

Arizona Center for Nature Conservation and Affiliate

Consolidated Financial Statements

June 30, 2022 and 2021

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Arizona Center for Nature Conservation (an Arizona nonprofit organization) and Phoenix Zoo Holdings, LLC (an Arizona limited liability company), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Center for Nature Conservation and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated 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 Arizona Center for Nature and Conservation and Affiliate'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Center for Nature and Conservation and Affiliate'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 8, 2022, on our consideration of Arizona Center for Nature and Conservation and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the test results of that testing, and not to provide an opinion on the effectiveness of Arizona Center for Nature and Conservation and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arizona Center for Nature and Conservation and Affiliate's control over financial reporting and compliance.

Baker Tilly US, LLP

Tempe, Arizona
December 8, 2022

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,020,127	\$ 10,728,263
Accounts receivable, net of allowance of \$3,000 and \$3,000, respectively	98,879	126,835
Promises to give, current portion	151,182	994,225
CARES Act Employee Retention Tax Credit receivable	1,027,837	775,477
Inventory, net of reserve of \$14,100 and \$11,200, respectively	126,452	100,499
Prepaid expenses	393,338	239,786
	<u>29,817,815</u>	<u>12,965,085</u>
TOTAL CURRENT ASSETS		
INVESTMENTS		
Operating investments	2,135,314	1,717,557
457 deferred compensation plans	1,047,580	1,029,710
Charitable gift annuities	53,508	63,807
	<u>3,236,402</u>	<u>2,811,074</u>
INVESTMENTS IN LIMITED LIABILITY COMPANIES	2,380,827	2,508,909
ENDOWMENTS		
Cash and cash equivalents	-	1,513,707
Investments	9,782,403	8,550,258
Promises to give	-	400,000
	<u>9,782,403</u>	<u>10,463,965</u>
ASSETS RESTRICTED FOR LONG-TERM PURPOSES		
Cash and cash equivalents	4,370,106	5,210,903
Promises to give, net of discount and allowance of \$121,000 and \$87,000, respectively	1,061,643	711,635
	<u>5,431,749</u>	<u>5,922,538</u>
PROPERTY AND EQUIPMENT, net	33,148,726	32,541,436
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	5,164,049	5,992,123
OTHER ASSETS	24,371	19,371
	<u>24,371</u>	<u>19,371</u>
	<u>88,986,342</u>	<u>73,224,501</u>
TOTAL ASSETS	<u>\$ 88,986,342</u>	<u>\$ 73,224,501</u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 344,660	\$ 174,920
Accrued expenses	2,407,649	1,426,348
457 deferred compensation liability	1,047,580	1,029,710
Deferred revenue	<u>4,690,300</u>	<u>3,811,609</u>
TOTAL LIABILITIES	<u>8,490,189</u>	<u>6,442,587</u>
NET ASSETS		
Without donor restrictions		
Board designated - projects	2,858,903	2,942,673
Board designated - endowment	7,896,514	8,324,971
Undesignated	<u>51,772,616</u>	<u>37,238,584</u>
Total without donor restrictions	62,528,033	48,506,228
With donor restrictions	<u>17,968,120</u>	<u>18,275,686</u>
TOTAL NET ASSETS	<u>80,496,153</u>	<u>66,781,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,986,342</u>	<u>\$ 73,224,501</u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

	2022			2021 *		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Admissions and memberships	\$ 23,170,083	\$ -	\$ 23,170,083	\$ 17,901,715	\$ -	\$ 17,901,715
Educational services	439,261	-	439,261	138,936	-	138,936
Group services	1,179,980	-	1,179,980	227,987	-	227,987
Food services	1,205,713	-	1,205,713	800,736	-	800,736
Retail	3,454,231	-	3,454,231	2,424,843	-	2,424,843
Contributions	2,358,683	2,602,819	4,961,502	1,926,197	3,109,301	5,035,498
CARES Act Employee Retention Tax Credit	1,294,042	-	1,294,042	1,802,248	-	1,802,248.00
Shuttered Venues Operator's grant	10,000,000	-	10,000,000	-	-	-
Donated materials and services	490,315	-	490,315	342,270	-	342,270
Special events revenue	310,627	-	310,627	233,672	-	233,672
Special events - contributions	66,354	-	66,354	54,000	-	54,000
Investment income (loss)	(1,014,190)	(207,369)	(1,221,559)	2,312,610	326,093	2,638,703
Gain (loss) on investments in limited liability companies	-	171,918	171,918	-	(107,316)	(107,316)
Change in fair value of beneficial interest in perpetual trusts	-	(828,074)	(828,074)	-	1,055,727	1,055,727
Other income (expense)	(30,278)	-	(30,278)	24,162	-	24,162
Release of restriction through a distribution from limited liability company	300,000	(300,000)	-	400,000	(400,000)	-
Releases from time and purpose restriction	1,746,860	(1,746,860)	-	1,147,644	(1,147,644)	-
	<u>44,971,681</u>	<u>(307,566)</u>	<u>44,664,115</u>	<u>29,737,020</u>	<u>2,836,161</u>	<u>32,573,181</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, 2022 and 2021

