Arizona Humane Society

Financial Statements
Together with Independent Auditor's Report
October 31, 2017

ARIZONA HUMANE SOCIETY

ARIZONA HUMANE SOCIETY

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77 West University Drive
Mesa, Arizona 85201
O 480 834 6030
F 480 644 9877
www.sw-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arizona Humane Society
Phoenix, Arizona

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, 2017, and the related statements of activities 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, 2017 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 1, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
February 21, 2018

ARIZONA HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
October 31, 2017 (with comparative totals as of October 31, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 9,048,871	$ 8,636,005
Estates receivable	5,617,755	2,127,615
Receivables:		
Field contracts receivable	203,800	170,000
Grants receivable	83,000	101,000
Other	14,033	11,200
Inventories	221,502	185,374
Prepaid expenses and other assets	349,039	370,374
Investments	11,874,784	10,367,968
Property and equipment, net	9,828,976	10,279,521
Deposits	35,938	38,808
Beneficial interest in remainder trusts	3,149,000	2,794,000
Beneficial interest in perpetual trusts	5,372,000	4,918,000
	$ 45,798,698	$ 39,999,865
LIABILITIES AND NET ASSETS		
Accounts payable	$ 407,951	$ 367,439
Accrued liabilities	1,523,960	1,330,953
Charitable gift annuities payable	202,686	228,234
Total liabilities	2,134,597	1,926,626
Net assets		
Unrestricted		
Invested in property and equipment	9,828,976	10,279,521
Board designated	8,000,000	8,000,000
Unrestricted and undesignated	10,986,226	9,380,703
Total unrestricted	28,815,202	27,660,224
Temporarily restricted	9,476,899	5,495,015
Permanently restricted	5,372,000	4,918,000
Total net assets	43,664,101	38,073,239
	$ 45,798,698	$ 39,999,865

ARIZONA HUMANE SOCIETY
STATEMENT OF ACTIVITES
For the year ended October 31, 2017 (with comparative totals for the year ended October 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
SUPPORT AND REVENUE					
Contributions and grants	$ 10,616,100	$ 5,478,824	$ -	$ 16,094,924	$ 12,634,497
Donated materials and services	1,916,461	-	-	1,916,461	2,303,761
Clinic operations	1,219,973	-	-	1,219,973	1,380,711
Adoption fees	1,598,589	-	-	1,598,589	1,237,224
Field contract revenue	910,806	-	-	910,806	502,540
Animals intake	304,995	-	-	304,995	356,636
Other	146,278	-	-	146,278	152,901
Total support and revenue before special events, thrift store sales, pet supply stores sales, and net assets released from restrictions	16,713,202	5,478,824	-	22,192,026	18,568,270
Special events revenue	1,044,477			1,044,477	1,090,509
Less costs of direct donor benefits	(199,411)	-	-	(199,411)	(209,349)
Gross profit on special events	845,066	-	-	845,066	881,160
Thrift store sales	1,185,489	-	-	1,185,489	1,050,839
Less related costs	(825,025)	-	-	(825,025)	(737,234)
Gross profit on thrift store sales	360,464	-	-	360,464	313,605
Pet supply store sales	422,552	-	-	422,552	373,828
Less related costs sales	(411,991)	-	-	(411,991)	(436,218)
Gross profit (loss) on pet supply store sales	10,561	-	-	10,561	(62,390)
Total support and revenue	17,929,293	5,478,824	-	23,408,117	19,700,645
NET ASSETS RELEASED FROM RESTRICTIONS	1,911,156	(1,911,156)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	19,840,449	3,567,668	-	23,408,117	19,700,645

