

# **Arizona Humane Society**

Financial Statements

Together with Independent Auditor's Report

October 31, 2020



**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, 2020, 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, 2020, 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.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Schmidt Westergard & Company, PLLC*

Mesa, Arizona  
April 20, 2020

**ARIZONA HUMANE SOCIETY**  
STATEMENT OF FINANCIAL POSITION  
October 31, 2020  
(with summarized comparative information as of October 31, 2019)

	2020	2019
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,694,172	\$ 4,066,950
Estates receivable	6,081,557	2,623,784
Receivables	387,847	501,329
Inventories	215,019	213,092
Prepaid expenses and other assets	368,485	463,833
Investments	18,592,643	21,958,278
Total current assets	38,339,723	29,827,266
PROPERTY AND EQUIPMENT, net	15,137,469	13,793,520
BENEFICIAL INTEREST IN REMAINDER TRUSTS	4,899,000	4,728,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	5,370,000	5,466,000
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENT		
Investments	4,225,542	2,150,403
Contributions receivable, net	2,382,110	2,961,282
	<u>\$ 70,353,844</u>	<u>\$ 58,926,471</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 364,916	\$ 431,013
Accrued liabilities	2,240,784	1,849,534
Deferred revenue	585,608	107,593
Current portion of operating lease liabilities	227,176	-
Current portion of note payable - paycheck protection program	851,532	-
Total current liabilities	4,270,016	2,388,140
CHARITABLE GIFT ANNUITIES PAYABLE	252,457	160,498
OPERATING LEASE LIABILITIES, less current portion	275,021	-
NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM, less current portion	1,783,459	-
Total liabilities	<u>6,580,953</u>	<u>2,548,638</u>
Net assets		
Without donor restrictions		
Board designated	13,100,000	8,500,000
Undesignated	27,161,949	29,953,716
Total net assets without donor restrictions	40,261,949	38,453,716
With donor restrictions	23,510,942	17,924,117
Total net assets	<u>\$ 70,353,844</u>	<u>\$ 58,926,471</u>

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

**ARIZONA HUMANE SOCIETY**

## STATEMENT OF ACTIVITIES

For the year ended October 31, 2020

(with summarized comparative information for the year ended October 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
<b>SUPPORT AND REVENUE</b>				
Contributions and grants	\$ 14,539,987	\$ 8,494,583	\$ 23,034,570	\$ 17,984,807
Pet intake and placement	1,968,726	-	1,968,726	2,266,634
Net investment return	1,604,317	-	1,604,317	1,871,938
Donated materials and services	1,195,898	-	1,195,898	1,815,652
Thrift stores	980,578	-	980,578	1,305,396
Medical operations	1,072,026	-	1,072,026	1,170,101
Animal cruelty and rescue services	985,441	-	985,441	793,009
Community resources	87,874	-	87,874	193,919
Other	215,723	-	215,723	202,348
Total support and revenue before special events and net assets released from restrictions	<u>22,650,570</u>	<u>8,494,583</u>	<u>31,145,153</u>	<u>27,603,804</u>
Special events revenue	548,589	-	548,589	1,033,400
Less costs of direct donor benefits	(58,463)	-	(58,463)	(255,927)
Gross profit on special events	<u>490,126</u>	<u>-</u>	<u>490,126</u>	<u>777,473</u>
Total support and revenue	<u>23,140,696</u>	<u>8,494,583</u>	<u>31,635,279</u>	<u>28,381,277</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>3,062,402</u>	<u>(3,062,402)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>26,203,098</u>	<u>5,432,181</u>	<u>31,635,279</u>	<u>28,381,277</u>
<b>EXPENSES</b>				
<b>PROGRAM EXPENSES</b>				
Medical - Shelter	6,875,712	-	6,875,712	6,916,237
Pet intake and placement	5,320,858	-	5,320,858	5,829,785
Medical - Public	2,076,781	-	2,076,781	2,428,621
Animal cruelty and rescue services	2,143,722	-	2,143,722	2,217,466
Community resources	1,179,763	-	1,179,763	1,277,496
Total program expenses	<u>17,596,836</u>	<u>-</u>	<u>17,596,836</u>	<u>18,669,605</u>

