

# Arizona Humane Society

Financial Statements  
Together with Independent Auditor's Report  
October 31, 2022



**ARIZONA HUMANE SOCIETY**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	6
Statement of cash flows	8
Notes to financial statements	10

# FORVIS

77 W. University Drive / Mesa, AZ 85201

P 480.834.6030 / F 480.644.9877

[forvis.com](http://forvis.com)

## Independent Auditor's Report

Board of Directors  
Arizona Humane Society  
Phoenix, Arizona

### **Opinion**

We have audited the financial statements of Arizona Humane Society (the "Organization"), which comprise the statement of financial position as of October 31, 2022, and the related statements of activities, functional expenses and cash flow for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arizona Humane Society as of October 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

We have previously audited the October 31, 2021, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**FORVIS,LLP**

Mesa, Arizona  
March 30, 2023

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
October 31, 2022  
(with summarized comparative information as of October 31, 2021)

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 11,061,546	\$ 32,358,780
Estates receivable	6,019,730	3,934,004
Contributions receivable net, less restricted portions	19,000	77,550
Receivables	202,527	55,986
Inventories	249,889	237,420
Prepaid expenses and other assets	292,214	372,080
Investments	16,696,868	6,041,270
Total current assets	34,541,774	43,077,090
PROPERTY AND EQUIPMENT, net	29,584,560	13,963,806
BENEFICIAL INTEREST IN REMAINDER TRUSTS	5,166,000	7,514,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	5,140,000	6,537,000
RIGHT-OF-USE ASSETS - OPERATING LEASES	633,151	857,260
RIGHT-OF-USE ASSETS - FINANCE LEASES, net	243,009	141,584
<b>ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENT</b>		
Cash and cash equivalents	20,051,511	-
Investments	-	12,824,227
Contributions receivable, net	7,079,910	10,236,999
	<u>\$ 102,439,915</u>	<u>\$ 95,151,966</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,774,587	\$ 893,790
Accrued liabilities	2,068,194	2,159,341
Deferred revenue	822,128	639,142
Current portion of operating lease liabilities	196,134	249,613
Current portion of finance lease liabilities	99,047	49,753
Total current liabilities	6,960,090	3,991,639
CHARITABLE GIFT ANNUITIES PAYABLE	246,235	216,675
OPERATING LEASE LIABILITIES, less current portion	437,786	608,416
FINANCE LEASE LIABILITIES, less current portion	149,299	93,486
Total liabilities	7,793,410	4,910,216
Net assets		
Without donor restrictions		
Board designated	17,100,000	15,100,000
Undesignated	32,207,789	33,462,762
Total net assets without donor restrictions	49,307,789	48,562,762
With donor restrictions	45,338,716	41,678,988
Total net assets	94,646,505	90,241,750
	<u>\$ 102,439,915</u>	<u>\$ 95,151,966</u>

The accompanying notes are an integral part of this financial statement.

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
<b>SUPPORT AND REVENUE</b>				
Contributions and grants	\$ 19,749,536	\$ 11,380,210	\$ 31,129,746	\$ 35,980,545
Pet intake and placement	2,118,665	-	2,118,665	2,103,335
Net investment return	(2,901,136)	-	(2,901,136)	3,757,902
Contributions of nonfinancial assets	1,169,587	-	1,169,587	1,005,625
Thrift stores	1,177,095	-	1,177,095	1,166,169
Medical operations	1,780,188	-	1,780,188	1,242,726
Animal cruelty and rescue services	1,240,711	-	1,240,711	1,102,954
Community resources	268,042	-	268,042	197,886
Other	18,315	-	18,315	205,979
Total support and revenue before special events and net assets released from restrictions	24,621,003	11,380,210	36,001,213	46,763,121
Special events revenue	1,193,838	-	1,193,838	1,042,851
Less costs of direct donor benefits	(347,067)	-	(347,067)	(271,123)
Gross profit on special events	846,771	-	846,771	771,728
Total support and revenue	25,467,774	11,380,210	36,847,984	47,534,849
NET ASSETS RELEASED FROM RESTRICTIONS	4,040,488	(4,040,488)	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	29,508,262	7,339,722	36,847,984	47,534,849
<b>EXPENSES</b>				
<b>PROGRAM EXPENSES</b>				
Medical - Shelter	7,933,076	-	7,933,076	7,057,352
Pet intake and placement	6,136,516	-	6,136,516	5,396,766
Medical - Public	2,971,330	-	2,971,330	2,196,306
Animal cruelty and rescue services	2,690,835	-	2,690,835	2,298,476
Community resources	1,465,854	-	1,465,854	1,295,252
Total program expenses	21,197,611	-	21,197,611	18,244,152

