

Arizona Humane Society

Financial Statements

Together with Independent Auditor's Report

October 31, 2021



ARIZONA HUMANE SOCIETY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arizona Humane Society

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Humane Society, an Arizona nonprofit organization (the "Organization"), which comprise the statement of financial position as of October 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of October 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Summarized Comparative Information of Prior Period Financial Statements

The 2020 financial statements were audited by other auditors, and their report thereon, dated April 20, 2020, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended October 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived. The summarized comparative information presented is for informational and comparative purposes only, but not for the purpose of expressing an opinion on those financial statements. Accordingly, we express no such opinion.

BKD, LLP

BKD, LLP, is a Missouri limited liability partnership and is registered to do business in the State of Arizona under the name of Baird, Kurtz, and Dobson, LLP

Mesa, Arizona
March 16, 2022

ARIZONA HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION

October 31, 2021

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

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 32,358,780	\$ 12,694,172
Estates receivable	3,934,004	6,081,557
Contributions receivable net, less restricted portions	77,550	-
Receivables	55,986	387,847
Inventories	237,420	215,019
Prepaid expenses and other assets	372,080	368,485
Investments	6,041,270	18,592,643
Total current assets	43,077,090	38,339,723
PROPERTY AND EQUIPMENT, net	13,963,806	14,613,429
BENEFICIAL INTEREST IN REMAINDER TRUSTS	7,514,000	4,899,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	6,537,000	5,370,000
RIGHT-OF-USE ASSETS - OPERATING LEASES	857,260	501,428
RIGHT-OF-USE ASSETS - FINANCE LEASES, net	141,584	22,612
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENT		
Investments	12,824,227	4,225,542
Contributions receivable, net	10,236,999	2,382,110
	<u>\$ 95,151,966</u>	<u>\$ 70,353,844</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 893,790	\$ 364,916
Accrued liabilities	2,159,341	2,218,400
Deferred revenue	639,142	585,608
Current portion of operating lease liabilities	249,613	227,176
Current portion of finance lease liabilities	49,753	14,753
Current portion of note payable - paycheck protection program	-	851,532
Total current liabilities	3,991,639	4,262,385
CHARITABLE GIFT ANNUITIES PAYABLE	216,675	252,457
OPERATING LEASE LIABILITIES, less current portion	608,416	275,021
FINANCE LEASE LIABILITIES, less current portion	93,486	7,631
NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM, less current portion	-	1,783,459
Total liabilities	4,910,216	6,580,953
Net assets		
Without donor restrictions		
Board designated	15,100,000	13,100,000
Undesignated	33,462,762	27,161,949
Total net assets without donor restrictions	48,562,762	40,261,949
With donor restrictions	41,678,988	23,510,942
Total net assets	90,241,750	63,772,891
	<u>\$ 95,151,966</u>	<u>\$ 70,353,844</u>

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

ARIZONA HUMANE SOCIETY

STATEMENT OF ACTIVITIES

For the year ended October 31, 2021

(with summarized comparative information for the year ended October 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
SUPPORT AND REVENUE				
Contributions and grants	\$ 16,394,792	\$ 19,585,753	\$ 35,980,545	\$ 23,034,570
Pet intake and placement	2,103,335	-	2,103,335	1,968,726
Net investment return	3,757,902	-	3,757,902	1,604,317
Donated materials and services	1,005,625	-	1,005,625	1,195,898
Thrift stores	1,166,169	-	1,166,169	980,578
Medical operations	1,242,726	-	1,242,726	1,072,026
Animal cruelty and rescue services	1,102,954	-	1,102,954	985,441
Community resources	197,886	-	197,886	87,874
Other	205,979	-	205,979	215,723
Total support and revenue before special events and net assets released from restrictions	27,177,368	19,585,753	46,763,121	31,145,153
Special events revenue	1,042,851	-	1,042,851	548,589
Less costs of direct donor benefits	(271,123)	-	(271,123)	(58,463)
Gross profit on special events	771,728	-	771,728	490,126
Total support and revenue	27,949,096	19,585,753	47,534,849	31,635,279
NET ASSETS RELEASED FROM RESTRICTIONS	5,257,698	(5,257,698)	-	-
TOTAL SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	33,206,794	14,328,055	47,534,849	31,635,279
EXPENSES				
PROGRAM EXPENSES				
Medical - Shelter	7,057,352	-	7,057,352	6,875,712
Pet intake and placement	5,396,766	-	5,396,766	5,320,858
Medical - Public	2,196,306	-	2,196,306	2,076,781
Animal cruelty and rescue services	2,298,476	-	2,298,476	2,143,722
Community resources	1,295,252	-	1,295,252	1,179,763
Total program expenses	18,244,152	-	18,244,152	17,596,836

