



## **Financial Statements**

**December 31, 2022**

**(with summarized information for December 31, 2021)**



**Wallace Plese + Dreher**  
CERTIFIED PUBLIC ACCOUNTANTS + CONSULTANTS

# Yavapai Humane Society

## Contents

December 31, 2022

(with summarized information for December 31, 2021)

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<b>Independent Auditor's Report</b>	1-2
<b>Financial Statements</b>	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-18



## Independent Auditor's Report

Board of Directors  
Yavapai Humane Society

### ***Opinion***

We have audited the accompanying financial statements of Yavapai Humane Society (an Arizona nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of Yavapai Humane Society as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 for one year after the date that the financial statements are issued.

### ***Auditor's Responsibility 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 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 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.

***Other Matter***

The financial statements of Yavapai Humane Society for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on October 6, 2022.

***Report on Summarized Comparative Information***

In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Wallace, Plese + Dieher, A.C.P.*

Scottsdale, Arizona

November 27, 2023

# Yavapai Humane Society

## Statement of Financial Position

December 31, 2022

(with summarized information for December 31, 2021)

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,616,105	\$ 1,410,248
Certificates of deposit	152,168	253,277
Accounts receivable	76,438	8,558
Inventories	29,100	31,500
Prepaid expenses	29,131	27,804
Total current assets	1,902,942	1,731,387
Cash and cash equivalents donor-restricted for long-term purposes	536,513	511,445
Right-of-use operating lease assets, net	82,498	-
Investments	453,692	530,476
Beneficial interest in assets held by Arizona Community Foundation	2,331,227	2,752,007
Property and equipment, net	3,271,495	3,267,933
Security deposits	6,700	6,700
Total assets	<u>\$ 8,585,067</u>	<u>\$ 8,799,948</u>
<b>Liabilities and Net assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 228,667	\$ 235,012
Current portion of operating lease liabilities	52,924	-
Deferred revenues	12,760	-
Total current liabilities	294,351	235,012
Operating lease liabilities, less current portion	30,947	-
Total liabilities	<u>325,298</u>	<u>235,012</u>
Commitments ( <i>Note 10</i> )		
Net assets		
Without donor restrictions		
Undesignated	4,417,886	4,717,159
Board designated	3,093,184	3,282,483
Total net assets without donor restrictions	7,511,070	7,999,642
With donor restrictions	748,699	565,294
Total net assets	<u>8,259,769</u>	<u>8,564,936</u>
	<u>\$ 8,585,067</u>	<u>\$ 8,799,948</u>

See Notes to Financial Statements

# Yavapai Humane Society

## Statement of Activities

Year Ended December 31, 2022

(with summarized information for year ended December 31, 2021)

	Without donor restrictions	With donor restrictions	Total	
			2022	2021
Revenues, support and gains				
Contributions and program grants	\$ 2,475,794	\$ 205,646	\$ 2,681,440	\$ 1,853,683
In-kind contributions	50,756	-	50,756	26,676
Community and special event revenue	9,840	-	9,840	-
Program revenue				
Lost & found/animal intake	407,429	-	407,429	416,227
Spay/neuter & shelter medical center	38,950	-	38,950	281,324
Adoptions center	161,912	-	161,912	136,872
Equine center	24,112	-	24,112	16,269
Thrift store	444,848	-	444,848	565,942
Investment return (loss), net	(492,217)	-	(492,217)	281,869
Gain (loss) on disposition of assets	(76,072)	-	(76,072)	1,600
Other income	20,328	-	20,328	-
PPP loan forgiveness	-	-	-	352,300
Net assets released from restrictions	22,241	(22,241)	-	-
Total revenues, support and gains	<u>3,087,921</u>	<u>183,405</u>	<u>3,271,326</u>	<u>3,932,762</u>
Expenses				
Program services				
Lost & found/animal intake	389,780	-	389,780	409,767
Spay/neuter & shelter medical center	601,859	-	601,859	917,538
Adoptions center	928,163	-	928,163	917,327
Equine center	279,251	-	279,251	183,999
	<u>2,199,053</u>	<u>-</u>	<u>2,199,053</u>	<u>2,428,631</u>
Supporting services				
Thrift store	557,498	-	557,498	642,980
Management and general	319,253	-	319,253	294,451
Fund development	500,689	-	500,689	411,093
Total expenses	<u>3,576,493</u>	<u>-</u>	<u>3,576,493</u>	<u>3,777,155</u>
Change in net assets	(488,572)	183,405	(305,167)	155,607
Net assets, beginning of year	<u>7,999,642</u>	<u>565,294</u>	<u>8,564,936</u>	<u>8,409,329</u>
Net assets, end of year	<u>\$ 7,511,070</u>	<u>\$ 748,699</u>	<u>\$ 8,259,769</u>	<u>\$ 8,564,936</u>

