

HawkWatch International, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020

HawkWatch International, Inc.
June 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees and Management
HawkWatch International, Inc.
Salt Lake City, Utah

We have audited the accompanying financial statements of HawkWatch International, Inc. (the Organization) (a nonprofit organization) which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Board of Trustees and Management
HawkWatch International, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HawkWatch International, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Salt Lake City, Utah
January 14, 2022

HawkWatch International, Inc.
Statements of Financial Position
June 30, 2021 and 2020

| | 2021 | 2020 |
|--------------------------------------|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 191,716 | \$ 113,848 |
| Investments - short-term | 1,349,361 | 998,722 |
| Contracts and grants receivable, net | 80,856 | 133,549 |
| Inventory | 12,383 | 5,070 |
| Prepaid expenses and other | 15,947 | 3,814 |
| Total current assets | 1,650,263 | 1,255,003 |
| Property and Equipment | | |
| Leasehold improvements | 58,581 | 50,121 |
| Equipment | 254,585 | 211,870 |
| Vehicles | 115,306 | 72,918 |
| Accumulated depreciation | (286,424) | (259,752) |
| Total property and equipment | 142,048 | 75,157 |
| Other Long-term Assets | | |
| Investments | 1,028,582 | 1,028,582 |
| Total other long-term assets | 1,028,582 | 1,028,582 |
| Total assets | \$ 2,820,893 | \$ 2,358,742 |

HawkWatch International, Inc.
Statements of Financial Position (continued)
June 30, 2021 and 2020

| | 2021 | 2020 |
|---|--------------|--------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 19,427 | \$ 47,427 |
| Accrued expenses | 69,252 | 72,661 |
| Deferred revenue | 28,108 | - |
| Line of credit | - | 50,700 |
| Refundable advance (Paycheck Protection Program (PPP) loan) | 164,168 | 169,100 |
| Current portion of long-term liabilities | 2,935 | - |
| Total current liabilities | 283,890 | 339,888 |
| Long-term Liabilities | | |
| Notes payable | 12,918 | - |
| Total long-term liabilities | 12,918 | - |
| Total liabilities | 296,808 | 339,888 |
| Net Assets | | |
| Without donor restrictions | 1,395,523 | 990,272 |
| With donor restrictions | 1,128,562 | 1,028,582 |
| Total net assets | 2,524,085 | 2,018,854 |
| Total liabilities and net assets | \$ 2,820,893 | \$ 2,358,742 |

HawkWatch International, Inc.
Statement of Activities
Year Ended June 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Support and Revenues | | | |
| Contributions | \$ 696,706 | \$ 100,000 | \$ 796,706 |
| In-kind donations | 418,189 | - | 418,189 |
| Contracts and grants | 459,870 | - | 459,870 |
| Merchandise sales | 36,751 | - | 36,751 |
| Net investment return | 452,699 | - | 452,699 |
| Other income | 3,363 | - | 3,363 |
| | <u>2,067,578</u> | <u>100,000</u> | <u>2,167,578</u> |
| Operating Expenses | | | |
| Program services | | | |
| Science | 1,112,556 | - | 1,112,556 |
| Education | 266,057 | - | 266,057 |
| Membership and public outreach | 47,261 | - | 47,261 |
| | <u>1,425,874</u> | <u>-</u> | <u>1,425,874</u> |
| Supporting services | | | |
| Management and general | 161,860 | 20 | 161,880 |
| Fundraising activities | 74,593 | - | 74,593 |
| | <u>236,453</u> | <u>20</u> | <u>236,473</u> |
| | <u>1,662,327</u> | <u>20</u> | <u>1,662,347</u> |
| Change in Net Assets | 405,251 | 99,980 | 505,231 |
| Net Assets, Beginning of Year | <u>990,272</u> | <u>1,028,582</u> | <u>2,018,854</u> |
| Net Assets, End of Year | <u>\$ 1,395,523</u> | <u>\$ 1,128,562</u> | <u>\$ 2,524,085</u> |