The accompanying notes are an integral part of this financial statement

ARIZONA HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
For the year ended October 31, 2021
(with summarized comparative information for the year ended October 31, 2020)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2021	2020
SUPPORTING EXPENSES				
Fundraising and development	5,447,002	-	5,447,002	4,758,892
Management and general	2,140,691	-	2,140,691	2,061,547
Total supporting expenses	7,587,693	-	7,587,693	6,820,439
Total expenses	25,831,845	-	25,831,845	24,417,275
GAINS AND (LOSSES)				
Gain on sale of property and equipment	15,864	-	15,864	41,036
Gain on forgiveness of PPP loan	2,634,991	-	2,634,991	-
Loss on disposal of property	(1,716,776)	-	(1,716,776)	-
Changes in value of split-interest agreements	(8,215)	3,839,991	3,831,776	136,018
Total gains and (losses), net	925,864	3,839,991	4,765,855	177,054
CHANGE IN NET ASSETS	8,300,813	18,168,046	26,468,859	7,395,058
NET ASSETS – Beginning of year	40,261,949	23,510,942	63,772,891	56,377,833
NET ASSETS – End of year	\$ 48,562,762	\$ 41,678,988	\$ 90,241,750	\$ 63,772,891

The accompanying notes are an integral part of this financial statement

ARIZONA HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended October 31, 2021
(with summarized comparative information for the year ended October 31, 2020)

	Program Expenses					Total Program Expenses
	Medical - Shelter	Pet Intake and Placement	Medical - Public	Animal Cruelty and Rescue Services	Community Resources	
Salaries and wages	\$ 4,440,164	\$ 2,742,767	\$ 1,189,033	\$ 1,484,156	\$ 810,487	\$ 10,666,607
Payroll taxes and employee benefits	837,013	537,950	204,156	267,379	133,721	1,980,219
Operating supplies and equipment	906,904	248,347	304,231	104,668	17,692	1,581,842
Advertising and promotions	16,854	833,125	16,604	44,392	27,742	938,717
Occupancy and insurance	243,051	343,392	107,019	23,635	27,024	744,121
Depreciation	193,004	219,472	108,344	22,942	29,310	573,072
Fees for services	211,697	213,801	119,118	43,385	22,225	610,226
Communications and technology	98,248	106,326	52,314	65,119	54,132	376,139
Vehicle	3,930	51,309	8,592	154,894	12,340	231,065
Postage and printing	20,287	20,442	17,082	16,629	27,826	102,266
Other	86,200	79,835	69,813	71,277	132,753	439,878
Total expenses	<u>7,057,352</u>	<u>5,396,766</u>	<u>2,196,306</u>	<u>2,298,476</u>	<u>1,295,252</u>	<u>18,244,152</u>
Less - Special event expense netted against revenue in the statement of activities						
Postage and printing	-	-	-	-	-	-
Fees for services	-	-	-	-	-	-
Other	-	-	-	-	-	-
Functional expense totals in the expense section of the statement of activities	<u>\$ 7,057,352</u>	<u>\$ 5,396,766</u>	<u>\$ 2,196,306</u>	<u>\$ 2,298,476</u>	<u>\$ 1,295,252</u>	<u>\$ 18,244,152</u>

The accompanying notes are an integral part of this financial statement

ARIZONA HUMANE SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

For the year ended October 31, 2021

(with summarized comparative information for the year ended October 31, 2020)

	Supporting Expenses			2020	
	Fundraising and Development	Management and General	Total Supporting Expenses	Total Expenses	Total Expenses
Salaries and wages	\$ 1,771,931	\$ 1,384,321	\$ 3,156,252	\$ 13,822,859	\$ 12,968,200
Payroll taxes and employee benefits	303,706	262,086	565,792	2,546,011	2,835,503
Operating supplies and equipment	27,663	6,176	33,839	1,615,681	1,472,506
Advertising and promotions	310,649	-	310,649	1,249,366	1,252,619
Occupancy and insurance	316,416	60,944	377,360	1,121,481	970,895
Depreciation	93,422	25,208	118,630	691,702	749,155
Fees for services	1,194,109	166,058	1,360,167	1,970,393	1,749,134
Communications and technology	144,801	51,583	196,384	572,523	588,137
Vehicle	157,172	679	157,851	388,916	291,658
Postage and printing	1,046,258	1,484	1,047,742	1,150,008	964,290
Other	351,998	182,152	534,150	974,028	633,641
Total expenses	5,718,125	2,140,691	7,858,816	26,102,968	24,475,738
Less - Special event expense netted against revenue in the statement of activities					
Postage and printing	(27,637)	-	(27,637)	(27,637)	(10,333)
Fees for services	(16,575)	-	(16,575)	(16,575)	(10,397)
Other	(226,911)	-	(226,911)	(226,911)	(37,733)
Functional expense totals in the expense section of the statement of activities	\$ 5,447,002	\$ 2,140,691	\$ 7,587,693	\$ 25,831,845	\$ 24,417,275