The accompanying notes are an integral part of this financial statement

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
<b>SUPPORTING EXPENSES</b>				
Fundraising and development	5,315,897	-	5,315,897	5,447,002
Management and general	2,277,398	-	2,277,398	2,140,691
Total supporting expenses	7,593,295	-	7,593,295	7,587,693
Total expenses	28,790,906	-	28,790,906	25,831,845
<b>GAINS AND (LOSSES)</b>				
Gain on sale of property and equipment	41,478	-	41,478	15,864
Gain on forgiveness of PPP loan	-	-	-	2,634,991
Loss on disposal of property	-	-	-	(1,716,776)
Changes in value of split-interest agreements	(13,807)	(3,679,994)	(3,693,801)	3,831,776
Total gains and (losses), net	27,671	(3,679,994)	(3,652,323)	4,765,855
CHANGE IN NET ASSETS	745,027	3,659,728	4,404,755	26,468,859
NET ASSETS – Beginning of year	48,562,762	41,678,988	90,241,750	63,772,891
NET ASSETS – End of year	<u>\$ 49,307,789</u>	<u>\$ 45,338,716</u>	<u>\$ 94,646,505</u>	<u>\$ 90,241,750</u>

The accompanying notes are an integral part of this financial statement

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	Program Expenses					
	Medical - Shelter	Pet Intake and Placement	Medical - Public	Animal Cruelty and Rescue Services	Community Resources	Total Program Expenses
Salaries and wages	\$ 4,889,373	\$ 3,275,262	\$ 1,551,651	\$ 1,708,996	\$ 944,043	\$ 12,369,325
Payroll taxes and employee benefits	917,218	629,107	250,758	299,086	146,886	2,243,055
Operating supplies and equipment	1,073,324	317,811	523,130	134,738	26,471	2,075,474
Advertising and promotions	39,481	760,812	38,634	33,853	36,673	909,453
Occupancy and insurance	225,027	323,710	103,226	23,877	26,407	702,247
Depreciation	183,328	213,161	102,240	21,356	35,580	555,665
Fees for services	241,121	237,454	202,982	93,114	33,361	808,032
Communications and technology	103,268	166,075	75,061	67,953	76,029	488,386
Vehicle	4,989	85,968	17,534	193,443	10,272	312,206
Postage and printing	14,847	23,915	13,319	11,652	28,480	92,213
Other	241,100	103,241	92,795	102,767	101,652	641,555
Total expenses	<u>7,933,076</u>	<u>6,136,516</u>	<u>2,971,330</u>	<u>2,690,835</u>	<u>1,465,854</u>	<u>21,197,611</u>
Less - Special event expense netted against revenue in the statement of activities						
Postage and printing	-	-	-	-	-	-
Fees for services	-	-	-	-	-	-
Other	-	-	-	-	-	-
Functional expense totals in the expense section of the statement of activities	<u>\$ 7,933,076</u>	<u>\$ 6,136,516</u>	<u>\$ 2,971,330</u>	<u>\$ 2,690,835</u>	<u>\$ 1,465,854</u>	<u>\$ 21,197,611</u>

The accompanying notes are an integral part of this financial statement



**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	Supporting Expenses			2021	
	Fundraising and Development	Management and General	Total Supporting Expenses	Total Expenses	Total Expenses
Salaries and wages	\$ 1,852,151	\$ 1,521,468	\$ 3,373,619	\$ 15,742,944	\$ 13,822,859
Payroll taxes and employee benefits	317,711	182,470	500,181	2,743,236	2,546,011
Operating supplies and equipment	17,416	7,462	24,878	2,100,352	1,615,681
Advertising and promotions	379,440	28.00	379,468	1,288,921	1,249,366
Occupancy and insurance	321,048	59,479	380,527	1,082,774	1,121,481
Depreciation	35,849	25,973	61,822	617,487	691,702
Fees for services	623,417	204,817	828,234	1,636,266	1,970,393
Communications and technology	144,858	57,240	202,098	690,484	572,523
Vehicle	150,530	951	151,481	463,687	388,916
Postage and printing	1,087,566	2,416	1,089,982	1,182,195	1,150,008
Other	732,978	215,094	948,072	1,589,627	974,028
<b>Total expenses</b>	<b>5,662,964</b>	<b>2,277,398</b>	<b>7,940,362</b>	<b>29,137,973</b>	<b>26,102,968</b>
Less - Special event expense netted against revenue in the statement of activities					
Postage and printing	(31,515)	-	(31,515)	(31,515)	(27,637)
Fees for services	(30)	-	(30)	(30)	(16,575)
Other	(315,522)	-	(315,522)	(315,522)	(226,911)
<b>Functional expense totals in the expense section of the statement of activities</b>	<b>\$ 5,315,897</b>	<b>\$ 2,277,398</b>	<b>\$ 7,593,295</b>	<b>\$ 28,790,906</b>	<b>\$ 25,831,845</b>

