

Arizona Humane Society

Financial Statements

Together with Independent Auditors' Report

October 31, 2011



ARIZONA HUMANE SOCIETY

Improving the Lives of Animals Since 1957

ARIZONA HUMANE SOCIETY

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Schmidt Westergard
& COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Arizona Humane Society
Phoenix, Arizona

We have audited the accompanying statement of financial position of Arizona Humane Society (an Arizona nonprofit organization) (the "Organization") as of October 31, 2011, and the related statements of activities, 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 2010 financial statements and, in our report dated February 3, 2011, 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, 2011, 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 20, 2012

ARIZONA HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
October 31, 2011 (with comparative totals as of October 31, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 10,996,263	\$ 5,396,161
Estate receivables	2,061,115	1,432,431
Receivables	39,140	83,115
Contribution receivable	-	25,000
Inventories	72,943	46,544
Prepaid expenses	91,921	153,232
Investments	2,884,120	7,452,829
Property and equipment, net	11,155,562	11,357,927
Land held for sale	-	309,000
Beneficial interest in remainder trusts	1,854,000	2,085,000
Beneficial interest in perpetual trusts	4,249,000	4,260,000
Deposits	15,358	8,000
	<u>\$ 33,419,422</u>	<u>\$ 32,609,239</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 251,382	\$ 199,765
Accrued liabilities	696,395	769,379
Charitable gift annuities payable	320,917	354,528
Total liabilities	<u>1,268,694</u>	<u>1,323,672</u>
Net assets		
Unrestricted		
Invested in property and equipment	11,155,562	11,357,927
Board designated	2,884,120	7,452,829
Unrestricted and undesignated	9,661,366	4,272,803
Total unrestricted	23,701,048	23,083,559
Temporarily restricted	4,200,680	3,942,008
Permanently restricted	4,249,000	4,260,000
Total net assets	<u>32,150,728</u>	<u>31,285,567</u>
	<u>\$ 33,419,422</u>	<u>\$ 32,609,239</u>

ARIZONA HUMANE SOCIETY

STATEMENT OF ACTIVITIES

For The Year Ended October 31, 2011 (with comparative totals for the year ended October 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
SUPPORT AND REVENUE					
Contributions	\$ 5,637,368	\$ 2,039,297	\$ -	\$ 7,676,665	\$ 8,211,254
Tributes and memorials	251,979	-	-	251,979	201,771
Donated materials and services	2,065,762	-	-	2,065,762	1,199,464
Grants	588,312	-	-	588,312	76,431
Clinic operations	1,215,835	-	-	1,215,835	1,412,673
Adoption fees	911,191	-	-	911,191	949,365
Animals returned	706,294	-	-	706,294	689,741
Thrift store, net	279,625	-	-	279,625	314,473
Education	18,400	-	-	18,400	11,913
Investment income, net	274,012	-	-	274,012	301,313
Gain on sale of property and equipment	4,800	-	-	4,800	-
Changes in value of split-interest agreements	(53,527)	(143,886)	(11,000)	(208,413)	152,984
Other	76,663	-	-	76,663	37,147
	<u>11,976,714</u>	<u>1,895,411</u>	<u>(11,000)</u>	<u>13,861,125</u>	<u>13,558,529</u>
Total support and revenue before special events, retail sales, and net assets released from restrictions					
Special events revenue	909,895	-	-	909,895	662,820
Less costs of direct donor benefits	(188,897)	-	-	(188,897)	(205,273)
Gross profit on special events	<u>720,998</u>	<u>-</u>	<u>-</u>	<u>720,998</u>	<u>457,547</u>
Pet supply stores	241,035	-	-	241,035	198,637
Less related costs	(276,966)	-	-	(276,966)	(188,512)
Income (loss) on pet supply stores	<u>(35,931)</u>	<u>-</u>	<u>-</u>	<u>(35,931)</u>	<u>10,125</u>
Total support and revenue	<u>12,661,781</u>	<u>1,895,411</u>	<u>(11,000)</u>	<u>14,546,192</u>	<u>14,026,201</u>