ARIZONA HUMANE SOCIETY
STATEMENT OF ACTIVITES (CONTINUED)
For the year ended October 31, 2017 (with comparative totals for the year ended October 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
EXPENSES					
Program services	16,341,699	-	-	16,341,699	15,265,779
Management and general	707,386	-	-	707,386	648,659
Fundraising and development	3,185,676	-	-	3,185,676	3,098,155
TOTAL EXPENSES	20,234,761	-	-	20,234,761	19,012,593
GAINS AND LOSSES					
Investment income, net	1,614,108	-	-	1,614,108	380,752
Gain (loss) on sale of property and equipment	(56,322)	-	-	(56,322)	9,382
Changes in value of split-interest agreements	(8,496)	414,216	454,000	859,720	66,783
TOTAL GAINS AND LOSSES	1,549,290	414,216	454,000	2,417,506	456,917
CHANGE IN NET ASSETS	1,154,978	3,981,884	454,000	5,590,862	1,144,969
NET ASSETS – Beginning of year	27,660,224	5,495,015	4,918,000	38,073,239	36,928,270
NET ASSETS – End of year	$ 28,815,202	$ 9,476,899	$ 5,372,000	$ 43,664,101	$ 38,073,239

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

ARIZONA HUMANE SOCIETY
STATEMENT OF CASH FLOWS
For the year ended October 31, 2017 (with comparative totals for the year ended October 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 5,590,862	$ 1,144,969
Adjustments to reconcile change in net assets to net cash provided by operations:		
Realized and unrealized (gain) loss on investments, net	(1,161,703)	131,825
Depreciation	769,885	814,101
(Gain) loss on sale of property and equipment	56,322	(9,382)
Non-cash contribution of inventory	(52,500)	-
Non-cash contribution of investments	(22,151)	(30,907)
Non-cash contribution of property	(2,250)	-
Changes in value of split-interest agreements	(859,720)	(66,783)
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estates receivable	(3,490,140)	395,264
Field contracts receivable	(33,800)	(170,000)
Grants receivable	18,000	(101,000)
Other receivables	(2,833)	35,285
Inventories	16,372	(12,370)
Prepaid expenses and other assets	21,335	(85,530)
Deposits	2,870	1,869
Beneficial interest in remainder trusts	59,216	88,180
Increase (decrease) in		
Accounts payable	40,512	(14,192)
Accrued liabilities	193,007	111,526
Charitable gift annuities payable	(34,044)	(56,873)
Net cash provided by operations	1,109,240	2,175,982
Cash flows from investing activities		
Purchases of investments	(3,043,893)	(6,145,905)
Proceeds from maturities and sale of investments	2,632,528	5,827,318
Change in cash held for investment	88,403	91,261
Proceeds from sale of property and equipment	52,000	10,200
Purchases of property and equipment	(425,412)	(386,224)
Net cash used in investing activities	(696,374)	(603,350)
Net increase in cash and cash equivalents	412,866	1,572,632
Cash and cash equivalents at the beginning of year	8,636,005	7,063,373
Cash and cash equivalents at the end of year	$ 9,048,871	$ 8,636,005

1. Description of Organization

The passionate belief that every pet deserves a good life has driven the Arizona Humane Society (the "Organization") to serve a critical role in our community for nearly 60 years. With a vision to end animal suffering, homelessness and needless euthanasia, we rescue, heal, adopt and advocate for homeless, sick, injured and abused animals.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting according to accounting principles generally accepted in the United States of America ("US GAAP"). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Net assets and changes therein are classified and reported as follows:

- Unrestricted net assets - Includes unrestricted amounts associated with the operating activities of the Organization.
- Temporarily restricted net assets - Includes amounts for which donor-imposed purposes or time restrictions have not been met.
- Permanently restricted net assets - Includes amounts for which the donor-imposed restrictions state that the corpus is to be invested in perpetuity with the income to be made available for specified programs or uses.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended October 31, 2016, 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 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, 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.

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, 2017 and 2016, and, accordingly, an allowance for doubtful accounts has not been provided.

Promises to Give

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 to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these 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 contribution support.

Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible contribution receivables based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible contribution receivable and a credit to contribution receivable.

Inventories

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

Investments and Investment Income

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.

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.

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.

Income earned from investments, including realized and unrealized gains and losses, is reported as increases or decreases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use.

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 - 5 years
Leasehold improvements	1 - 5 years

Donations of property and equipment are reported as increases in unrestricted net assets 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 restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, at which time the Organization reclassifies temporarily restricted net assets to unrestricted net assets.

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 years ended October 31, 2017 and 2016.

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 temporarily 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 the temporarily restricted net asset class.

Under perpetual trust agreements, the Organization records the permanently 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 unrestricted investment income 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 the permanently restricted net asset class.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which it is received, the Organization reports the support as unrestricted.