The accompanying notes are an integral part of this financial statement

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,404,755	\$ 26,468,859
Adjustments to reconcile change in net assets to net cash provided by operations:		
Realized and unrealized (gain) loss on investments, net	3,534,304	(3,241,643)
Non-cash contribution of investments	(1,646,234)	(1,875,565)
Non-cash contribution of property and equipment	(356,638)	(120,963)
Depreciation	617,487	691,702
Gain on sale of property and equipment	(41,478)	(15,864)
Loss on disposal of property	-	1,716,776
Amortization - finance leases	73,158	38,676
Gain on forgiveness of note payable - PPP	-	(2,634,991)
Changes in value of split-interest agreements	3,693,801	(3,831,776)
Changes in cash and cash equivalents for investment in long-lived assets and improvements	7,227,284	-
Change in contributions receivable restricted for investment in long-lived assets and improvements	3,680,231	(8,716,775)
Increase (decrease) in discount on long-term contributions receivable	(431,867)	698,032
Increase (decrease) in valuation allowance for long-term contributions receivable	(91,275)	163,854
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estates receivable	(2,085,726)	2,147,553
Receivables	(146,541)	331,861
Inventories	(12,469)	(22,401)
Prepaid expenses and other assets	79,866	(3,595)
Beneficial interest in remainder trusts	94,566	57,991
Contributions receivable	58,550	(77,550)
Increase (decrease) in		
Accounts payable	(87,219)	463,514
Accrued liabilities	(91,147)	(59,059)
Deferred revenues	182,986	53,534
Charitable gift annuities payable	(13,807)	(43,997)
Net cash provided by operations	<u>18,642,587</u>	<u>12,188,173</u>

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
For the year ended October 31, 2022  
(with summarized comparative information for the year ended October 31, 2021)

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in investments restricted for investment in long-lived assets and improvements	12,824,227	(8,598,685)
Increase in cash and cash equivalents restricted for investment in long-lived assets and improvements	(20,051,511)	-
Purchases of investments	(5,768,027)	(4,265,808)
Proceeds from maturities and sale of investments	5,915,141	22,095,274
Change in cash held for investment	133,445	(160,885)
Proceeds from sale of property and equipment	32,500	24,554
Purchases of property and equipment	<u>(12,904,609)</u>	<u>(1,581,222)</u>
Net cash used in investing activities	<u>(19,818,834)</u>	<u>7,513,228</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on financing leases	<u>(69,476)</u>	<u>(36,793)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,245,723)	19,664,608
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of year	<u>32,358,780</u>	<u>12,694,172</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of year	<u>\$ 31,113,057</u>	<u>\$ 32,358,780</u>

## **1. Description of Organization**

The mission at Arizona Humane Society (the “Organization”) is to save the most vulnerable animals and enrich the lives of pets and people. We serve as a safety net for the most vulnerable pets with comprehensive medical, behavior rehabilitation, surrender intervention, and spay/neuter initiatives. Our programs, including our Second Chance Animal Trauma Hospital, Mutternity Suites, Kitten Nursery, Bottle Baby Kitten ICU and Parvo Puppy ICU save the lives of pets routinely euthanized in shelters. We also save animals through adoption and other placement outlets, and our Ethical No-Kill Philosophy ensures we never euthanize a pet for space or length of time. Our Emergency Animal Medical Technicians are on the road 365 days a year, rescuing abused, injured and abandoned animals.

## **2. Summary of Significant Accounting Policies**

### *Basis of Presentation*

The Organization prepares its financial statements on the accrual basis of accounting. As required by accounting principles generally accepted in the United States of America (“US GAAP”), the Organization reports net assets and revenues, gains and losses based upon the existence of or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for general use and not subject to donor restrictions. As reflected in the accompanying financial statements, the Organization’s Board of Directors has designated a portion of these net assets for purposes identified and approved by the Board of Directors as described in Note 14.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature and will be met either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature because the donor has stipulated that resources be maintained in perpetuity.

### *Management’s Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

### *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended October 31, 2021, from which the summarized information was derived.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of demand deposits, savings, and money market accounts. The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents temporarily held in investment portfolios are included with investments.

#### *Estates Receivable*

Estates receivable are recognized in the period the Organization has received notification that the court has found the will of the donor's estate to be valid and the estate representative has provided information regarding the nature and value of estate assets and liabilities. Estates receivable are stated at the net amount the Organization expects to receive, based upon the estimated fair value of the estate (net of potential fees and expenses) and the Organization's percentage interest as a beneficiary of the estate.

#### *Contributions and Grants Receivable*

Contributions and grants receivable arising from unconditional promises to give are recognized as revenues in the period the Organization receives the promise from the donor, and as assets, decreases of liabilities, or decreases of expenses depending on the form of the benefits received. 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. Discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received and the length of the promise to give, adjusted for market risk. Amortization of the discount is included as part of revenue and support in the accompanying statement of activities.

Conditional promises to give that include one or more barriers and a right of return or release are not recognized until the conditions on which they depend have been substantially met. As of October 31, 2022, the Organization had been notified of conditional promises to give totaling approximately \$1,500,000 which have not been recognized in the accompanying financial statements because donor conditions (primarily associated with reaching milestones on a capital project through fiscal 2024) had not yet been met.

#### *Receivables*

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible receivables based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to receivables. Management considers all receivables to be fully collectible at October 31, 2022 and 2021, and, accordingly, an allowance for doubtful accounts has not been provided. The Organization generally does not charge interest on past due amounts and does not require collateral on outstanding balances.

