ARIZONA ANIMAL WELFARE LEAGUE

FINANCIAL STATEMENTS

Year Ended December 31, 2018

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

ARIZONA ANIMAL WELFARE LEAGUE

We have audited the accompanying financial statements of ***Arizona Animal Welfare League***, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, 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.

Auditors' Responsibility for the Financial Statements

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 of 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 auditors' 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 ***Arizona Animal Welfare League*** as of December 31, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ***Arizona Animal Welfare League*** adopted Financial Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 19, 2019

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FINANCIAL POSITION

December 31, 2018

A S S E T S

CURRENT ASSETS	
Cash and cash equivalents	$ 2,612,907
Bequests receivable	572,057
Contributions receivable	21,158
Accounts receivable	2,245
Inventories	107,802
Prepaid expenses and other current assets	60,844
TOTAL CURRENT ASSETS	3,377,013
PROPERTY AND EQUIPMENT, net	4,162,463
INVESTMENTS	5,081,458
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS	
Cash	59,200
Contributions receivable	30,000
TOTAL ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS	89,200
ASSETS HELD BY OTHERS FOR BOARD DESIGNATED - QUASI ENDOWMENT	195,384
BENEFICIAL INERESTS IN PERPETUAL TRUSTS	3,582,000
TOTAL ASSETS	$ 16,487,518

L I A B I L I T I E S A N D N E T A S S E T S

CURRENT LIABILITIES	
Accounts payable	$ 172,274
Accrued liabilities	157,491
TOTAL CURRENT LIABILITIES	329,765
NET ASSETS	
Without donor restrictions	11,950,259
With donor restrictions	4,207,494
TOTAL NET ASSETS	16,157,753
TOTAL LIABILITIES AND NET ASSETS	$ 16,487,518

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	$ 5,947,911	$ 714,503	$ 6,662,414
Donated material and services	332,816	-	332,816
Clinic operations	544,011	-	544,011
Adoption fees	886,895	-	886,895
Education	190,968	-	190,968
Investment loss, net	(244,806)	-	(244,806)
Income from beneficial interests in perpetual trusts	191,247	-	191,247
Change in value of beneficial interests in perpetual trusts	-	(390,000)	(390,000)
Other	45,975	-	45,975
Total support and revenue before special events, retail store sales, and net assets released from restrictions	7,895,017	324,503	8,219,520
Special events revenues	410,064	-	410,064
Less costs of direct donor benefits	(81,476)	-	(81,476)
Gross profit on special events	328,588	-	328,588
Retail store sales	125,695	-	125,695
Less related costs of sales	(49,114)	-	(49,114)
Gross profit on retail store sales	76,581	-	76,581
Net assets released from restrictions	293,294	(293,294)	-
TOTAL SUPPORT AND REVENUES	8,593,480	31,209	8,624,689
EXPENSES			
Program services			
Shelter - Chandler	410,908	-	410,908
Shelter - Phoenix	2,884,707	-	2,884,707
Education	293,120	-	293,120
Clinic services	556,713	-	556,713
Total program services	4,145,448	-	4,145,448
Supporting services			
Management and general	194,025	-	194,025
Fundraising and development	508,723	-	508,723
Total supporting services	702,748	-	702,748
TOTAL EXPENSES	4,848,196	-	4,848,196
CHANGE IN NET ASSETS	3,745,284	31,209	3,776,493
NET ASSETS, BEGINNING OF YEAR	8,204,975	4,176,285	12,381,260
NET ASSETS, END OF YEAR	$ 11,950,259	$ 4,207,494	$ 16,157,753

