

ARIZONA HUMANE SOCIETY

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

October 31, 2010



ARIZONA HUMANE SOCIETY

Improving the Lives of Animals Since 1957

ARIZONA HUMANE SOCIETY

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3 – 4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7 – 23



Schmidt Westergard
& COMPANY, PLLC

"STRENGTH THROUGH NUMBERS"

Est. 1968 • An Independent Member of BKR International

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Arizona Humane Society

We have audited the accompanying statement of financial position of Arizona Humane Society (an Arizona nonprofit organization) (the "Organization") as of October 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated February 25, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants' Auditing Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Humane Society as of October 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
February 3, 2011

ARIZONA HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
October 31, 2010
(with comparative totals as of October 31, 2009)

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 5,396,161	\$ 6,354,768
ESTATE RECEIVABLES	1,432,431	2,725,644
RECEIVABLES	83,115	82,554
CONTRIBUTION RECEIVABLE	25,000	35,000
INVENTORIES	46,544	32,252
PREPAID EXPENSES	153,232	142,458
INVESTMENTS	7,452,829	3,224,791
PROPERTY AND EQUIPMENT, net	11,357,927	11,822,918
LAND HELD FOR SALE	309,000	309,000
BENEFICIAL INTEREST IN REMAINDER TRUSTS	2,085,000	1,368,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	4,260,000	4,197,000
DEPOSITS	8,000	7,000
	\$ 32,609,239	\$ 30,301,385
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE	\$ 199,765	\$ 218,549
ACCRUED LIABILITIES	769,134	577,167
DEFERRED REVENUE	245	10,000
CHARITABLE GIFT ANNUITIES PAYABLE	354,528	398,021
Total liabilities	1,323,672	1,203,737
NET ASSETS		
Unrestricted	15,630,730	17,307,153
Board designated	7,452,829	3,224,791
Total unrestricted	23,083,559	20,531,944
Temporarily restricted	3,942,008	4,368,704
Permanently restricted	4,260,000	4,197,000
Total net assets	31,285,567	29,097,648
	\$ 32,609,239	\$ 30,301,385

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

ARIZONA HUMANE SOCIETY
STATEMENT OF ACTIVITIES
For the year ended October 31, 2010
(with summarized comparative totals for the year ended October 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
SUPPORT AND REVENUE					
Contributions	\$ 6,127,568	\$ 2,083,686	\$ -	\$ 8,211,254	\$ 8,855,230
Tributes and memorials	201,771	-	-	201,771	197,870
Donated materials and services	1,199,464	-	-	1,199,464	1,157,544
Grants	76,431	-	-	76,431	227,549
Clinic operations	1,412,673	-	-	1,412,673	1,301,618
Adoption fees	949,365	-	-	949,365	950,652
Animals returned	689,741	-	-	689,741	613,028
Thrift store, net	314,473	-	-	314,473	212,998
Education	11,913	-	-	11,913	2,137
Investment income, net	301,313	-	-	301,313	255,547
Gain on sale of property and equipment	-	-	-	-	30,462
Changes in value of split-interest agreements	(45,737)	135,721	63,000	152,984	118,952
Other	37,147	-	-	37,147	62,758
	<u>11,276,122</u>	<u>2,219,407</u>	<u>63,000</u>	<u>13,558,529</u>	<u>13,986,345</u>
Total support and revenue before special events, retail sales, and net assets released from restrictions					
Special events revenue	662,820	-	-	662,820	836,775
Less costs of direct donor benefits	(205,273)	-	-	(205,273)	(223,870)
Gross profit on special events	<u>457,547</u>	<u>-</u>	<u>-</u>	<u>457,547</u>	<u>612,905</u>
Pet supply stores	198,637	-	-	198,637	132,608
Less related costs	(188,512)	-	-	(188,512)	(111,724)
Gross profit on pet supply store	<u>10,125</u>	<u>-</u>	<u>-</u>	<u>10,125</u>	<u>20,884</u>
Total support and revenue	<u>11,743,794</u>	<u>2,219,407</u>	<u>63,000</u>	<u>14,026,201</u>	<u>14,620,134</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, 2010
(with summarized comparative totals for the year ended October 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
NET ASSETS RELEASED FROM RESTRICTIONS	2,646,103	(2,646,103)	-	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	14,389,897	(426,696)	63,000	14,026,201	14,620,134
EXPENSES					
Program services	10,104,772	-	-	10,104,772	9,952,346
Management and general	477,798	-	-	477,798	608,295
Fundraising and development	1,255,712	-	-	1,255,712	1,350,938
TOTAL EXPENSES	11,838,282	-	-	11,838,282	11,911,579
CHANGE IN NET ASSETS	2,551,615	(426,696)	63,000	2,187,919	2,708,555
NET ASSETS – Beginning of year	20,531,944	4,368,704	4,197,000	29,097,648	26,389,093
NET ASSETS – End of year	<u>\$ 23,083,559</u>	<u>\$ 3,942,008</u>	<u>\$ 4,260,000</u>	<u>\$ 31,285,567</u>	<u>\$ 29,097,648</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, 2010
(with comparative totals for the year ended October 31, 2009)