See Notes to Financial Statements

# Yavapai Humane Society

## Statement of Functional Expenses

Year Ended December 31, 2022

(with summarized information for year ended December 31, 2021)

	Program services				Supporting services			2022 Total expenses	2021 Total expenses	
	Lost & found/ animal intake	Spay/neuter & shelter medical clinic	Adoptions center	Equine center	Total program services	Thrift store	Management and general			Fund development
Advertising	\$ -	\$ 10,261	\$ 23,868	\$ 11,347	\$ 45,476	\$ 40,676	\$ -	\$ 173,058	\$ 259,210	\$ 195,668
Animal transportation costs	-	-	-	4,500	4,500	-	-	-	4,500	-
Auto expense	90	7,018	3,030	5,765	15,903	23,638	435	784	40,760	52,232
Bank fees	1,521	1,776	3,196	-	6,493	10,762	3,699	9,035	29,989	21,489
Computer & technology	290	8,112	794	382	9,578	290	3,119	613	13,600	18,777
Depreciation	21,840	21,714	63,519	35,988	143,061	52,765	6,277	1,437	203,540	185,511
Dues, licenses & subscriptions	675	1,557	1,019	85	3,336	251	7,615	16,992	28,194	24,734
Employee benefits	25,349	29,341	69,899	8,032	132,621	36,186	24,341	10,703	203,851	226,878
Food and beverage costs	-	-	-	-	-	-	-	12,378	12,378	-
Insurance	6,745	14,366	16,684	6,417	44,212	10,922	8,682	2,106	65,922	84,308
Municipalities costs	12,267	753	1,932	-	14,952	-	-	-	14,952	19,548
Occupancy costs	21,822	11,876	22,336	11,331	67,365	28,340	3,548	5,337	104,590	97,705
Office supplies	1,081	96	1,903	536	3,616	1,968	4,963	3,310	13,857	10,366
Operational & medical supplies	66,967	109,634	91,822	81,091	349,514	11,721	11,293	11,816	384,344	392,749
Other employee costs	4,174	9,416	5,820	3,062	22,472	1,471	993	312	25,248	16,210
Payroll taxes	15,251	17,652	42,054	4,832	79,789	21,771	14,644	6,439	122,643	143,776
Postage and printing	963	-	3,057	467	4,487	616	1,878	114,289	121,270	123,567
Professional fees	-	-	313	-	313	313	26,766	13,128	40,520	40,031
Rent expense	-	38,247	-	-	38,247	20,008	3,374	7,181	68,810	47,372
Repairs & maintenance	9,487	6,149	22,257	14,683	52,576	8,663	2,872	1,351	65,462	84,338
Salaries & wages	201,146	232,822	554,654	63,733	1,052,355	287,137	193,143	84,932	1,617,567	1,916,804
Supplies for special events	-	-	-	-	-	-	-	23,768	23,768	-
Veterinary services	-	81,069	-	27,000	108,069	-	-	-	108,069	71,929
Other	112	-	6	-	118	-	1,611	1,720	3,449	3,163
	<u>\$ 389,780</u>	<u>\$ 601,859</u>	<u>\$ 928,163</u>	<u>\$ 279,251</u>	<u>\$ 2,199,053</u>	<u>\$ 557,498</u>	<u>\$ 319,253</u>	<u>\$ 500,689</u>	<u>\$ 3,576,493</u>	<u>\$ 3,777,155</u>

See Notes to Financial Statements

# Yavapai Humane Society

## Statement of Cash Flows

Year Ended December 31, 2022

(with summarized information for year ended December 31, 2021)