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Programs					Supporting Services			
	Shelter - Chandler	Shelter - Phoenix	Education	Clinic Services	Program Total	Manangement and General	Fundraising and Development	Support Total	Total
Salaries	$ 209,154	$ 1,565,184	$ 178,887	$ 340,486	$ 2,293,711	$ 137,998	$ 214,912	$ 352,910	$ 2,646,621
Employee insurance and benefits	3,188	84,835	10,824	20,543	119,390	8,720	10,355	19,075	138,465
Supplies/ Medical expenses	59,568	795,554	33,941	153,616	1,042,679	1,645	4,829	6,474	1,049,153
Occupancy	98,389	240,381	27,764	16,490	383,024	2,613	37,907	40,520	423,544
Travel and related expenses	6,299	38,741	3,722	1,936	50,698	1,082	17,392	18,474	69,172
Office supplies and small equipment	4,386	32,473	4,839	6,147	47,845	3,200	19,284	22,484	70,329
Outside services	7,670	689	1,987	1,917	12,263	29,865	197,368	227,233	239,496
Depreciation	22,254	126,850	31,156	15,578	195,838	8,902	6,676	15,578	211,416
Total expenses	410,908	2,884,707	293,120	556,713	4,145,448	194,025	508,723	702,748	4,848,196
Special events direct donor benefit	-	-	-	-	-	-	81,476	81,476	81,476
Retail store cost of sales	49,114	-	-	-	49,114	-	-	-	49,114
Total functional expenses	$ 460,022	$ 2,884,707	$ 293,120	$ 556,713	$ 4,194,562	$ 194,025	$ 590,199	$ 784,224	$ 4,978,786

See Notes to Financial Statements

ARIZONA ANIMAL WELFARE LEAGUE

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	3,776,493
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		211,416
Realized and unrealized losses on investments, net		343,060
Changes in value of beneficial interests in perpetual trusts		390,000
Donated vehicles		(28,000)
Contributions restricted for investment in long-lived assets		(144,842)
Changes in operating assets and liabilities:		
Increase (decrease) in:		
Bequests receivable		(572,057)
Contributions receivable		(21,158)
Accounts receivable		(1,071)
Inventories		9,767
Prepaid expenses and other current assets		(26,675)
Increase in:		
Accounts payable		37,769
Accrued expenses and other liabilities		43,660
Net cash provided by operating activities		4,018,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		422,992
Purchases of investments		(4,540,458)
Purchases of property and equipment		(119,365)
Change in cash restricted for investment in long-lived assets		(9,838)
Net cash used in investing activities		(4,246,669)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in long-lived assets		114,842
NET CHANGE IN CASH AND CASH EQUIVALENTS		(113,465)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	$	2,726,372
CASH AND CASH EQUIVALENTS, END OF YEAR	$	2,612,907
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Property and equipment additions included in accounts payable	$	33,500

See Notes to Financial Statements

(1) Nature of operations and summary of significant accounting policies

Arizona Animal Welfare League ("the Organization") was incorporated in the state of Arizona in August 1971 as a non-profit corporation. The Organization is the largest and oldest no-kill animal shelter for dogs and cats in Arizona. A "no-kill" shelter is an animal shelter that does not kill healthy or treatable animals even when the shelter is full, reserving euthanasia for terminally ill animals or those considered dangerous to public safety. The Organization rescues, rehabilitates and re-homes more than 4,000 dogs and cats that are abandoned or that have been surrendered by their owners. The Organization does this primarily by rescuing them from other shelters in Maricopa County, Arizona where they are likely to be euthanized due to the lack of time and resources to care for them. At any one time, the Organization's facilities will hold 140 cats and 190 dogs. The Organization also has a foster parent network of approximately 90 families who provide care and shelter in their homes for puppies and kittens that are too young to be adopted, and those animals that are recovering from medical procedures or that need socialization before adoption. All pets offered for adoption have been spayed or neutered; micro-chipped and are current on all vaccinations. Any medical treatments needed, including surgeries, are provided by the Organization's medical team and all animals are evaluated by the Organization's behavior department.