The accompanying notes are an integral part of this financial statement

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
For the year ended October 31, 2020  
(with summarized comparative information for the year ended October 31, 2019)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2020	2019
<b>SUPPORTING EXPENSES</b>				
Fundraising and development	4,758,892	-	4,758,892	4,400,296
Management and general	2,061,547	-	2,061,547	1,862,138
Total supporting expenses	6,820,439	-	6,820,439	6,262,434
Total expenses	24,417,275	-	24,417,275	24,932,039
<b>GAINS AND (LOSSES)</b>				
Gain on sale of property and equipment	41,036	-	41,036	13,230
Changes in value of split-interest agreements	(18,626)	154,644	136,018	745,335
Total gains and (losses)	22,410	154,644	177,054	758,565
<b>CHANGE IN NET ASSETS</b>	1,808,233	5,586,825	7,395,058	4,207,803
<b>NET ASSETS – Beginning of year</b>	38,453,716	17,924,117	56,377,833	52,170,030
<b>NET ASSETS – End of year</b>	<u>\$ 40,261,949</u>	<u>\$ 23,510,942</u>	<u>\$ 63,772,891</u>	<u>\$ 56,377,833</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, 2020  
(with summarized comparative information for the year ended October 31, 2019)

	Program Expenses					Total Program Expenses
	Medical - Shelter	Pet Intake and Placement	Medical - Public	Animal Cruelty and Rescue Services	Community Resources	
Salaries and wages	\$ 4,206,454	\$ 2,504,701	\$ 1,162,778	\$ 1,341,061	\$ 783,313	\$ 9,998,307
Payroll taxes and employee benefits	973,094	564,833	235,259	319,314	169,015	2,261,515
Operating supplies and equipment	841,324	236,760	253,276	92,232	9,240	1,432,832
Advertising and promotions	27,566	1,029,567	23,358	35,014	26,282	1,141,787
Occupancy and insurance	206,852	286,930	88,018	19,731	22,119	623,650
Depreciation	227,250	254,366	94,909	38,029	27,885	642,439
Fees for services	157,209	184,532	109,748	62,392	29,140	543,021
Communications and technology	110,013	117,865	61,147	57,283	45,086	391,394
Vehicle	3,875	64,788	8,265	146,291	13,988	237,207
Postage and printing	5,100	10,736	5,389	2,952	8,125	32,302
Other	116,975	65,780	34,634	29,423	45,570	292,382
Total expenses	6,875,712	5,320,858	2,076,781	2,143,722	1,179,763	17,596,836
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	\$ 6,875,712	\$ 5,320,858	\$ 2,076,781	\$ 2,143,722	\$ 1,179,763	\$ 17,596,836

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, 2020

(with summarized comparative information for the year ended October 31, 2019)

	Supporting Expenses			2019	
	Fundraising and Development	Management and General	Total Supporting Expenses	Total Expenses	Total Expenses
Salaries and wages	\$ 1,646,086	\$ 1,323,807	\$ 2,969,893	\$ 12,968,200	\$ 12,598,821
Payroll taxes and employee benefits	331,240	242,748	573,988	2,835,503	2,368,447
Operating supplies and equipment	34,394	5,280	39,674	1,472,506	1,977,408
Advertising and promotions	110,626	206	110,832	1,252,619	1,947,421
Occupancy and insurance	293,721	53,524	347,245	970,895	1,027,667
Depreciation	103,804	27,396	131,200	773,639	791,282
Fees for services	1,046,677	159,436	1,206,113	1,749,134	1,524,614
Communications and technology	134,479	62,264	196,743	588,137	529,373
Vehicle	53,773	678	54,451	291,658	303,651
Postage and printing	930,676	1,312	931,988	964,290	1,036,497
Other	131,879	184,896	316,775	609,157	1,082,785
Total expenses	4,817,355	2,061,547	6,878,902	24,475,738	25,187,966
Less - Special event expense netted against revenue in the statement of activities					
Postage and printing	(10,333)	-	(10,333)	(10,333)	(23,939)
Fees for services	(10,397)	-	(10,397)	(10,397)	(20,251)
Other	(37,733)	-	(37,733)	(37,733)	(211,737)
Functional expense totals in the expense section of the statement of activities	\$ 4,758,892	\$ 2,061,547	\$ 6,820,439	\$ 24,417,275	\$ 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, 2020

