Arizona Humane Society

Financial Statements
Together with Independent Auditor's Report
October 31, 2019

ARIZONA HUMANE SOCIETY

ARIZONA HUMANE SOCIETY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arizona Humane Society

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Humane Society, an Arizona nonprofit organization (the "Organization"), which comprise the statement of financial position as of October 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of October 31, 2019, 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.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
March 2, 2020

ARIZONA HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
October 31, 2019

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	4,066,950
Estates receivable		2,623,784
Receivables		501,329
Inventories		213,092
Prepaid expenses and other assets		463,833
Investments		21,958,278
Total current assets		29,827,266
PROPERTY AND EQUIPMENT, net		13,793,520
BENEFICIAL INTEREST IN REMAINDER TRUSTS		4,728,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS		5,466,000
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENT		
Investments		2,150,403
Contributions receivable, net		2,961,282
	$	58,926,471
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	431,013
Accrued liabilities		1,849,534
Deferred revenue		107,593
Total current liabilities		2,388,140
CHARITABLE GIFT ANNUITIES PAYABLE		160,498
Total liabilities		2,548,638
Net assets		
Without donor restrictions		
Board designated		8,500,000
Undesignated		29,953,716
Total net assets without donor restrictions		38,453,716
With donor restrictions		17,924,117
Total net assets		56,377,833
	$	58,926,471

ARIZONA HUMANE SOCIETY
STATEMENT OF ACTIVITIES
For the year ended October 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and grants	$ 12,044,219	$ 5,940,588	$ 17,984,807
Pet intake and placement	2,266,634	-	2,266,634
Net investment return	1,871,938	-	1,871,938
Donated materials and services	1,815,652	-	1,815,652
Thrift stores	1,305,396	-	1,305,396
Medical operations	1,170,101	-	1,170,101
Animal cruelty and rescue services	793,009	-	793,009
Community resources	193,919	-	193,919
Other	202,348	-	202,348
Total support and revenue before special events and net assets released from restrictions	21,663,216	5,940,588	27,603,804
Special events revenue	1,033,400		1,033,400
Less costs of direct donor benefits	(255,927)	-	(255,927)
Gross profit on special events	777,473	-	777,473
Total support and revenue	22,440,689	5,940,588	28,381,277
NET ASSETS RELEASED FROM RESTRICTIONS	6,096,010	(6,096,010)	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	28,536,699	(155,422)	28,381,277
EXPENSES			
PROGRAM EXPENSES			
Medical - Shelter	6,916,237	-	6,916,237
Pet intake and placement	5,829,785	-	5,829,785
Medical - Public	2,428,621	-	2,428,621
Animal cruelty and rescue services	2,217,466	-	2,217,466
Community resources	1,277,496	-	1,277,496
Total program expenses	18,669,605	-	18,669,605
SUPPORTING EXPENSES			
Fundraising and development	4,400,296	-	4,400,296
Management and general	1,862,138	-	1,862,138
Total supporting expenses	6,262,434	-	6,262,434
Total expenses	24,932,039	-	24,932,039
GAINS AND (LOSSES)			
Gain on sale of property and equipment	13,230	-	13,230
Changes in value of split-interest agreements	(22,370)	767,705	745,335
Total gains and (losses)	(9,140)	767,705	758,565
CHANGE IN NET ASSETS	3,595,520	612,283	4,207,803
NET ASSETS – Beginning of year	34,858,196	17,311,834	52,170,030
NET ASSETS – End of year	$ 38,453,716	$ 17,924,117	$ 56,377,833

ARIZONA HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended October 31, 2019