	2022	2021
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (305,167)	\$ 155,607
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in donated inventory	2,400	(10,750)
Contributions restricted for long-term purposes	(167,665)	-
Amortization of right-of-use assets	58,940	-
Non-cash lease expense	1,437	-
Donation of beneficial interest in assets held by ACF	-	(58,806)
Change in beneficial interest in assets held by ACF	427,431	(258,996)
Net realized and unrealized gain on investments	88,004	235
Depreciation	203,540	185,511
In-kind donations of property and equipment	(16,500)	-
(Gain) loss on disposition of assets	76,072	(1,600)
PPP loan forgiveness	-	(352,300)
Changes in assets and liabilities:		
Accounts receivable	(67,880)	6,807
Prepaid expenses	(1,327)	(17,723)
Security deposits	-	(1,750)
Accounts payable and accrued expenses	(6,345)	77,061
Deferred revenues	12,760	(4,997)
Operating lease liabilities	(59,004)	-
Net cash provided by (used in) operating activities	<u>246,696</u>	<u>(281,701)</u>
<b>Cash flows from investing activities</b>		
Purchases of certificates of deposits	(152,000)	-
Proceeds from maturity of certificates of deposit	254,084	369,793
Purchases of beneficial interest in assets held by ACF	-	(25,900)
Proceeds from beneficial interest in assets held by ACF	9,800	638,470
Purchase of investments	(5,688)	(526,424)
Reinvested interest and dividends, net of fees	(22,958)	(22,653)
Purchases of property and equipment	(266,674)	(831,705)
Proceeds from sale of property and equipment	-	1,600
Proceeds from sale of assets held for sale	-	166,771
Net cash used in investing activities	<u>(183,436)</u>	<u>(230,048)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term purposes	167,665	-
Net cash provided by financing activities	<u>167,665</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	230,925	(511,749)
Cash and cash equivalents, beginning of year	<u>1,921,693</u>	<u>2,433,442</u>
Cash and cash equivalents, end of year	<u>\$ 2,152,618</u>	<u>\$ 1,921,693</u>

See Notes to Financial Statements



# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies

#### Nature of operations:

Yavapai Humane Society (an Arizona nonprofit organization) is located in Prescott, Arizona, and was incorporated on April 3, 1972. For more than 50 years, Yavapai Humane Society has been advocating for the care 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 Yavapai Humane Society is to promote and protect the health, safety and welfare of companion animals.

Major sources of revenue include contributions from the general public, grants, adoption fees from the adoption and equine centers, revenues from clinic operations for the medical 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.

#### A summary of significant accounting policies follows:

##### Basis of presentation:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which requires the Organization to report information regarding financial position and activities according to the following net asset classifications:

**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 trustees.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors. 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, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets/liabilities are reported as increases/decreases in net assets without donor restrictions unless their use is restricted explicitly by donor stipulation or by law.

##### Summarized comparative information:

The financial statements include certain summarized comparative information for the year ended December 31, 2021, in total, but not by net asset class and separate categories of expenses by program or supporting function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2021, from which the summarized information has been derived.

##### Reclassifications:

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year format. Net assets are unchanged due to these reclassifications.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

#### Use of estimates:

The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the period. Actual results could differ from those estimates.

#### Cash and cash equivalents:

The Organization considers all highly liquid instruments with an original maturity of three months or less, or readily convertible to known amounts of cash, to be cash equivalents.

The Organization maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At December 31, 2022 and 2021, the Organization had approximately \$880,000 and \$1,340,000, respectively, of cash and cash equivalents in excess of FDIC-insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statement of cash flows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,616,105	\$ 1,410,248
Cash and cash equivalents donor-restricted for long-term purposes	<u>536,513</u>	<u>511,445</u>
	<u>\$ 2,152,618</u>	<u>\$ 1,921,693</u>

#### Certificates of deposit:

Certificates of deposit have original maturities of greater than three months and remaining maturities of less than one year and are recorded at cost plus accrued interest.

#### Accounts receivable:

Accounts receivable consist of non-interest bearing amounts due for program services. Accounts receivable are typically due within 30 to 60 days of invoicing. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivables will not be collected. Accordingly, there is no allowance for doubtful accounts. This policy has been established by management based on historical experience, assessment of economic conditions, and review of subsequent collections. Accounts receivable as of December 31, 2020, totaled \$15,365.