(with summarized comparative information for the year ended October 31, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,395,058	\$ 4,207,803
Adjustments to reconcile change in net assets to net cash provided by operations:		
Non-cash contribution of inventory	-	(20,000)
Increase (decrease) in discount on long-term contributions receivable	(48,484)	144,354
Increase (decrease) in valuation allowance for long-term contributions receivable	(16,325)	43,480
Realized and unrealized (gain) loss on investments, net	(894,708)	(972,443)
Non-cash contribution of investments	(912,155)	(258,827)
Non-cash contribution of property and equipment	(54,914)	(19,706)
Depreciation	773,639	791,282
Gain on sale of property and equipment	(41,036)	(13,230)
Changes in value of split-interest agreements	(136,018)	(745,335)
Contributions restricted for investment in long-lived assets and improvements	643,981	(1,544,028)
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estates receivable	(3,457,773)	2,976,475
Receivables	113,482	(365,279)
Inventories	(1,927)	54,646
Prepaid expenses and other assets	95,348	14,571
Beneficial interest in remainder trusts	79,644	88,705
Contributions receivable	-	63,578
Increase (decrease) in		
Accounts payable	(66,097)	(75,958)
Accrued liabilities	391,250	18,006
Deferred revenues	478,015	(316,280)
Charitable gift annuities payable	73,333	(33,265)
Net cash provided by operations	<u>4,414,313</u>	<u>4,038,549</u>

**ARIZONA HUMANE SOCIETY**

## STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended October 31, 2020

(with summarized comparative information for the year ended October 31, 2019)

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	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments restricted for investment in long-lived assets and improvements	(2,075,139)	(2,127,903)
Purchases of investments	(5,703,821)	(24,311,344)
Proceeds from maturities and sale of investments	10,876,319	13,671,810
Change in cash held for investment	-	2,027,340
Proceeds from sale of property and equipment	42,111	33,329
Purchases of property and equipment	<u>(1,561,552)</u>	<u>(416,132)</u>
Net cash provided by (used in) investing activities	<u>1,577,918</u>	<u>(11,122,900)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable - Paycheck Protection Program	<u>2,634,991</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	8,627,222	(7,084,351)
Cash and cash equivalents at the beginning of year	<u>4,066,950</u>	<u>11,151,301</u>
Cash and cash equivalents at the end of year	<u>\$ 12,694,172</u>	<u>\$ 4,066,950</u>

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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#### 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 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 13.

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.

##### *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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended October 31, 2019, 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.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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#### *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.

#### *Grants and Contributions Receivable*

Grants and contributions receivable arising from unconditional promises to give are recognized as revenues in the period that 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 consolidated 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, 2020, Organization had been notified of conditional promises to give totaling approximately \$2,000,000 which have not been recognized in the accompanying consolidated 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, 2020 and 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.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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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, 2020 (with summarized comparative information as of October 31, 2019)

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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, 2020 (with summarized comparative information as of October 31, 2019)

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.