#### *Inventories*

Inventories consist of various pet supply items held for sale at various locations and are stated at the lower of cost or net realizable value, with cost determined using the first-in, first-out (FIFO) method. Inventory in the thrift stores is initially recorded at estimated fair value, which is determined based on its anticipated future economic benefits.

#### *Investments and Investment Return*

Investments, in general, are exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2022 (with summarized comparative information as of October 31, 2021)

---

Net investment return consists of interest, dividends, and realized and unrealized gains and losses, and is presented net of external direct investment expenses. Gains and losses, both realized and unrealized, are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or law.

The Organization has ownership of certain cash and cash equivalents held, along with other marketable securities, by outside investment managers for the benefit of the Organization. Although these cash and cash equivalents are readily available, it is the intent of the Organization to hold these cash and cash equivalents for investment purposes, and accordingly, these cash and cash equivalents are classified as investment assets in the accompanying financial statements.

#### *Fair Value Measurements*

Investments are recorded at fair value. Fair value is defined as 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. US GAAP establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows.

- Level 1* Quoted prices are available in active markets for identical assets or liabilities as of the date of the financial statements. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2* Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the date of the financial statements. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3* Securities that have little to no pricing observability as of the date of the financial statements. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a Net Asset Valuation (NAV) per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2022 (with summarized comparative information as of October 31, 2021)

---

The determination of what constitutes “observable” requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization’s perceived risk of that instrument.

The fair values of publicly traded securities are based on quoted market prices. Investment income is recorded on an accrual basis and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold.

#### *Property and Equipment*

Depreciation of property and equipment is provided using the straight-line method over the following estimated useful lives:

Buildings	5 - 40 years
Furniture and equipment	3 - 20 years
Vehicles	3 - 10 years
Leasehold improvements	1 - 4 years

Donations of property and equipment are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, at which time the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions.

#### *Impairment of Long-Lived Assets*

The Organization reviews long-lived assets 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 undiscounted 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.

#### *Split-Interest Agreements*

The Organization has received various types of split-interest agreements including remainder and perpetual trusts. Under remainder trust agreements, the Organization records a donor restricted contribution at the present value of the estimated future benefits to be received. Subsequent changes in fair value for the remainder trust are recorded as changes in value of split-interest agreements in net assets with donor restrictions.

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

Under perpetual trust agreements, the Organization records the donor restricted contribution at the fair value of the Organization's beneficial interest in the trust assets. Income earned on the trust assets is recorded as a portion of net investment return without donor restrictions in the accompanying statement of activities, unless otherwise restricted by the donor or law. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of split-interest agreements in net assets with donor restrictions.

*Recognition of Contributions and Grants*

Unconditional contributions are recorded as increases in net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Time and purpose restrictions are reported as increases in net assets with donor restrictions and then reclassified to net assets without donor restrictions upon expiration of the time or fulfillment of the purpose.

Conditional contributions are recognized as revenue and support when the conditions have been substantially met or the donor waives such conditions.

*Contributions of Nonfinancial Assets*

The Organization recognizes donations of materials and services received at their estimated fair value if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated. Donated materials and services are recognized as contributions in the accompanying financial statements at their estimated fair value at the date of receipt.

Contributed nonfinancial assets consisted of the following for the year ended October 31, 2022:

	Functional Category Benefitted:			
	Program Services	Management and General	Fundraising and Development	Total
Advertising and promotions	\$ 762,843	\$ -	\$ 25,570	\$ 788,413
Other	24,536	-	-	24,536
Total in-kind expense	<u>\$ 787,379</u>	<u>\$ -</u>	<u>\$ 25,570</u>	812,949
Donated property and equipment:				
Vehicles				42,486
Equipment				<u>314,152</u>
Total nonfinancial assets contributions				<u>\$ 1,169,587</u>



**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

Contributed nonfinancial assets consisted of the following for the year ended October 31, 2021:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Advertising and promotions	\$ 841,187	\$ -	\$ 11,000	\$ 852,187
Other	32,475	-	-	32,475
Total in-kind expense	<u>\$ 873,662</u>	<u>\$ -</u>	<u>\$ 11,000</u>	884,662
Donated property and equipment				
Equipment				13,098
Construction in process - professional services				107,865
Total nonfinancial assets contributions				<u>\$ 1,005,625</u>

*Vehicles*

It is the Organization's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

*Equipment*

From time to time, the Organization receives donated equipment. Donated equipment is typically the result of replacing broken down equipment and units. All donated equipment was recorded at their estimated fair value upon receipt.

*Non-recognized Services*

No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under US GAAP; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns. The Organization received volunteer time and other donated services valued at approximately \$4,921,000 and \$5,288,000, representing 328,076 hours and 352,557 hours, for the years ended October 31, 2022 and 2021, respectively, that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying financial statements.

*Revenue from contracts with customers*

The Organization accounts for revenue and support by first analyzing each arrangement to determine whether the arrangement is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization applies the revenue recognition guidance in ASC 606.

