



Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020



ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
TABLE OF CONTENTS

Independent Auditors' Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	5
Consolidated Statement of Functional Expenses	
Year Ended June 30, 2021	7
Consolidated Statement of Functional Expenses	
Year Ended June 30, 2020	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	11

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Arizona Center for Nature Conservation and Affiliate
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of Arizona Center for Nature Conservation (an Arizona nonprofit corporation) and Phoenix Zoo Holdings, LLC (an Arizona limited liability company) (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arizona Center for Nature Conservation and Affiliate as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry & Horne, LLP

Tempe, Arizona
December 13, 2021

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020 *</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,728,263	\$ 6,012,219
Accounts receivable, net of allowance of \$3,000 and \$1,000, respectively	126,835	41,554
Promises to give, current portion, net of allowance of \$-0- and \$1,000, respectively	994,225	1,104,519
CARES Act Employee Retention Credit receivable	775,477	-
Inventory, net of reserve of \$11,200 and \$13,300, respectively	100,499	119,221
Prepaid expenses	<u>239,786</u>	<u>121,460</u>
TOTAL CURRENT ASSETS	<u>12,965,085</u>	<u>7,398,973</u>
INVESTMENTS		
Operating investments	1,717,557	1,684,809
457 deferred compensation plans	1,029,710	720,585
Charitable gift annuities	<u>63,807</u>	<u>51,557</u>
	<u>2,811,074</u>	<u>2,456,951</u>
INVESTMENTS IN LIMITED LIABILITY COMPANIES	2,508,909	3,016,225
ENDOWMENTS		
Cash and cash equivalents	1,513,707	857,045
Investments	8,550,258	7,140,601
Promises to give	<u>400,000</u>	<u>-</u>
	<u>10,463,965</u>	<u>7,997,646</u>
ASSETS RESTRICTED FOR LONG-TERM PURPOSES		
Cash and cash equivalents	5,210,903	2,201,820
Promises to give, net of discount and allowance of \$87,000 and \$265,000, respectively	<u>711,635</u>	<u>2,501,036</u>
	<u>5,922,538</u>	<u>4,702,856</u>
PROPERTY AND EQUIPMENT, net	32,541,436	34,448,261
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	5,992,123	4,936,396
OTHER ASSETS	<u>19,371</u>	<u>449,371</u>
TOTAL ASSETS	<u>\$ 73,224,501</u>	<u>\$ 65,406,679</u>

* Reclassified to conform to current year presentation

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
June 30, 2021 and 2020

	<u>2021</u>	<u>2020 *</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 174,920	\$ 230,175
Accrued expenses	1,426,348	1,356,693
457 deferred compensation liability	1,029,710	720,585
Deferred revenue	<u>3,811,609</u>	<u>4,259,076</u>
TOTAL CURRENT LIABILITIES	6,442,587	6,566,529
LONG-TERM DEBT	<u>-</u>	<u>160,000</u>
TOTAL LIABILITIES	<u>6,442,587</u>	<u>6,726,529</u>
NET ASSETS		
Without donor restrictions		
Board designated - projects	2,942,673	3,203,708
Board designated - endowment	8,324,971	6,584,745
Undesignated	<u>37,238,584</u>	<u>33,452,172</u>
Total without donor restrictions	48,506,228	43,240,625
With donor restrictions	<u>18,275,686</u>	<u>15,439,525</u>
TOTAL NET ASSETS	<u>66,781,914</u>	<u>58,680,150</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 73,224,501</u>	<u>\$ 65,406,679</u>

* Reclassified to conform to current year presentation

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020

	2021			2020 *		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Admissions and memberships	\$ 17,901,715	\$ -	\$ 17,901,715	\$ 14,011,853	\$ -	\$ 14,011,853
Educational services	138,936	-	138,936	364,983	-	364,983
Group services	227,987	-	227,987	773,616	-	773,616
Food services	800,736	-	800,736	823,121	-	823,121
Retail	2,424,843	-	2,424,843	2,417,304	-	2,417,304
Contributions	1,916,197	3,109,301	5,025,498	2,642,603	4,909,535	7,552,138
CARES Act Employee Retention Credit	1,802,248	-	1,802,248	-	-	-
Paycheck Protection Program government grant	10,000	-	10,000	2,771,000	-	2,771,000
Donated materials and services	342,270	-	342,270	1,317,325	-	1,317,325
Special events revenue	233,672	-	233,672	407,936	-	407,936
Special events - contributions	54,000	-	54,000	144,364	-	144,364
Investment income	2,312,610	326,093	2,638,703	96,917	(6,429)	90,488
Gain (loss) on investments in limited liability companies	-	(107,316)	(107,316)	-	5,161	5,161
Change in fair value of beneficial interest in perpetual trusts	-	1,055,727	1,055,727	-	(12,019)	(12,019)
Other income	24,162	-	24,162	19,783	-	19,783
Release of restriction through a distribution from limited liability company	400,000	(400,000)	-	-	-	-
Releases from time and purpose restriction	1,147,644	(1,147,644)	-	4,991,263	(4,991,263)	-
	<u>29,737,020</u>	<u>2,836,161</u>	<u>32,573,181</u>	<u>30,782,068</u>	<u>(95,015)</u>	<u>30,687,053</u>