*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, 2020:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Advertising and promotions	\$ 1,104,004	\$ -	\$ 20,480	\$ 1,124,484
Other	15,500	-	1,000	16,500
Total in-kind expense	<u>\$ 1,119,504</u>	<u>\$ -</u>	<u>\$ 21,480</u>	1,140,984
Donated property and equipment				<u>54,914</u>
Total in-kind contributions				<u>\$ 1,195,898</u>



**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Media services	\$ 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				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 \$4,979,000 and \$6,114,000, representing 331,945 hours and 407,608 hours, for the years ended October 31, 2020 and 2019, respectively, 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 years ended October 31, 2020 and 2019 totaled approximately \$917,000 and \$944,000, 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.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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#### *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.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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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, 2020, U.S. federal informational and income tax returns for years ended prior to October 31, 2017 and state returns for years ended prior to October 31, 2016 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

#### *Note Payable – Paycheck Protection Program*

As described in more detail in Note 9, in April 2020, the Organization entered into a note payable agreement with a bank under the provisions of the Paycheck Protection Program (“PPP”). The Organization accounts for the agreement in accordance with the provision of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 470, *Debt*. Accordingly, amounts outstanding under the note payable agreement will be reflected as a liability in the statement of financial position until such time as the Organization is legally released from the obligation through repayment or through forgiveness, wholly or in part, by the bank.

#### *Newly Adopted Accounting Pronouncement*

The FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)* in February 2016 and subsequent ASUs in 2018 and 2019 (collectively referred to as “Topic 842”) on the treatment of leases, which guidance is effective for annual reporting periods beginning after December 15, 2019 and early adoption is permitted. Under Topic 842, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and 2) a right-of-use asset, which is an asset that represents the lessee’s right-of-use, or control the use of, a specified asset for the lease term. Entities are allowed to apply Topic 842 using a modified retrospective approach either (1) retrospectively to each reporting period presented in the financial statements with the cumulative effect adjustment recognized at the beginning of the earliest comparative period; or (2) retrospectively at the beginning of the period of adoption through a cumulative-effective adjustment. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply.

On November 1, 2019, the Organization adopted Topic 842 using the modified retrospective basis with a cumulative-effect adjustment at the beginning of the period of adoption and therefore did not revise prior period information or disclosure. Further, the Organization elected the package of practical expedients upon transition that allows the Organization not to reassess the lease classification for expired and existing leases, whether initial direct costs qualify for capitalization for any expired or existing leases or whether any expired contracts are or contain leases. The adoption of ASU 2016-02 resulted in the recognition of operating leases liabilities and right of use assets (included in property and equipment) of approximately \$279,000 on the statement of financial position on November 1, 2019.

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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 Made* 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. The Organization adopted ASU 2018-08 effective November 1, 2019 and applied the provisions on a modified prospective basis to new grants received subsequent to the date of adoption and to the remaining portions of any grant or gift agreements from prior years that were incomplete as of the date of adoption. Prior period results are not restated. There was no significant impact to the pattern of recognition of the grants in support and revenue.

*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. As amended by ASU 2015-14, *Revenues from Contracts with Customers: Deferral of the Effective Date* and ASU 2020-05, *Revenue from Contracts with Customer (Topic 606)*, the new standard is effective for annual reporting periods of nonpublic companies beginning after December 15, 2019. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

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 will require 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 will require 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. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021. 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	\$ 12,694,172
Estates receivable	6,081,557
Receivables	387,847
Contributions receivable, net	2,382,110
Investments	<u>22,818,185</u>
Total financial assets	44,363,871

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	(13,241,942)
Board designations	<u>(13,100,000)</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,021,929</u>
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**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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:

	<u>2020</u>	<u>2019</u>
Promises to give - Capital project	\$ 2,700,047	\$ 3,344,028
Less: Unamortized discount	(257,082)	(305,566)
Less: Valuation allowance	<u>(60,855)</u>	<u>(77,180)</u>
Contributions receivable, net	<u>\$ 2,382,110</u>	<u>\$ 2,961,282</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:

	<u>2020</u>	<u>2019</u>
Contributions receivable due in less than one year	\$ 846,567	\$ 771,362
Contributions receivable due in one to five years	<u>1,853,480</u>	<u>2,572,666</u>
Total contributions receivable	<u>\$ 2,700,047</u>	<u>\$ 3,344,028</u>

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

	<u>2020</u>	<u>2019</u>
Contributions receivable due in less than one year	\$ 333,401	\$ 234,295
Contributions receivable due in one to five years	<u>761,480</u>	<u>947,000</u>
Total contributions receivable	<u>\$ 1,094,881</u>	<u>\$ 1,181,295</u>