The accompanying notes are an integral part of this financial statement

ARIZONA HUMANE SOCIETY

STATEMENT OF CASH FLOWS

For the year ended October 31, 2021

(with summarized comparative information for the year ended October 31, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 26,468,859	\$ 7,395,058
Adjustments to reconcile change in net assets to net cash provided by operations:		
Realized and unrealized (gain) loss on investments, net	(3,241,643)	(894,708)
Non-cash contribution of investments	(1,875,565)	(912,155)
Non-cash contribution of property and equipment	(120,963)	(54,914)
Depreciation	691,702	749,155
Gain on sale of property and equipment	(15,864)	(41,036)
Loss on disposal of property	1,716,776	-
Amortization - finance leases	38,676	24,484
Gain on forgiveness of note payable - PPP	(2,634,991)	-
Changes in value of split-interest agreements	(3,831,776)	(136,018)
Contributions receivable restricted for investment in long-lived assets and improvements	(8,716,775)	643,981
Increase (decrease) in discount on long-term contributions receivable	698,032	(48,484)
Increase (decrease) in valuation allowance for long-term contributions receivable	163,854	(16,325)
Changes in operating assets and liabilities:		
(Increase) decrease in		
Estates receivable	2,147,553	(3,457,773)
Receivables	331,861	113,482
Inventories	(22,401)	(1,927)
Prepaid expenses and other assets	(3,595)	95,348
Beneficial interest in remainder trusts	57,991	79,644
Contributions receivable	(77,550)	-
Increase (decrease) in		
Accounts payable	463,514	(66,097)
Accrued liabilities	(59,059)	391,250
Deferred revenues	53,534	478,015
Charitable gift annuities payable	(43,997)	73,333
Net cash provided by operations	<u>12,188,173</u>	<u>4,414,313</u>

ARIZONA HUMANE SOCIETY

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended October 31, 2021

(with summarized comparative information for the year ended October 31, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments restricted for investment in long-lived assets and improvements	(8,598,685)	(2,075,139)
Purchases of investments	(4,265,808)	(5,703,821)
Proceeds from maturities and sale of investments	22,095,274	10,876,319
Change in cash held for investment	(160,885)	-
Proceeds from sale of property and equipment	24,554	42,111
Purchases of property and equipment	<u>(1,581,222)</u>	<u>(1,524,754)</u>
Net cash provided by investing activities	<u>7,513,228</u>	<u>1,614,716</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable - Paycheck Protection Program	-	2,634,991
Payments on financing leases	<u>(36,793)</u>	<u>(36,798)</u>
Net cash provided by (used in) investing activities	<u>(36,793)</u>	<u>2,598,193</u>
Net increase in cash and cash equivalents	19,664,608	8,627,222
Cash and cash equivalents at the beginning of year	<u>12,694,172</u>	<u>4,066,950</u>
Cash and cash equivalents at the end of year	<u><u>\$ 32,358,780</u></u>	<u><u>\$ 12,694,172</u></u>

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 (with summarized comparative information as of October 31, 2020)

1. Description of Organization

The mission at Arizona Humane Society (the "Organization") is to save the most vulnerable animals and enrich the lives of pets and people. We serve as a safety net for the most vulnerable pets with comprehensive medical, behavior rehabilitation, surrender intervention, and spay/neuter initiatives. Our programs, including our Second Chance Animal Trauma Hospital, Mutternity Suites, Kitten Nursery, Bottle Baby Kitten ICU and Parvo Puppy ICU save the lives of pets routinely euthanized in shelters. We also save animals through adoption and other placement outlets, and our Ethical No-Kill Philosophy ensures we never euthanize a pet for space or length of time. Our Emergency Animal Medical Technicians are on the road 365 days a year, rescuing abused, injured and abandoned animals.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization prepares its financial statements on the accrual basis of accounting. As required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Organization reports net assets and revenues, gains and losses based upon the existence of or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for general use and not subject to donor restrictions. As reflected in the accompanying financial statements, the Organization's Board of Directors has designated a portion of these net assets for purposes identified and approved by the Board of Directors as described in Note 13.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature and will be met either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature because the donor has stipulated that resources be maintained in perpetuity.

Management's Use of Estimates

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

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended October 31, 2020, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, savings, and money market accounts. The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents temporarily held in investment portfolios are included with investments.

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 (with summarized comparative information as of October 31, 2020)

Estates Receivable

Estates receivable are recognized in the period the Organization has received notification that the court has found the will of the donor's estate to be valid and the estate representative has provided information regarding the nature and value of estate assets and liabilities. Estates receivable are stated at the net amount the Organization expects to receive, based upon the estimated fair value of the estate (net of potential fees and expenses) and the Organization's percentage interest as a beneficiary of the estate.

