

# Arizona Humane Society

Financial Statements

Together with Independent Auditors' Report

October 31, 2012



# ARIZONA HUMANE SOCIETY

Improving the Lives of Animals Since 1957

# ARIZONA HUMANE SOCIETY

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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, 2012, 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 2011 financial statements and, in our report dated February 20, 2012, 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, 2012, 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  
January 31, 2013

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
October 31, 2012 (with comparative totals as of October 31, 2011)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,619,147	\$ 10,996,263
Estate receivables	1,825,380	2,061,115
Receivables	13,034	39,140
Inventories	111,163	72,943
Prepaid expenses and other assets	239,629	91,921
Investments	1,452,303	2,884,120
Property and equipment, net	10,862,896	11,155,562
Deposits	19,358	15,358
Beneficial interest in remainder trusts	1,941,000	1,854,000
Beneficial interest in perpetual trusts	4,638,000	4,249,000
	<u>\$ 35,721,910</u>	<u>\$ 33,419,422</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 178,057	\$ 251,382
Accrued liabilities	795,498	696,395
Charitable gift annuities payable	283,481	320,917
Total liabilities	<u>1,257,036</u>	<u>1,268,694</u>
Net assets		
Unrestricted		
Invested in property and equipment	10,862,896	11,155,562
Board designated	1,452,303	2,884,120
Unrestricted and undesignated	13,439,584	9,661,366
Total unrestricted	25,754,783	23,701,048
Temporarily restricted	4,072,091	4,200,680
Permanently restricted	4,638,000	4,249,000
Total net assets	<u>34,464,874</u>	<u>32,150,728</u>
	<u>\$ 35,721,910</u>	<u>\$ 33,419,422</u>

**ARIZONA HUMANE SOCIETY**

**STATEMENT OF ACTIVITIES**

For the year ended October 31, 2012 (with comparative totals for the year ended October 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
<b>SUPPORT AND REVENUE</b>					
Contributions	\$ 7,448,148	\$ 1,584,803	\$ -	\$ 9,032,951	\$ 7,676,665
Tributes and memorials	222,384	-	-	222,384	251,979
Donated materials and services	2,198,097	-	-	2,198,097	2,065,762
Grants	101,564	-	-	101,564	588,312
Clinic operations	1,350,428	-	-	1,350,428	1,215,835
Adoption fees	762,288	-	-	762,288	911,191
Animals returned	674,570	-	-	674,570	706,294
Thrift store	434,284	-	-	434,284	279,625
Education	18,535	-	-	18,535	18,400
Investment income, net	291,352	-	-	291,352	274,012
Gain on sale of property and equipment	4,091	-	-	4,091	4,800
Changes in value of split-interest agreements	(33,290)	174,114	389,000	529,824	(208,413)
Other	100,747	-	-	100,747	76,663
	<u>13,573,198</u>	<u>1,758,917</u>	<u>389,000</u>	<u>15,721,115</u>	<u>13,861,125</u>
Total support and revenue before special events, retail sales, and net assets released from restrictions					
Special events revenue	983,907	-	-	983,907	909,895
Less costs of direct donor benefits	(175,358)	-	-	(175,358)	(188,897)
Gross profit on special events	<u>808,549</u>	<u>-</u>	<u>-</u>	<u>808,549</u>	<u>720,998</u>
Pet supply stores	275,775	-	-	275,775	241,035
Less related costs	(302,770)	-	-	(302,770)	(276,966)
Loss on pet supply stores	<u>(26,995)</u>	<u>-</u>	<u>-</u>	<u>(26,995)</u>	<u>(35,931)</u>
Total support and revenue	<u>14,354,752</u>	<u>1,758,917</u>	<u>389,000</u>	<u>16,502,669</u>	<u>14,546,192</u>

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

**ARIZONA HUMANE SOCIETY**

**STATEMENT OF ACTIVITES (CONTINUED)**

For the year ended October 31, 2012 (with comparative totals for the year ended October 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,887,506</u>	<u>(1,887,506)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	<u>16,242,258</u>	<u>(128,589)</u>	<u>389,000</u>	<u>16,502,669</u>	<u>14,546,192</u>
EXPENSES					
Program services	12,002,962	-	-	12,002,962	11,736,710
Management and general	484,357	-	-	484,357	471,814
Fundraising and development	<u>1,701,204</u>	<u>-</u>	<u>-</u>	<u>1,701,204</u>	<u>1,447,507</u>
TOTAL EXPENSES	<u>14,188,523</u>	<u>-</u>	<u>-</u>	<u>14,188,523</u>	<u>13,656,031</u>
CHANGE IN NET ASSETS BEFORE LOSS ON UNCOLLECTIBLE CONTRIBUTION RECEIVABLE	2,053,735	(128,589)	389,000	2,314,146	890,161
LOSS ON UNCOLLECTIBLE CONTRIBUTION RECIEVABLE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
CHANGE IN NET ASSETS	2,053,735	(128,589)	389,000	2,314,146	865,161
NET ASSETS – Beginning 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>
NET ASSETS – End of year	<u>\$ 25,754,783</u>	<u>\$ 4,072,091</u>	<u>\$ 4,638,000</u>	<u>\$ 34,464,874</u>	<u>\$ 32,150,728</u>

**ARIZONA HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS**

For the year ended October 31, 2012 (with comparative totals for the year ended October 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,314,146	\$ 865,161
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	730,480	728,454
Loss on uncollectible contribution receivable	-	25,000
Gain on sale of property and equipment	(4,091)	(4,800)
Non-cash contribution of land	-	(35,970)
Impairment on land held for sale	-	204,000
Non-cash contribution of investments	(370,421)	(184,306)
Changes in value of split-interest agreements	(529,824)	208,413
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estate receivables	235,735	(628,684)
Receivables	26,106	43,975
Inventories	(38,220)	(26,399)
Prepaid expenses and other assets	(147,708)	61,311
Deposits	(4,000)	(7,358)
Beneficial interest in remainder trusts	87,114	87,114
Increase (decrease) in		
Accounts payable	(73,325)	51,617
Accrued liabilities	99,103	(72,984)
Charitable gift annuities payable	(70,726)	(87,138)
Net cash provided by operations	<u>2,254,369</u>	<u>1,227,406</u>
Cash flows from investing activities		
Proceeds from maturities and sale of investments	1,802,238	4,753,015
Proceeds from sale of property and equipment	4,091	4,800
Purchases of property and equipment	<u>(437,814)</u>	<u>(385,119)</u>
Net cash provided by investing activities	<u>1,368,515</u>	<u>4,372,696</u>
Net increase in cash and cash equivalents	3,622,884	5,600,102
Cash and cash equivalents at the beginning of year	<u>10,996,263</u>	<u>5,396,161</u>
Cash and cash equivalents at the end of year	<u>\$ 14,619,147</u>	<u>\$ 10,996,263</u>

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

October 31, 2012 (with summarized comparative totals as of October 31, 2011)

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**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, 2011, 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, 2012, 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, 2012 (with summarized comparative totals as of October 31, 2011)

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#### *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, 2012 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 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 or law.

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

October 31, 2012 (with summarized comparative totals as of October 31, 2011)

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*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 or fair value less costs to sell. Management does not believe impairment indicators are present.

*Land Held for Sale*

During the year ended October 31, 2011, land which was previously recorded as land held for sale 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.

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.

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

October 31, 2012 (with summarized comparative totals as of October 31, 2011)

*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.

Donated materials and services consisted of the following for the year ended October 31, 2012:

	<u>Functional Category Benefitted:</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	
Media services	\$ 1,852,476	\$ -	\$ 276,500	\$ 2,128,976
Legal services	-	6,260	-	6,260
Other	23,400	-	6,461	29,861
Total in-kind expense	<u>\$ 1,875,876</u>	<u>\$ 6,260</u>	<u>\$ 282,961</u>	<u>\$ 2,165,097</u>
Net increase in donated thrift store inventory				<u>33,000</u>
Total in-kind contributions				<u>\$ 2,198,097</u>

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

October 31, 2012 (with summarized comparative totals as of October 31, 2011)

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>

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 \$4,234,000 and \$4,781,000, representing 282,246 hours and 318,712 hours, for the years ended October 31, 2012 and 2011, 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 \$434,000 and \$280,000 for the years ended October 31, 2012 and 2011, respectively.

*Revenue Recognition*

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*

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.

*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 \$169,000 and \$183,000, not including donated services described above, for the years ended October 31, 2012 and 2011, respectively.

## ARIZONA HUMANE SOCIETY

### NOTES TO FINANCIAL STATEMENTS

October 31, 2012 (with summarized comparative totals as of October 31, 2011)

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#### *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, 2012, U.S. federal informational and income tax returns for years ended prior to October 31, 2009 and state returns for years ended prior to October 31, 2008 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.

### **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, 2012 (with summarized comparative totals as of October 31, 2011)

**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>2012</u>	<u>2011</u>
Benson estate	\$ 475,000	\$ -
Blumstein estate	306,717	-
Fisher estate	250,000	-
Long estate	183,335	239,000
Subit estate	168,000	-
Applegate estate	108,391	108,391
O'Brien estate	87,000	-
Leader estate	52,472	72,171
Knudsen estate	50,000	50,000
Joyce estate	49,000	-
Dodson estate	45,000	45,000
Linck estate	-	650,000
Wheeler estate	-	412,639
Rowe estate	-	203,615
Hueber estate	-	65,402
Godfray estate	-	53,648
Taylor estate	-	50,000
Other	<u>50,465</u>	<u>111,249</u>
Total estate receivables	<u>\$ 1,825,380</u>	<u>\$ 2,061,115</u>

