced number of unskilled volunteer hours received in 2020.

**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes

The Organization has been classified as an Arizona Nonprofit Corporation that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; in addition, the Organization has no Unrelated Business Income Tax liabilities. Therefore, no provision has been made for income taxes due in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Advertising

The Organization uses advertising to promote its programs. The costs of advertising are expensed as incurred. Advertising expenses are \$195,668 and \$105,671 for the years ended December 31, 2021 and 2020, respectively.

Functional Allocation of Expenses

The costs of providing the programs and other various activities have been summarized on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All time and expenses are tracked internally and reported by department based on actual usage. Expenses that are directly identifiable by department are charged directly to programs on the basis of what department incurred the cost. Expenses that are directly identifiable by department include salaries and wages, supplies, maintenance and repairs, municipalities expense, postage and printing. Expenses such as employee benefits and payroll taxes are allocated based on salary allocations by department. Other program-related expenses, such as depreciation, insurance, and utilities, are allocated based on property and equipment usage by department. Administration and fundraising expenses include both directly identifiable and allocated expenses not easily identifiable with specific program operations but related to the overall support and management of the Organization. All other expenses are allocated on the basis of estimates of time and effort.

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.

**YAVAPAI HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 2021**

**With summarized financial information for December 31, 2020**

**NOTE 3 – AVAILABILITY AND LIQUIDITY**

The following represents the Organization’s financial assets at December 31,

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$1,921,693	\$2,433,442
Certificates of deposit	253,277	620,729
Accounts receivable	<u>8,558</u>	<u>15,365</u>
Total financial assets at year-end	2,183,528	3,069,536
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed purpose restrictions	<u>(552,949)</u>	<u>(558,016)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,630,579</u>	<u>\$2,511,520</u>

The Organization maintains sufficient resources to meet donor-imposed restrictions. As part of the Organization’s liquidity management plan, the board has established a reserve fund (see Note 5). Although the goal is to leave these funds invested, they can be drawn upon, if necessary, to meet unexpected liquidity needs. The balance of these funds as of December 31, 2021 and 2020, respectively, is \$3,282,483 and \$3,030,750. In addition, the Organization maintains a revolving line of credit with National Bank of Arizona that can be drawn upon to meet unexpected liquidity needs (see Note 7). The credit limit is \$100,000, and as of December 31, 2021 and 2020, the amount available to draw upon was \$100,000.

**NOTE 4 – FAIR VALUE MEASUREMENTS AND DISCLOSURES**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

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**NOTE 4 – FAIR VALUE MEASUREMENTS AND DISCLOSURES (continued)**

Level 3 – Unobservable inputs for the asset. In these situations, the Organization develops inputs using the best information available in the circumstances.

The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk, or liquidity profile of the asset.

The carrying amount of the following financial instruments approximate fair value because of their short liquidity and short maturity of the instruments: cash and cash equivalents, accounts receivables, prepaid expenses, accounts payable, accrued liabilities, and deferred revenue.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured by using net asset value (NAV) per share as a practical expedient as identified below:

At December 31, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Certificates of deposit	\$ 253,277	\$ -	\$253,277	\$ -	\$ -
Investment assets					
Cash and money market funds	64,342	64,342	-	-	-
Exchange traded funds	466,134	-	466,134	-	-
Pooled investment assets	2,752,007	-	-	-	2,752,007
Donated inventory	<u>31,500</u>	<u>-</u>	<u>-</u>	<u>31,500</u>	<u>-</u>
	<u>\$3,567,260</u>	<u>\$64,342</u>	<u>\$719,411</u>	<u>\$31,500</u>	<u>\$2,752,007</u>

At December 31, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Certificates of deposit	\$ 620,729	\$ -	\$620,729	\$ -	\$ -
Pooled investment assets	3,030,750	-	-	-	3,030,750
Donated inventory	<u>20,750</u>	<u>-</u>	<u>-</u>	<u>20,750</u>	<u>-</u>
	<u>\$3,672,229</u>	<u>\$ -</u>	<u>\$620,729</u>	<u>\$20,750</u>	<u>\$3,030,750</u>

Valuation methods used for assets measured at fair value are as follows:

The Organization used quoted prices in principal active markets for identical assets as of the valuation date (Level 1) to value certain cash equivalents at December 31, 2021 and 2020. The carrying amount of the financial instruments approximate fair value because of their short liquidity and short maturity of the instruments.

For the valuation of certain cash equivalents, the Organization used significant other observable inputs, particularly market prices for comparable investments as of the valuation date (Level 2). The Level 2 funds have a readily determinable fair value.

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**NOTE 4 – FAIR VALUE MEASUREMENTS AND DISCLOSURES (continued)**

For the valuation of donated inventory, items are valued by using estimates, averages, and computational approximations (Level 3), which are believed to approximate the fair value of the contributed inventory. Because observable inputs are not available for Level 3 assets, the Organization has developed inputs using the best information available in the circumstances.