Grants and Contributions Receivable

Grants and contributions receivable arising from unconditional promises to give are recognized as revenues in the period the Organization receives the promise from the donor, and as assets, decreases of liabilities, or decreases of expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received and the length of the promise to give, adjusted for market risk. Amortization of the discount is included as part of revenue and support in the accompanying consolidated statement of activities.

Conditional promises to give that include one or more barriers and a right of return or release are not recognized until the conditions on which they depend have been substantially met. As of October 31, 2021, the Organization had been notified of conditional promises to give totaling approximately \$1,500,000 which have not been recognized in the accompanying financial statements because donor conditions (primarily associated with reaching milestones on a capital project through fiscal 2024) had not yet been met.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible receivables based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to receivables. Management considers all receivables to be fully collectible at October 31, 2021 and 2020, and, accordingly, an allowance for doubtful accounts has not been provided. The Organization generally does not charge interest on past due amounts and does not require collateral on outstanding balances.

Inventories

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

Investments and Investment Return

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

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 (with summarized comparative information as of October 31, 2020)

Net investment return consists of interest, dividends, and realized and unrealized gains and losses, and is presented net of external direct investment expenses. Gains and losses, both realized and unrealized, are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or law.

The Organization has ownership of certain cash and cash equivalents held, along with other marketable securities, by outside investment managers for the benefit of the Organization. Although these cash and cash equivalents are readily available, it is the intent of the Organization to hold these cash and cash equivalents for investment purposes, and accordingly, these cash and cash equivalents are classified as investment assets in the accompanying financial statements.

Fair Value Measurements

Investments are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. US GAAP establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows.

- Level 1* Quoted prices are available in active markets for identical assets or liabilities as of the date of the financial statements. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2* Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the date of the financial statements. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3* Securities that have little to no pricing observability as of the date of the financial statements. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a Net Asset Valuation (NAV) per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 (with summarized comparative information as of October 31, 2020)

The determination of what constitutes “observable” requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization’s perceived risk of that instrument.

The fair values of publicly traded securities are based on quoted market prices. Investment income is recorded on an accrual basis and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold.

Property and Equipment

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

Buildings	5 - 40 years
Furniture and equipment	3 - 20 years
Vehicles	3 - 10 years
Leasehold improvements	1 - 4 years

Donations of property and equipment are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, at which time the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Split-Interest Agreements

The Organization has received various types of split-interest agreements including remainder and perpetual trusts. Under remainder trust agreements, the Organization records a donor restricted contribution at the present value of the estimated future benefits to be received. Subsequent changes in fair value for the remainder trust are recorded as changes in value of split-interest agreements in net assets with donor restrictions.

ARIZONA HUMANE SOCIETY

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 (with summarized comparative information as of October 31, 2020)

Under perpetual trust agreements, the Organization records the donor restricted contribution at the fair value of the Organization's beneficial interest in the trust assets. Income earned on the trust assets is recorded as a portion of net investment return without donor restrictions in the accompanying statement of activities, unless otherwise restricted by the donor or law. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of split-interest agreements in net assets with donor restrictions.

Recognition of Contributions and Grants

Unconditional contributions are recorded as increases in net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Time and purpose restrictions are reported as increases in net assets with donor restrictions and then reclassified to net assets without donor restrictions upon expiration of the time or fulfillment of the purpose.

Conditional contributions are recognized as revenue and support when the conditions have been substantially met or the donor waives such conditions.

Donated Materials and Services

The Organization recognizes donations of materials and services received at their estimated fair value if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated. Donated materials and services are recognized as contributions in the accompanying financial statements at their estimated fair value at the date of receipt.

Donated materials and services consisted of the following for the year ended October 31, 2021:

	Functional Category Benefitted:			Total
	Program Services	Management and General	Fundraising and Development	
Advertising and promotions	\$ 841,187	\$ -	\$ 11,000	\$ 852,187
Other	32,475	-	-	32,475
Total in-kind expense	<u>\$ 873,662</u>	<u>\$ -</u>	<u>\$ 11,000</u>	884,662
Donated property and equipment				<u>120,963</u>
Total in-kind contributions				<u>\$ 1,005,625</u>

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Donated materials and services consisted of the following for the year ended October 31, 2020:

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

No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under U.S. GAAP; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns. The Organization received volunteer time and other donated services valued at approximately \$5,288,000 and \$4,979,000, representing 352,557 hours and 331,945 hours, for the years ended October 31, 2021 and 2020, respectively, that did not meet the recognition requirements. Accordingly, these amounts are not reflected in the accompanying financial statements.

Revenue from contracts with customers

The Organization accounts for revenue and support by first analyzing each arrangement to determine whether the arrangement is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization applies the revenue recognition guidance in ASC 606.