ARIZONA HUMANE SOCIETY

STATEMENT OF ACTIVITIES (CONTINUED)

For The Year Ended October 31, 2011 (with comparative totals for the year ended October 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,611,739</u>	<u>(1,611,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	<u>14,273,520</u>	<u>283,672</u>	<u>(11,000)</u>	<u>14,546,192</u>	<u>14,026,201</u>
EXPENSES					
Program services	11,736,710	-	-	11,736,710	10,104,772
Management and general	471,814	-	-	471,814	477,798
Fundraising and development	<u>1,447,507</u>	<u>-</u>	<u>-</u>	<u>1,447,507</u>	<u>1,255,712</u>
TOTAL EXPENSES	<u>13,656,031</u>	<u>-</u>	<u>-</u>	<u>13,656,031</u>	<u>11,838,282</u>
CHANGE IN NET ASSETS BEFORE LOSS ON UNCOLLECTIBLE CONTRIBUTION RECEIVABLE	617,489	283,672	(11,000)	890,161	2,187,919
LOSS ON UNCOLLECTIBLE CONTRIBUTION RECEIVABLE	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
CHANGE IN NET ASSETS	617,489	258,672	(11,000)	865,161	2,187,919
NET ASSETS – Beginning 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>
NET ASSETS – End of year	<u>\$ 23,701,048</u>	<u>\$ 4,200,680</u>	<u>\$ 4,249,000</u>	<u>\$ 32,150,728</u>	<u>\$ 31,285,567</u>

ARIZONA HUMANE SOCIETY
STATEMENT OF CASH FLOWS

For The Year Ended October 31, 2011 (with comparative totals for the year ended October 31, 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 865,161	\$ 2,187,919
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	728,454	736,677
Loss on uncollectible contribution receivable	25,000	-
Gain on sale of property and equipment	(4,800)	-
Non-cash contribution of land	(35,970)	-
Impairment on land held for sale	204,000	-
Non-cash contribution of investments	(184,306)	(186,794)
Changes in value of split-interest agreements	208,413	(152,984)
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estate receivables	(628,684)	1,293,213
Receivables	43,975	(561)
Contribution receivable	-	10,000
Inventories	(26,399)	(14,292)
Prepaid expenses	61,311	(10,774)
Beneficial interest in remainder trusts	87,114	(581,279)
Deposits	(7,358)	(1,000)
Increase (decrease) in		
Accounts payable	51,617	(18,784)
Accrued liabilities	(72,984)	182,212
Charitable gift annuities payable	(87,138)	(89,230)
Net cash provided by operations	<u>1,227,406</u>	<u>3,354,323</u>
Cash flows from investing activities		
Purchases of investments	-	(4,041,244)
Proceeds from maturities and sale of investments	4,753,015	-
Proceeds from sale of property and equipment	4,800	-
Purchases of property and equipment	(385,119)	(271,686)
Net cash provided by (used in) investing activities	<u>4,372,696</u>	<u>(4,312,930)</u>
Net increase (decrease) in cash and cash equivalents	5,600,102	(958,607)
Cash and cash equivalents at the beginning of year	<u>5,396,161</u>	<u>6,354,768</u>
Cash and cash equivalents at the end of year	<u>\$ 10,996,263</u>	<u>\$ 5,396,161</u>

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

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2011 (with summarized comparative totals as of October 31, 2010)

1. Description of Organization

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.

2. Summary of Significant Accounting Policies

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 that 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, 2011, 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, 2011 (with summarized comparative totals as of October 31, 2010)

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, 2011 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, 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 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.

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.

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.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2011 (with summarized comparative totals as of October 31, 2010)

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
Leasehold improvements	1 - 5 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.

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 of fair value less costs to sell.

Land Held for Sale

For the year ended October 31, 2010, land held for sale consisted of undeveloped property located in Wickenburg, Arizona and was stated at the lower of carrying cost or fair value less costs to sell.

During the year ended October 31, 2011, land which was previously recorded as land held for sale for was reclassified as a long-lived asset due to a change in the Organization's plans. As a result of this reclassification, an impairment charge of \$204,000 was recognized during the year ended October 31, 2011.

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.

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2011 (with summarized comparative totals as of October 31, 2010)

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.

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. Donated materials and services are reflected as unrestricted revenue with an equal and offsetting amount in the unrestricted program services, management and general or fundraising and development expense categories in the statement of activities, resulting in no net impact on the changes in net assets during the year. 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, 2011 (with summarized comparative totals as of October 31, 2010)

Donated materials and services consisted of the following for the year ended October 31, 2011:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Media services	\$ 1,999,694	\$ -	\$ -	\$ 1,999,694
Legal services	-	7,400	-	7,400
Other	45,000	-	13,668	58,668
Total in-kind	<u>\$ 2,044,694</u>	<u>\$ 7,400</u>	<u>\$ 13,668</u>	<u>\$ 2,065,762</u>

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	<u>\$ 1,166,916</u>	<u>\$ 11,899</u>	<u>\$ 20,649</u>	<u>\$ 1,199,464</u>

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 \$4,781,000 and \$5,386,000, representing 318,712 hours and 359,064 hours, for the years ended October 31, 2011 and 2010, 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 \$280,000 and \$314,000 for the years ended October 31, 2011 and 2010, respectively.

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.

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS

October 31, 2011 (with summarized comparative totals as of October 31, 2010)

Functional Expense Allocation

Expenses are charged to program services and other supporting activity categories 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 \$183,000 and \$57,000 for the years ended October 31, 2011 and 2010, 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. The Organization has provided for income taxes on its unrelated business income as required by Section 512 of the Code.

The Organization follows the guidance issued by the Financial Accounting Standards Board ("FASB") 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, 2011, U.S. federal informational and income tax returns for years ended prior to October 31, 2008 and state returns for years ended prior to October 31, 2007 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 reclassifications had no effect on the change in net assets.

3. 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, 2011 (with summarized comparative totals as of October 31, 2010)

4. 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>2011</u>	<u>2010</u>
Linck estate	\$ 650,000	\$ -
Wheeler estate	412,639	-
Long estate	239,000	-
Rowe estate	203,615	-
Applegate estate	108,391	108,391
Leader estate	72,171	-
Hueber estate	65,402	162,833
Godfray estate	53,648	-
Knudsen estate	50,000	-
Taylor estate	50,000	-
Dodson estate	45,000	-
Slusser estate	-	407,400
Palmer estate	-	329,726
Harrington estate	-	291,644
McKenzie estate	-	45,000
Pawlak estate	-	26,961
Other	111,249	60,476
Total estate receivables	<u>\$ 2,061,115</u>	<u>\$ 1,432,431</u>

5. Investments

The Organization did not incur any investment expense for the years ended October 31, 2011 and 2010. Investment income consisted of the following for the years ended October 31:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 280,463	\$ 296,483
Net realized and unrealized gains/(losses)	<u>(6,451)</u>	<u>4,830</u>
Total investment income, net	<u>\$ 274,012</u>	<u>\$ 301,313</u>

ARIZONA HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 (with summarized comparative totals as of October 31, 2010)

6. Property and Equipment

Property and equipment consisted of the following at October 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,985,522	\$ 1,844,552
Buildings	13,321,859	13,327,746
Leasehold improvements	50,269	19,171
Furniture and equipment	1,691,760	1,619,078
Vehicles	1,005,154	978,052
Assets not placed in service	<u>56,797</u>	<u>110,530</u>
Total property and equipment	18,111,361	17,899,129
Less - Accumulated depreciation	<u>(6,955,799)</u>	<u>(6,541,202)</u>
Property and equipment, net	<u>\$ 11,155,562</u>	<u>\$ 11,357,927</u>

Depreciation expense totaled approximately \$728,000 and \$737,000 for the years ended October 31, 2011 and 2010, respectively.

7. 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, 2011 and 2010 based upon the fair value of the assets held by the trusts, using a discount rate of 6%.