The Organization not only adopts companion animals into loving homes, but also holds a leadership position in the community in education and animal welfare issues. The Organization's other programs are designed to keep animals in their homes and out of the shelter system. These include dog obedience classes, seminars on dog behavior issues, youth programs, free behavior help for owned animals and a low-cost public clinic.

Over the past 44 years the Organization has grown from adopting a handful of animals each year to a full service animal welfare organization and leader in innovative behavior training, medical care, adoption, education and community outreach programs. Today the Organization's shelter has an onsite veterinary clinic, kennels with a separate cattery, a training center and a freestanding infirmary.

The significant accounting policies followed by the Organization are summarized below:

The Financial Accounting Standards Board ("FASB") sets generally accepted accounting principles in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification ("ASC").

Basis of presentation – The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, including the adoption of Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(1) Nature of operations and summary of significant accounting policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Management's use of estimates – The preparation 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of demand deposits, savings and money market accounts. The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents temporarily held in investment portfolios are included with investments. Cash deposits are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Bequests – Bequests are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor's estate to be valid, the estate representative has provided information regarding the nature and value of estate assets and liabilities, and any conditions have been substantially met. Bequests 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. At December 31, 2018, bequests receivable are all due within one year. Management provides for probable uncollectible bequests receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual bequests receivable, if necessary. 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 bequests receivable. At December 31, 2018, bequests receivable are deemed by management to be fully collectible; accordingly, an allowance for uncollectible bequests is not considered necessary.

Contributions receivable – 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 initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the contribution receivable is expected to be collected, the creditworthiness of the donors, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts, if any, is included in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible promises to give 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 contributions receivable and a credit to contributions receivable. Management considers contributions receivable to be collectible in full and, accordingly, an allowance for uncollectible contributions receivable is not considered necessary. At December 31, 2018, all contributions receivable were due within one year.

(1) <u>Nature of operations and summary of significant accounting policies (continued)</u>

Accounts receivable – Accounts receivable 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 accounts receivable to be fully collectible at December 31, 2018 and, accordingly, an allowance for doubtful accounts has not been provided.

Inventories – Inventories consist of veterinary supplies and various pet supply items held for sale at the shelter gift shops and the mall adoption outlet. Inventory value is determined based on using the lower of cost, as determined using the first-in, first-out (FIFO) method, or net realizable value.

Investments and investment income (loss) – The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities,* and FASB ASC 958-325, *Not-for-Profit Entities – Investments – Other*. Under FASB ASC 958-320, the Organization is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Under FASB ASC 958-325, certificates of deposit investments that are not debt securities are stated at amortized cost, which approximates fair value. Investments are classified as noncurrent in the accompanying statement of financial position based on management's intent.

FASB ASC 958-605 requires that if a not-for-profit organization ("NPO") establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the NPO must record the fund as an asset and the community foundation must account for the fund as a liability. The Organization has such a fund with the Arizona Community Foundation, Inc. ("ACF"). The amounts held by ACF totaled $195,384 at December 31, 2018 and are included in the accompanying statement of financial position as assets held by others as part of a board designated-quasi endowment. The Organization's funds at ACF are pooled with other funds at ACF to be invested.

Investment income (loss) from investments, including realized and unrealized gains and losses, is reported as increases or decreases in net assets without donor restrictions, unless a donor restricts their use.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the inherent risks associated with investment securities, it is possible that at least in the near term investment balances may differ materially from the amounts reported in the accompanying financial statements.

Fair value measurements – FASB ASC 820, *Fair Value Measurement,* establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. It also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

(1) Nature of operations and summary of significant accounting policies (continued)

In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent),* the investments held at ACF totaling $195,384 are excluded from fair value measurements leveling disclosure for the year ended December 31, 2018.