#### Inventories:

Inventory consists primarily of donated used clothing, furniture, and other thrift shop items. Items are valued by using estimates, averages, and computational approximations, which are believed to approximate the fair value of the contributed inventory. Donated inventory is reported at the lower of donated value and realizable value.

#### Prepaid expenses:

Prepaid expenses consist of insurance premiums paid in advance and program supplies. Prepaid expenses are recognized as expense either ratably over the term of the agreement or when supplies are used.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

#### Investments:

Investments are valued at fair value. Fair values are based on quoted market prices. Unrealized gains and losses are included in investment return, along with interest and dividends, in the statement of activities. Investment return is presented net of investment fees.

Investment securities are exposed to various risks, such as interest rate, market fluctuation, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the statements of financial position and statements of activities. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

#### Beneficial interest in assets held by Arizona Community Foundation:

The Organization has established two board-designated funds (Funds) exclusively for its benefit. The Funds are held by Arizona Community Foundation (ACF) and invested in ACF's investment pools. The Funds are valued at the fair value of the Organization's share of ACF's investment pools as of the measurement date. ACF values securities and other financial instruments on a fair value basis of accounting using the fair value of the underlying assets. Changes in the value of the pooled funds are reported as investment return (loss), net in the statement of activities.

ACF implements an investment strategy for the pooled funds that contain equity, fixed income and opportunistic investments. Such investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risks associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect investment balances and the amounts reported in the statements of activities.

#### Property and equipment:

Acquisitions of property and equipment in excess of \$2,500 are capitalized. If purchased, items are capitalized at cost, and if donated, they are capitalized at their estimated fair market value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions until the assets are placed in service. Leasehold improvements are amortized over the shorter of their estimated lives or the lease term, including expected renewals. Amortization is included with depreciation expense. Major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	5-39
Equipment	3-15
Software	3
Vehicles	5-7

#### Impairment of long-lived assets:

Long-lived assets are 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 cash flows to be expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying value 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. The Organization believes that no long-lived assets have any impairment of value.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

#### Contributions:

The Organization recognizes contributions when cash, securities, or other assets, unconditional promises to give, or notifications of a beneficial interest are received. Unconditional contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Gifts of cash and other assets are reported with donor-restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

During the year ended December 31, 2022, contributions from one donor accounted for 22% of revenues, support and gains.

#### In-kind contributions:

Donations of property and equipment and materials are recorded as support at their estimated fair value at the date of donation. Contributions of services are recorded at their estimated fair value if they (a) create or enhance nonfinancial assets or (b) require specialized skills that the Organization would normally purchase if not provided by donation. Contributed goods are recorded at fair value at the date of donation. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization in fulfilling its mission, but these services do not meet the criteria for recognition by U.S. GAAP. The Organization receives a significant number of volunteer hours per year.

#### Revenue recognition of exchange transactions:

Revenue from exchange transactions is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

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.

Thrift store revenues consist of the sale of donated goods at a specific point in time, at which the performance obligation for each individual item sold is met. Store merchandise is priced in accordance with thrift guidelines for used goods. In-store discounts are given from time to time. All sales are final.

The Organization recognizes revenue from community event registration fees at the time of admission. The Organization records special event revenue equal to the cost of direct benefits to donors, and contribution revenue for the excess received when the community and special events take place. All amounts received prior to the commencement of an event are deferred until the event takes place.

The Organization also receives contractual fees from local municipalities for the maintenance and operation of animal shelter facilities that provides care 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. During the years ended December 31, 2022 and 2021, revenue from contracts with local municipalities accounted for 10.4% and 8.0%, respectively, of revenues, support and gains. Although the contract terms extend beyond December 31, 2022, 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.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

#### Revenue recognition of exchange transactions (continued):

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected most significantly by geographical area, as the Organization operates in Arizona, and continued contracts with governmental agencies to provide services. The Organization considered several factors in determining that control transfers to the customer when the product is delivered or the event is held. These factors include the legal title transfers to the customer, the Organization has a right to payment, and the customer has assumed the risks and rewards of ownership at the time of delivery.

The following reconciles net revenues by the timing of revenue recognition during the years ended December 31:

	<u>2022</u>	<u>2021</u>
Revenue recognized at a point in time	\$ 754,807	\$ 1,103,262
Revenue recognized over time	<u>332,284</u>	<u>313,372</u>
	<u>\$ 1,087,091</u>	<u>\$ 1,416,634</u>

#### Functional expenses:

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, computer and technology, insurance, repairs and maintenance, and occupancy costs, which are allocated based on property and equipment usage by department. Salaries and wages and related costs, such as employee benefits and payroll taxes, are allocated on the basis of estimates of time and effort. Supporting service 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. Other costs are allocated based on management's estimate of use in each functional area.

#### Advertising:

Advertising costs are charged to expense when incurred.

#### Income taxes:

The Organization qualifies as tax exempt under Section 501(c)(3) of the Internal Revenue Code (the Code), and accordingly, there is no provision for federal or state corporate income taxes in the accompanying financial statements. 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. Revenue determined to be unrelated business taxable income (UBTI) would be taxable. If assessed, the Organization would classify any interest and penalties recognized associated with a tax position as additional income taxes in the statements of activities.

#### Recently adopted accounting standard:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (ASC Topic 842), establishing principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

#### Recently adopted accounting standard (continued):

On January 1, 2022, the Organization adopted the new lease accounting guidance, assessing whether contracts are or contain a lease. The Organization has elected the transition method to recognize and measure ASC 842 leases that exist at the application date at the beginning of the period of adoption through a cumulative-effect adjustment. Under this transition method, the application date is the beginning of the reporting period in which the entity first applies ASC 842, and resulted no adjustment to opening net assets as of January 1, 2022.

The Organization elected the “package of three” practical expedient, accounting for existing leases under the new guidance without reassessing (a) whether contracts contain a lease under ASC 842, (b) whether classification of leases would be different in accordance with ASC 842, or (c) whether unamortized initial direct costs before transition adjustments (as of January 1, 2022) would have met the definition of initial direct costs in ASC 842 at lease commencement.

The Organization has elected to use the risk-free discount rate for all leases unless the discount rate implicit in the lease agreement is readily determinable or stated, and to exclude non-lease components (such as maintenance and other costs) from their associated lease components for all leases. Additionally, the Organization has elected not to recognize assets and liabilities for short-term leases (12 months or less), expensing lease payments on a straight-line basis over their term.

As a result of adopting the new lease accounting guidance, on January 1, 2022, the Organization recognized operating lease liabilities of \$142,875, which represent the value of remaining lease payments on operating leases at the date of transition. The Organization recognized related operating right-of-use (ROU) assets of \$141,438 and \$1,437 of transition expense at the date of transition.

#### Subsequent events:

Management has evaluated subsequent events through November 27, 2023, which is the date the financial statements were available to be issued.

### Note 2 – Investments

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 12,896	\$ 64,342
Exchange-traded funds	<u>440,796</u>	<u>466,134</u>
Total investments	<u>\$ 453,692</u>	<u>\$ 530,476</u>

All investments are board designated and are being held for long-term use.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 3 – Beneficial Interest in Assets Held at ACF

Interests in Arizona Community Foundation (ACF) investment pools represent assets transferred by the Organization to ACF, which holds and administers the assets as agency funds (Funds) for the benefit of the Organization. ACF is granted variance power in the event that a restriction or condition of a Fund is incapable of fulfillment. Per the terms of the agreement with the Organization, in such a situation, ACF may make grants from the Funds to such organizations that most nearly serve the purposes and objectives for which the Funds were established. ACF shall hold, manage, invest, and reinvest the Funds and pay and disburse agreed upon distributions. The Funds are subject to ACF's investment and spending policies. A portion of the earned income can be distributed in set annual payments or reinvested subject to the Organization's Board of Director's approval and subject to the Organization advising that the distribution be made in accordance with the provisions of the respective funding agreements. The interests in ACF investment pools are all Board designated.

### Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 128,383	\$ 128,383
Buildings and improvements	3,803,942	3,740,656
Equipment	439,928	400,325
Leasehold improvements	188,300	188,300
Software	27,754	27,754
Vehicles	228,245	213,486
Construction in progress	<u>181,902</u>	<u>123,011</u>
	4,998,454	4,821,915
Less accumulated depreciation	<u>1,726,959</u>	<u>1,553,982</u>
	<u>\$ 3,271,495</u>	<u>\$ 3,267,933</u>

### Note 5 – Line of Credit

The Organization has a revolving line of credit with National Bank of Arizona that matures October 10, 2024. The available borrowing on the line is \$250,000. The line bears an interest rate at the Wall Street Journal prime rate (7.50% at December 31, 2022) plus 0.55%. The line was not drawn on during 2022 or 2021 and had no outstanding balance at December 31, 2022 or 2021. Borrowings under the line are secured by property and equipment.

### Note 6 – Net Assets

The Organization's Board of Directors has chosen to place the following limitations on net assets without donor restrictions at December 31:

	<u>2022</u>	<u>2021</u>
Board designated general funds	\$ 986,185	\$ 792,202
Board designated operating reserve	<u>2,106,999</u>	<u>2,490,281</u>
	<u>\$ 3,093,184</u>	<u>\$ 3,282,483</u>

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

### Note 6 – Net Assets (Continued)

Net assets with donor restrictions were restricted for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Capital projects:		
Capital improvement projects	\$ 24,633	\$ 24,633
Serenity Center	<u>667,665</u>	<u>486,812</u>
	692,298	511,445
Other programs and projects:		
Low-cost spay/neuter programs	6,355	3,355
Cattery/cat care	3,712	1,712
Temporary boarding assistance (Safety Net)	2,348	2,348
Special Treatment And Recovery (STAR)	17,826	16,645
Low cost medical surgeries (Second Chance)	10,444	9,444
Care of small dogs	2,571	8,000
Equine center landscaping	<u>800</u>	<u>-</u>
Total subject to expenditure for a specified purpose	736,354	552,949
Land subject to be held in perpetuity	<u>12,345</u>	<u>12,345</u>
	<u>\$ 748,699</u>	<u>\$ 565,294</u>

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 land is included in property and equipment – land and in net assets with donor restrictions.

### Note 7 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 7 – Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021:

*Cash and cash equivalents:* Investments in cash and cash equivalents are valued based on cost, which approximates fair value in a non-inflationary economy and is protected by the FDIC.

*Exchange-traded funds:* Valued at the daily closing price as reported by the fund. Exchange-traded funds (ETFs) are pooled securities that are registered with the Securities and Exchange Commission and are purchased and sold on a stock exchange. The ETFs held by the Organization are deemed to be actively traded.

*Beneficial interest in assets held by ACF:* Valued at the Net Asset Value (NAV) of investments held in the pool at year-end as determined by ACF. NAV is a readily determinable fair value and is the basis for current transactions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the statement financial position date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 12,896	\$ -	\$ -	\$ 12,896
Exchange-traded funds	440,796	-	-	440,796
Beneficial interest in assets held by ACF	-	2,331,227	-	2,331,227
Total assets at fair value	<u>\$ 453,692</u>	<u>\$ 2,331,227</u>	<u>\$ -</u>	<u>\$ 2,784,919</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 64,342	\$ -	\$ -	\$ 64,342
Exchange-traded funds	466,134	-	-	466,134
Beneficial interest in assets held by ACF	-	2,752,007	-	2,752,007
Total assets at fair value	<u>\$ 530,476</u>	<u>\$ 2,752,007</u>	<u>\$ -</u>	<u>\$ 3,282,483</u>

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 8 – PPP Loan Forgiveness

On April 14, 2020, the Organization received \$352,300 of funds to be used for eligible expenses under the Paycheck Protection Program (PPP), a loan program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020. If guidelines are followed and funds are spent only on eligible expenses, up to 100% of a PPP loan may be forgiven. Any amounts not forgiven will bear an interest rate of 1% and have a maturity date of 2 years. On June 29, 2021, the Organization received full forgiveness of the principal amount of \$352,300 on the PPP loan obligation. This amount is recorded as PPP loan forgiveness in the summarized information for 2021 in the statement of activities.

### Note 9 – Information Regarding Liquidity and Availability

The Organization manages its liquidity by developing and adopting an annual operating budget that provides sufficient funds for general expenditures in meeting its liabilities and other obligations as they come due. Actual performance is reported and monitored monthly in comparison to the budgets. Adjustments are made as needed to ensure adequate liquidity.