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, 2011 and 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 \$196,000 and \$191,000 for the years ended October 31, 2011 and 2010, respectively, and are included in investment income in the accompanying statement of activities.

8. 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 December 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, 2011 and 2010 was an increase of approximately \$54,000 and \$46,000, respectively.

9. 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 outlines a valuation framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

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.

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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.

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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Certificates of deposits	\$ -	\$ 2,608,385	\$ -	\$ 2,608,385
Savings bonds	112,648	-	-	112,648
Government bonds	37,543	-	-	37,543
Mutual Funds - Equities	24,627	-	-	24,627
Mutual Funds - Bonds	100,917	-	-	100,917
Total Investments	<u>275,735</u>	<u>2,608,385</u>	<u>-</u>	<u>2,884,120</u>
Split interest agreements	<u>-</u>	<u>-</u>	<u>6,103,000</u>	<u>6,103,000</u>
Total Assets	<u>\$ 275,735</u>	<u>\$ 2,608,385</u>	<u>\$ 6,103,000</u>	<u>\$ 8,987,120</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Charitable gift				
annuities payable	\$ -	\$ -	\$ (320,917)	\$ (320,917)
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (320,917)</u>	<u>\$ (320,917)</u>

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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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>184,856</u>	<u>7,267,973</u>	<u>-</u>	<u>7,452,829</u>
Split interest agreements	<u>-</u>	<u>-</u>	<u>6,345,000</u>	<u>6,345,000</u>
Total Assets	<u>\$ 184,856</u>	<u>\$ 7,267,973</u>	<u>\$ 6,345,000</u>	<u>\$ 13,797,829</u>
Liabilities				
Charitable gift annuities payable				
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (354,528)</u>	<u>\$ (354,528)</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, 2011 and 2010:

	<u>Split Interest Agreements</u>	<u>Charitable Gift Annuities</u>
Level 3 ending balance 2009	\$ 5,565,000	\$ (398,021)
Additions (contributions)	740,000	-
Distributions from trusts	(158,721)	-
Annuity payments	-	89,230
Changes in value	<u>198,721</u>	<u>(45,737)</u>
Level 3 ending balance 2010	\$ 6,345,000	\$ (354,528)
Distributions from trusts	(87,114)	-
Annuity payments	-	87,138
Changes in value	<u>(154,886)</u>	<u>(53,527)</u>
Level 3 ending balance 2011	<u>\$ 6,103,000</u>	<u>\$ (320,917)</u>

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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.

10. 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 years ended October 31, 2011 and 2010 were approximately \$23,000 and \$20,000, respectively.

11. Board Designated Net Assets

The Organization has set aside approximately \$2,884,000 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.

12. Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Time restrictions:		
Estate receivables	\$ 2,061,115	\$ 1,432,431
Contribution receivable	-	25,000
Beneficial interest in remainder trusts	1,854,000	2,085,000
Purpose restriction:		
Spay/neuter programs	185,494	349,312
Facility Improvements	93,405	-
Other	<u>6,666</u>	<u>50,265</u>
Total temporarily restricted net assets	<u>\$ 4,200,680</u>	<u>\$ 3,942,008</u>

13. Permanently Restricted Net Assets

Permanently restricted net assets consist of beneficial interests in perpetual trusts obtained by the Organization, see Note 7 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.

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14. Commitments

The Organization leases equipment and store space under operating lease agreements with terms expiring through 2017. Future minimum rental payments under the non-cancellable operating leases are as follows:

Year Ending October 31	
2012	\$ 85,587
2013	95,276
2014	97,739
2015	82,524
2016	80,684
Thereafter	<u>35,388</u>
Total future minimum lease payments	<u><u>\$ 477,198</u></u>

Rent expense totaled approximately \$106,000 and \$73,000 for the years ended October 31, 2011 and 2010, respectively.

15. 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, 2011, the Organization had an uninsured cash balance of approximately \$6,978,000.

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.

16. Subsequent Events

Management evaluated subsequent events through February 20, 2012, the date the financial statements were available.