	2022			2021 *		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES						
Program services	24,615,305	-	24,615,305	19,577,161	-	19,577,161
Management and general	3,133,689	-	3,133,689	2,312,302	-	2,312,302
Fundraising	1,537,028	-	1,537,028	1,444,428	-	1,444,428
Membership	1,576,883	-	1,576,883	1,110,947	-	1,110,947
Costs of direct benefits to donors	86,971	-	86,971	26,579	-	26,579
	<u>30,949,876</u>	<u>-</u>	<u>30,949,876</u>	<u>24,471,417</u>	<u>-</u>	<u>24,471,417</u>
CHANGE IN NET ASSETS	14,021,805	(307,566)	13,714,239	5,265,603	2,836,161	8,101,764
NET ASSETS AT BEGINNING 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>
NET ASSETS AT END OF YEAR	<u>\$ 62,528,033</u>	<u>\$ 17,968,120</u>	<u>\$ 80,496,153</u>	<u>\$ 48,506,228</u>	<u>\$ 18,275,686</u>	<u>\$ 66,781,914</u>

* Reclassified to conform to current year presentation

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Supporting Services				Costs of Direct Benefits to Donors	Total
	Program Services	Management and General	Fundraising	Membership		
Salaries	\$ 12,206,709	\$ 1,295,210	\$ 853,273	\$ 514,633	\$ -	\$ 14,869,825
Employee benefits	2,183,414	231,830	152,625	92,052	-	2,659,921
Payroll taxes	802,955	85,199	56,128	33,852	-	978,134
Professional fees	34,665	271,237	11,418	-	-	317,320
Advertising and promotion	311,477	826,343	-	774,907	-	1,912,727
Office expense and printing	1,461,434	140,040	58,337	54,647	-	1,714,458
Utilities	1,313,866	3,086	7,925	2,758	-	1,327,635
Travel	27,723	19,275	585	-	-	47,583
Depreciation	2,775,020	98,695	259,804	88,198	-	3,221,717
Insurance	310,594	17,721	45,513	15,836	-	389,664
Animal collection	1,196,447	-	-	-	-	1,196,447
Cost of event food and product	451,732	-	-	-	86,971	538,703
Repairs and maintenance	471,973	1,193	-	-	-	473,166
Vendor commission	486,920	-	12,244	-	-	499,164
Grants	144,697	-	-	-	-	144,697
Bad debt expense (recovery) and/or allowance adjustment	-	59,000	-	-	-	59,000
Other	435,679	84,860	79,176	-	-	599,715
TOTAL EXPENSES	\$ 24,615,305	\$ 3,133,689	\$ 1,537,028	\$ 1,576,883	\$ 86,971	\$ 30,949,876

See accompanying notes.