Property and equipment – Purchased property and equipment is stated at cost. Maintenance and repairs are charged to operations when incurred. All acquisitions of property and equipment and all costs for repairs and maintenance that materially prolong the useful life of assets in excess of $1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

Building and improvements	5 – 40 years
Equipment	3 – 20 years
Vehicles	3 – 7 years
Office and clinic	3 – 10 years

Donations of property are reported as contributions at their estimated fair value at the date of donation. Such donations 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 contributions with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed 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 asset are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment loss was recorded during the year ended December 31, 2018.

Beneficial interests in perpetual trusts – The Organization is the income beneficiary of certain perpetual trusts. Under perpetual trust agreements, the Organization records the contribution with donor restrictions at the fair value of the Organization's beneficial interest in the trust assets. The trusts are held and controlled by third-party trustees. Income earned on the trust assets is recorded as income from beneficial interests in perpetual trusts without donor restrictions in the accompanying statement of activities and changes in net assets, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of beneficial interests in perpetual trusts in the with donor restrictions net asset class.

(1) Nature of operations and summary of significant accounting policies (continued)

The Organization is entitled to a specified percentage defined in each trust agreement which ranges from 1.5% to 33.25%, 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 December 31, 2018 based upon the Organization's respective percentage interest in the fair value of the underlying assets held by the trusts.

Contributions – The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions with donor restrictions or contributions without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions on the statement of activities and changes in net assets depending on the nature of the restriction. All contributions are considered to be available for use unless specifically restricted by the donor. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to net assets without donor restrictions.

Donated materials and services – Donated materials and services are reflected at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

During the year ended December 31, 2018, the Organization received the following donations of materials and services which are included in the statements of activities and changes in net assets and functional expenses as follows:

	Supplies/ Medical Expenses	Outside Services	Total
Shelter – Chandler	$ 64,438	$ -	$ 64,438
Shelter – Phoenix	254,607	8,250	262,857
Management and general	36	-	36
Fundraising and development	4,405	1,080	5,485
	$ 323,486	$ 9,330	$ 332,816

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 also charges a fee for veterinary services performed in its clinics which is recognized at the time services are performed. Intake fee revenue is recognized at the time an animal is surrendered to the Organization's care. Education revenue is recognized at the time the educational seminar is conducted. Retail store sales are recognized at the point of sale.

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 revenue 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 and changes in net assets.

(1) Nature of operations and summary of significant accounting policies (continued)

Functional expenses – The costs of providing the Organization's various programs and other activities have been reported on a functional basis in the accompanying statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of personnel activity and other appropriate allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization and are allocated based on personnel or other appropriate indicators.

The expenses that are allocated include the following:

Salaries and employee benefits	Time incurred
Depreciation, maintenance/grounds/utilities, office operations, other operating expenses	Purpose and utilization of space

Advertising – Advertising costs, which are included in outside services in the accompanying statement of functional expenses, are expensed as incurred and totaled approximately $53,000 for the year ended December 31, 2018.

Income tax status – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income ("UBTI") would be taxable. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. As of December 31, 2018, management does not believe any uncertain tax positions exist.

The Organization files informational returns in the U.S. federal jurisdiction and certain state and local jurisdictions. As of December 31, 2018, U.S. federal informational returns for years ended prior to December 31, 2015 and state returns for years ended prior to December 31, 2014 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

Recent accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

(1) Nature of operations and summary of significant accounting policies (continued)

In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958)*, Clarifying the Scope and the *Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provided additional guidance to distinguish between conditional and unconditional contributions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is evaluating the full effect that the adoption of this standard will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee’s right to use or control the asset be recorded upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital and operating leases in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization has estimated that if they were to adopt ASU 2016-02 for the year ended December 31, 2018, a non-current right-of-use asset of approximately $151,000 and a corresponding current and non-current lease liability of $106,000 and $45,000, respectively, would be recorded in the accompanying statement of financial position. The estimate was calculated using the minimum future lease payments (Note 9) and an estimated risk free rate of 2.28%.