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

**5. Property and Equipment**

Property and equipment consisted of the following at October 31:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 15,905,273	\$ 15,992,999
Land	5,699,519	4,723,140
Furniture and equipment	3,293,316	3,312,107
Vehicles	764,595	907,588
Leasehold improvements	106,639	106,639
Right of use assets, net	500,601	-
Construction in progress	<u>638,003</u>	<u>150,665</u>
Total property and equipment	26,907,946	25,193,138
Less - Accumulated depreciation	<u>(11,770,477)</u>	<u>(11,399,618)</u>
Property and equipment, net	<u>\$ 15,137,469</u>	<u>\$ 13,793,520</u>

Depreciation expense totaled approximately \$774,000 and \$791,000 for the years ended October 31, 2020 and 2019, 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, 2020 and 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, 2020 and 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 \$229,000 and \$246,000 for the years ended October 31, 2020 and 2019, respectively, and are included in net investment return in the accompanying statement of activities.

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

**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 years ended October 31, 2020 and 2019 was a decrease of approximately \$19,000 and \$22,000, respectively.

**8. Operating Lease Liabilities**

The Organization's operating lease liabilities predominately pertain to thrift store space and equipment leases utilized in the operations of the Organization. The related right of use assets are recorded in property equipment in the accompanying statement of financial position. 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 determined the present value of the lease payments.

Future maturities of operating lease liabilities consisted of the following as of October 31, 2020:

Year Ending October 31	
2021	\$ 247,141
2022	175,472
2023	67,552
2024	39,552
2025	6,592
Total future minimum lease payments	536,309
Less imputed interest	(34,112)
Present value of future minimum lease payments	502,197
Less - Current portion	(227,176)
Operating lease liabilities, less current portion	\$ 275,021

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

The weighted-average remaining lease term is 3.1 years and the weighted-average discount rate is 5%. Lease expense is recognized on a straight-line basis over the lease term. Total operating lease cost was approximately \$212,000 (including approximately \$185,000 of right of use asset amortization) for the year ended October 31, 2020, which is included in occupancy and insurance in the accompanying statement of functional expenses.

**9. Note Payable – Payroll Protection Program**

In April 2020, the Organization received loan proceeds totaling \$2,635,000 through a PPP note payable agreement with a bank administered by the Small Business Administration (“SBA”). The note payable is due in monthly installments of approximately \$148,000, including interest at 1.0%, which were initially scheduled to begin in November 2020 and continue through maturity in April 2022. Future scheduled principal payments total approximately \$852,000 and \$1,783,000 for the years ending October 31, 2021 and 2022, respectively.

The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for forgiveness of the principal and accrued interest as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintains its payroll levels. The amount of loan forgiveness is reduced if the borrower terminates employees or reduces salaries. In January 2021, the Organization applied for loan forgiveness and anticipates all of the note payable will be forgiven.

**10. Net Investment Return**

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

	2020	2019
Interest income	\$ 792,930	\$ 968,752
Net realized and unrealized gains	894,708	972,443
Direct external investment expenses	(83,321)	(69,257)
Net investment return	<u>\$ 1,604,317</u>	<u>\$ 1,871,938</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:

	2020			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Equities	\$ 14,734,699	\$ -	\$ -	\$ 14,734,699
Certificates of deposit	7,836,385	-	-	7,836,385
Cash held for investment	170,477	-	-	170,477
Savings bonds	76,624	-	-	76,624
Total investments	<u>22,818,185</u>	-	-	<u>22,818,185</u>



**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

	2020			Total
	Level 1	Level 2	Level 3	
Split-interest agreements	-	-	10,269,000	10,269,000
Total assets	<u>\$ 22,818,185</u>	<u>\$ -</u>	<u>\$ 10,269,000</u>	<u>\$ 33,087,185</u>

  