*Reclassified to conform to current year presentation

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2021 and 2020

	2021			2020 *		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES						
Program services	19,577,161	-	19,577,161	23,087,032	-	23,087,032
Management and general	2,312,302	-	2,312,302	3,794,766	-	3,794,766
Fundraising	1,444,428	-	1,444,428	1,642,251	-	1,642,251
Membership	1,110,947	-	1,110,947	910,672	-	910,672
Costs of direct benefits to donors	26,579	-	26,579	121,088	-	121,088
	<u>24,471,417</u>	<u>-</u>	<u>24,471,417</u>	<u>29,555,809</u>	<u>-</u>	<u>29,555,809</u>
CHANGE IN NET ASSETS	5,265,603	2,836,161	8,101,764	1,226,259	(95,015)	1,131,244
NET ASSETS AT BEGINNING OF YEAR	<u>43,240,625</u>	<u>15,439,525</u>	<u>58,680,150</u>	<u>42,014,366</u>	<u>15,534,540</u>	<u>57,548,906</u>
NET ASSETS AT END OF YEAR	<u>\$ 48,506,228</u>	<u>\$ 18,275,686</u>	<u>\$ 66,781,914</u>	<u>\$ 43,240,625</u>	<u>\$15,439,525</u>	<u>\$ 58,680,150</u>

* Reclassified to conform to current year presentation

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Supporting Services				Costs of Direct Benefits to Donors	Total
	Program Services	Management and General	Fundraising	Membership		
Salaries	\$ 9,198,279	\$ 1,207,834	\$ 755,820	\$ 349,357	\$ -	\$ 11,511,290
Employee benefits	1,707,028	224,478	140,267	64,834	-	2,136,607
Payroll taxes	519,015	68,153	42,647	19,713	-	649,528
Professional fees	60,340	236,109	11,670	832	-	308,951
Advertising and promotion	373,583	381,319	-	549,851	-	1,304,753
Office expense and printing	1,062,373	130,649	66,129	31,189	-	1,290,340
Utilities	1,192,508	62,788	392	102	-	1,255,790
Travel	830	2,858	164	-	-	3,852
Interest	-	4,092	-	-	-	4,092
Depreciation	2,805,983	69,579	310,440	80,775	-	3,266,777
Insurance	267,742	10,922	48,734	12,680	-	340,078
Animal collection	1,036,370	-	-	-	-	1,036,370
Cost of event food and product	129,969	-	-	-	26,579	156,548
Repairs and maintenance	314,097	3,027	-	-	-	317,124
Vendor commission	465,090	-	25,027	-	-	490,117
Grants	54,285	-	-	-	-	54,285
Bad debt expense (recovery) and/or allowance adjustment	2,000	(127,665)	-	-	-	(125,665)
Other	387,669	38,159	43,138	1,614	-	470,580
TOTAL EXPENSES	\$ 19,577,161	\$ 2,312,302	\$ 1,444,428	\$ 1,110,947	\$ 26,579	\$ 24,471,417

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Supporting Services				Costs of Direct Benefits to Donors	Total
	Program Services	Management and General	Fundraising	Membership		
Salaries	\$ 11,384,847	\$ 1,085,984	\$ 819,755	\$ 21,319	\$ -	\$ 13,311,905
Employee benefits	2,253,945	339,961	166,634	75,849	-	2,836,389
Payroll taxes	754,006	74,510	56,244	28,582	-	913,342
Professional fees	53,580	453,550	10,872	1,083	-	519,085
Advertising and promotion	384,548	1,458,075	-	635,099	-	2,477,722
Office expense and printing	1,143,314	138,351	52,069	50,314	-	1,384,048
Utilities	1,089,969	77	159	13,601	-	1,103,806
Travel	38,456	13,230	721	-	-	52,407
Interest	-	611	-	-	-	611
Depreciation	2,770,218	129,748	267,554	73,857	-	3,241,377
Insurance	233,257	18,842	38,855	10,726	-	301,680
Animal collection	1,147,685	-	-	-	-	1,147,685
Cost of event food and product	359,381	-	130,123	-	121,088	610,592
Repairs and maintenance	407,148	6,978	-	-	-	414,126
Vendor commission	448,304	-	44,078	-	-	492,382
Bad debt expense (recovery) and/or allowance adjustment	(3,000)	(325)	-	-	-	(3,325)
Grants	59,363	-	-	-	-	59,363
Other	562,011	75,174	55,187	242	-	692,614
TOTAL EXPENSES	\$ 23,087,032	\$ 3,794,766	\$ 1,642,251	\$ 910,672	\$ 121,088	\$ 29,555,809