Substantially all of the Organization's exchange transaction revenues are derived from contracts with customers. The nature, timing and any uncertainty in the recognition of revenues are not significantly affected by the type of good, customer or geographical region to which the performance obligations relate. The Organization satisfies its performance obligations by providing various services for their customers.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2022 (with summarized comparative information as of October 31, 2021)

---

Revenue streams associated with animal cruelty and rescue services, derived from contracts with various cities and municipalities, are generally billed prior to satisfaction of the performance obligation. Such amounts represent contract liabilities, until performance obligations are satisfied, and are included in deferred revenue in the accompanying statements of financial position. Certain amounts billed in arrears generally have payment terms of thirty days and are included in accounts receivable in the accompanying statements of financial position.

#### Pet Intake and Placement Services

The Organization charges a fee for the adoption of animals. Adoption fee revenue is recognized at the time an animal is adopted. Intake fee revenue is recognized at the time an animal is surrendered to the Organization's care.

#### Thrift Stores Revenue

The Organization receives donations of supplies and household goods and sells these items to the general public through two thrift stores. The donated items are recorded in the statement of activities at their fair value which is based on the selling price of the specific items. Thrift store expenses for the years ended October 31, 2022 and 2021 totaled approximately \$1,109,000 and \$1,132,000, respectively, and are included in fundraising and development expenses in the accompanying statement of activities.

#### Medical Operations and Other Fees Revenue

The Organization charges a fee for hospital operations and spay/neutering services. Hospital and public clinic operations revenue is recognized at the time services are performed.

#### Animal Cruelty and Rescue Services Revenue

The Organization has contracts with various cities including; Phoenix, Glendale, Gilbert, Chandler, Avondale, Goodyear, Mesa, and Tempe to provide cruelty and investigation services. The terms of the contracts range from one year to 18 months and revenue is recognized on a straight-line basis over the term of the contract or as services are performed.

#### Community Resources Revenue

The Organization conducts various education and outreach experiences to the community to bring awareness about the Organization and its mission. The Organization realizes this community outreach by providing on-site programs, event booths, animal-welfare education, and on-the-go adoptions. The Organization recognizes revenue from these community outreach initiatives at the time of the community experience.

#### Special Events Revenue

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective method exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are included in special events revenues and simultaneously recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying statement of activities.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2022 (with summarized comparative information as of October 31, 2021)

---

#### *Functional Expense Allocation*

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Allocated expenses primarily consist of the following:

- Salaries and wages, payroll taxes and employee benefits – allocated on the basis of estimates of time and effort
- Occupancy and insurance, depreciation, and other facility costs – allocated on the basis of estimated square footage utilized
- Fees for services, communications and technology, and postage and printing – allocated on the basis of estimated usage
- Operating supplies and equipment – allocated on the basis of the number of kennels

#### *Fundraising Costs*

All fundraising costs are expensed in the period incurred.

#### *Income Tax Status*

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the “IRC”) and similar state provisions. However, income from certain activities not directly related to the Organization’s tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the IRC and has been classified as an organization other than a private foundation under Section 509(a)(1) of the IRC. The Organization has provided for income taxes on its unrelated business income, which have not been significant, as required by Section 512 of the Code.

The Organization follows the guidance issued by U.S. GAAP related to accounting for income tax uncertainties. Under this guidance, the Organization accounts for the effect of any uncertain tax positions based on whether it is “more-likely-than-not” that the position will be sustained by the taxing authority upon examination. The Organization routinely evaluates potential uncertain tax positions. The Organization has identified its status as an exempt organization as a tax position; however, the Organization has determined that such tax position does not result in an uncertainty that requires recognition.

The Organization files informational and income tax returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of October 31, 2022, U.S. federal informational and income tax returns for the three most recent years and state returns for the four most recent years are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

#### *Newly Adopted Accounting Pronouncement*

In September 2020, FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets to increase transparency for contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07

**ARIZONA HUMANE SOCIETY****NOTES TO FINANCIAL STATEMENTS**

October 31, 2022 (with summarized comparative information as of October 31, 2021)

requires contributed nonfinancial assets to be presented in a separate line item in the statement of activities (apart from contributions of cash and other financial assets) and requires expanded disclosures regarding the nature and utilization of contributed nonfinancial assets as well as descriptions of any donor restrictions and the valuation methodology and inputs used to determine fair value. The Organization has implemented this standard during the year ended October 31, 2022. The adoption of ASU 2020-07 did not have a material impact on the accompanying financial statements.

*Subsequent Events*

Management evaluated subsequent events through March 30, 2022, the date the financial statements were available.

**3. Liquidity**

Financial assets at year end:	
Cash, cash equivalents, and restricted cash	\$ 31,113,057
Estates receivable	6,019,730
Receivables	202,527
Contributions receivable, net	7,098,910
Investments	<u>16,696,868</u>
Total financial assets	61,131,092
Less amounts not available for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Amounts subject to donor purpose or time restrictions	(35,032,716)
Board designations	<u>(17,100,000)</u>
Financial assets available to meet cash needs	
for general expenditures within one year	<u>\$ 8,998,376</u>

The Organization is supported, in part, by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. As a result, certain financial assets may not be available for general expenditure within one year. As part of liquidity management, the Organization regularly monitors liquidity to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, estates, investments, and certain contributions receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures relating to ongoing activities of the various programs offered, as well as the conduct of services undertaken to support those activities, to be general expenditures.