The fair values of certain investment assets have been estimated using the net asset value (NAV) per share, based on the value of each of the underlying investments, less applicable fees charged. The NAV is used as a practical expedient to estimate fair value of investments that do not have readily determinable fair values. The practical expedient is not used when it is determined to be probable that the fund will sell for a different amount than the reported NAV. Investments that are measured at fair value using NAV are not classified in the fair value hierarchy.

**NOTE 5 – INVESTMENTS**

Investments are presented in these financial statements at fair market value. The Organization maintains two general funds and one reserve fund that are held by the Arizona Community Foundation (ACF) and a third-party investment company. The Board has established policies regarding investment objectives and investment guidelines for each fund type. The Organization has no variance power over the funds held at ACF.

As of December 31, 2021 and 2020, the Organization has a recorded balance of \$2,752,007 and \$3,030,750, respectively, at ACF, which accounts for 31% and 34% of *Total Assets*, respectively. Under the agreements, the Board may request the entirety of the invested assets at any time. Funds are invested in pooled investments in equitable market securities and fixed income securities held by ACF.

As of December 31, the carrying value of board-designated investment assets held by ACF and at a third-party investment company are summarized as follows:

	<u>2021</u>	<u>2020</u>
Board Designated General Funds	\$ 792,202	\$ 793,495
Board Designated Reserve Fund	<u>2,490,281</u>	<u>2,237,255</u>
Total board designated investments	<u>\$3,282,483</u>	<u>\$3,030,750</u>

Changes in investment assets are as follows:

	<u>2021</u>	<u>2020</u>
Investments held on January 1	\$3,030,750	\$1,544,194
Contributions	585,230	1,390,650
Investment return, net of fees	20,312	13,890
Net appreciation/(depreciation)	258,761	219,316
Distributions	<u>(612,570)</u>	<u>(137,300)</u>
Investments held on December 31	<u>\$3,282,483</u>	<u>\$3,030,750</u>



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**NOTE 6 – PROPERTY AND EQUIPMENT**

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

	<u>2021</u>	<u>2020</u>
Land	\$ 128,383	\$ 128,383
Buildings and improvements	3,967,443	3,181,712
Equipment	392,624	406,016
Furniture & fixtures	25,965	19,907
Software	27,754	27,754
Vehicles	213,652	164,014
Construction in progress	<u>66,094</u>	<u>66,094</u>
	4,821,915	3,993,880
Less accumulated depreciation	<u>(1,553,982)</u>	<u>(1,372,141)</u>
Total, net of accumulated depreciation	<u>\$3,267,933</u>	<u>\$2,621,739</u>

Depreciation expense for the year ended December 31, 2021 and 2020, is \$185,511 and \$160,552, respectively.

Construction in process is associated with architectural planning and design costs related to improvements to the main shelter. The project is expected to be long-term in nature, and assets will be placed into service when completed.

**NOTE 7 – LINE OF CREDIT**

In September 2020 and again in August 2021, the Organization renewed a revolving line of credit with National Bank of Arizona. The credit limit is \$100,000 with interest payable monthly at 1.00% per annum over the bank’s Prime Rate. The line was not utilized during 2021 or 2020, and there was no outstanding balance as of December 31, 2021 and 2020. The line of credit is secured by property and equipment.

In January 2022, the credit limit was raised to \$250,000, and the line was extended through October 2024. The interest rate on the updated line of credit is 0.55% per annum over the bank’s Prime Rate, and the updated line is unsecured.

**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN OBLIGATION**

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In response to the impact of the pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted on March 27, 2020. The Paycheck Protection Program (PPP) was established under Division A, Title I of the CARES Act, and is implemented by the Small Business Administration with support from the Department of the Treasury.

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**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN OBLIGATION (continued)**

This program provides small businesses and eligible nonprofit organizations with funds to pay up to 24 weeks of payroll costs, including benefits, subject to certain limitations. Funds can also be used to pay interest on mortgages, rent, and utilities. If guidelines are followed and funds are spent only on eligible expenses, up to 100% of a PPP loan may be forgiven.

On April 14, 2020, the Organization received a PPP loan in the amount of \$352,300 to be used for eligible expenses. Because no portion of the loan was forgiven as of December 31, 2020, the entire amount is recorded as a loan payable as of December 31, 2020, and is shown as *Paycheck Protection Program loan obligation* in the Statement of Financial Position. The loan was forgiven in full on June 29, 2021, and is reflected as *Forgiveness of Paycheck Protection Program obligation* in the Statement of Activities.