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,101,764	\$ 1,131,244
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,266,777	3,241,377
(Gain) loss on disposal of asset	(11,436)	1,058
Non-cash capital contribution in RCSP HAWAII, LLC	-	(1,776,270)
(Gain) loss on investments in limited liability companies	107,316	(5,161)
Non-cash contribution of stock	(108,087)	(218,980)
Contributions restricted for capital campaign	(148,000)	(1,360,303)
Change in fair value of beneficial interest in perpetual trusts	(1,055,727)	12,019
Realized and unrealized (gain) loss on investments	(2,193,686)	405,301
Change in valuation allowance for accounts receivable	2,000	(3,000)
Change in valuation allowance for promises to give	(165,000)	(5,000)
Change in discount on long-term promises to give	(14,000)	(92,000)
Forgiveness of Paycheck Protection Program Loan	(10,000)	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(87,281)	138,531
Promises to give	137,600	(539,825)
Employee Retention Credit receivable	(775,477)	-
Inventories	18,722	(13,083)
Prepaid expenses	(118,326)	145,991
Other assets	430,000	9,698
Increase (decrease) in:		
Accounts payable	(55,255)	(567,031)
Accrued expenses	69,655	(258,407)
Deferred revenue	(447,467)	835,533
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,944,092</u>	<u>1,081,692</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,598,922)	(3,233,649)
Distributions from limited liability companies	400,000	-
Proceeds from maturities and sales of investments	2,446,040	1,410,746
Proceeds from sale of asset	15,750	2,500
Purchases of property, equipment and construction in progress	(1,364,266)	(2,867,783)
NET CASH USED IN INVESTING ACTIVITIES	<u>(101,398)</u>	<u>(4,688,186)</u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for capital campaign	1,689,095	1,497,648
Payments on long-term debt	(150,000)	-
Proceeds from long-term debt	<u>-</u>	<u>160,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,539,095</u>	<u>1,657,648</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,381,789	(1,948,846)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,071,084</u>	<u>11,019,930</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 17,452,873</u>	<u>\$ 9,071,084</u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents - current	\$ 10,728,263	\$ 6,012,219
Cash and cash equivalents - endowment	1,513,707	857,045
Cash and cash equivalents - long-term purposes	<u>5,210,903</u>	<u>2,201,820</u>
	<u>\$ 17,452,873</u>	<u>\$ 9,071,084</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Noncash investing transaction:		
Investment return on deferred compensation investment	<u>\$ -</u>	<u>\$ 88,825</u>
Contributions made to the deferred compensation plan	<u>\$ 25,000</u>	<u>\$ 25,000</u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

The Arizona Center for Nature Conservation (ACNC) was formed in 1961 to inspire people to live in ways that promote the well-being of the natural world. In fulfillment of that mission, ACNC operates the Phoenix Zoo, a zoological park, located in Phoenix, Arizona to provide educational programs and actively participate in animal conservation efforts.

Phoenix Zoo Holdings, LLC (PZH) was organized by ACNC in April 2012. ACNC is the sole member of PZH, which was created for the purpose of receiving and holding contributed real estate.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ACNC and PZH (collectively the "Organization"). All intercompany balances and transactions are eliminated in consolidation.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. The Organization is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restrictions.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts and cash. Cash and highly liquid financial instruments restricted to: building projects, endowments that are perpetual in nature, or other long-term purposes are also excluded from this definition.

Accounts Receivable

Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. The Organization evaluates the collectability of its accounts receivable based on a combination of factors. The Organization records a reserve based on a percentage of the accounts receivable balance. Accounts are charged off against the allowance when they are deemed to be uncollectible.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is reflected in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization records a reserve based on a percentage of the promises to give balance to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value using the average cost method and consist primarily of uniforms, animal feed and supplies.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- 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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

- 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 term (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, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

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 maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends less external investment fees) is included in the change in net assets in the accompanying consolidated statements of activities, unless the income or loss is restricted by donor or law.

The Organization holds a 20% share of the capital of KEMP-DCLL, LLC. This investment is recorded on the equity basis, adjusted for the Organization's proportionate share of its earnings and losses, as applicable. Investment income or loss is included in the change in net assets on the accompanying consolidated statements of activities.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Investments

The Organization holds a 60% share of the capital of RCSP HAWAII, LLC as a member. The managing member of the LLC and 40% shareholder has sole management, consent, approval, voting and veto rights of the LLC. Management believes that the Organization has an economic interest in the LLC but does not have control and therefore the investment is recorded on the equity basis, adjusted for the Organization's proportionate share of its earnings and losses, as applicable. Investment income or loss is included in the change in net assets on the accompanying consolidated statements of activities.

Risks and Uncertainty

The Organization invests in various types of investments which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk 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 changes could materially affect the amount reported in the consolidated statements of financial position.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

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 net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds

The Organization's endowment funds consist of eight individual funds established for a variety of purposes. Its endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows Arizona's Management of Charitable Funds Act ("MCFA") and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continues in perpetuity.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are expended by the Organization in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Organization's other resources, and (7) the Organization's investment policies.

The Board of Trustees had designated certain net assets without donor restrictions as general endowment funds to support the mission of the Organization. Since these amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as net assets without donor restrictions. The Organization's policy is to maintain the board designated net asset balance at the investment account balance until the Board of Trustees approves spending from the funds. As of June 30, 2021, the Board of Trustees plans to maintain these funds as reserves.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which include, but are not limited to, domestic and international corporate stocks and bonds, cash equivalents, and government issued debt securities. The Organization expects its endowment funds over time to provide an average rate of return of 4.5% to 5% annually. Actual returns in any given year may vary from this amount.

Spending Policy. The Organization has allowed for appropriating for distributions each year up to 5% of its endowment fund's average value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Split-Interest Agreements

The Organization is beneficiary to two perpetual trusts. Under these agreements, the Organization recorded contributions with donor restrictions at the fair value of the Organization's beneficial interest in the trust assets. Distributions from the trust assets are recorded as investment income without donor restrictions in the accompanying consolidated statements of activities. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of beneficial interest in perpetual trusts with donor restrictions.