	Program Expenses					
	Medical Shelter	Pet Intake and Placement	Medical Public	Animal Cruelty and Rescue Services	Community Resources	Total Program Expenses
Salaries and wages	$ 3,945,936	$ 2,438,126	$ 1,341,332	$ 1,322,534	$ 859,825	$ 9,907,753
Payroll taxes and employee benefits	781,800	481,200	245,357	271,851	166,003	1,946,211
Operating supplies and equipment	1,134,962	298,049	357,669	100,426	17,718	1,908,824
Advertising and promotions	53,131	1,613,245	52,384	59,082	63,850	1,841,692
Occupancy and insurance	217,057	306,477	97,166	20,728	24,234	665,662
Depreciation	226,651	260,891	98,668	45,873	27,768	659,851
Fees for services	199,064	138,022	79,544	111,096	15,152	542,878
Communications and technology	112,292	102,383	54,401	56,505	39,982	365,563
Vehicle	6,631	80,397	8,060	159,269	14,868	269,225
Postage and printing	21,136	13,366	7,232	18,641	7,083	67,458
Other	217,577	97,629	86,808	51,461	41,013	494,488
Total expenses	6,916,237	5,829,785	2,428,621	2,217,466	1,277,496	18,669,605
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	$ 6,916,237	$ 5,829,785	$ 2,428,621	$ 2,217,466	$ 1,277,496	$ 18,669,605

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, 2019

	Supporting Expenses			
	Fundraising and Development	Management and General	Total Supporting Expenses	Total Expenses
Salaries and wages	$ 1,571,489	$ 1,119,579	$ 2,691,068	$ 12,598,821
Payroll taxes and employee benefits	276,948	145,288	422,236	2,368,447
Operating supplies and equipment	66,433	2,151	68,584	1,977,408
Advertising and promotions	105,712	17	105,729	1,947,421
Occupancy and insurance	308,849	53,156	362,005	1,027,667
Depreciation	104,545	26,886	131,431	791,282
Fees for services	785,062	196,674	981,736	1,524,614
Communications and technology	103,770	60,040	163,810	529,373
Vehicle	33,277	1,149	34,426	303,651
Postage and printing	967,443	1,596	969,039	1,036,497
Other	332,695	255,602	588,297	1,082,785
Total expenses	4,656,223	1,862,138	6,518,361	25,187,966
Less - Special event expense netted against revenue in the statement of activities				
Postage and printing	(23,939)	-	(23,939)	(23,939)
Fees for services	(20,251)	-	(20,251)	(20,251)
Other	(211,737)	-	(211,737)	(211,737)
Functional expense totals in the expense section of the statement of activities	$ 4,400,296	$ 1,862,138	$ 6,262,434	$ 24,932,039

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

ARIZONA HUMANE SOCIETY
STATEMENT OF CASH FLOWS
For the year ended October 31, 2019

Cash flows from operating activities:	
Change in net assets	$ 4,207,803
Adjustments to reconcile change in net assets to net cash provided by operations:	
Non-cash contribution of inventory	(20,000)
Increase in discount on long-term contributions receivable	144,354
Increase in valuation allowance for long-term contributions receivable	43,480
Realized and unrealized (gain) loss on investments, net	(972,443)
Non-cash contribution of investments	(258,827)
Non-cash contribution of property and equipment	(19,706)
Depreciation	791,282
Gain on sale of property and equipment	(13,230)
Changes in value of split-interest agreements	(745,335)
Contributions restricted for investment in long-lived assets and improvements	(1,544,028)
Changes in operating assets and liabilities:	
(Increase) decrease in	
Estates receivable	2,976,475
Receivables	(365,279)
Inventories	54,646
Prepaid expenses and other assets	14,571
Beneficial interest in remainder trusts	88,705
Contributions receivable	63,578
Increase (decrease) in	
Accounts payable	(75,958)
Accrued liabilities	18,006
Deferred revenues	(316,280)
Charitable gift annuities payable	(33,265)
Net cash provided by operations	4,038,549

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

ARIZONA HUMANE SOCIETY
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended October 31, 2019

Cash flows from investing activities	
Increase in investments restricted for investment in long-lived assets and improvements	(2,127,903)
Purchases of investments	(24,311,344)
Proceeds from maturities and sale of investments	13,671,810
Change in cash held for investment	2,027,340
Proceeds from sale of property and equipment	33,329
Purchases of property and equipment	(416,132)
Net cash used in investing activities	(11,122,900)
Net decrease in cash and cash equivalents	(7,084,351)
Cash and cash equivalents at the beginning of year	11,151,301
Cash and cash equivalents at the end of year	$ 4,066,950

1. Description of Organization

The mission at the 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 life-saving 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 ("U.S. 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 11.
>
> 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, savings, and money market accounts. The Organization considers all highly liquid debt 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 Receivable

Unconditional promises to give are recognized as contributions in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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, adjusted for market risk. Amortization of the discounts is included in contributions and grants in the accompanying statement of activities.