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

**4. Contributions Receivable**

Contributions receivable consisted of the following at October 31:

	<u>2022</u>	<u>2021</u>
Promises to give - Capital project	\$ 7,736,591	\$ 11,416,822
Promises to give	19,000	77,550
Less: Unamortized discount	(523,247)	(955,114)
Less: Valuation allowance	<u>(133,434)</u>	<u>(224,709)</u>
Contributions receivable, net	<u>\$ 7,098,910</u>	<u>\$ 10,314,549</u>

The estimated cash flows for contributions receivable were discounted over the collection period using a management determined, risk-adjusted discount rate of 5%.

Contributions receivable (before the unamortized discount and valuation allowance) are due as follows at October 31:

	<u>2022</u>	<u>2021</u>
Contributions receivable due in less than one year	\$ 3,288,790	\$ 3,926,524
Contributions receivable due in one to five years	<u>4,447,801</u>	<u>7,490,298</u>
Total contributions receivable	<u>\$ 7,736,591</u>	<u>\$ 11,416,822</u>

Contributions receivable from employees and members of the Board of Directors (before the unamortized discount) were as follows at October 31:

	<u>2022</u>	<u>2021</u>
Contributions receivable due in less than one year	\$ 107,778	\$ 47,452
Contributions receivable due in one to five years	<u>111,985</u>	<u>475,955</u>
Total contributions receivable	<u>\$ 219,763</u>	<u>\$ 523,407</u>

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

**5. Property and Equipment**

Property and equipment consisted of the following at October 31:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 14,055,763	\$ 14,188,497
Land	5,699,519	5,699,519
Furniture and equipment	3,913,736	3,224,886
Vehicles	706,180	769,085
Leasehold improvements	134,048	89,121
Construction in progress	<u>17,325,368</u>	<u>2,021,809</u>
Total property and equipment	41,834,614	25,992,917
Less - Accumulated depreciation	<u>(12,250,054)</u>	<u>(12,029,111)</u>
Property and equipment, net	<u>\$ 29,584,560</u>	<u>\$ 13,963,806</u>

Depreciation expense totaled approximately \$617,000 and \$692,000 for the years ended October 31, 2022 and 2021, respectively.

**6. Split-Interest Agreements**

*Remainder Trusts*

The Organization is the beneficiary of certain remainder trusts that are controlled by third party trustees. The Organization is entitled to certain specified percentages of the annual income distributions of the trusts which range from 25% to 100%. At the various expiration dates, the trusts will distribute any remaining assets held in the trust, at which time the Organization will be entitled to certain specified percentages of those final distribution amounts which range from 25% to 100%, with no restrictions. The Organization estimated the fair value of its beneficial interests in the remainder trusts at October 31, 2022 and 2021 based upon the fair value of the assets held by the trusts and the expected terms of the trusts, using a discount rate of 5%.

*Perpetual Trusts*

The Organization is the income beneficiary of certain perpetual trusts. The trusts are held and controlled by third party trustees. The Organization is entitled to a specified percentage defined in each trust agreement which range from 1.5% to 100%, of the annual income distributions from each of the trusts. 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 October 31, 2022 and 2021 based upon the Organization's respective percentage interest in the fair value of the underlying assets held by the trust. Income distributions from perpetual trusts totaled approximately \$266,000 and \$242,000 for the years ended October 31, 2022 and 2021, respectively, and are included in net investment return in the accompanying statement of activities.

**7. Note Payable - Bank Line of Credit**

During 2022, the Organization obtained a revolving line of credit with a bank under which the Organization may borrow up to \$15,000,000. This line of credit includes provisions whereby the Organization may not draw upon the line until the Organization has met certain requirements, as defined. No draws were made on the line of credit during the year ended October 31, 2022.

**ARIZONA HUMANE SOCIETY**  
NOTES TO FINANCIAL STATEMENTS  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

---

Advances under the line of credit bear interest at the greater of 1.00% or the bank's prime rate (6.25% at October 31, 2022) minus 1.50%. Borrowings under the line of credit are collateralized by substantially all the assets of the Organization matures in November 2026.

The agreement also includes certain nonfinancial covenants, including a requirement to timely submit audited financial statements.

#### **8. Charitable Gift Annuities Payable**

Charitable gift annuities are arrangements between a donor and the Organization in which the donor contributes assets to the Organization in exchange for a promise from the Organization to pay the donor (or the donor's designated beneficiary) a fixed amount for a specified period of time. These agreements provide for quarterly payments totaling approximately \$11,000 to the donors (or their designated beneficiary) over the term of the agreements (the donors' expected lifetimes).

Assets received have been recognized at fair value, and an annuity payment liability was recorded at the present value of the estimated annuity awards payable to the beneficiaries over the expected term of the agreement using a discount rate between approximately 5% to 10%. Contribution revenue without donor restrictions is recognized as the difference between these two amounts as the donor has placed no restriction on the Organization's use of its portion of the assets. Assets of the Organization that are derived from charitable gift annuities are included in investments in the accompanying statement of financial position. Charitable gift annuity amounts payable are estimated through September 2046.