Revenue Recognition

Earned revenues where performance obligations are satisfied at a point in time with a single performance obligation consist of admissions, educational and group services, retail sales of merchandise and food and beverages, and ticket revenue for special events. Payment for these services are due in advance of guest admission or event attendance, or at the time the goods and services are transferred. Retail sales revenue is reported net of sales tax.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)

Revenue Recognition (Continued)

Earned revenues where performance obligations are satisfied over time consist primarily of membership dues. Membership dues revenue is recognized over the term of the membership agreement as the membership benefits are relatively equally provided to the members on a monthly basis over the membership term. Membership dues are generally due to be paid by the beginning of the membership term.

Contract liabilities (deferred revenue) include proceeds from ticket sales, membership dues and group event revenues received prior to the fiscal year in which the event occurs. Changes in deferred revenue for the years ended June 30 are as follows:

	Ticket Sales and Memberships	Group Events and Other	Total
Balance at June 30, 2019	\$ 2,934,824	\$ 488,719	\$ 3,423,543
Amounts received	14,872,753	748,249	15,621,002
Revenue recognized	<u>(14,011,853)</u>	<u>(773,616)</u>	<u>(14,785,469)</u>
Balance at June 30, 2020	3,795,724	463,352	4,259,076
Amounts received	17,498,204	184,031	17,682,235
Revenue recognized	<u>(17,901,715)</u>	<u>(227,987)</u>	<u>(18,129,702)</u>
Balance at June 30, 2021	<u>\$ 3,392,213</u>	<u>\$ 419,396</u>	<u>\$ 3,811,609</u>

Contributions

Contributions, grants and bequests, including promises to give, are received and recorded as support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Conditional contributions are recognized when the conditions on which they depend are substantially met.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Non-Cash Donations

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. The Organization utilizes the services of numerous volunteers who support the programs and activities of the Organization. For the years ended June 30, 2021 and 2020, the Organization received the benefit of approximately 200 and 1,200 volunteers, respectively, and approximately 11,000 and 54,000 hours of service from volunteers, respectively. This support has not been recorded in the accompanying consolidated financial statements as it does not meet the recognition criteria.

Advertising

The Organization uses advertising to promote its programs to the community it serves. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$525,000 and \$740,000 for the years ended June 30, 2021 and 2020, respectively, not including in-kind donations of approximately \$230,000 and \$1,103,000, respectively, as described in Note 17.

Animal Collection

In accordance with industry practice the animal collection is not recorded as there is no objective basis for establishing value. The Organization holds its animal collection for public exhibition, education, and research rather than financial gain. Additionally, the animal collection has numerous attributes, including species, age, sex, relationships and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Acquisitions and sales of animals are recorded as operating expense or revenue in the year of purchase or sale. The proceeds from sales of animals may be used for acquisitions of new animals or the direct care of existing animals.

As an accredited member of the Association of Zoos and Aquariums (AZA), the Organization adheres to the comprehensive animal welfare and veterinary care standards prescribed by AZA. The standards are met and evaluated to maintain accreditation in this professional organization. The Organization has adopted a definition of direct care which includes utilization of professional animal care staff, highly qualified veterinarians and animal health care staff, access to modern veterinary facilities and equipment, species-specific diet and nutritional services, behavioral enrichment and preventative veterinary medicine. These high standards for direct care are designed to ensure the welfare of the animals in their collection, so that they may continue to benefit the public through exhibition and education.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Animal Collection (Continued)

Purchases of animal collections are recorded as decreases in net assets without donor restrictions if purchased with assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Acquisitions of animal collections for the years ended June 30, 2021 and 2020 totaled approximately \$26,200 and \$53,100, respectively. Contributions of animal collections are not recognized in the consolidated statements of activities.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain employee positions are allocated based on time and effort. Other expenses, including office expense and printing are allocated based on a full-time employee equivalent basis. Utilities and depreciation expense are allocated based on utilization by function.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserves and board designated endowments.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue with donor restrictions when received and released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Self-Funded Group Health Insurance

The Organization has a partially self-funded group health insurance plan for the benefit of its employees. The Organization pays health insurance claims up to \$125,000 per covered participant and an aggregate limit that varies by the number of participants covered within the plan. As of June 30, 2021 and 2020, the aggregate limit was approximately \$1,500,000 per contract year. The plan is administered by a third-party administrator who purchases reinsurance contracts to limit claim exposure. Estimates for claims payable, which include both reported and incurred but not yet reported claims, are recorded in accrued expenses, at which time claims expense is also recorded. The amounts charged to expense for claims was approximately \$1,239,000 and \$1,848,000 for the years ended June 30, 2021 and 2020, respectively.

Income Tax Status

ACNC qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. In addition, ACNC has been classified as an organization that is not a private foundation under Section 501(a)(3). However, income determined to be unrelated business taxable income (UBTI) would be subject to income tax. During the years ended June 30, 2021 and 2020, ACNC incurred income tax expense of approximately \$700 and \$10,300, respectively, relating to UBTI.

The Organization recognizes uncertain tax positions in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2021 and 2020, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2021 and 2020, the Organization did not have any income tax related interest and penalty expense.