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
Bad debt expense (recovery) and allowance adjustment	54,285 2,000	- (127,665)	- -	- -	- -	54,285 (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 STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,714,239	\$ 8,101,764
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,221,717	3,266,777
(Gain) loss on disposal of asset	66,113	(11,436)
Non-cash contribution of property and equipment	(38,693)	-
(Gain) loss on investments in limited liability companies	(171,918)	107,316
Non-cash contribution of stock	(166,775)	(108,087)
Contributions restricted for capital campaign	(1,023,000)	(148,000)
Change in fair value of beneficial interest in perpetual trusts	828,074	(1,055,727)
Realized and unrealized (gain) loss on investments	1,839,133	(2,193,686)
Change in valuation allowance for accounts receivable	-	2,000
Change in valuation allowance for promises to give	34,000	(165,000)
Change in discount on long-term promises to give	-	(14,000)
Forgiveness of Paycheck Protection Program Loan	-	(10,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	27,956	(87,281)
Promises to give	1,169,497	137,600
Employee Retention Tax Credit receivable	(252,360)	(775,477)
Inventories	(25,953)	18,722
Prepaid expenses	(153,552)	(118,326)
Other assets	(5,000)	430,000
Increase (decrease) in:		
Accounts payable	169,740	(55,255)
Accrued expenses	981,301	69,655
Deferred revenue	878,691	(447,467)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>21,093,210</u>	<u>6,944,092</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,871,972)	(1,598,922)
Distributions from limited liability companies	300,000	400,000
Proceeds from maturities and sales of investments	560,011	2,446,040
Proceeds from sale of asset	22,500	15,750
Purchases of property, equipment and construction in progress	<u>(3,878,927)</u>	<u>(1,364,266)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,868,388)</u>	<u>(101,398)</u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for capital campaign	712,538	1,689,095
Payments on long-term debt	-	(150,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>712,538</u>	<u>1,539,095</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,937,360	8,381,789
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17,452,873</u>	<u>9,071,084</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 32,390,233</u></u>	<u><u>\$ 17,452,873</u></u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents - current	\$ 28,020,127	\$ 10,728,263
Cash and cash equivalents - endowment	-	1,513,707
Cash and cash equivalents - long-term purposes	<u>4,370,106</u>	<u>5,210,903</u>
	<u><u>\$ 32,390,233</u></u>	<u><u>\$ 17,452,873</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Noncash investing transaction:		
Investment return on deferred compensation investment	<u>\$ (172,281)</u>	<u>\$ 231,361</u>
Contributions made to the deferred compensation plan	<u><u>\$ 115,000</u></u>	<u><u>\$ 25,000</u></u>

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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

Investments (Continued)

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, 2022 and 2021

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, 2022, 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, 2022 and 2021

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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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 as the membership benefits are 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, 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	3,392,213	419,396	3,811,609
Amounts received	23,787,788	1,440,966	25,228,754
Revenue recognized	<u>(23,170,083)</u>	<u>(1,179,980)</u>	<u>(24,350,063)</u>
Balance at June 30, 2022	<u>\$ 4,009,918</u>	<u>\$ 680,382</u>	<u>\$ 4,690,300</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, 2022 and 2021

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

Donated Materials and Services and Change in Accounting Principle

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The ASU was issued to increase the transparency of contributed nonfinancial (non-cash) assets for not-for-profit entities through enhancements to presentation and disclosure. The change in accounting principle was adopted on a retrospective basis as of July 1, 2020. There was no adjustment to the beginning net assets balance as a result of the adoption of this standard.

Contributions of donated non-monetary assets (in-kind donations) are recorded at their estimated 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, 2022 and 2021, the Organization received the benefit of approximately 300 and 200 volunteers, respectively, and approximately 27,000 and 11,000 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 \$844,000 and \$525,000 for the years ended June 30, 2022 and 2021, respectively, not including in-kind donations of approximately \$293,000 and \$230,000, 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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

Animal Collection (Continued)

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.

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, 2022 and 2021 totaled approximately \$64,400 and \$26,200, 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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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

Net Assets (Continued)

- 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.

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, 2022 and 2021, 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 \$1,850,000 and \$1,239,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, ACNC incurred income tax expense of approximately \$100 and \$700, respectively, relating to UBTI. UBTI is related to income from investments in Limited Liability Company's and advertising revenue.

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, 2022 and 2021, 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, 2022 and 2021, the Organization did not have any income tax related interest and penalty expense.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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 8, 2022, the date the consolidated financial statements were available to be issued.

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, 2022 and 2021, reduced by amounts not available for general use within one year because of donor-imposed or other restrictions or internal designations.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

Amounts available include the Board-approved appropriation from the endowment funds for the following year.

	<u>2022</u>	<u>2021</u>
Current assets	\$ 29,817,815	\$ 12,965,085
Operating investments	2,135,314	1,717,557
Estimated amounts appropriated for expenditure from endowment funds	<u>77,000</u>	<u>70,000</u>
	32,030,129	14,752,642
Amounts not available in the next year:		
Inventory, included in current assets	(126,452)	(100,499)
Prepaid expenses	(393,338)	(239,786)
Board designated projects	<u>(838,000)</u>	<u>(131,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 30,672,339</u>	<u>\$ 14,281,357</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. Of the Board-designated reserve funds in the amount of \$2,858,903 and \$2,942,673 as of June 30, 2022 and 2021, \$838,000 and \$131,000 are authorized to be spent on eligible projects and are therefore deducted from the analysis as they are not available to meet operating needs at June 30, 2022 and 2021, respectively. These funds as well as board designated endowments of \$7,896,514 and \$8,324,971 at June 30, 2022 and 2021, 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, 2022 and 2021.