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, 2017:

	Functional Category Benefitted:			
	Program Services	Management and General	Fundraising and Development	Total
Media services	$ 1,468,229	$ -	$ 364,460	$ 1,832,689
Other	25,200	-	3,822	29,022
Total in-kind expense	$ 1,493,429	$ -	$ 368,282	1,861,711
Donated property				2,250
Increase in donated thrift store inventory				52,500
Total in-kind contributions				$ 1,916,461

Donated materials and services consisted of the following for the year ended October 31, 2016:

	Functional Category Benefitted:			
	Program Services	Management and General	Fundraising and Development	Total
Media services	$ 1,700,565	$ -	$ 568,968	$ 2,269,533
Other	25,200	-	9,028	34,228
Total in-kind	$ 1,725,765	$ -	$ 577,996	$ 2,303,761

No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under US GAAP; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns. The Organization received volunteer time and other donated services valued at approximately $4,973,000 and $4,214,000, representing 331,515 hours and 280,904 hours, for the years ended October 31, 2017 and 2016, respectively, that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying financial statements.

Clinic Operations and Other Fees

The Organization charges a fee for the adoption of animals. Adoption fee revenue is recognized at the time an animal is adopted. The Organization also charges a fee for hospital operations and spay/neutering services. Hospital and public clinic operations revenue is recognized at the time services are performed. Intake fee revenue is recognized at the time an animal is surrendered to the Organization's care.

Field Contract Revenue

The Organization has contracts with various cities including Phoenix, Glendale, Gilbert, Chandler and Tempe to provide cruelty and investigation services. The term 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.

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.

Thrift Store Revenues

The Organization receives donations of supplies and food and sells these items to the general public through three 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.

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. Accordingly, certain costs have been allocated among the programs and supporting activities benefited, determined by specific identification and estimates of time spent and benefits derived.

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 US 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, 2017, U.S. federal informational and income tax returns for years ended prior to October 31, 2014 and state returns for years ended prior to October 31, 2013 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

Reclassifications

Certain reclassifications have been made to the prior year summarized comparative information in order to conform to the current year presentation. The reclassification had no effect on the change in net assets.

Newly Adopted Accounting Pronouncement

In August 2014, FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 became effective during the year ended October 31, 2017. The adoption of ASU 2014-15 had no impact on the Organization's financial statements.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which replaced the existing accounting standards for revenue recognition. This guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to receive in exchange for those goods or services. ASU 2014-09 is effective for all nonpublic entities for annual reporting periods beginning after December 15, 2019 (early adoption is permitted with certain restrictions) and may be adopted by restating all years presented in the entity's financial statements or by recording the impact of the adoption as an adjustment to net assets at the beginning of the year the ASU 2014-09 is adopted. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which replaced the existing accounting standards for accounting for operating leases. ASU 2016-02 requires an entity to recognize lease assets and lease liabilities on the statement of financial position and disclose key information about leasing arrangements. ASU 2016-02 is effective for all nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 with early adoption permitted. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

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 amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

3. Estimates

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

4. Investments

Investment income is presented net of fees and consisted of the following for the years ended October 31:

	2017	2016
Interest income	$ 452,405	$ 512,577
Net realized and unrealized gains (losses)	1,161,703	(131,825)
Total investment income, net	$ 1,614,108	$ 380,752

5. Property and Equipment

Property and equipment consisted of the following at October 31:

	2017	2016
Buildings	$ 13,884,558	$ 13,774,720
Furniture and equipment	3,023,450	3,058,693
Land	2,036,769	2,141,769
Vehicles	1,126,853	1,126,853
Leasehold improvements	46,533	124,725
Assets not placed in service	8,042	4,279
Total property and equipment	20,126,205	20,231,039
Less - Accumulated depreciation	(10,297,229)	(9,951,518)
Property and equipment, net	$ 9,828,976	$ 10,279,521

Depreciation expense totaled approximately $770,000 and $814,000 for the years ended October 31, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016 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 $190,000 and $238,000 for the years ended October 31, 2017 and 2016, respectively, and are included in investment income 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 $14,000 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 of 8%. Unrestricted contribution revenue 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, 2017 and 2016 was an increase of approximately $8,500 and $59,000, respectively.