Operating Agreement

In November 2015, the Organization entered into a five-year operating and maintenance agreement with the City of Phoenix to provide educational programming and host events at the South Mountain Environmental Education Center, a city owned facility. The terms of the agreement allowed for termination at any time by mutual written consent. During March 2020, the Organization initiated early termination of its five-year agreement to cease operations as of May 31, 2020, otherwise due to expire in November 2020. In mutual agreement, the City of Phoenix accepted the early termination without any further obligation required of the Organization.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 13, 2021, the date the consolidated financial statements were available to be issued.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and marketable debt and equity securities. The following reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use within one year because of donor-imposed or other restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment funds for the following year.

	<u>2021</u>	<u>2020</u>
Current assets	\$ 12,965,085	\$ 7,398,973
Operating investments	1,717,557	1,684,809
Amounts appropriated for expenditure from endowment funds	<u>69,941</u>	<u>61,303</u>
	14,752,583	9,145,085
Amounts not available in the next year:		
Inventory, included in current assets	(100,499)	(119,221)
Prepaid expenses	(239,786)	(121,460)
Board designated projects	<u>(2,942,673)</u>	<u>(3,203,708)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,469,625</u>	<u>\$ 5,700,696</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures. Board-designated reserves for projects in the amount of \$2,942,673 and \$3,203,708 are deducted from the analysis as they are currently unavailable to meet operating needs at June 30, 2021 and 2020, respectively. However, these funds as well as board designated endowments of \$8,324,971 and \$6,584,745 at June 30, 2021 and 2020, respectively, could be drawn upon if the governing board approves that action.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operating activities for the years ended June 30, 2021 and 2020.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash equivalents, investments and promises to give. The Organization maintains its cash in bank accounts, which at times may exceed federally 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.

Investment balances with stock brokerage firms are insured up to \$500,000 by SIPC. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on investment balances.

NOTE 4 PROMISES TO GIVE

Promises to give at June 30 consist of and are restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Capital campaign and other capital projects	\$ 667,714	\$ 2,758,808
Bequests and trusts	1,513,941	1,078,962
Other	<u>11,205</u>	<u>33,785</u>
Total promises to give	2,192,860	3,871,555
Discount to present value	(24,000)	(38,000)
Allowance for uncollectible promises	<u>(63,000)</u>	<u>(228,000)</u>
Net promises to give	<u>\$ 2,105,860</u>	<u>\$ 3,605,555</u>

The estimated cash flows for promises to give were discounted over the collection period using a discount rate of 5%.

Promises to give, net of discount to present value and allowance for uncollectible promises, are due as follows at June 30:

	<u>2021</u>	<u>2020</u>
Promises to give due within one year	\$ 1,394,225	\$ 1,104,519
Promises to give due in one to five years	<u>711,635</u>	<u>2,501,036</u>
	<u>\$ 2,105,860</u>	<u>\$ 3,605,555</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 4 PROMISES TO GIVE (Continued)

The Organization's promises to give consist of contributions from individuals, charitable foundations and companies. At June 30, 2021, approximately 76% of gross promises to give are amounts due from three donors. At June 30, 2020, approximately 68% of gross promises to give is an amount due from five donors. Concentrations of credit risk with respect to these promises to give are limited due to the relationship and history with these donors. Concentration of risk is defined as any pledge from a single donor that exceeds 10% of the gross value of total promises to give.

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The total investment balance consists of the following accounts as presented on the consolidated statements of financial position as of June 30:

	<u>2021</u>	<u>2020</u>
Operating investments	\$ 1,717,557	\$ 1,684,809
Endowment investments	8,550,258	7,140,601
457 deferred compensation plans	1,029,710	720,585
Charitable gift annuities	<u>63,807</u>	<u>51,557</u>
	<u>\$ 11,361,332</u>	<u>\$ 9,597,552</u>

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets. The fair value of the interests in the perpetual trusts is estimated at the fair value of the Organization's portion of the underlying assets of the trust using information provided by the trustee.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	\$ 2,405,625	\$ -	\$ -	\$ 2,405,625
Bond funds	2,010,696	-	-	2,010,696
Equity funds	5,851,494	-	-	5,851,494
	<u>10,267,815</u>	<u>-</u>	<u>-</u>	<u>10,267,815</u>
457 deferred compensation plans:				
Equity funds	1,029,710	-	-	1,029,710
	<u>1,029,710</u>	<u>-</u>	<u>-</u>	<u>1,029,710</u>
Charitable gift annuities:				
Cash and money market funds	1,226	-	-	1,226
Exchange traded funds	62,581	-	-	62,581
	<u>63,807</u>	<u>-</u>	<u>-</u>	<u>63,807</u>
Total investments	<u>11,361,332</u>	<u>-</u>	<u>-</u>	<u>11,361,332</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>5,992,123</u>	<u>5,992,123</u>
	<u>\$ 11,361,332</u>	<u>\$ -</u>	<u>\$ 5,992,123</u>	<u>\$ 17,353,455</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	\$ 2,094,233	\$ -	\$ -	\$ 2,094,233
Bond funds	1,947,170	-	-	1,947,170
Equity funds	4,784,007	-	-	4,784,007
Total investments	<u>8,825,410</u>	<u>-</u>	<u>-</u>	<u>8,825,410</u>
457 deferred compensation plans:				
Equity funds	720,585	-	-	720,585
	<u>720,585</u>	<u>-</u>	<u>-</u>	<u>720,585</u>
Charitable gift annuities:				
Cash and money market funds	1,536	-	-	1,536
Exchange traded funds	50,021	-	-	50,021
	<u>51,557</u>	<u>-</u>	<u>-</u>	<u>51,557</u>
Total investments	<u>9,597,552</u>	<u>-</u>	<u>-</u>	<u>9,597,552</u>
Beneficial interest in perpetual trusts	-	-	4,936,396	4,936,396
	<u>\$ 9,597,552</u>	<u>\$ -</u>	<u>\$ 4,936,396</u>	<u>\$ 14,533,948</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30:

Balance at June 30, 2019	\$ 4,948,415
Change in fair value	<u>(12,019)</u>
Balance at June 30, 2020	4,936,396
Change in fair value	<u>1,055,727</u>
Balance at June 30, 2021	<u>\$ 5,992,123</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 5 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investment income is summarized as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 193,289	\$ 303,802
Distributions from trusts	279,524	219,175
Realized gains/(losses)	194,411	1,485
Unrealized gains/(losses)	1,999,275	(406,786)
Investment fees	<u>(27,796)</u>	<u>(27,188)</u>
Total investment income	<u>\$ 2,638,703</u>	<u>\$ 90,488</u>

NOTE 6 INVESTMENTS IN LIMITED LIABILITY COMPANIES

In February 2009, the Kemper and Ethel Marley Foundation (KEMF) gifted the Organization a 20% membership interest in KEMF-DCLL, LLC (the LLC), a general partnership formed to acquire and hold interest in DC Livestock Company, LLLP. KEMF, the managing member, has assigned the Organization the rights to receive distributions of certain net cash flows from the LLC in proportion to its membership interest. Additionally, the Organization does not have any obligations to make capital contributions to the LLC and is not able to withdraw any capital contributions, money or property from the LLC without written consent of KEMF. Per the operating agreement between KEMF and the Organization, the use of any net proceeds received by Organization from this gifted interest must be used in accordance with parameters described in the agreement and must be approved by a majority vote of the Administrative Committee of KEMF.

In November 2019, the Robert Kemper Corrigan Foundation (RKCF) gifted the Organization a 60% membership interest in RCSP HAWAII, LLC (RCSP), a general partnership formed to hold for investment a residential rental property in Koloa, Hawaii. RKCF, the managing member, has assigned the Organization the rights to receive distributions of certain net cash flow from RCSP in proportion to its membership interest. Additionally, the Organization does not have any obligations to make capital contributions to RCSP and is not able to withdraw any capital contributions, money or property from RCSP without written consent of RKCF. Per the operating agreement between RKCF and the Organization, the use of any net proceeds received by Organization from this gifted interest must be used in accordance with parameters described in the agreement and must be approved by a majority vote of the Administrative Committee of RKCF.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 6 INVESTMENTS IN LIMITED LIABILITY COMPANIES (Continued)

The activity for investments in limited liability companies for the years ended June 30, 2021 and 2020 are as follows:

	KEMF DCLL, LLC	RCSP HAWAII, LLC	TOTAL
Membership capital - June 30, 2019	\$ 1,234,794	\$ -	\$ 1,234,794
Capital contribution	-	1,776,270	1,776,270
Allocation of operating income (loss)	12,947	(7,786)	5,161
Membership capital - June 30, 2020	1,247,741	1,768,484	3,016,225
Allocation of operating income (loss)	54	(107,370)	(107,316)
Distributions	(400,000)	-	(400,000)
Membership capital - June 30, 2021	<u>\$ 847,795</u>	<u>\$ 1,661,114</u>	<u>\$ 2,508,909</u>

NOTE 7 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is the income beneficiary of two perpetual trusts. The trust funds are held and controlled by third party trustees. The Organization is entitled to a specified percentage of the annual income distributions from each of the trusts as defined in the trust agreements. The Organization will also be entitled to a specified percentage of the total amount of the corpus assets that will be distributed if the trusts are ever dissolved. The Organization estimated the fair value of its beneficial interest in perpetual trusts at June 30, 2021 and 2020 based upon the Organization's respective interest in the value of the underlying assets held by the trust. For the years ended June 30, 2021 and 2020, distributions from the perpetual trusts totaled approximately \$280,000 and \$219,000, respectively, and are included in investment income without donor restrictions in the accompanying consolidated statements of activities.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Exhibits and enclosures	\$ 33,101,204	\$ 32,998,856
Buildings and improvements	29,865,754	29,752,382
Ground installations	11,058,622	11,009,508
Machinery and equipment	11,066,016	10,917,038
Vehicles	<u>1,397,883</u>	<u>1,430,115</u>
	86,489,479	86,107,899
Accumulated depreciation	<u>(54,987,417)</u>	<u>(52,000,755)</u>
	31,502,062	34,107,144
Construction-in-progress	<u>1,039,374</u>	<u>341,117</u>
	<u>\$ 32,541,436</u>	<u>\$ 34,448,261</u>

Construction-in-progress includes design and construction costs related to various contracts for capital projects to improve animal exhibits and other areas within ACNC facilities with an estimated cost of \$6,836,000. The remaining commitment on these contracts is approximately \$307,000 and \$921,000 at June 30, 2021 and 2020, respectively.

Depreciation expense was \$3,266,777 and \$3,241,377 for the years ended June 30, 2021 and 2020, respectively.

NOTE 9 OTHER ASSETS

During the year ended June 30, 2012, an entity that is partially owned by a member of the Board of Trustees contributed real property located in Goodyear, Arizona to PZH. The contribution was recorded at the estimated fair value of the real estate, which totaled approximately \$555,000 as determined by an appraisal of the real property performed at the time of donation. During the year ended June 30, 2019, the Organization recorded an impairment loss in the amount of \$125,000 based on a letter of intent from an unrelated third party to purchase the property. This brought the recorded value of the property down to \$430,000. During the year ended June 30, 2020, the Organization entered into a real estate purchase agreement for the sale of the property for \$430,000, which closed escrow on November 30, 2020. Proceeds from the sale of this property have been restricted by the donor for the capital campaign.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 10 LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2020:

	<u>2021</u>	<u>2020</u>
Economic Injury Disaster Loan with the Small Business Administration due in monthly installments of \$641, including interest of 2.75%, beginning in May 2021. This loan was secured by all tangible property and was scheduled to mature in April 2050. Paid in full during the year ended June 30, 2021.	\$ -	\$ 150,000
Paycheck Protection Program loan, due in monthly installments of approximately \$427 per month including interest at 1% beginning in September 2021. This loan was scheduled to mature in August 2023 and was unsecured. Fully forgiven during the year ended June 30, 2021.	-	10,000
	-	160,000
Less current portion	-	-
Non-current portion	<u>\$ -</u>	<u>\$ 160,000</u>

NOTE 11 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 8,324,971	\$ -	\$ 8,324,971
Donor-restricted			
Original donor-restricted amount	-	1,665,493	1,665,493
Accumulated investment earnings	-	473,501	473,501
Total endowment funds	<u>\$ 8,324,971</u>	<u>\$ 2,138,994</u>	<u>\$ 10,463,965</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 11 ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 6,584,745	\$ -	\$ 6,584,745
Donor-restricted			
Original donor-restricted amount	-	1,265,493	1,265,493
Accumulated investment earnings	-	147,408	147,408
Total endowment funds	<u>\$ 6,584,745</u>	<u>\$ 1,412,901</u>	<u>\$ 7,997,646</u>

Changes in endowment funds for the years ended June 30 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2019	\$ 6,685,619	\$ 1,419,330	\$ 8,104,949
Investment income	64,401	13,818	78,219
Realized and unrealized losses	(94,362)	(20,247)	(114,609)
Board designations	127,799	-	127,799
Amounts expended	(198,712)	-	(198,712)
Balance at June 30, 2020	6,584,745	1,412,901	7,997,646
Contributions	-	400,000	400,000
Investment income	108,366	25,362	133,728
Realized and unrealized gains	1,284,949	300,731	1,585,680
Board designations	360,651	-	360,651
Amounts expended	(13,740)	-	(13,740)
Balance at June 30, 2021	<u>\$ 8,324,971</u>	<u>\$ 2,138,994</u>	<u>\$ 10,463,965</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
<u>Purpose restricted:</u>		
Interest in perpetual trusts	\$ 5,992,123	\$ 4,936,396
<u>Time and purpose restricted:</u>		
Capital campaign and other capital projects	5,996,641	4,449,809
Investments in limited liability companies	2,508,909	3,016,225
Promises to give, net	1,111,146	1,111,746
Conservation field support	231,290	300,274
Other	<u>296,583</u>	<u>212,174</u>
	10,144,569	9,090,228
<u>Endowment funds:</u>		
Portion of perpetual endowment funds that is required to be retained permanently	1,265,493	1,265,493
Promises to give	400,000	-
Investment income subject to a time restriction under MCFA	<u>473,501</u>	<u>147,408</u>
	<u>2,138,994</u>	<u>1,412,901</u>
	<u>\$ 18,275,686</u>	<u>\$ 15,439,525</u>

NOTE 13 EMPLOYER RETENTION CREDIT

During the year ended June 30, 2021, the Organization applied for the Employee Retention Credit, which is a refundable credit to be applied against certain employment taxes for qualified wages. The Employee Retention Credit is available for organizations that fully or partially suspend operations during any calendar quarter in 2020 due to orders from an appropriate authority limiting commerce due to COVID-19 or experience a significant decline in gross receipts during the calendar quarter. As a result, the Organization received a tax benefit of approximately \$1,802,000 which was applied to the Organization's employment tax liabilities incurred during the period January 1, 2021 through June 30, 2021. Any amounts that exceed the Organization's employment tax liabilities as of June 30, 2021, have been recognized as a receivable as these amounts will be refunded or used to offset future employment tax liabilities.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 14 PAYCHECK PROTECTION PROGRAM GOVERNMENT GRANT

During the year ended June 30, 2020, the Organization received proceeds in the amount of \$2,771,000 under the CARES Act Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). The funding can be forgiven in full if it is used to fund payroll, rent, utilities, and other costs as described under the PPP agreement and subject to approval by the originating bank and the SBA. The funding bears interest at a rate of 1.00% per year. Payments are deferred until the SBA determines the amount to be forgiven. The Organization has determined that the proceeds represent a conditional contribution as they anticipate forgiveness of the majority of the amount received. Conditions to be met for recognition of this contribution include the incurring of eligible expenses as well as maintaining the full-time equivalent employee count. As of June 30, 2020, the Organization has met these conditions and has recorded contribution income relating to the PPP funding in the amount of \$2,771,000. In addition to the PPP, the Organization also received a \$10,000 Economic Injury Disaster Loan (EIDL) advance through the SBA. The dollar amount of the forgivable portion of the PPP funding is reduced dollar for dollar by the EIDL advance received for the year ended June 30, 2020. The balance of the PPP funding that was not eligible for forgiveness as of June 30, 2020 was \$10,000 and was included in long-term debt on the accompanying consolidated statements of financial position. During the year ended June 30, 2021, the Organization received forgiveness for the remaining \$10,000 which was recognized as grant revenue on the accompanying consolidated statements of activities.