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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 3 CONCENTRATIONS OF CREDIT RISK (Continued)

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>2022</u>	<u>2021</u>
Capital campaign and other capital projects	\$ 1,053,176	\$ 667,714
Bequests and trusts	276,024	1,513,941
Other	<u>4,625</u>	<u>11,205</u>
Total promises to give	1,333,825	2,192,860
Discount to present value	(24,000)	(24,000)
Allowance for uncollectible promises	<u>(97,000)</u>	<u>(63,000)</u>
Net promises to give	<u><u>\$ 1,212,825</u></u>	<u><u>\$ 2,105,860</u></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>2022</u>	<u>2021</u>
Promises to give due within one year	\$ 995,465	\$ 1,893,769
Promises to give due in one to five years	<u>217,360</u>	<u>212,091</u>
	<u><u>\$ 1,212,825</u></u>	<u><u>\$ 2,105,860</u></u>

The Organization's promises to give consist of contributions from individuals, charitable foundations and companies. At June 30, 2022, approximately 68% of gross promises to give are amounts due from two donors. At June 30, 2021, approximately 76% of gross promises to give is an amount due from three 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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Operating investments	\$ 2,135,314	\$ 1,717,557
Endowment investments	9,782,403	8,550,258
457 deferred compensation plans	1,047,580	1,029,710
Charitable gift annuities	<u>53,508</u>	<u>63,807</u>
	<u>\$ 13,018,805</u>	<u>\$ 11,361,332</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.

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 1,745,799	\$ -	\$ -	\$ 1,745,799
Bond funds	2,676,229	-	-	2,676,229
Equity funds	6,656,543	-	-	6,656,543
Debt instruments	323,914	-	-	323,914
Exchange traded funds	<u>515,232</u>	<u>-</u>	<u>-</u>	<u>515,232</u>
	<u>11,917,717</u>	<u>-</u>	<u>-</u>	<u>11,917,717</u>
457 deferred compensation plans:				
Equity funds	<u>1,047,580</u>	<u>-</u>	<u>-</u>	<u>1,047,580</u>
	<u>1,047,580</u>	<u>-</u>	<u>-</u>	<u>1,047,580</u>
Charitable gift annuities:				
Cash and money market funds	570	-	-	570
Exchange traded funds	<u>52,938</u>	<u>-</u>	<u>-</u>	<u>52,938</u>
	<u>53,508</u>	<u>-</u>	<u>-</u>	<u>53,508</u>
Total investments	<u>13,018,805</u>	<u>-</u>	<u>-</u>	<u>13,018,805</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>5,164,049</u>	<u>5,164,049</u>
	<u>\$ 13,018,805</u>	<u>\$ -</u>	<u>\$ 5,164,049</u>	<u>\$ 18,182,854</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

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
Total investments	<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	-	-	5,992,123	5,992,123
	<u>\$ 11,361,332</u>	<u>\$ -</u>	<u>\$ 5,992,123</u>	<u>\$ 17,353,455</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, 2020	\$ 4,936,396
Change in fair value	<u>1,055,727</u>
Balance at June 30, 2021	5,992,123
Change in fair value	<u>(828,074)</u>
Balance at June 30, 2022	<u>\$ 5,164,049</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 367,022	\$ 193,289
Distributions from trusts	283,906	279,524
Realized gains/(losses)	153,850	194,411
Unrealized gains/(losses)	(1,992,983)	1,999,275
Investment fees	<u>(33,354)</u>	<u>(27,796)</u>
Total investment income	<u>\$ (1,221,559)</u>	<u>\$ 2,638,703</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 the 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 the 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, 2022 and 2021

NOTE 6 INVESTMENTS IN LIMITED LIABILITY COMPANIES (Continued)

The activity for investments in limited liability companies for the years ended June 30, 2022 and 2021 are as follows:

	KEMF DCLL, LLC	RCSP HAWAII, LLC	TOTAL
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	847,795	1,661,114	2,508,909
Allocation of operating income (loss)	(72,593)	244,511	171,918
Distributions	(200,000)	(100,000)	(300,000)
Membership capital - June 30, 2022	<u>\$ 575,202</u>	<u>\$ 1,805,625</u>	<u>\$ 2,380,827</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, 2022 and 2021 based upon the Organization's respective interest in the value of the underlying assets held by the trust. For the years ended June 30, 2022 and 2021, distributions from the perpetual trusts totaled approximately \$284,000 and \$280,000, 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, 2022 and 2021