(1) Nature of operations and summary of significant accounting policies (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Organization has adopted ASU 2016-14 for the year ended December 31, 2018. All amounts previously reported as temporarily restricted or permanently restricted net assets as of December 31, 2017 have been reclassified to net assets with donor restrictions upon adoption of this standard. In accordance with the amendments of this ASU, the Organization elected to present expenses by function and nature as a separate statement of functional expenses. Disclosure around liquidity and availability of resources are included in Note 10. Current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. The Organization will present the operating cash flows using the indirect method.

Investment fees have been reclassified to be presented net against investment income in the statement of activities and changes in net assets.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without donor restrictions**	**With donor restrictions**	**Total Net Assets**
As previously reported:			
Unrestricted	$ 8,204,975	$ -	$ 8,204,975
Temporarily Restricted	-	204,285	204,285
Permanently Restricted	-	3,972,000	3,972,000
Net assets, as reclassified	$ 8,204,975	$ 4,176,285	$ 12,381,260

Subsequent events – The Organization evaluated subsequent events through September 19, 2019, which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at December 31, 2018:

Mutual funds	$ 2,644,365
Exchange traded funds	86,778
Certificates of deposit	1,491,369
Bond funds	478,101
Money market funds	10,027
Vida Longevity Fund, LP	297,310
Other	73,508
Total investments	$ 5,081,458

Investment loss consists of the following for the year ended December 31, 2018:

Interest income	$ 121,037
Realized and unrealized losses, net	(343,060)
Investment fees	(22,783)
Total investment loss, net	$ (244,806)

(3) Property and equipment

Property and equipment consists of the following at December 31, 2018:

Buildings and improvements	$ 4,774,301
Land	753,046
Equipment	442,964
Vehicles	270,273
Office and clinic	99,502
Construction in progress	81,417
Total property and equipment	6,421,503
Less – accumulated depreciation	(2,259,040)
Property and equipment	$ 4,162,463

Depreciation expense totaled $211,416 for the year ended December 31, 2018.

Construction in progress at December 31, 2018 includes signage to be installed at the Organization's main facility and a cat foster renovation. Both projects are expected to be completed in 2019 and have a combined estimated cost to complete of approximately $290,000. The projects are being funded through the use of operating cash.

(4) Fair value measurement

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	$ 2,644,365	$ -	$ -	$ 2,644,365
Exchange traded funds	86,778	-	-	86,778
Bond funds	478,101	-	-	478,101
Money market funds	10,027	-	-	10,027
Other	73,508	-	-	73,508
Total investments	3,292,779	-	-	3,292,779
Beneficial interests in perpetual trusts	-	-	3,582,000	3,582,000
Total assets	$ 3,292,779	$ -	$ 3,582,000	$ 6,874,779

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

Beneficial interest in perpetual trusts balance at December 31, 2017	$ 3,972,000
Change in value of beneficial interests in perpetual trusts	(390,000)
Beneficial interest in perpetual trusts balance at December 31, 2018	$ 3,582,000

In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of the investments reported at net asset value ("NAV"). As a result of ASU No. 2015-07, investments reported at NAV as a practical expedient are excluded from the fair value hierarchy.

(4) Fair value measurement (continued)

The Organization determines the fair value of its investments held by ACF based on its investment percentage in the consolidated ACF investment pool. ACF implements an investment strategy for these pooled funds that includes equity, fixed income, hedge funds and private equity investments. In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of the investments reported at NAV. There are no unfunded commitments associated with the investments held at ACF and there are no redemption restriction provisions.

Vida Longevity Fund LP Class A – The policy of this fund is to acquire longevity and longevity-backed assets and then seek to maximize gains by either holding their assets to term or selling them to interested parties on the secondary or tertiary market. The fund is managed by Via Management I, LLC and capital will be distributed at each general partner's discretion, upon liquidation of the fund. There are no unfunded commitments associated with this investment.

The Organization has no other financial instruments subject to fair value measurement on a recurring basis as of December 31, 2018.