HawkWatch International, Inc.
Statement of Activities
Year Ended June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Support and Revenues | | | |
| Contributions | \$ 587,362 | \$ - | \$ 587,362 |
| Special events | 19,960 | - | 19,960 |
| In-kind donations | 792,587 | - | 792,587 |
| Contracts and grants | 426,202 | - | 426,202 |
| Merchandise sales | 5,127 | - | 5,127 |
| Net investment return | 95,266 | - | 95,266 |
| Other income | 17,081 | - | 17,081 |
| | <u>1,943,585</u> | <u>-</u> | <u>1,943,585</u> |
| Operating Expenses | | | |
| Program services | | | |
| Science | 1,554,870 | - | 1,554,870 |
| Education | 320,213 | - | 320,213 |
| Membership and public outreach | 67,774 | - | 67,774 |
| | <u>1,942,857</u> | <u>-</u> | <u>1,942,857</u> |
| Supporting services | | | |
| Management and general | 165,995 | - | 165,995 |
| Fundraising activities | 79,798 | - | 79,798 |
| | <u>245,793</u> | <u>-</u> | <u>245,793</u> |
| | <u>2,188,650</u> | <u>-</u> | <u>2,188,650</u> |
| Change in Net Assets | (245,065) | - | (245,065) |
| Net Assets, Beginning of Year | <u>1,235,337</u> | <u>1,028,582</u> | <u>2,263,919</u> |
| Net Assets, End of Year | <u>\$ 990,272</u> | <u>\$ 1,028,582</u> | <u>\$ 2,018,854</u> |

HawkWatch International, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

| | <u>Program Services</u> | | | | <u>Supporting Services</u> | | | <u>Total Expenses</u> |
|----------------------------|-------------------------|-------------------|---------------------------------------|-------------------------------|-------------------------------|--------------------|----------------------------------|-----------------------|
| | <u>Science</u> | <u>Education</u> | <u>Membership and Public Outreach</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Supporting Services</u> | |
| Personnel and fringe | \$ 571,742 | \$ 156,919 | \$ 39,534 | \$ 768,195 | \$ 120,829 | \$ 43,072 | \$ 163,901 | \$ 932,096 |
| Specialized field services | 284,794 | 53,463 | - | 338,257 | - | - | - | 338,257 |
| Professional services | 31,009 | 1,224 | 898 | 33,131 | 14,851 | 4,973 | 19,824 | 52,955 |
| Communications | 35,189 | 3,163 | 413 | 38,765 | 2,507 | 10,956 | 13,463 | 52,228 |
| Occupancy | 43,165 | 17,712 | 716 | 61,593 | 3,599 | 4,692 | 8,291 | 69,884 |
| Travel | 80,164 | 1,572 | - | 81,736 | 329 | 1,268 | 1,597 | 83,333 |
| Supplies | 35,551 | 21,325 | 33 | 56,909 | 2,194 | 470 | 2,664 | 59,573 |
| Equipment | 3,791 | 423 | 111 | 4,325 | 419 | 140 | 559 | 4,884 |
| Depreciation | 13,176 | 4,972 | 5,060 | 23,208 | 3,789 | - | 3,789 | 26,997 |
| Miscellaneous | 21,635 | 5,284 | 496 | 27,415 | 11,792 | 4,463 | 16,255 | 43,670 |
| Cost of goods sold | (7,660) | - | - | (7,660) | - | 4,559 | 4,559 | (3,101) |
| Other expense | - | - | - | - | 1,571 | - | 1,571 | 1,571 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total functional expenses | <u>\$ 1,112,556</u> | <u>\$ 266,057</u> | <u>\$ 47,261</u> | <u>\$ 1,425,874</u> | <u>\$ 161,880</u> | <u>\$ 74,593</u> | <u>\$ 236,473</u> | <u>\$ 1,662,347</u> |