NOTE 15 EMPLOYEE BENEFIT PLANS

The Organization has a 401(k) defined contribution savings plan. The Organization matches employee contributions to the 401k plan at the rate of \$.50 for each \$1.00 contributed, up to the first 4% of annual compensation contributed by the employee. Employer matching contributions for the years ended June 30, 2021 and 2020 totaled approximately \$543,000 and \$441,000, respectively.

The Organization also has both a 457(b) and 457(f) non-qualified deferred compensation retirement plan covering the current Chief Executive Officer and Vice Presidents of the Organization. Both the 457(b) and 457(f) plans provide for employer contributions at the discretion of the Organization's Board of Trustees. Contributions by the Organization to the plans totaled approximately \$25,000 for each of the years ended June 30, 2021 and 2020 and are included in accrued liabilities in the accompanying consolidated statements of financial position. While the Organization has segregated funds totaling approximately \$1,030,000 and \$721,000 as of June 30, 2021 and 2020, respectively, these funds remain available to the general creditors of the Organization.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 16 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office equipment, storage space and property under operating leases with terms expiring in various years through 2033 and requiring monthly payments totaling approximately \$3,100.

Approximate minimum future rental payments under non-cancelable leases having initial or remaining terms in excess of one year at June 30, 2021 are as follows:

<u>Years Ending June 30,</u>	
2022	\$ 195,900
2023	5,400
2024	4,400
2025	1,200
2026	1,200
Thereafter	<u>8,600</u>
	<u>\$ 216,700</u>

The Organization also leases other equipment on a month-to-month basis, as needed. Rent expense for the years ended June 30, 2021 and 2020 amounted to approximately \$266,000 and \$246,000 respectively. During the years ended June 30, 2021 and 2020, rent expense included the rental of exhibits in the amount of \$165,000 and \$210,000, respectively.

The Organization has an agreement with the City of Phoenix to lease the property where the Phoenix Zoo is located. This agreement stipulates that the Organization will pay \$1,200 per year as rent for the property. The lease expires in the year 2033 but contains five 5-year renewal options at the end of the lease term.

Additionally, the Organization has an agreement with an unrelated company to lease 1,070 acres of real property located in Pima County, Arizona for \$1 per year for the development and/or purpose of raising, caring, studying, managing and grazing of the Zoo's animals as part of its wildlife conservation program. The Organization records in-kind lease expense for the fair market value each year. The fair value for the lease expense is \$64,200 for each of the years ended June 30, 2021 and 2020. The lease agreement expires in the year 2068 and can be terminated by either party with a one-year written notice.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE 17 DONATED MATERIALS AND SERVICES

Donated materials and services consisted of the following for the year ended June 30, 2021:

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising and Membership Development</u>	<u>Total</u>
Advertising	\$ -	\$ 230,268	\$ -	\$ 230,268
Rent	-	64,200	-	64,200
Other	700	-	47,102	47,802
Total donated materials and services	<u>\$ 700</u>	<u>\$ 294,468</u>	<u>\$ 47,102</u>	<u>\$ 342,270</u>

Donated materials and services consisted of the following for the year ended June 30, 2020:

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising and Membership Development</u>	<u>Total</u>
Advertising	\$ -	\$ 1,103,022	\$ -	\$ 1,103,022
Rent	-	64,200	-	64,200
Other	45,181	-	104,922	150,103
Total donated materials and services	<u>\$ 45,181</u>	<u>\$ 1,167,222</u>	<u>\$ 104,922</u>	<u>\$ 1,317,325</u>

Total donated materials and services included in special event revenue was approximately \$77,000 for the year ended June 30, 2020.

NOTE 18 RELATED PARTY TRANSACTIONS

During the years ended June 30, 2021 and 2020, the Organization recognized donations in the amounts of approximately \$164,000 and \$265,000, respectively, from Board members, employees, and volunteers. Included in total promises to give at June 30, 2021 and 2020 is approximately \$78,000 and \$203,000, respectively, due from Board members, employees, and volunteers.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE 19 SUBSEQUENT EVENT

Subsequent to year end, the Organization was awarded \$10,000,000 in funding from the Shuttered Venue Operators Grant (SVOG) program, administered by the Small Business Administration. The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and amended by the American Rescue Plan Act. Eligible recipients qualified for grants equal to 45% of gross earned revenue up to a maximum amount of \$10 million. The funds may be used for ordinary and necessary business expenses that are not reimbursed by another source and that were incurred between March 1, 2020 and June 30, 2022. Funds can also be used for payments on debt that was incurred prior to February 15, 2020. This funding will be subject to a Single Audit under the Uniform Guidance in the fiscal year ending June 30, 2022. Grantees are required to maintain documentation demonstrating the use of the funds.

NOTE 20 NEW ACCOUNTING PRONOUNCEMENT

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.