Substantially all of the Organization's exchange transaction revenues are derived from contracts with customers. The nature, timing and any uncertainty in the recognition of revenues are not significantly affected by the type of good, customer or geographical region to which the performance obligations relate. The Organization satisfies its performance obligations by providing various services for their customers.

Revenue streams associated with animal cruelty and rescue services, derived from contracts with various cities and municipalities, are generally billed prior to satisfaction of the performance obligation. Such amounts represent contract liabilities, until performance obligations are satisfied, and are included in deferred revenue in the accompanying statements of financial position. Certain amounts billed in arrears generally have payment terms of thirty days and are included in accounts receivable in the accompanying statements of financial position.

Pet Intake and Placement Services

The Organization charges a fee for the adoption of animals. Adoption fee revenue is recognized at the time an animal is adopted. Intake fee revenue is recognized at the time an animal is surrendered to the Organization's care.

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Thrift Stores Revenue

The Organization receives donations of supplies and household goods and sells these items to the general public through two thrift stores. The donated items are recorded in the statement of activities at their fair value which is based on the selling price of the specific items. Thrift store expenses for the years ended October 31, 2021 and 2020 totaled approximately \$1,132,000 and \$917,000, respectively, and are included in fundraising and development expenses in the accompanying statement of activities.

Medical Operations and Other Fees Revenue

The Organization charges a fee for hospital operations and spay/neutering services. Hospital and public clinic operations revenue is recognized at the time services are performed.

Animal Cruelty and Rescue Services Revenue

The Organization has contracts with various cities including; Phoenix, Glendale, Gilbert, Chandler, Avondale, Goodyear, Mesa, and Tempe to provide cruelty and investigation services. The terms of the contracts range from one year to 18 months and revenue is recognized on a straight-line basis over the term of the contract or as services are performed.

Community Resources Revenue

The Organization conducts various education and outreach experiences to the community to bring awareness about the Organization and its mission. The Organization realizes this community outreach by providing on-site programs, event booths, animal-welfare education, and on-the-go adoptions. The Organization recognizes revenue from these community outreach initiatives at the time of the community experience.

Special Events Revenue

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective method exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are included in special events revenues and simultaneously recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying statement of activities.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Allocated expenses primarily consist of the following:

- Salaries and wages, payroll taxes and employee benefits – allocated on the basis of estimates of time and effort
- Occupancy and insurance, depreciation, and other facility costs – allocated on the basis of estimated square footage utilized

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- Fees for services, communications and technology, and postage and printing – allocated on the basis of estimated usage
- Operating supplies and equipment – allocated on the basis of the number of kennels

Fundraising Costs

All fundraising costs are expensed in the period incurred.

Advertising Costs

The Organization expenses advertising costs as incurred. For the years ended October 31, 2021 and 2020, advertising expense was approximately \$939,000 and \$1,142,000, 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, which have not been significant, as required by Section 512 of the Code.

The Organization follows the guidance issued by U.S. GAAP related to accounting for income tax uncertainties. Under this guidance, the Organization accounts for the effect of any uncertain tax positions based on whether it is “more-likely-than-not” that the position will be sustained by the taxing authority upon examination. The Organization routinely evaluates potential uncertain tax positions. The Organization has identified its status as an exempt organization as a tax position; however, the Organization has determined that such tax position does not result in an uncertainty that requires recognition.

The Organization files informational and income tax returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of October 31, 2021, U.S. federal informational and income tax returns for the three most recent years and state returns for the four most recent years are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

Note Payable – Paycheck Protection Program

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

Newly Adopted Accounting Pronouncement

FASB Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance in ASC 605, *Revenue Recognition*, including industry-specific

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guidance. The core principle of the new revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The Organization adopted the guidance of ASC 606 as of November 1, 2020, using the modified retrospective method, and has applied the standard to only those contracts which were not completed as of the transition date. Accordingly, the amounts reflected in the accompanying financial statements as of and for the year ended October 31, 2020 have not been adjusted and continue to be reported in accordance with historic accounting under ASC 605. The adoption of this standard did not have a material impact on revenues for the year ended October 31, 2021, and there was no material adjustment required to the opening net asset balance.

Recent Accounting Pronouncements

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase transparency for contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 will require contributed nonfinancial assets to be presented in a separate line item in the statement of activities (apart from contributions of cash and other financial assets) and will require expanded disclosures regarding the nature and utilization of contributed nonfinancial assets as well as descriptions of any donor restrictions and the valuation methodology and inputs used to determine fair value. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

Reclassifications

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

3. Liquidity

Financial assets at year end:	
Cash and cash equivalents	\$ 32,358,780
Estates receivable	3,934,004
Receivables	55,986
Contributions receivable, net	10,314,549
Investments	<u>18,865,497</u>
Total financial assets	65,528,816
Less amounts not available for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Amounts subject to donor purpose or time restrictions	(27,627,988)
Board designations	<u>(15,100,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 22,800,828</u></u>

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The Organization is supported, in part, by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. As a result, certain financial assets may not be available for general expenditure within one year. As part of liquidity management, the Organization regularly monitors liquidity to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, estates, investments, and certain contributions receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures relating to ongoing activities of the various programs offered, as well as the conduct of services undertaken to support those activities, to be general expenditures.