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Exhibits and enclosures	\$ 33,236,637	\$ 33,101,204
Buildings and improvements	29,865,754	29,865,754
Ground installations	11,209,859	11,058,622
Machinery and equipment	11,543,157	11,066,016
Vehicles	<u>1,429,324</u>	<u>1,397,883</u>
	87,284,731	86,489,479
Accumulated depreciation	<u>(58,114,960)</u>	<u>(54,987,417)</u>
	29,169,771	31,502,062
Construction-in-progress	<u>3,978,955</u>	<u>1,039,374</u>
	<u><u>\$ 33,148,726</u></u>	<u><u>\$ 32,541,436</u></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 \$7,038,000. The remaining commitment on these contracts is approximately \$3,826,000 and \$307,000 at June 30, 2022 and 2021, respectively.

Depreciation expense was \$3,221,717 and \$3,266,777 for the years ended June 30, 2022 and 2021, respectively.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 7,896,514	\$ -	\$ 7,896,514
Donor-restricted			
Original donor-restricted amount	-	1,665,493	1,665,493
Accumulated investment earnings	-	220,396	220,396
Total endowment funds	<u>\$ 7,896,514</u>	<u>\$ 1,885,889</u>	<u>\$ 9,782,403</u>

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, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS (Continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	8,324,971	2,138,994	10,463,965
Investment income	227,939	51,900	279,839
Realized and unrealized losses	(1,138,679)	(259,269)	(1,397,948)
Board designations	519,663	-	519,663
Amounts expended	(37,380)	(45,736)	(83,116)
Balance at June 30, 2022	<u>\$ 7,896,514</u>	<u>\$ 1,885,889</u>	<u>\$ 9,782,403</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
<u>Purpose restricted:</u>		
Interest in perpetual trusts	\$ 5,164,049	\$ 5,992,123
<u>Time and purpose restricted:</u>		
Capital campaign and other capital projects	7,889,660	5,996,641
Investments in limited liability companies	2,380,827	2,508,909
Promises to give, net	266,649	1,111,146
Conservation field support	229,601	231,290
Other	151,445	296,583
	<u>10,918,182</u>	<u>10,144,569</u>
<u>Endowment funds:</u>		
Portion of perpetual endowment funds that is required to be retained permanently	1,665,493	1,265,493
Promises to give	-	400,000
Investment income subject to a time restriction under MCFA	220,396	473,501
	<u>1,885,889</u>	<u>2,138,994</u>
	<u>\$ 17,968,120</u>	<u>\$ 18,275,686</u>

NOTE 11 EMPLOYEE RETENTION TAX CREDIT

During the years ended June 30, 2022 and 2021, the Organization applied for the Employee Retention Tax Credit, which is a refundable credit to be applied against certain employment taxes for qualified wages. The Employee Retention Tax Credit is available for organizations that fully or partially suspend operations during any calendar quarter in 2020 or 2021 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 \$1,294,000 and \$1,802,000 for the years ended June 30, 2022 and 2021, respectively. This was applied to the Organization's employment tax liabilities incurred during the period January 1, 2021 through June 30, 2022. Any amounts that exceed the Organization's employment tax liabilities as of June 30, 2022 and 2021, were recognized as a receivable as these amounts will be refunded or used to offset future employment tax liabilities. The Organization is subject to possible audit or investigation by the IRS to determine whether the tax credit amounts were used for allowable purposes and whether the Organization met the eligibility requirements relating to decreased revenue.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 12 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, 2022 and 2021 totaled approximately \$240,000 and \$200,000, 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 \$185,000 and \$25,000 for the years ended June 30, 2022 and 2021, respectively, and are included in accrued liabilities in the accompanying consolidated statements of financial position. While the Organization has segregated funds totaling approximately \$1,048,000 and \$1,030,000 as of June 30, 2022 and 2021, respectively, these funds remain available to the general creditors of the Organization.

NOTE 13 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 \$3,200.

Approximate minimum future rental payments under non-cancelable leases having initial or remaining terms in excess of one year at June 30, 2022 are as follows:

<u>Years Ending June 30,</u>	
2023	\$ 639,600
2024	4,400
2025	1,200
2026	1,200
2027	1,200
Thereafter	7,400
	<hr/>
	\$ 655,000
	<hr/> <hr/>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

The Organization also leases other equipment on a month-to-month basis, as needed. Rent expense for the years ended June 30, 2022 and 2021 amounted to approximately \$299,000 and \$266,000, respectively. During the years ended June 30, 2022 and 2021, rent expense included the rental of exhibits in the amount of \$182,000 and \$165,000, 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, 2022 and 2021. The lease agreement expires in the year 2068 and can be terminated by either party with a one-year written notice.