In addition to financial assets available to meet general expenditures over the next 12 months, management anticipates the Organization will collect sufficient revenue to cover general expenditures. In the event the need arises to utilize the board designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Furthermore, as noted in Note 5, the Organization has a revolving line of credit of up to \$250,000 that can be drawn on if needed to meet liquidity requirements.

The following table reflects the Organization's financial assets reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of board designations and donor restrictions as of December 31:

	<u>2022</u>	<u>2021</u>
Total financial assets	\$ 5,089,705	\$ 5,466,011
Designated by board for specified purposes	(3,093,184)	(3,282,483)
Restricted by donors for specified purposes, net of amounts expended for capital projects	<u>(580,569)</u>	<u>(552,949)</u>
Undesignated financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,415,952</u>	<u>\$ 1,630,579</u>

### Note 10 – Operating Leases

The Organization accounts for leases in accordance with Topic 842. At the inception of a contract, the Organization assesses whether the contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Operating leases are reported on the statement of financial position as right-of-use (ROU) operating lease assets, net and operating lease liabilities. ROU assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments arising from a lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term.

Leases might include a combination of fixed and variable payments. Fixed payments are generally included in measuring ROU assets and lease liabilities. Variable payments that depend on usage or the Organization's performance are excluded from such measurements and expensed as incurred.

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 10 – Operating Leases (Continued)

The Organization leases various real estate from third-parties under long-term, non-cancellable operating lease agreements of various terms through October 2024. These lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU operating lease assets, net, consisted of the following as of December 31, 2022:

Real estate, gross	\$ 134,917
Less accumulated amortization	<u>52,419</u>
ROU assets, net	<u>\$ 82,498</u>

Total operating lease expense, including transition expense of \$1,437, was \$61,629 for the year ended December 31, 2022. In addition, the Organization rented venues and equipment with terms of less than 30 days for special events that were held during 2022. Short-term rental expense related to special events totaled \$7,181 for the year ended December 31, 2022.

Other lease information as of or for the year ended December 31, 2022:

Cash paid for amounts included in measurement of operating lease liabilities	\$ 60,192
Weighted-average remaining lease term	1.64 years
Weighted-average discount rate	0.89%

The following are minimum payments required under operating leases for the years subsequent to December 31, 2022:

2023	\$ 53,404
2024	<u>31,055</u>
	84,459
Less future interest expense	<u>588</u>
	<u>\$ 83,871</u>

For the year ended December 31, 2021:

The Organization has non-cancellable leases, primarily for office and warehouse space, that expire at various times through October 2024. In addition, the Organization rents storage space and rental units under month-to-month rental agreements. Total rental expense for the year ended December 31, 2021 was \$47,372.

At December 31, 2021, the Company had minimum future operating lease payments as follows:

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

# Yavapai Humane Society

## Notes to Financial Statements

December 31, 2022

(with summarized information for December 31, 2021)

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### Note 11 – In-Kind Donations

The Organization received donated goods used in program services as follows during the years ended December 31:

	<u>2022</u>	<u>2021</u>
Animal food	\$ 13,324	\$ 9,266
Program supplies	17,932	17,410
Food and beverages donated for special event	3,000	-
Property and equipment, capitalized	<u>16,500</u>	<u>-</u>
	<u>\$ 50,756</u>	<u>\$ 26,676</u>

Donated goods are valued based on estimates of wholesale values that would be received for selling similar products in Arizona. All donated goods were retained and used in program and supporting services during the year. There were no donor-imposed restrictions associated with donated goods and services.

### Note 12 – Retirement Plan

The Organization maintains a Savings Incentive Match Plan for Employees (SIMPLE), whereby eligible employees may elect to contribute a portion of their gross wages in any year they receive or are expected to receive more than \$5,000 in compensation, up to the amount allowed by the IRS. The Organization makes a contribution of up to 3% of electing employees' deferrals based on the discretion of management and the board of directors.

The amount of employer contribution expense for the years ended December 31, 2022 and 2021, was \$34,508 and \$37,087, respectively, and is included in employee benefits expense on the statement of functional expenses.