4. Contributions Receivable

Contributions receivable consisted of the following at October 31:

	<u>2021</u>	<u>2020</u>
Promises to give - Capital project	\$ 11,416,822	\$ 2,700,047
Promises to give	77,550	-
Less: Unamortized discount	(955,114)	(257,082)
Less: Valuation allowance	<u>(224,709)</u>	<u>(60,855)</u>
Contributions receivable, net	<u>\$ 10,314,549</u>	<u>\$ 2,382,110</u>

The estimated cash flows for contributions receivable were discounted over the collection period using a management determined, risk-adjusted discount rate of 5%.

Contributions receivable (before the unamortized discount and valuation allowance) are due as follows:

	<u>2021</u>	<u>2020</u>
Contributions receivable due in less than one year	\$ 3,926,524	\$ 846,567
Contributions receivable due in one to five years	<u>7,490,298</u>	<u>1,853,480</u>
Total contributions receivable	<u>\$ 11,416,822</u>	<u>\$ 2,700,047</u>

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

	<u>2021</u>	<u>2020</u>
Contributions receivable due in less than one year	\$ 47,452	\$ 333,401
Contributions receivable due in one to five years	<u>475,955</u>	<u>761,480</u>
Total contributions receivable	<u>\$ 523,407</u>	<u>\$ 1,094,881</u>

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5. Property and Equipment

Property and equipment consisted of the following at October 31:

	<u>2021</u>	<u>2020</u>
Buildings	\$ 14,188,497	\$ 15,905,273
Land	5,699,519	5,699,519
Furniture and equipment	3,224,886	3,293,316
Vehicles	769,085	716,672
Leasehold improvements	89,121	106,639
Construction in progress	<u>2,021,809</u>	<u>638,003</u>
Total property and equipment	25,992,917	26,359,422
Less - Accumulated depreciation	<u>(12,029,111)</u>	<u>(11,745,993)</u>
Property and equipment, net	<u>\$ 13,963,806</u>	<u>\$ 14,613,429</u>

Depreciation expense totaled approximately \$692,000 and \$749,000 for the years ended October 31, 2021 and 2020, respectively.

6. Split-Interest Agreements*Remainder Trusts*

The Organization is the beneficiary of certain remainder trusts that are controlled by third party trustees. The Organization is entitled to certain specified percentages of the annual income distributions of the trusts which range from 25% to 100%. At the various expiration dates, the trusts will distribute any remaining assets held in the trust, at which time the Organization will be entitled to certain specified percentages of those final distribution amounts which range from 25% to 100%, with no restrictions. The Organization estimated the fair value of its beneficial interests in the remainder trusts at October 31, 2021 and 2020 based upon the fair value of the assets held by the trusts and the expected terms of the trusts, using a discount rate of 5%.

Perpetual Trusts

The Organization is the income beneficiary of certain perpetual trusts. The trusts are held and controlled by third party trustees. The Organization is entitled to a specified percentage defined in each trust agreement which range from 1.5% to 100%, of the annual income distributions from each of the trusts. The Organization will also be entitled to a specified percentage of the total amount of the corpus assets that will be distributed if the trusts are ever dissolved. The Organization estimated the fair value of its beneficial interest in perpetual trusts at October 31, 2021 and 2020 based upon the Organization's respective percentage interest in the fair value of the underlying assets held by the trust. Income distributions from perpetual trusts totaled approximately \$242,000 and \$229,000 for the years ended October 31, 2021 and 2020, respectively, and are included in net investment return in the accompanying statement of activities.

7. Charitable Gift Annuities Payable

Charitable gift annuities are arrangements between a donor and the Organization in which the donor contributes assets to the Organization in exchange for a promise from the Organization to pay the donor (or the donor's designated beneficiary) a fixed amount for a specified period of time. These agreements provide for quarterly

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payments totaling approximately \$11,000 to the donors (or their designated beneficiary) over the term of the agreements (the donors' expected lifetimes).

Assets received have been recognized at fair value, and an annuity payment liability was recorded at the present value of the estimated annuity awards payable to the beneficiaries over the expected term of the agreement using a discount rate between approximately 5% to 10%. Contribution revenue without donor restrictions is recognized as the difference between these two amounts as the donor has placed no restriction on the Organization's use of its portion of the assets. Assets of the Organization that are derived from charitable gift annuities are included in investments in the accompanying statement of financial position. Charitable gift annuity amounts payable are estimated through September 2046.

The charitable gift annuities balance is reduced by payments to the beneficiaries. Adjustments to the value of the charitable gift annuities related to changes in present value or actuarial assumptions during the term of the charitable gift annuities agreement are recognized as changes in the value of split-interest agreements in the accompanying statement of activities. The change in the value of the charitable gift annuities for the years ended October 31, 2021 and 2020 was a decrease of approximately \$8,000 and \$19,000, respectively.

8. Operating and Finance Leases*Nature of Leases*

The Organization's finance lease liabilities mainly consist of leased vehicles. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

The Organization's operating lease liabilities predominately pertain to thrift store space and equipment leases utilized in the operations of the Organization. The leases have remaining terms of two to five years. The leases did not include an implicit rate and the Organization used its incremental borrowing rate based on information available at the commencement date in determining the present value of the lease payments.

Quantitative Disclosures

The lease cost and other required information as of October 31:

	<u>2021</u>	<u>2020</u>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 38,676	\$ 24,484
Interest on lease liabilities	5,437	1,408
Operating lease cost	<u>227,176</u>	<u>211,722</u>
Total lease cost	<u>\$ 271,289</u>	<u>\$ 237,614</u>

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Other information

Cash paid for amounts included in the measurement of lease liabilities

Operating cash flows from finance leases	\$ 5,437	\$ 1,408
Operating cash flows from operating leases	227,176	211,722
Right-of-use assets obtained in exchange for new finance lease liabilities	157,648	46,327
Right-of-use assets obtained in exchange for new operating lease liabilities	583,008	500,601
Weighted-average remaining lease term		
Finance leases	2.8 years	2.0 years
Operating leases	3.7 years	3.1 years
Weighted-average discount rate		
Finance leases	5.0%	5.0%
Operating leases	5.0%	5.0%

Year Ending October 31	Finance Leases	Operating Leases
2022	\$ 49,753	\$ 249,613
2023	46,099	196,134
2024	43,566	170,706
2025	16,109	140,369
2026	-	136,452
Thereafter	-	57,323
Total future undiscounted lease payments	155,527	950,597
Less imputed interest	12,288	92,568
Lease liabilities	<u>\$ 143,239</u>	<u>\$ 858,029</u>

9. Note Payable – Paycheck Protection Program

In April 2020, the Organization received loan proceeds totaling \$2,635,000 through a PPP note payable agreement with a bank administered by the Small Business Administration (“SBA”). The note payable matured through April 2022 and bore interest at 1.00% per annum, payable in monthly installments. The note could be prepaid with no prepayment penalties. Funds from the note could only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Organization received full forgiveness of this note payable in August 2021. The Organization recognized forgiveness of the note payable in the accompanying statement of activities.

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10. Net Investment Return

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

	<u>2021</u>	<u>2020</u>
Interest income	\$ 611,258	\$ 792,930
Net realized and unrealized gains	3,241,643	894,708
Direct external investment expenses	<u>(94,999)</u>	<u>(83,321)</u>
Net investment return	<u>\$ 3,757,902</u>	<u>\$ 1,604,317</u>

11. Fair Value Measurements

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

	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Equities	\$ 18,454,408	\$ -	\$ -	\$ 18,454,408
Cash held for investment	331,361	-	-	331,361
Savings bonds	<u>79,728</u>	<u>-</u>	<u>-</u>	<u>79,728</u>
Total investments	18,865,497	-	-	18,865,497
Split-interest agreements	<u>-</u>	<u>-</u>	<u>14,051,000</u>	<u>14,051,000</u>
Total assets	<u>\$ 18,865,497</u>	<u>\$ -</u>	<u>\$ 14,051,000</u>	<u>\$ 32,916,497</u>
	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Equities	\$ 14,734,699	\$ -	\$ -	\$ 14,734,699
Certificates of deposit	7,836,385	-	-	7,836,385
Cash held for investment	170,477	-	-	170,477
Savings bonds	<u>76,624</u>	<u>-</u>	<u>-</u>	<u>76,624</u>
Total investments	22,818,185	-	-	22,818,185
Split-interest agreements	<u>-</u>	<u>-</u>	<u>10,269,000</u>	<u>10,269,000</u>
Total assets	<u>\$ 22,818,185</u>	<u>\$ -</u>	<u>\$ 10,269,000</u>	<u>\$ 33,087,185</u>

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The following is a reconciliation of the beginning and ending balances of assets measured at Level 3 fair values on a recurring basis:

Split-Interest Agreements balance at October 31, 2019	\$ 10,194,000
Distributions from trusts	(79,644)
Changes in value	<u>154,644</u>
Split-Interest Agreements balance at October 31, 2020	\$ 10,269,000
Distributions from trusts	(57,991)
Changes in value	<u>3,839,991</u>
Split-Interest Agreements balance at October 31, 2021	<u><u>\$ 14,051,000</u></u>

During the year ended October 31, 2020, the Organization received charitable gift annuities. The Organization estimates the fair value of the liabilities associated with these charitable gift annuities on a non-recurring basis at the date of gift using the methods described in Note 1.