HawkWatch International, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

| | <u>Program Services</u> | | | | <u>Supporting Services</u> | | | <u>Total Expenses</u> |
|----------------------------|-------------------------|-------------------|---------------------------------------|-------------------------------|-------------------------------|--------------------|----------------------------------|-----------------------|
| | <u>Science</u> | <u>Education</u> | <u>Membership and Public Outreach</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Supporting Services</u> | |
| Personnel and fringe | \$ 537,651 | \$ 181,277 | \$ 50,337 | \$ 769,265 | \$ 128,083 | \$ 58,020 | \$ 186,103 | \$ 955,368 |
| Specialized field services | 656,384 | 58,837 | - | 715,221 | - | - | - | 715,221 |
| Professional services | 72,916 | 5,380 | 846 | 79,142 | 11,638 | 1,041 | 12,679 | 91,821 |
| Communications | 9,458 | 9,193 | 4,535 | 23,186 | 1,850 | 4,352 | 6,202 | 29,388 |
| Occupancy | 39,686 | 24,870 | 4,944 | 69,500 | 2,729 | 3,819 | 6,548 | 76,048 |
| Travel | 129,303 | 14,026 | - | 143,329 | 676 | 2,459 | 3,135 | 146,464 |
| Supplies | 82,250 | 13,522 | 96 | 95,868 | 1,283 | 3,971 | 5,254 | 101,122 |
| Equipment | 1,172 | 574 | 184 | 1,930 | 394 | 184 | 578 | 2,508 |
| Depreciation | 9,156 | 4,754 | 5,011 | 18,921 | 4,643 | - | 4,643 | 23,564 |
| Miscellaneous | 15,635 | 7,780 | 1,821 | 25,236 | 4,402 | 4,587 | 8,989 | 34,225 |
| Cost of goods sold | - | - | - | - | 3,073 | - | 3,073 | 3,073 |
| Other expense | 1,259 | - | - | 1,259 | 7,224 | 1,365 | 8,589 | 9,848 |
| | <u>\$ 1,554,870</u> | <u>\$ 320,213</u> | <u>\$ 67,774</u> | <u>\$ 1,942,857</u> | <u>\$ 165,995</u> | <u>\$ 79,798</u> | <u>\$ 245,793</u> | <u>\$ 2,188,650</u> |
| Total functional expenses | <u>\$ 1,554,870</u> | <u>\$ 320,213</u> | <u>\$ 67,774</u> | <u>\$ 1,942,857</u> | <u>\$ 165,995</u> | <u>\$ 79,798</u> | <u>\$ 245,793</u> | <u>\$ 2,188,650</u> |

HawkWatch International, Inc.
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 | \$ 505,231 | \$ (245,065) |
| Items not requiring (providing) cash | | |
| Depreciation | 26,997 | 23,564 |
| Unrealized gain on investments | (452,699) | (95,266) |
| Changes in operating assets | | |
| Contracts and grants receivable, net | 52,693 | 27,095 |
| Inventory | (7,313) | (394) |
| Prepaid expenses and other | (12,133) | 14,087 |
| Changes in operating liabilities | | |
| Accounts payable | (28,000) | 8,592 |
| Accrued expenses | (3,409) | 13,651 |
| Refundable advance | (4,932) | 169,100 |
| Deferred revenue | 28,108 | (19,256) |
| | <u>104,543</u> | <u>(103,892)</u> |
| Net cash provided by (used in) operating activities | | |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of investments | 104,491 | 154,100 |
| Purchases of investments | (2,431) | (2,990) |
| Purchases of property and equipment | (93,888) | (45,760) |
| | <u>8,172</u> | <u>105,350</u> |
| Net cash provided by investing activities | | |
| Cash Flows from Financing Activities | | |
| Proceeds (payments) on line of credit | (50,700) | 15,700 |
| Proceeds received on notes payable | 15,853 | - |
| | <u>(34,847)</u> | <u>15,700</u> |
| Net cash provided by (used in) financing activities | | |
| Net Increase in Cash and Cash Equivalents | 77,868 | 17,158 |
| Cash and Cash Equivalents, Beginning of Year | <u>113,848</u> | <u>96,690</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 191,716</u> | <u>\$ 113,848</u> |
| Noncash Investing and Financing Activities | | |
| Cash payments for | | |
| Interest | \$ 1,571 | \$ 9,848 |

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

HawkWatch International, Inc. (the Organization or HWI) is an environmental conservation organization that conserves the environment through education, long-term monitoring, and scientific research on raptors as indicators of ecosystem health.

HWI's principal programs comprise the following:

The Science program focuses on data collection and research projects to better understand the health and status of raptors and what conservation actions are needed to protect birds of prey and their habitats. The program includes various field projects that occur year-round, where raptors are observed, and at times, trapped, banded and released as part of the ongoing data collection/research effort. Scientists use the data to better understand how raptors and their habitats are affected by human activities. Conservation actions are undertaken to protect these birds through collaboration and partnerships with other organizations.