The Organization provides for losses on contributions receivable using the allowance method, which is based on management's experience, knowledge of the donors, the industry and other circumstances which may affect the ability of donors to meet their obligations. It is the Organization's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected.

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, 2019, 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 Income

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.

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.

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. No impairment loss was recorded during the year ended October 31, 2019.

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.

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.

Contributions and Grants

Contributions and grants received are recorded as either net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets without donor restrictions. However, if a restriction is fulfilled in the same period in which it is received, the Organization reports the support as without donor restrictions.

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.

Donated Materials and Services

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.

Donated materials and services consisted of the following for the year ended October 31, 2019:

	Functional Category Benefitted:			
	Program Services	Management and General	Fundraising and Development	Total
Advertising and promotions	$ 1,756,031	$ -	$ 16,590	$ 1,772,621
Other	3,325	-	-	3,325
Total in-kind expense	$ 1,759,356	$ -	$ 16,590	1,775,946
Donated property and equipment				19,706
Increase in donated thrift store inventory				20,000
Total in-kind contributions				$ 1,815,652

No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under U.S. 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 $6,114,000, representing 407,608 hours, for the year ended October 31, 2019, that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying financial statements.

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 year ended October 31, 2019 totaled approximately $944,00 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.

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, 2019, U.S. federal informational and income tax returns for years ended prior to October 31, 2016 and state returns for years ended prior to October 31, 2015 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 August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* which significantly amended the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The ASU amended the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include:

- requiring the presentation of only two classes of net assets, now entitled "net assets without donor restrictions" and "net assets with donor restrictions",
- modifying the presentation of underwater endowment funds and related disclosures,
- requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise,
- requiring all nonprofit entities to present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes,
- requiring all nonprofit entities to disclose a summary of the allocation methods used to allocate costs
- requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources
- requiring investment return to be presented net of external and direct expenses

ASU 2016-14 also modifies other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

The Organization adopted the provisions of ASU 2016-14 effective November 1, 2018 and applied the provisions retrospectively. The adoption of ASU 2016-14 did not have a material impact on the accompanying financial statements and resulted primarily in a reclassification between the net asset categories utilized prior to the adoption of ASU 2016-14 and the net asset categories required after adoption of ASU 2016-14 as summarized below:

	Net Asset Classifications under ASU 2016-14		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets at October 31, 2018, as previously reported:			
Unrestricted	$ 34,858,196	$ -	$ 34,858,196
Temporarily restricted	-	12,106,834	12,106,834
Permanently restricted	-	5,205,000	5,205,000
Net assets at October 31, 2018, as reclassified	$ 34,858,196	$ 17,311,834	$ 52,170,030

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for nonpublic entities for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases in their statement of financial position as liabilities, with corresponding "right of use" assets. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions*. This standard includes clarifications to assist entities in evaluating if transactions should be accounted for as contributions under the scope of Topic 958 or as exchange transactions subject to other guidance. The standard also assists entities in determining if contributions are conditional. ASU 2018-08 is effective for nonpublic entities for contributions received in fiscal years beginning after December 15, 2018. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

3. Liquidity

Financial assets at year end:	
Cash and cash equivalents	$ 4,066,950
Estates receivable	2,623,784
Receivables	501,329
Contributions receivable, net	2,961,282
Investments	24,108,681
Total financial assets	34,262,026
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	(7,730,117)
Board designations	(8,500,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,031,909

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.