**5. Investments**

The Organization did not incur any investment expense for the years ended October 31, 2012 and 2011. Investment income consisted of the following for the years ended October 31:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 289,384	\$ 280,463
Net realized and unrealized gains/(losses)	<u>1,968</u>	<u>(6,451)</u>
Total investment income, net	<u>\$ 291,352</u>	<u>\$ 274,012</u>

**ARIZONA HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2012 (with summarized comparative totals as of October 31, 2011)

**6. Property and Equipment**

Property and equipment consisted of the following at October 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,985,522	\$ 1,985,522
Buildings	13,337,916	13,321,859
Leasehold improvements	50,929	50,269
Furniture and equipment	2,039,316	1,691,760
Vehicles	1,015,393	1,005,154
Assets not placed in service	<u>75,052</u>	<u>56,797</u>
Total property and equipment	18,504,128	18,111,361
Less - Accumulated depreciation	<u>(7,641,232)</u>	<u>(6,955,799)</u>
Property and equipment, net	<u>\$ 10,862,896</u>	<u>\$ 11,155,562</u>

Depreciation expense totaled approximately \$730,000 and \$728,000 for the years ended October 31, 2012 and 2011, 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 those final distribution amounts, with no restrictions. The Organization estimated the fair value of its beneficial interests in the remainder trusts at October 31, 2012 and 2011 based upon the fair value of the assets held by the trusts, using a discount rate of 5% and 6%, respectively.

*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, 2012 and 2011 based upon the Organization's respective interest in the fair value of the underlying assets held by the trust. Income distributions from perpetual trusts totaled approximately \$208,000 and \$196,000 for the years ended October 31, 2012 and 2011, 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 years ended October 31, 2012 and 2011 was a decrease of approximately \$33,000 and an increase of approximately \$54,000, 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.

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.

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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:

	2012			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Investments				
Certificates of deposits	\$ -	\$ 673,643	\$ -	\$ 673,643
Savings bonds	173,022	-	-	173,022
Common Stock	106,475	-	-	106,475
Government bonds	56,219	-	-	56,219
Mutual Funds - Equities	151,878	-	-	151,878
Mutual Funds - Bonds	291,066	-	-	291,066
Total Investments	778,660	673,643	-	1,452,303
Split interest agreements	-	-	6,579,000	6,579,000
Total Assets	\$ 778,660	\$ 673,643	\$ 6,579,000	\$ 8,031,303

	2011			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Investments				
Certificates of deposits	\$ -	\$ 2,306,196	\$ -	\$ 2,306,196
Savings bonds	112,648	-	-	112,648
Government bonds	37,543	-	-	37,543
Mutual Funds - Equities	24,627	-	-	24,627
Mutual Funds - Bonds	403,106	-	-	403,106
Total Investments	577,924	2,306,196	-	2,884,120
Split interest agreements	-	-	6,103,000	6,103,000
Total Assets	\$ 577,924	\$ 2,306,196	\$ 6,103,000	\$ 8,987,120

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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, 2012 and 2011:

	<u>Split Interest Agreements</u>
Level 3 ending balance 2010	\$ 6,345,000
Distributions from trusts	(87,114)
Changes in value	<u>(154,886)</u>
Level 3 ending balance 2011	\$ 6,103,000
Distributions from trusts	(87,114)
Changes in value	<u>563,114</u>
Level 3 ending balance 2012	<u><u>\$ 6,579,000</u></u>

During the year ended October 31, 2012, the Organization received two charitable gift annuities payable. 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 8. The following sets forth, by level within the fair value hierarchy, the fair value of the charitable gift annuity liabilities recognized on the date of gift during the year ended October 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Charitable gift annuities payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,805</u>	<u>\$ 17,805</u>
Total Liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,805</u></u>	<u><u>\$ 17,805</u></u>

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 \$17,000 (as adjusted for inflation). The Organization's contributions to the Plan for the years ended October 31, 2012 and 2011 were approximately \$27,000 and \$23,000, respectively.

**11. Board Designated Net Assets**

The Organization has set aside approximately \$1,452,000 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.

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**12. Temporarily Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Time restrictions:		
Estate receivables	\$ 1,825,380	\$ 2,061,115
Beneficial interest in remainder trusts	1,941,000	1,854,000
Other	10,000	-
Purpose restriction:		
Spay/neuter programs	191,258	185,494
Facility Improvements	36,654	93,405
Other	<u>67,799</u>	<u>6,666</u>
Total temporarily restricted net assets	<u><u>\$ 4,072,091</u></u>	<u><u>\$ 4,200,680</u></u>

**13. 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:

<u>Year Ending</u> <u>October 31</u>	
2013	\$ 105,588
2014	99,791
2015	82,524
2016	80,684
2017	<u>35,388</u>
Total future minimum lease payments	<u><u>\$ 403,975</u></u>

Rent expense totaled approximately \$172,000 and \$106,000 for the years ended October 31, 2012 and 2011, 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, 2012, the Organization had an uninsured cash balance of approximately \$13,914,000.

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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.

**15. Subsequent Events**

Management evaluated subsequent events through January 31, 2013, the date the financial statements were available.