(5) Employee benefit 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 annual compensation, as defined by the Plan. The Organization did not make matching contributions to the Plan.

(6) Net assets with donor restriction

Net assets with donor restrictions consists of the following:

	Balance 12/31/2017	Contributions	Change in Fair Value	Releases	Balance 12/31/2018
Restricted in perpetuity:					
Beneficial interests in trusts	$ 3,972,000	$ -	$ (390,000)	$ -	$ 3,582,000
Purpose restrictions:					
Building improvements / medical equipment	49,362	144,842	-	(40,005)	154,199
Veterinary services	98,072	453,370	-	(198,527)	352,915
Education presentation / field trips	7,684	291	-	(3,375)	4,600
Community outreach	46,211	10,000	-	(21,086)	35,125
Adoptions	2,456	40,000	-	(500)	41,956
Other	500	66,000	-	(29,801)	36,699
Total net assets with donor restrictions	$ 4,176,285	$ 714,503	$ (390,000)	$ (293,294)	$ 4,207,494

(7) Endowment

The Organization's endowment consists entirely of a fund established by the Board of Directors to function as an endowment. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment composition and changes in the Board-designated endowment, which are classified within net assets without donor restrictions in the accompanying statement of financial positon, were as follows:

Balance 12/31/2017	Contributions	Interest income/ Net realized and Unrealized gains (losses)	Balance 12/31/2018
$ 156,074	$ 50,000	$ (10,690)	$ 195,384

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization adopted a policy, approved by the Board of Directors, which requires a portion of planned giving income will be reinvested until such time as the principal of the endowment fund has reached $100,000 before distributions will be taken. Only one distribution will be made each year as directed by the Board equal to 5% of the total value of the assets in the Endowment. In establishing this policy, the Organization considered the long-term expected return on its endowment. No distributions were taken in 2018.

(8) Concentrations

Support and Revenue

During the year ended December 31, 2018, the Organization received a bequest which is included in contributions in the accompanying statement of activities and changes in net assets totaling approximately $3.7 million. Additionally, at December 31, 2018, the bequest receivable was due from the estate of one donor.

Uninsured Cash

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 ("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 and SIPC insurance coverage. The Organization does not anticipate nonperformance by financial institutions.

(9) Commitments and contingencies

Operating leases – The Organization leases buildings and equipment under operating lease agreements with terms expiring through August 2023. Minimum future rental payments under noncancelable operating leases with remaining terms in excess of one year are as follows:

Years Ending December 31	
2019	$ 108,252
2020	18,900
2021	18,900
2022	6,744
2023	3,934
Total future minimum lease payments	$ 156,730

Rent expense totaled approximately $103,000 for the year ended December 31, 2018. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Litigation - Periodically, the Organization is involved in litigation and claims arising in the normal course of operations. In the opinion of management and based on consultation with legal counsel, losses if any, from these matters are covered by insurance or are immaterial.

(10) Liquidity and availability of resources

The Organization monitors its cash position on a weekly basis to ensure the fulfillment of all obligations and considers the funds necessary to maintain the Organization's operation within one year of the statement of financial position date with regular reviews of the budget to actual results. Planning for the following year's budget is created with this information. As part of the Organization's liquidity plan, excess cash is invested in investments, certificates of deposit and money market funds. As of December 31, 2018, the Organization's financial assets available within one year of the statement of financial positon date for general expenditures are as follows:

Cash and cash equivalents	$ 2,612,907
Bequests receivable	572,057
Contributions receivable	21,158
Accounts receivable	2,245
Total current financial assets	3,208,367
Less net assets related to above amounts with donor restrictions	(536,295)
Financial assets available to meet cash needs for general expenditure within one year	$ 2,672,072

While the Organization's investments are classified as long-term in the accompanying statement of financial position based on management's intent, the majority of the investments could be readily liquidated without significant penalty to fund operating cash flow needs, except as designated by the Board of Directors.