**NOTE 9 – RESTRICTIONS ON NET ASSETS**

All donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. Net assets with donor restrictions include donor-restricted contributions and grants restricted by time and purpose as well as those that are held in perpetuity, depending on the nature of the restrictions. When a restriction expires, net assets with time and purpose restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as *Reclassification and release from net asset restrictions*. Net assets with donor restrictions as of December 31, 2021 and 2020, are available for the following purposes:

	<u>2021</u>	<u>2020</u>
Capital improvement projects	\$ 24,633	\$ 24,633
Animal food	-	9,048
Low cost spay/neuter programs	3,355	16,113
New Hope program	-	4,914
Cattery/cat care	1,712	1,242
Temporary boarding assistance (Safety Net)	2,348	5,308
Special treatment and recovery (STAR)	16,645	2,402
Low cost medical surgeries (Second Chance)	9,444	3,594
Care for small dogs	8,000	-
Serenity House	<u>486,812</u>	<u>490,762</u>
	<u>\$552,949</u>	<u>\$558,016</u>

Net assets with donor restrictions, presented in these financial statements as held in perpetuity, are due to donor-imposed restrictions. In 1976, the Organization was deeded a parcel of land from the City of Prescott. Under conditions of the deed, the land must be used for a nonprofit animal hospital and/or shelter. Upon demise or termination of the Organization, the land will revert to the City of Prescott.

Net assets held in perpetuity at December 31, 2021 and 2020, consist of:

	<u>2021</u>	<u>2020</u>
Land	<u>\$12,345</u>	<u>\$12,345</u>

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**NOTE 10 – RETIREMENT PLAN**

The Organization began offering a Simple IRA effective January 1, 2020. Employees become eligible for the plan on January 1, contingent upon the expectation that the employee will accumulate at least \$5,000 in compensation the following year. Contributions to the Simple IRA by eligible employees and the Organization are voluntary. The contribution percentage is determined by the Organization's board each year and cannot exceed 3% of compensation. During the years ending December 31, 2021 and 2020, the Organization contributed \$37,087 and \$35,134, respectively, to this plan, which is included in *Employee benefits* in the Statement of Functional Expenses.

**NOTE 11 – OPERATING LEASES**

The Organization leases office space for clinic program services, a mobile office for administrative services, storage facilities for the thrift store, and storage units under operating leases. The lease for the clinic, dated November 2016, requires escalating monthly payments that increase 3% each lease year, expiring October 2024. As of December 31, 2021 and 2020, monthly payments are \$2,927 and \$2,842, respectively, plus tax. The mobile office lease, dated December 2016, requires monthly payments of \$259 plus tax for 48 months, expiring December 2020. The mobile office lease was renewed for an additional 24 months, expiring December 2022. The Organization began renting a storage facility in Chino Valley in November 2021. The lease requires monthly payments of \$1,750 plus tax, and expires in November 2022. The storage units and another storage facility in Prescott Valley are rented on a month-to-month basis. Total rent expense and associated fees for the years ended December 31, 2021 and 2020, was \$47,372 and \$41,107, respectively.

The minimum lease payments required under the above operating leases as of December 31, are as follows:

Year ending December 31,	
2022	\$ 58,614
2023	37,362
2024	<u>31,909</u>
	<u>\$127,885</u>

**NOTE 12 – REVENUE AND REVENUE RECOGNITION**

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Organization records special events revenue equal to the fair value of direct benefit to donors, and contribution income for the excess received, when the event takes place.

Revenue from adoption fees from the shelter and equine center is recognized at a point in time when the animal is transferred to a new home. Revenues from clinic operations for the care of animals and fees from municipalities for providing sheltering services and licenses are recognized at a point in time when services are provided. Revenue from the operation of the thrift store is recognized at the point of sale.

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**NOTE 12 – REVENUE AND REVENUE RECOGNITION (continued)**

The Organization also receives contractual fees for caring for lost and found animals. Per the terms of the agreements, the annual fees for providing such services are received in equal monthly installments throughout the year. Because services are provided on a continual basis over a period of time, revenue is recognized ratably over the life of the contracts. Although the contract terms extend beyond December 31, 2021, the contracts can be terminated or amended by either party with advance written notice. Therefore, no deferred revenue is recognized for the remaining contract terms. The Organization expects the contracts to continue and to be renewed.

During the years ended December 31, 2021 and 2020, \$313,372 and \$291,400 of revenue, respectively, was recognized from services transferred over time. All other program revenue was recognized at a point in time.

**NOTE 13 – IMPACT OF WORLD-WIDE PANDEMIC**

As previously noted, in March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the overall effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity. Management will continue to follow the various government policies and advice and will do their utmost to continue operations in the best and safest way possible.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 6, 2022, the date which the financial statements were available to be issued. As discussed in Note 7, the line of credit limit was raised from \$100,000 to \$250,000 in January 2022. No other items were noted that would require disclosure in these financial statements.