The Education program consists primarily of school programs and presentations, field trips, and lectures to promote education and the conservation of raptors. There are also opportunities for the public to become engaged in raptor science and education. Interpretive services are provided for visitors at many field projects.

The Membership and Public Outreach program is designed to support HWI members and provide them with information and interactive forums to learn about and participate in HWI projects and educational opportunities. Newsletters, brochures, a website, and annual reports among other communications are distributed and available to members regularly.

Basis of Accounting

The financial statements of the Organization are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization has elected a June 30 year-end.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances in making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. While actual results could differ from those estimates, management believes that the estimates are reasonable.

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Key estimates made in the accompanying financial statements include, among others, allowance for doubtful accounts on uncollectible receivables, functional allocation of joint costs, the economic useful lives and recovery of long-lived assets, and amounts and valuation of donated goods and services.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered. The carrying amount approximates the fair value because of the short maturities of those instruments.

At June 30, 2021 and 2020, the Organization did not have any funds in bank accounts in excess of federally insured limits.

Contracts and Grants Receivable

Contracts and grants receivable are reported at their estimated fair value less an appropriate allowance for uncollectible amounts. Allowances are based on management's assessment of the credit history with entities having outstanding balances and the current relationship with them. An account is written off when it is determined that all collection efforts have been exhausted. Promises to give due later than one year are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using imputed interest rates applicable to the years in which promises are received. Discounts on promises to give that are measured at present value are amortized between the date the promise to give is initially recognized and the date the cash or other contributed assets are received.

As of June 30, 2021 and 2020, the Organization has recorded an allowance for bad debts of \$0 (both years) and no bad debt expense was reported for the years ended June 30, 2021 and 2020.

Inventory

Inventory is comprised of educational material and is stated at the lower of cost or market determined on an average cost basis. There is no allowance for inventory obsolescence at June 30, 2021 and 2020.

Property and Equipment

Property and equipment are stated at cost. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized. If donated, property and equipment are recorded at the approximate fair value on the date of donation. The Organization's capitalization policy is to capitalize property and equipment with a cost or donated fair value equal to or greater than \$1,000. Purchases of up to \$1,000 are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|------------------------|---------------|
| Leasehold improvements | 3 to 15 years |
| Equipment | 3 to 7 years |
| Vehicles | 5 years |

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Impairment of Long-lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amounts of the assets against the estimated undiscounted cash flows associated with these assets. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the assets' carrying value, the assets are adjusted to their fair value (based upon discounted cash flows). No impairment losses were recognized for the years ended June 30, 2021 and 2020.

Investments and Net Investment Return

As of June 30, 2021 and 2020, investments were comprised of mutual funds stated at fair value based upon quoted market prices. Unrealized gains and losses are included in the change in net assets. For the years ended June 30, 2021 and 2020, the Organization recorded unrealized gains on investments totaling \$452,639 and \$95,266, respectively. Donated investments are reflected as contributions at their market values at the date of receipt.

Investment return includes dividends and interest income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and any direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as net assets with donor restrictions and then released from restriction. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Revenue Recognition

The basis of revenue recognition for each of the revenue producing sources included in grants, contributions, in-kind contributions, and performance revenue/deferred revenue is as follows:

Grants and Contracts

Grants and contracts are recognized as revenue in the period the amounts are granted or earned. Grant and contracts expenditures in excess of grants and contracts received as of year-end are reported as grants and contracts receivable.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

| Nature of the Gift | Value Recognized |
|--|---|
| <i>Conditional gifts, with or without restriction</i> | |
| Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met |
| <i>Unconditional gifts, with or without restriction</i> | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

In-kind Contributions

The Organization recognizes contribution revenue for donated property, equipment, and supplies in the period received at the property's fair value. If donated assets have questionable or uncertain value and no alternative use that adds value to the assets, the Organization does not recognize them in the financial statements. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

donor. During the years ended June 30, 2021 and 2020, the Organization received donated property and/or supplies of \$28,932 and \$26,366, respectively. During the years ended June 30, 2021 and 2020, the Organization received donated rent of \$51,000 per year.

Also, the Organization occasionally receives donations or contributions through services performed. The fair value of the donated services are recognized in the financial statements if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. Services that do not meet either of the preceding criteria are not recognized. Donated services are recorded at their fair value. During the years ended June 30, 2021 and 2020, the Organization recorded donated in-kind service of \$338,257 and \$715,221, respectively.

Performance Revenue/Deferred Revenue

For performance revenue, revenue is recognized in the period when the activity leading to that revenue is performed. During the years ended June 30, 2021 and 2020, the Organization recorded deferred revenue of \$28,108 and \$0, respectively.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Restrictions are generally temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

The Organization's net assets with donor restrictions at June 30, 2021 totaled \$1,128,562 of which \$1,028,562 consisted of an endowment fund and \$100,000 was restricted for use until 2022. For the year 2020 the total amount was \$1,028,582, and consisted solely of the an endowment fund (see Notes 9 and 10).

Income Taxes

As a non-profit organization, the Organization claims exemption from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and state law. The Organization files a Form 990 tax return.

As of June 30, 2021 and for the year then ended, the Organization has not engaged in any activity which management considers to be activity that could result in a loss of their 501(c)(3) IRS designation. In addition, during the years ended June 30, 2021 and 2020, the Organization had no unrelated business income as defined by Section 512(a)(1) of the Code. If taxing authorities were to determine that any tax, interest, or penalties were due, such amounts would be reported as general and administrative expenses in the year assessed.

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Where specific costs can be identified with a particular function, such costs are charged directly to that function. Certain costs that could not be identified with a particular program have been allocated across programs based upon an analysis of personnel time spent in each of those programs, or other relevant factors. The statements of functional expenses detail these amounts.

Allocation of Joint Costs

The Organization allocates joint costs between fundraising and program services or management and general in accordance with ASC Subtopic 958-720, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fundraising*.

Future Change in Accounting Principle

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Organization is evaluating the effect the standard will have on its financial statements.

Note 2: Liquidity and Availability

The Organization manages its cash available to meet general expenditures following these guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments that support mission fulfillment will continue to be met, ensuring the sustainability of the Organization

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, comprise the following:

| | <u>2021</u> | <u>2020</u> |
|---|--------------|--------------|
| Total financial assets at year-end (*) available for use within 12 months | \$ 1,621,933 | \$ 1,246,119 |

(*)Total assets, less nonfinancial (e.g., property and equipment, inventory, prepaids) and noncurrent assets

The Organization receives contributions by donors and considers contributions for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general and program expenditures.

Note 3: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables summarize the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of June 30, 2021 and 2020:

| | <u>Fair Value Measurements as of June 30, 2021</u> | | | |
|-------------------|--|----------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investments | | | | |
| Mutual funds | <u>\$ 2,377,943</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,377,943</u> |
| Total investments | <u>\$ 2,377,943</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,377,943</u> |

HawkWatch International, Inc.

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June 30, 2021 and 2020

| | Fair Value Measurements as of June 30, 2020 | | | |
|-------------------|---|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments | | | | |
| Mutual funds | \$ 2,027,304 | \$ - | \$ - | \$ 2,027,304 |
| Total investments | <u>\$ 2,027,304</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,027,304</u> |

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market held by brokerage firms, equity securities, mutual funds and fixed income securities. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization had no Level 2 or Level 3 investments as of June 30, 2021 and 2020.

Note 4: Allocation of Joint Costs

During the years ended June 30, 2021 and 2020, the Organization incurred joint costs of \$1,295,522 and \$1,461,873, respectively, for activities that included fundraising appeals. These joint costs were allocated as follows for the years ended June 30:

| | 2021 | 2020 |
|------------------------|-------------------|---------------------|
| Program services | \$ 296,214 | \$ 1,226,377 |
| Management and general | 35,691 | 155,698 |
| Fundraising | <u>31,521</u> | <u>79,798</u> |
| Total | <u>\$ 363,426</u> | <u>\$ 1,461,873</u> |

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Note 5: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Contributions

Approximately 15% of all contributions were received from one donor in 2021.

Economic Uncertainties and CARES Act

As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Organization. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). The CARES Act includes numerous provisions intended to mitigate the pandemic's financial and operational impact. The CARES Act provides certain financial measures that had an impact on the Organization. The Organization received a PPP loan (refundable advance) established by the CARES Act as discussed in Note 8.

Note 6: Line of Credit

During the year ended June 30, 2016, the Organization entered into a revolving line of credit with a bank that provides for available borrowings of up to \$50,000. Borrowings under the line of credit bear a variable interest rate. All borrowings are collateralized by assets of the Organization. Amounts outstanding on the line of credit, including interest, totaled \$0 and \$50,700 as of June 30, 2021 and 2020, respectively. The line of credit was closed by the Organization during the year 2021.

HawkWatch International, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Note 7: Notes Payable

Notes Payable consisted of the following at June 30, 2021:

| | |
|---|------------------|
| Auto loan, interest accrues at 3.49% per annum, principal and interest payments of \$289 due monthly, matures July 2026, secured by vehicle | \$ 15,853 |
| Total | 15,853 |
| Less: current portion | <u>(2,935)</u> |
| Long-term portion of notes payable | <u>\$ 12,918</u> |

Principal maturities are as follows:

| <u>Years Ending August 31,</u> | |
|--------------------------------|------------------|
| 2022 | \$ 2,935 |
| 2023 | 3,063 |
| 2024 | 3,171 |
| 2025 | 3,284 |
| 2026 | <u>3,400</u> |
| Total | <u>\$ 15,853</u> |

Note 8: Refundable Advance

In 2021, the Organization received a second SBA Paycheck Protection Program (PPP) loan established by the CARES Act in the amount of \$164,168 and has elected to account for the funding in accordance with ASC Topic 958-605, *Revenue Recognition*. Under this election, grant proceeds are deemed a refundable advance until such time as the related conditions are met. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as grant income in the financial statements for the period the debt is legally released. PPP loans are subject to the audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. The Organization anticipates using all proceeds to make eligible payments and, therefore, expects substantially all of the loan will be forgiven. This amount is recorded as a refundable advance on the statements of financial position at June 30, 2021 as all conditions have not been met.

In the year ended June 30, 2021, the Organization received full forgiveness from the SBA for its first PPP loan in the amount of \$169,100. Pursuant to ASC Topic 958-605, *Revenue Recognition*, the forgiveness is recorded as grant income for the year ended June 30, 2021.

HawkWatch International, Inc.

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Note 9: Net Assets with Donor Restrictions

Net assets with donor restrictions totaled \$1,128,562 and \$1,028,582 as of June 30, 2021 and 2020, respectively. The amount is comprised primarily of a \$1,000,000 donation received from a single donor during the year ended June 30, 2003, along with other miscellaneous contributions, to provide annual funding of the income generated by the endowment to support the science program. In 2021, a restricted contribution of \$100,000 was received and restricted for time to be used during fiscal year 2022.

Note 10: Endowment

An endowment in the amount of \$1,028,582 was established through a combination of private donations. The Organization's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original donation as of the donation date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as "with donor restrictions" net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is classified as "without donor restrictions" until those amounts are appropriated for expenditure by the Organization in a manner consistent with applicable laws.

In accordance with UPMIFA, 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 fund
- 2) The purpose of the Organization and the donor-restricted endowment
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected unrealized appreciation/depreciation of the investments
- 6) Other resources of the Organization
- 7) The investment policy of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a secure, predictable stream of funding to general support by the endowment fund. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in Vanguard Financial. Interest earned from these funds is without donor restrictions.

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor stipulations or laws and regulations. There were no underwater endowments at June 30, 2021 or 2020.

HawkWatch International, Inc.

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Note 11: Defined Contribution Retirement Plan

The Organization sponsors a defined contribution plan (the Plan). All full-time employees become eligible to participate in the Plan on the first day of the month following 30 days from the employee's full-time hire date. The Organization will match 3% of the employee's gross earnings beginning on the date the employee becomes eligible. During the years ended June 30, 2021 and 2020, the Organization contributed \$10,624 and \$13,824, respectively, to the Plan.

Note 12: COVID-19

As a result of the spread of SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position of the Organization's operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 13: Subsequent Events

The Organization has evaluated subsequent events through January 14, 2022, which is the date the financial statements were available to be issued.