The following sets forth, by level within the fair value hierarchy, the fair value of the assets and liabilities measured on a non-recurring basis on the date of the gift during the year ended October 31, 2020.

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

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

12. Employee Benefit Plans

The Organization has a 401(k) Plan that covers all employees who meet specified age and time of service requirements. The Plan provides for participating employees to defer up to 80% of their annual compensation, as defined by the Plan. The Organization's matching contribution to the Plan for the year ended October 31, 2021 and 2020 were approximately \$193,000 and \$153,000, respectively.

The Organization also has a 457(b) non-qualified deferred compensation retirement plan (the "Non-Qualified 457(b) Plan") covering certain members of management. The Non-Qualified 457(b) Plan provides for employee compensation deferrals and employer contributions at the discretion of the Board of Directors. An employee is 100% vested in any elective contributions to the Non-Qualified 457(b) Plan, plus any investment earnings or losses. The Non-Qualified 457(b) Plan has been funded primarily through investments. The Organization's accumulated contributions to the Non-Qualified 457(b) Plan totaled approximately \$196,000 and \$117,000 at October 31, 2021 and 2020, respectively, which are included in accrued liabilities in the accompanying statement of financial position.

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13. Board Designated Net Assets

Board designated funds have no donor restrictions but have been earmarked for purposes identified and approved by the Board including fluctuations in contributions, grants or other revenue streams and for a capital project. The funds will be kept in either the general operating account or in the investment account pursuant to the Organization's investment policy.

14. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Net assets with time and purpose restrictions:		
Capital project	\$ 23,062,822	\$ 6,607,652
Beneficial interest in remainder trusts	7,514,000	4,899,000
Estates receivable	3,934,004	6,081,558
Shelter medical	19,034	30,288
Public owned medical services	448,665	253,186
Pet placement	2,900	16,890
Behavior / animal experience	9,852	9,890
Animal rescue services	4,046	6,653
Pet resource center	126,990	153,686
Education and outreach	1,275	-
Foster	16,400	5,844
Other	2,000	76,295
	<u>35,141,988</u>	<u>18,140,942</u>
Net assets not subject to appropriation or expenditure		
Beneficial interest in perpetual trusts	<u>6,537,000</u>	<u>5,370,000</u>
Total net assets with donor restrictions	<u>\$ 41,678,988</u>	<u>\$ 23,510,942</u>

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During the years ended October 31, 2021 and 2020, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by donors, as follows:

	<u>2021</u>	<u>2020</u>
Net assets restrictions released:		
Capital project	\$ -	\$ 1,001,481
Beneficial interest in remainder trusts	57,991	79,644
Estates receivable	4,715,365	1,646,488
Shelter medical	30,288	14,553
Public owned medical services	159,383	99,729
Pet placement	16,890	102,255
Behavior / animal experience	6,601	15,452
Animal rescue services	6,653	102,000
Pet resource center	188,196	-
Education and outreach	-	-
Foster	2,036	800
Other	74,295	-
Total restrictions released	<u>\$ 5,257,698</u>	<u>\$ 3,062,402</u>

15. Commitments and Contingent Liabilities*Health Care Insurance*

The Organization has a health care self-insurance program, limited to losses of \$100,000 per claim. Losses in excess of this amount are covered by insurance. The Organization has accrued approximately \$125,000 and \$455,000 at October 31, 2021 and 2020, respectively, for those health coverage claims, which are included in accrued liabilities in the accompanying statement of financial position. The Organization's health insurance expense was approximately \$947,000 and \$1,405,000 for the years ended October 31, 2021 and 2020, respectively.

These estimates are based on historical information, primarily from the Organization's claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in experience, could cause these estimates to change in the near term.

COVID-19

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

16. 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.

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Cash deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”) of \$250,000 and the Securities Investors Protection Corporation (“SIPC”) of \$250,000 are exposed to loss in the event of nonperformance by the financial institution. At times during the year, the Organization had cash deposits in excess of the FDIC insurance coverage. The Organization does not anticipate nonperformance by financial institutions. At October 31, 2021, the Organization had an uninsured cash balance of approximately \$30,673,000.

17. Cash Flow Information

During the year ended October 31, 2021, the Organization purchased property and equipment through accounts payable for approximately \$65,000.

18. Subsequent Events

Management evaluated subsequent events through March 16, 2022, the date the financial statements were available.