The charitable gift annuities balance is reduced by payments to the beneficiaries. Adjustments to the value of the charitable gift annuities related to changes in present value or actuarial assumptions during the term of the charitable gift annuities agreement are recognized as changes in the value of split-interest agreements in the accompanying statement of activities. The change in the value of the charitable gift annuities for the years ended October 31, 2022 and 2021 was a decrease of approximately \$14,000 and \$8,000, respectively.

#### **9. Operating and Finance Leases**

##### *Nature of Leases*

The Organization's finance lease liabilities mainly consist of leased vehicles. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

The Organization's operating lease liabilities predominately pertain to thrift store space and equipment leases utilized in the operations of the Organization. The leases have remaining terms of two to five years. The leases did not include an implicit rate and the Organization used its incremental borrowing rate based on information available at the commencement date in determining the present value of the lease payments.

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

*Quantitative Disclosures*

The lease cost and other required information as of October 31:

	<u>2022</u>	<u>2021</u>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 73,158	\$ 38,676
Interest on lease liabilities	11,272	5,437
Operating lease cost	<u>224,109</u>	<u>227,176</u>
Total lease cost	<u>\$ 308,539</u>	<u>\$ 271,289</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 11,272	\$ 5,437
Operating cash flows from operating leases	224,109	227,176
Right-of-use assets obtained in exchange for new finance lease liabilities	174,583	157,648
Right-of-use assets obtained in exchange for new operating lease liabilities	-	583,008
Weighted-average remaining lease term		
Finance leases	2.7 years	2.8 years
Operating leases	4.0 years	3.7 years
Weighted-average discount rate		
Finance leases	5.0%	5.0%
Operating leases	5.0%	5.0%
<u>Year Ending October 31</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2023	\$ 99,047	\$ 196,134
2024	96,514	170,706
2025	63,981	140,369
2026	6,764	136,452
2027	-	57,323
Total future undiscounted lease payments	<u>266,306</u>	<u>700,984</u>
Less imputed interest	<u>17,960</u>	<u>67,064</u>
Lease liabilities	<u>\$ 248,346</u>	<u>\$ 633,920</u>



**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

**10. Net Investment Return**

Net investment return consisted of the following for the year ended October 31:

	<u>2022</u>	<u>2021</u>
Interest income	\$ 731,871	\$ 611,258
Net realized and unrealized gains	(3,534,304)	3,241,643
Direct external investment expenses	<u>(98,703)</u>	<u>(94,999)</u>
Net investment return	<u>\$ (2,901,136)</u>	<u>\$ 3,757,902</u>

**11. Fair Value Measurements**

The following tables set forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of October 31:

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Equities	\$ 16,386,049	\$ -	\$ -	\$ 16,386,049
Cash held for investment	197,916	-	-	197,916
Savings bonds	82,944	-	-	82,944
Other	<u>29,959</u>	<u>-</u>	<u>-</u>	<u>29,959</u>
Total investments	16,696,868	-	-	16,696,868
Split-interest agreements	<u>-</u>	<u>-</u>	<u>10,306,000</u>	<u>10,306,000</u>
Total assets	<u>\$ 16,696,868</u>	<u>\$ -</u>	<u>\$ 10,306,000</u>	<u>\$ 27,002,868</u>

	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Equities	\$ 18,454,408	\$ -	\$ -	\$ 18,454,408
Cash held for investment	331,361	-	-	331,361
Savings bonds	<u>79,728</u>	<u>-</u>	<u>-</u>	<u>79,728</u>
Total investments	18,865,497	-	-	18,865,497
Split-interest agreements	<u>-</u>	<u>-</u>	<u>14,051,000</u>	<u>14,051,000</u>
Total assets	<u>\$ 18,865,497</u>	<u>\$ -</u>	<u>\$ 14,051,000</u>	<u>\$ 32,916,497</u>

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

The following is a reconciliation of the beginning and ending balances of assets measured at Level 3 fair values on a recurring basis:

Split-Interest Agreements balance at October 31, 2020	\$ 10,269,000
Distributions from trusts	(57,991)
Changes in value	<u>3,839,991</u>
Split-Interest Agreements balance at October 31, 2021	\$ 14,051,000
Distributions from trusts	(95,705)
Changes in value	<u>(3,649,295)</u>
Split-Interest Agreements balance at October 31, 2022	<u><u>\$ 10,306,000</u></u>

During the year ended October 31, 2021, the Organization received charitable gift annuities. The Organization estimates the fair value of the liabilities associated with these charitable gift annuities on a non-recurring basis at the date of gift using the methods described in Note 1.

The following sets forth, by level within the fair value hierarchy, the fair value of the assets and liabilities measured on a non-recurring basis on the date of the gift during the year ended October 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Charitable gift annuities payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,235</u>	<u>\$ 246,235</u>
Total Liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 246,235</u></u>	<u><u>\$ 246,235</u></u>

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

## **12. Employee Benefit Plans**

The Organization has a 401(k) Plan that covers all employees who meet specified age and time of service requirements. The Plan provides for participating employees to defer up to 80% of their annual compensation, as defined by the Plan. The Organization's matching contribution to the Plan for the year ended October 31, 2022 and 2021 were approximately \$200,000 and \$193,000, respectively.