	Program	Management	Fundraising and	Total	
	Services	and General	Development	2010	2009
Payroll expenses					
Salaries and wages	\$ 5,269,177	\$ 77,355	\$ 428,731	\$ 5,775,263	\$ 5,939,169
Employee benefits	581,435	10,576	39,379	631,390	640,207
Payroll taxes	388,706	12,696	27,700	429,102	439,439
Total payroll expenses	6,239,318	100,627	495,810	6,835,755	7,018,815
Supplies	948,654	24,140	6,738	979,532	934,909
Occupancy	322,091	85,804	77,059	484,954	431,190
Printing	17,680	40	329,162	346,882	455,153
Outside services	45,524	18,836	763	65,123	59,628
Repairs and maintenance	217,124	21,970	38,047	277,141	246,143
Insurance	111,240	19,444	7,080	137,764	172,913
Professional fees	79,773	114,641	64,249	258,663	208,148
Postage and mailing	11,365	1,387	142,517	155,269	219,697
Vehicle expense	73,738	1,030	1,731	76,499	66,426
Special events indirect costs	1,810	-	14,572	16,382	6,666
Bank charges	40,449	1,429	31,204	73,082	74,197
Travel	560	210	202	972	1,154
Uniforms	3,160	159	21	3,340	2,053
Advertising	57,259	-	-	57,259	12,437
Donor recognition	-	-	8,702	8,702	7,747
Other	82,569	41,036	7,892	131,497	95,086
Total expenses before depreciation and donations	8,252,314	430,753	1,225,749	9,908,816	10,012,362
Depreciation	685,542	35,146	9,314	730,002	741,673
Donated materials and services	1,166,916	11,899	20,649	1,199,464	1,157,544
TOTAL EXPENSES	\$ 10,104,772	\$ 477,798	\$ 1,255,712	\$ 11,838,282	\$ 11,911,579

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

ARIZONA HUMANE SOCIETY
STATEMENT OF CASH FLOWS
For the year ended October 31, 2010
(with comparative totals for the year ended October 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,187,919	\$ 2,708,555
Adjustments to reconcile change in net assets to net cash provided by operations		
Depreciation	736,677	741,673
Gain on sale of property and equipment	-	(30,462)
Non-cash contribution of investments	(186,794)	-
Changes in value of split-interest agreements	(152,984)	(118,952)
Changes in operating assets and liabilities		
(Increase) decrease in		
Estate receivables	1,293,213	(691,680)
Receivables	(561)	(60,317)
Contribution receivable	10,000	(35,000)
Inventories	(14,292)	(10,697)
Prepaid expenses	(10,774)	(29,613)
Beneficial interest in remainder trust	(581,279)	(49,751)
Deposits	(1,000)	(7,000)
Increase (decrease) in		
Accounts payable	(18,784)	(46,688)
Accrued liabilities	191,967	(36,488)
Deferred revenues	(9,755)	9,650
Charitable gift annuities payable	(89,230)	(35,093)
Net cash provided by operations	<u>3,354,323</u>	<u>2,308,137</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,041,244)	(3,224,737)
Proceeds from sale of property and equipment	-	30,462
Purchases of property and equipment	(271,686)	(147,362)
Net cash used in investing activities	<u>(4,312,930)</u>	<u>(3,341,637)</u>
Net decrease in cash and cash equivalents	(958,607)	(1,033,500)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>6,354,768</u>	<u>7,388,268</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 5,396,161</u>	<u>\$ 6,354,768</u>

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

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Arizona Humane Society (the "Organization") was incorporated in the state of Arizona in June 1957 as a nonprofit corporation. The Organization provides programs and services including animal intake and sheltering; adoptions; animal rescues and cruelty investigations; temporary sheltering for the pets of domestic violence victims, and for the pets of individuals in crisis; veterinary care for injured and ill animals; low-cost spay/neuter and wellness clinics; and mobile spay/neuter and disaster response services throughout the state of Arizona.

Basis of Presentation

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.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended October 31, 2010, 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.

Estate Receivables

Estate receivables are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met. Estate receivables are stated at the fair value management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible estate 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 and a credit to estate receivables. At October 31, 2010, estate receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2010

(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 a valuation allowance 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 valuation allowance and a credit to receivables. Management considers all receivables to be fully collectible at October 31, 2010 and, accordingly, an allowance for doubtful accounts has not been provided.

Promises to Give

Unconditional promises to give are recognized as revenue 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. 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 receivable 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. At October 31, 2010, contribution receivable is considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Inventories

Inventories consist of various pet supply items held for sale at the Pet Emporium, Petopia, and Petique and are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory in the thrift store is an estimate of potential sales revenue of the held or unsold items.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2010

(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Investments and Investment Income

The Organization reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices.

Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets with the exception of permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as temporarily restricted or unrestricted based upon conditions specified by the donor.

Property and Equipment

Property and equipment are recorded at cost when purchased or fair value as of the date contributed to the Organization. Maintenance and repairs are charged to operations when incurred. Property and equipment in excess of \$1,000 is capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation account is relieved, and any gain or loss is included in operations.

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

Buildings and leasehold improvements	1-40 years
Furniture and equipment	2-20 years
Vehicles	3-5 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.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 charges were recorded for 2010.

Land Held for Sale

Land held for sale consists of undeveloped property located in Wickenburg, Arizona and is stated at the lower of carrying cost or fair value less costs to sell. The fair value is based upon comparable market sales.

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. 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.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2010

(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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.

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 reason 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.

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. The Organization has reflected approximately \$1,199,000 and \$1,158,000 of contributed services related to specialized skills in the statement of activities for the years ended October 31, 2010 and 2009, respectively. Contributed materials and services consist primarily of donated catering and auction items for special events (costs of direct donor benefits), donated advertising, and donated time from individuals possessing specialized skills.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2010

(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Donated materials and services consisted of the following for the year ended October 31, 2010:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Media services	\$ 1,166,916	\$ -	\$ -	\$ 1,166,916
Legal services	-	11,899	-	11,899
Other	-	-	20,649	20,649
Total in-kind	\$ 1,166,916	\$ 11,899	\$ 20,649	\$ 1,199,464

Donated materials and services consisted of the following for the year ended October 31, 2009:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Media services	\$ 1,138,616	\$ -	\$ -	\$ 1,138,616
Legal services	-	4,753	-	4,753
Other	-	-	14,175	14,175
Total in-kind	\$ 1,138,616	\$ 4,753	\$ 14,175	\$ 1,157,544

No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under current accounting requirements; 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 \$5,386,000 and \$5,028,000, representing 359,064 hours and 335,175 hours, for the years ended October 31, 2010 and 2009, respectively, that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying financial statements.

Thrift Store Revenues

The Organization receives donations of supplies and food 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. Net thrift store revenues were approximately \$314,000 and \$213,000 for the years ended October 31, 2010 and 2009, respectively.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition

The Organization does not provide tangible benefits to donors in exchange for their contributions. Accordingly, revenue is recorded in accordance with contributions described above. The Organization charges a fee for the adoption of animals. Adoption fee revenue is recognized at the time an animal is adopted. 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.

Functional Expense Allocation

Expenses are charged to program services and other supporting activity categories in the statement of functional expenses based on direct expenses incurred. Any expenses not directly chargeable are allocated based on personnel activity and other appropriate allocation methods.

Advertising

The Organization uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense totaled approximately \$57,000 and \$12,000 for the years ended October 31, 2010 and 2009, respectively.

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. During the year ended October 31, 2010, the Organization did not earn any unrelated business taxable income; therefore, the accompanying financial statements contain no provision for income taxes.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

On November 1, 2009, the Organization adopted authoritative guidance 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 does not believe its financial statements include any uncertain tax positions. Tax years that remain subject to examination are years 2005 and forward for Federal tax returns (generally three years after they are filed) and 2004 and forward for State tax returns (generally four years after they are filed).

Reclassifications

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

(2) ESTIMATES

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

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(3) ESTATE RECEIVABLES

Estate receivables consisted of the following, all of which are due in less than one year and are stated at the amount management expects to collect, at October 31:

	<u>2010</u>	<u>2009</u>
Slusser estate	\$ 407,400	\$ 95,095
Palmer estate	329,726	627,800
Harrington estate	291,644	-
Hueber estate	162,833	-
Applegate estate	108,391	-
McKenzie estate	45,000	-
Pawlak estate	26,961	-
Steinbach estate	-	531,702
Hulegaard estate	-	239,203
Neva estate	-	166,442
Schwanda estate	-	143,868
Masek estate	-	100,000
Edelstein estate	-	98,316
Thomas estate	-	96,326
Kriz estate	-	95,488
Reierson estate	-	94,348
Marschaus estate	-	91,860
Dragoo estate	-	91,064
Ewing estate	-	83,788
Sweet estate	-	20,000
Other	60,476	150,344
Total estate receivables	<u>\$ 1,432,431</u>	<u>\$ 2,725,644</u>

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(4) INVESTMENTS

Investment expense totaled approximately \$0 and \$13,000 for the years ended October 31, 2010 and 2009, respectively. Investment income consisted of the following for the years ended October 31:

	2010	2009
Interest income	\$ 296,483	\$ 255,719
Net realized and unrealized gains/(losses)	4,830	(172)
Total investment income, net	\$ 301,313	\$ 255,547

(5) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31:

	2010	2009
Land	\$ 1,844,552	\$ 1,844,552
Buildings	13,327,746	13,311,251
Leasehold improvements	19,171	15,403
Furniture and equipment	1,619,078	2,267,152
Vehicles	978,052	940,956
Assets not placed in service	110,530	-
Total property and equipment	17,899,129	18,379,314
Less - Accumulated depreciation	(6,541,202)	(6,556,396)
Property and equipment, net	\$ 11,357,927	\$ 11,822,918

Depreciation expense totaled approximately \$737,000 and \$742,000 for the years ended October 31, 2010 and 2009, 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 11% through 100% of the annual income distributions of the trusts. At the various expiring dates, the trusts will distribute any remaining assets held in the trust, at which time the Organization will be entitled to 11% through 100% of that final distribution amount, with no restrictions. The Organization estimated the fair value of its beneficial interests in the remainder trusts at October 31, 2010 based upon the fair value of the assets held by the trusts.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(6) SPLIT-INTEREST AGREEMENTS (continued)

Perpetual Trusts

The Organization is also 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, as defined in each trust agreement, 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, 2010 based upon the Organization's respective interest in the fair value of the underlying assets held by the trust. Distributions from perpetual trusts totaled approximately \$191,000 and \$116,000 for the years ended October 31, 2010 and 2009, respectively, and are included in investment income in the accompanying statement of activities.

(7) CHARITABLE GIFT ANNUITIES

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 a fixed amount for a specified period of time. These agreements provide for quarterly payments of approximately \$22,000 to the donors 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 2045.

The charitable gift annuities balance is reduced by payments to the beneficiaries. Adjustments to the value of the charitable gift annuities related to changes in present value or actuarial assumptions during the term of the charitable gift annuities agreement are recognized as changes in the value of split-interest agreements in the accompanying statement of activities. The change in the value of the charitable gift annuities for the year ended October 31, 2010 was an increase of approximately \$46,000 and for the year ended October 31, 2009 was a decrease of approximately \$17,000.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(8) FAIR VALUE MEASUREMENTS

The Organization follows the authoritative guidance for accounting for certain assets and liabilities that are required to be measured at fair value. This guidance 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.

Fair value measurements are determined based on the assumptions (referred to as “inputs”) that market participants would use in pricing the asset. 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 the Organization’s own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy includes three levels that are based on the extent to which inputs used in measuring fair value are observable in the market:

- Level 1* Inputs for the fair value measurement are quoted prices in an active market for identical assets or liabilities. Quoted prices in an active market for identical assets or liabilities provide the most reliable evidence of fair value.
- Level 2* Inputs for the fair value measurement are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date.
- Level 3* Inputs for the fair value measurement are unobservable and are used to measure fair value only when observable inputs are not available.

The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(8) FAIR VALUE MEASUREMENTS (continued)

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of October 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Certificates of deposits	\$ 7,267,973	\$ -	\$ -	\$ 7,267,973
Savings bonds	108,274	-	-	108,274
Government bonds	45,508	-	-	45,508
Mutual Funds - Equities	23,588	-	-	23,588
Mutual Funds - Bonds	7,486	-	-	7,486
Total Investments	7,452,829	-	-	7,452,829
Split interest agreements	-	-	6,345,000	6,345,000
Total Assets	<u>\$ 7,452,829</u>	<u>\$ -</u>	<u>\$ 6,345,000</u>	<u>\$ 13,797,829</u>
	Level 1	Level 2	Level 3	Total
Liabilities				
Charitable gift				
annuities payable	\$ -	\$ -	\$ 354,528	\$ 354,528
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 354,528</u>	<u>\$ 354,528</u>

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of October 31, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Certificates of deposits	\$ 3,224,791	\$ -	\$ -	\$ 3,224,791
Split interest agreements	-	-	5,565,000	5,565,000
Total Assets	<u>\$ 3,224,791</u>	<u>\$ -</u>	<u>\$ 5,565,000</u>	<u>\$ 8,789,791</u>

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(8) FAIR VALUE MEASUREMENTS (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Charitable gift				
annuities payable	\$ -	\$ -	\$ 398,021	\$ 398,021
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,021</u>	<u>\$ 398,021</u>

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a non-recurring basis as of October 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Land held for sale	\$ -	\$ -	\$ 309,000	\$ 309,000
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,000</u>	<u>\$ 309,000</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs during the years ended October 31, 2010 and 2009:

	<u>Split Interest Agreements</u>	<u>Charitable Gift Annuities</u>
Level 3 ending balance 2008	\$ 5,396,297	\$ 433,114
Additions (contributions)	49,751	-
Annuity payments	-	(18,093)
Net realized and unrealized gains and (losses)	<u>118,952</u>	<u>(17,000)</u>
Level 3 ending balance 2009	\$ 5,565,000	\$ 398,021
Additions (contributions)	740,000	-
Distributions from trusts	(158,721)	-
Annuity payments	-	(89,230)
Net realized and unrealized gains and (losses)	<u>198,721</u>	<u>45,737</u>
Level 3 ending balance 2010	<u>\$ 6,345,000</u>	<u>\$ 354,528</u>

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(8) FAIR VALUE MEASUREMENTS (continued)

The preceding methods described may produce a fair value calculation 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) 401(K) PLAN

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 100% of their compensation, not to exceed \$16,500 (as adjusted for inflation). The Organization's contributions to the Plan for the year ended October 31, 2010 and 2009 were approximately \$20,000 and \$5,000, respectively.

(10) BOARD DESIGNATED NET ASSETS

The Organization has set aside approximately \$7,453,000 as Board designated net assets to be used in the future as determined by the Board. The earnings from the Board designated net assets are currently being reinvested, but may be used for operating expenses of the Organization in the future.

(11) TEMPORARILY RESTRICTED NET ASSETS

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

	2010	2009
Time restrictions:		
Estate receivables	\$ 1,432,431	\$ 2,725,644
Contribution receivable	25,000	35,000
Beneficial interest in remainder trusts	2,085,000	1,368,000
Purpose restriction:		
Construction of new shelter facility	-	190,960
Spay/neuter programs	349,312	49,100
Other	50,265	-
Total temporarily restricted net assets	\$ 3,942,008	\$ 4,368,704

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2010

(with summarized comparative totals as of October 31, 2009)

(12) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of beneficial interests in perpetual trusts obtained by the Organization, see Note 6 for additional information on the agreements. Authoritative guidance requires that the Organization record the initial contribution as a permanently restricted net asset. Subsequent changes in fair value of the beneficial interest in perpetual trust assets are recorded as changes in value of split-interest agreements in the permanently restricted net asset class.

(13) COMMITMENTS

The Organization leases equipment and store space under operating lease agreements with terms expiring through 2015. Minimum future rental payments under the non-cancellable operating leases are as follows:

Year Ending October 31		
2011	\$	66,672
2012		57,020
2013		34,836
2014		24,348
2015		6,087
Total future minimum lease payments	\$	188,963

Rent expense totaled approximately \$73,000 and \$49,000 for the years ended October 31, 2010 and 2009, respectively.

(14) CONCENTRATIONS OF CREDIT RISK

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

Cash deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”) of \$250,000 and the Securities Investors Protection Corporation (“SPIC”) of \$100,000 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, 2010, the Organization had an uninsured cash balance of approximately \$5,067,000.

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

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2010
(with summarized comparative totals as of October 31, 2009)

(15) SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the year ended October 31 2009, the Organization purchased equipment through accounts payable for approximately \$6,000.

(16) SUBSEQUENT EVENTS

Management evaluated subsequent events through February 3, 2011, the date the financial statements were available. Events or transactions occurring after October 31, 2010, but prior to February 3, 2011, that provided additional evidence about conditions that existed at October 31, 2010, have been recognized in the financial statements for the year ended October 31, 2010. Events or transactions that provided evidence about conditions that did not exist at October 31, 2010, but arose before the financial statements were issued have not been recognized in the financial statements for the year ended October 31, 2010.