4. Contributions Receivable

Contributions receivable consisted of the following at October 31, 2019:

Promises to give - Capital project	$ 3,344,028
Less: Unamortized discount	(305,566)
Less: Valuation allowance	(77,180)
Contributions receivable, net	$ 2,961,282

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:

Contributions receivable due in less than one year	$ 771,362
Contributions receivable due in one to five years	2,572,666
Total contributions receivable	$ 3,344,028

Contributions receivable from employees and member of the Board of Directors (before the unamortized discount) were as follows at October 31, 2019:

Contributions receivable due in less than one year	$	234,295
Contributions receivable due in one to five years		947,000
Total contributions receivable	$	1,181,295

5. Property and Equipment

Property and equipment consisted of the following at October 31, 2019:

Buildings	$	15,992,999
Land		4,723,140
Furniture and equipment		3,312,107
Vehicles		907,588
Leasehold improvements		106,639
Construction in progress		150,665
Total property and equipment		25,193,138
Less - Accumulated depreciation		(11,399,618)
Property and equipment, net	$	13,793,520

Depreciation expense totaled approximately $791,000 for the year ended October 31, 2019.

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, 2019 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, 2019 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 $246,000 for the year ended October 31, 2019 and is included in net investment return in the accompanying statement of activities.

7. 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 $10,000 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 year ended October 31, 2019 was a decrease of approximately $22,000.

8. Investments

Net investment return consisted of the following for the year ended October 31, 2019:

Interest income	$ 968,752
Net realized and unrealized gains	972,443
Direct external investment expenses	(69,257)
Net investment return	$ 1,871,938

9. Fair Value Measurements

The following table sets 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, 2019:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Equities	$ 13,414,457	$ -	$ -	$ 13,414,457
Certificates of deposit	10,385,350	-	-	10,385,350
Cash held for investment	235,226	-	-	235,226
Savings bonds	73,648	-	-	73,648
Total investments	24,108,681	-	-	24,108,681

	Level 1	Level 2	Level 3	Total
Split-interest agreements	-	-	10,194,000	10,194,000
Total assets	$ 24,108,681	$ -	$ 10,194,000	$ 34,302,681

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, 2018	$ 9,515,000
Distributions from trusts	(88,705)
Changes in value	767,705
Split-Interest Agreements balance at October 31, 2019	$ 10,194,000

During the year ended October 31, 2019, 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 years ended October 31, 2019:

	Level 1	Level 2	Level 3	Total
Liabilities				
Charitable gift annuities payable	$ -	$ -	$ 8,276	$ 8,276
Total Liabilities	$ -	$ -	$ 8,276	$ 8,276

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.

10. 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, 2019 was approximately $149,000.

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 $84,000 at October 31, 2019 which is included in accrued liabilities in the accompanying statement of financial position.

11. 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.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at October 31, 2019:

Net assets with time and purpose restrictions:	
Capital project	$ 4,728,939
Beneficial interest in remainder trusts	4,728,000
Estates and pledges receivable	2,623,785
EAMT	102,000
Spay and neuter	76,704
Medical/behavioral	44,264
Vet services	26,029
Other	128,396
	12,458,117
Net assets not subject to appropriation or expenditure	
Beneficial interest in perpetual trusts	5,466,000
Total net assets with donor restrictions	$ 17,924,117

During the year ended October 31, 2019, 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:

Net assets restrictions released:	
Estates and pledges receivable	$ 5,521,552
Vet services	123,598
Medical/behavioral	116,080
Pet resource center	107,345
Beneficial interest in remainder trusts	88,705
Community	82,388
Spay and neuter	35,629
EAMT	639
Other	20,074
Total restrictions released	$ 6,096,010

13. Commitments and Contingent Liabilities

Operating Lease Commitments

The Organization leases equipment, vehicles, and storage space under operating lease agreements with terms expiring through November 2024.

Future minimum rental payments under the non-cancellable operating leases are as follows:

Year Ending October 31		
2020	$	284,377
2021		254,593
2022		176,972
2023		68,405
2024		39,552
Thereafter		3,296
Total future minimum lease payments	$	827,195

Rent expense totaled approximately $368,000 for the year ended October 31, 2019.

Health Care Insurance

During the year ended October 31, 2018, the Organization began 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 $151,000 at October 31, 2019 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 $986,000 for the year ended October 31, 2019.

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.

14. 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, 2019, the Organization had an uninsured cash balance of approximately $3,576,000.

15. Subsequent Events

Management evaluated subsequent events through March 2, 2020, the date the financial statements were available.