The Organization also has a 457(b) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering certain members of management. The Non-Qualified 457(b) Plan provides for employee compensation deferrals and employer contributions at the discretion of the Board of Directors. An employee is 100% vested in any elective contributions to the Non-Qualified 457(b) Plan, plus any investment earnings or losses. The Non-Qualified 457(b) Plan has been funded primarily through investments. The Organization's accumulated contributions to the Non-Qualified 457(b) Plan totaled approximately \$195,000 and \$196,000 at October 31, 2022 and 2021, respectively, which are included in accrued liabilities in the accompanying statement of financial position.

**ARIZONA HUMANE SOCIETY****NOTES TO FINANCIAL STATEMENTS**

October 31, 2022 (with summarized comparative information as of October 31, 2021)

**13. Board Designated Net Assets**

Board designated funds have no donor restrictions but have been earmarked for purposes identified and approved by the Board including fluctuations in contributions, grants or other revenue streams and for a capital project. The funds will be kept in either the general operating account or in the investment account pursuant to the Organization's investment policy.

**14. Net Assets with Donor Restrictions**

Net assets with donor restrictions consisted of the following at October 31:

	<u>2022</u>	<u>2021</u>
Net assets with time and purpose restrictions:		
Capital project	\$ 27,785,887	\$ 23,062,822
Beneficial interest in remainder trusts	5,166,000	7,514,000
Estates receivable	6,019,730	3,934,004
Shelter medical	44,495	19,034
Public owned medical services	721,537	448,665
Pet placement	20,660	2,900
Behavior / animal experience	12,897	9,852
Animal rescue services	200,686	4,046
Pet resource center	151,736	126,990
Education and outreach	2,405	1,275
Foster	70,683	16,400
Other	2,000	2,000
	<u>40,198,716</u>	<u>35,141,988</u>
Net assets not subject to appropriation or expenditure		
Beneficial interest in perpetual trusts	<u>5,140,000</u>	<u>6,537,000</u>
Total net assets with donor restrictions	<u>\$ 45,338,716</u>	<u>\$ 41,678,988</u>

During the years ended October 31, 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by donors, as follows:

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2022 (with summarized comparative information as of October 31, 2021)

	<u>2022</u>	<u>2021</u>
Net assets restrictions released:		
Beneficial interest in remainder trusts	\$ 95,705	\$ 57,991
Estates receivable	3,352,122	4,715,365
Shelter medical	19,034	30,288
Public owned medical services	421,199	159,383
Pet placement	2,900	16,890
Behavior / animal experience	3,750	6,601
Animal rescue services	4,045	6,653
Pet resource center	126,990	188,196
Education and outreach	1,275	-
Foster	13,468	2,036
Other	-	74,295
Total restrictions released	<u>\$ 4,040,488</u>	<u>\$ 5,257,698</u>

**15. Commitments and Contingent Liabilities**

*Health Care Insurance*

The Organization has a health care self-insurance program, limited to losses of \$100,000 per claim. Losses in excess of this amount are covered by insurance. The Organization has accrued approximately \$136,000 and \$125,000 at October 31, 2022 and 2021, respectively, for those health coverage claims, which are included in accrued liabilities in the accompanying statement of financial position. The Organization's health insurance expense was approximately \$1,089,000 and \$947,000 for the years ended October 31, 2022 and 2021, respectively.

These estimates are based on historical information, primarily from the Organization's claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in experience, could cause these estimates to change in the near term.

**16. Concentrations of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits in financial institutions and investments.

Cash deposits in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") of \$250,000 and the Securities Investors Protection Corporation ("SIPC") of \$250,000 are exposed to loss in the event of nonperformance by the financial institution. At times during the year, the Organization had cash deposits in excess of the FDIC insurance coverage. The Organization does not anticipate nonperformance by financial institutions. At October 31, 2022, the Organization had an uninsured cash balance of approximately \$30,260,000.

**ARIZONA HUMANE SOCIETY****NOTES TO FINANCIAL STATEMENTS**

October 31, 2022 (with summarized comparative information as of October 31, 2021)

**17. Cash Flow Information***Reconciliation of Cash, Cash Equivalents, and Restricted Cash*

The following provides a reconciliation of cash, cash equivalents, and restricted cash reported in the accompanying statement of financial position to the total of cash, cash equivalents, and restricted cash reported in the accompanying statement of cash flows at October 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 11,061,546	\$ 32,358,780
Cash restricted for long-term assets and improvements	<u>20,051,511</u>	<u>-</u>
Total cash, cash equivalents and restricted cash	<u><u>\$ 31,113,057</u></u>	<u><u>\$ 32,358,780</u></u>

*Schedule of Noncash Investing and Financing Activities*

During the year ended October 31, 2022, the Organization purchased property and equipment through accounts payable for approximately \$2,968,000.