8. 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:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Mutual funds - Equities	$ 11,199,291	$ -	$ -	$ 11,199,291
Cash held for investment	607,445	-	-	607,445
Savings bonds	68,048	-	-	68,048
Total investments	11,874,784	-	-	11,874,784
Split-interest agreements	-	-	8,521,000	8,521,000
Total assets	$ 11,874,784	$ -	$ 8,521,000	$ 20,395,784

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Mutual funds - Equities	$ 9,567,757	$ -	$ -	$ 9,567,757
Cash held for investment	695,848	-	-	695,848
Savings bonds	65,408	-	-	65,408
Common stock and other	38,955	-	-	38,955
Total investments	10,367,968	-	-	10,367,968
Split-interest agreements	-	-	7,712,000	7,712,000
Total assets	$ 10,367,968	$ -	$ 7,712,000	$ 18,079,968

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, 2015	$ 7,674,000
Distributions from trusts	(88,180)
Changes in value	126,180
Split-Interest Agreements balance at October 31, 2016	$ 7,712,000
Distributions from trusts	(59,216)
Changes in value	868,216
Split-Interest Agreements balance at October 31, 2017	$ 8,521,000

During the years ended October 31, 2017 and 2016, 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 7. 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:

	2017			
	Level 1	Level 2	Level 3	Total
Liabilities				
Charitable gift annuities payable	$ -	$ -	$ 22,183	$ 22,183
Total Liabilities	$ -	$ -	$ 22,183	$ 22,183

	2016			
	Level 1	Level 2	Level 3	Total
Liabilities				
Charitable gift annuities payable	$ -	$ -	$ 8,589	$ 8,589
Total Liabilities	$ -	$ -	$ 8,589	$ 8,589

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.

9. 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 contributions to the Plan for the years ended October 31, 2017 and 2016 were approximately $46,000 and $41,000, 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 $32,000 at October 31, 2017, which is included in accrued liabilities in the accompanying statement of financial position.

10. Board Designated Net Assets

Board designated funds are unrestricted, but have been earmarked for purposes identified and approved by the Board including fluctuations in contributions, grants or other revenue streams and for the potential purchase of a new site preceding a capital campaign. The funds will be kept in either the general operating account or in the investment account pursuant to the Organization's investment policy.

11. Restricted Net Assets

Temporarily restricted net assets consisted of the following at October 31:

	2017	2016
Time restrictions:		
Estate receivables	$ 5,617,755	$ 2,127,615
Beneficial interest in remainder trusts	3,149,000	2,794,000
Purpose restrictions:		
Spay/neuter programs	217,150	83,802
Pet resource center	154,349	-
Medical/behavioral health	110,806	97,862
Vet services	76,388	61,463
Community engagement	17,290	-
Community cats program	-	160,869
Other	51,161	68,404
Time and purpose restrictions:		
Medical/behavioral health	75,000	2,500
Vet services	5,000	-
Community engagement	3,000	-
Pet resource center	-	85,500
Spay/neuter programs	-	13,000
Total temporarily restricted net assets	$ 9,476,899	$ 5,495,015

All permanently restricted net assets are held in perpetual trusts as defined in Note 6.

12. Commitments

The Organization leases equipment, vehicles, and storage space under operating lease agreements with terms expiring through March 2022.

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

Year Ending October 31		
2018	$	279,737
2019		270,435
2020		185,743
2021		128,991
2022		51,920
Total future minimum lease payments	$	916,826

Rent expense totaled approximately $364,000 and $329,000 for the years ended October 31, 2017 and 2016, respectively.

13. 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 ("SPIC") 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, 2017, the Organization had an uninsured cash balance of approximately $8,814,000.

14. Subsequent Events

Management evaluated subsequent events through February 21, 2018, the date the financial statements were available.

In November 2017, the Organization signed a Purchase Sale Agreement ("PSA") to purchase property for a potential new site for approximately $4,500,000. The PSA estimates a closing date in August 2018. A partial owner of the property has made a conditional promise to donate their share of the property valued at approximately $1,500,000 to the Organization. The Organization will be responsible for the remaining $3,000,000 of the purchase price.