	2019			Total
	Level 1	Level 2	Level 3	
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	<u>73,648</u>	<u>-</u>	<u>-</u>	<u>73,648</u>
Total investments	24,108,681	-	-	24,108,681
Split-interest agreements	-	-	10,194,000	10,194,000
Total assets	<u>\$ 24,108,681</u>	<u>\$ -</u>	<u>\$ 10,194,000</u>	<u>\$ 34,302,681</u>

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	<u>767,705</u>
Split-Interest Agreements balance at October 31, 2019	\$ 10,194,000
Distributions from trusts	(79,644)
Changes in value	<u>154,644</u>
Split-Interest Agreements balance at October 31, 2020	<u>\$ 10,269,000</u>

During the years ended October 31, 2020 and 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.

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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:

	2020			
	Level 1	Level 2	Level 3	Total
Liabilities				
Charitable gift annuities payable	\$ -	\$ -	\$ 107,510	\$ 107,510
Total Liabilities	\$ -	\$ -	\$ 107,510	\$ 107,510

  

	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.

**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, 2020 and 2019 were approximately \$153,000 and \$149,000, 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 \$117,000 and \$84,000 at October 31, 2020 and 2019, respectively, which are included in accrued liabilities in the accompanying statement of financial position.

**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.

**ARIZONA HUMANE SOCIETY**

## NOTES TO FINANCIAL STATEMENTS

October 31, 2020 (with summarized comparative information as of October 31, 2019)

**14. Net Assets with Donor Restrictions**

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

	<u>2020</u>	<u>2019</u>
Net assets with time and purpose restrictions:		
Capital project	\$ 6,607,652	\$ 4,728,939
Beneficial interest in remainder trusts	4,899,000	4,728,000
Estates receivable	6,081,558	2,623,785
Shelter medical	30,288	26,029
Public owned medical services	253,186	76,704
Pet placement	16,890	-
Behavior / animal experience	9,890	44,264
Animal rescue services	6,653	102,000
Pet resource center	153,686	-
Foster	5,844	-
Other	76,295	128,396
	<u>18,140,942</u>	<u>12,458,117</u>
Net assets not subject to appropriation or expenditure		
Beneficial interest in perpetual trusts	<u>5,370,000</u>	<u>5,466,000</u>
Total net assets with donor restrictions	<u>\$ 23,510,942</u>	<u>\$ 17,924,117</u>

During the years ended October 31, 2020 and 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:

	<u>2020</u>	<u>2019</u>
Net assets restrictions released:		
Capital project	\$ 1,001,481	\$ -
Beneficial interest in remainder trusts	79,644	88,705
Estates receivable	1,646,488	5,521,552
Shelter medical	14,553	123,598
Public owned medical services	99,729	35,629
Pet placement	102,255	-
Behavior / animal experience	15,452	116,080
Animal rescue services	102,000	639
Pet resource center	-	107,345
Education and outreach	-	82,388
Foster	800	-
Other	-	20,074
Total restrictions released	<u>\$ 3,062,402</u>	<u>\$ 6,096,010</u>

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

October 31, 2020 (with summarized comparative information as of October 31, 2019)

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**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 \$455,000 and \$151,000 at October 31, 2020 and 2019, 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 \$1,405,000 and \$986,000 for the years ended October 31, 2020 and 2019, 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.

*COVID-19*

In March 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus (also known as COVID-19) a global pandemic. The virus, and actions taken to mitigate its spread, have adversely affected economies and financial markets worldwide, and may continue to do so. Although management currently expects that the disruptive impact of the coronavirus will be temporary, this situation continues to evolve and there is significant uncertainty around the breadth and duration of the impact of COVID-19. As a result, management cannot predict the length or severity of the pandemic or the extent to which it will directly or indirectly affect Organization's financial condition and operating results.

**16. Cash Flow Information**

During the year ended October 31, 2020, the Organization obtained approximately \$408,000 in right of use assets in exchange for operating lease obligations.

**17. 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, 2020, the Organization had an uninsured cash balance of approximately \$11,882,000.

**18. Subsequent Events**

Management evaluated subsequent events through April 20, 2021, the date the financial statements were available.