NOTE 14 DONATED MATERIALS AND SERVICES

Donated materials and services consisted of the following for the year ended June 30, 2022:

	Programs	Management and General	Fundraising and Membership Development	Assets	Total
Advertising	\$ -	\$ 293,497	\$ -	\$ -	\$ 293,497
Rent	-	64,200	-	-	64,200
Other	-	-	93,925	38,693	132,618
Total donated materials and services	<u>\$ -</u>	<u>\$ 357,697</u>	<u>\$ 93,925</u>	<u>\$ 38,693</u>	<u>\$ 490,315</u>

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 14 DONATED MATERIALS AND SERVICES (Continued)

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>

Advertising is valued based on current rates of advertising services provided in the Phoenix metropolitan area by the advertising company. Rent is valued based on estimated market rental rates for similar properties in the vicinity of the Organization in the state of Arizona. Other donated materials and services are valued based on the current rates that would be used to purchase the material or the service that was provided by vendors in the Phoenix metropolitan area.

None of the donated materials and services provided for the years ended June 30, 2022 and 2021 were restricted by the donors.

NOTE 15 RELATED PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, the Organization recognized donations in the amounts of approximately \$177,000 and \$164,000, respectively, from Board members, employees, and volunteers. Included in total promises to give at June 30, 2022 and 2021 is approximately \$14,000 and \$78,000, respectively, due from Board members, employees, and volunteers.

NOTE 16 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.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Arizona Center for Nature Conservation and Affiliate (an Arizona nonprofit organization) and Phoenix Zoo Holdings, LLC (an Arizona limited liability company) (collectively the "Organization") which comprise the consolidated statement of financial position as of June 30, 2022 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 8, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Arizona Center for Nature Conservation and Affiliate's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arizona Center for Nature Conservation and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Center for Nature Conservation and Affiliate's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
December 8, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arizona Center for Nature Conservation's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arizona Center for Nature Conservation's major federal programs for the year ended June 30, 2022. Arizona Center for Nature Conservation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arizona Center for Nature Conservation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Arizona Center for Nature Conservation and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Arizona Center for Nature Conservation and Affiliate's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Arizona Center for Nature Conservation's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Arizona Center for Nature Conservation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Arizona Center for Nature Conservation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Arizona Center for Nature Conservation and Affiliate's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Arizona Center for Nature Conservation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Arizona Center for Nature Conservation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
December 8, 2022

ARIZONA CENTER FOR NATURE CONSERVATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2022

Federal Grantor / Pass-Through Grantor / Program	Federal Assistance Listing Number	Grantor's Number	Federal Expenditures
U.S. Small Business Administration			
COVID-19 Shuttered Venue Operators Grant Program	59.075	SBAHQ21SV005699	<u>\$ 10,000,000</u> *
Total U.S. Small Business Administration			<u>10,000,000</u>
U.S. Department of the Interior			
Passed through the Association of Zoos and Aquariums			
Endangered Species Conservation Recovery Implementation Funds	15.657	F21AC03165-00	<u>74,262</u>
Total U.S Department of the Interior			<u>74,262</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 10,074,262</u></u>

* Denotes major program

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Arizona Center for Nature Conservation under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule of Expenditures of Federal Awards presents only a portion of the operations of Arizona Center for Nature Conservation, it is not intended to and does not present the financial position, changes in net position, or cash flows of the organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Arizona Center for Nature Conservation has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

ARIZONA CENTER FOR NATURE CONSERVATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not
 considered to be a material weakness(es)? yes X no

Noncompliance material to financial statements noted? yes X none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are
 not considered to be a material weakness(es)? yes X none reported

Type of auditors’ report issued on compliance for major
 program listed below:

Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with the Uniform Guidance? yes X no

Identification of major program:

Assistance

Listing Numbers	Name of Federal Program or Cluster
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59.075	COVID-19 Shuttered Venue Operators Grant Program
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Dollar threshold used to distinguish between Type A and
 Type B programs:

\$750,000

Auditee qualified as low risk auditee? yes X no

ARIZONA CENTER FOR NATURE CONSERVATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted