

YAVAPAI COUNTY HUMANE SOCIETY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED DECEMBER 31, 2016)

June 19, 2018

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Yavapai County Humane Society
Financial Statements and Independent Auditors' Report
For the Year Ended December 31, 2017

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Independent Auditors' Report

Board of Directors
Yavapai County Humane Society
Prescott, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Yavapai County Humane Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities 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

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.

Board of Directors
Yavapai County Humane Society
Prescott, Arizona
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yavapai County Humane Society as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Yavapai County Humane Society's 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated April 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sumbard & Associates, PLLC

(A Division of The Pun Group, LLP)
Phoenix, Arizona
June 19, 2018

FINANCIAL STATEMENTS

Yavapai County Humane Society
Statement of Financial Position
December 31, 2017
(with Comparative Totals as of December 31, 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 709,908	\$ 503,225
Accounts receivable	8,419	3,954
Prepaid expenses	13,516	18,969
Other assets	4,950	4,950
Total current assets	736,793	531,098
Beneficial interest in assets held by community foundation	1,027,761	876,132
Property and equipment, net	2,644,713	2,766,688
Total assets	\$ 4,409,267	\$ 4,173,918
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 76,647	\$ 87,422
Accrued expenses	92,091	100,988
Current portion of long-term debt	22,980	21,588
Total current liabilities	191,718	209,998
Long-term debt, net of current portion	263,113	292,295
Net assets:		
Unrestricted		
Board designated	1,027,761	876,132
Undesignated	2,777,820	2,670,869
Temporarily restricted	136,510	112,279
Permanently restricted	12,345	12,345
Total net assets	3,954,436	3,671,625
Total liabilities and net assets	\$ 4,409,267	\$ 4,173,918

See accompanying Notes to the Financial Statements.

Yavapai County Humane Society
Statement of Activities
For the Year Ended December 31, 2017
(with Comparative Totals for the Year Ended December 31, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Totals
CHANGES IN NET ASSETS:					
REVENUES AND OTHER SUPPORT:					
Contributions	\$ 1,311,911	\$ 211,360	\$ -	\$ 1,523,271	\$ 1,030,594
Program grants	230,255	-	-	230,255	294,566
In-kind contributions	37,737	-	-	37,737	394,627
Fundraising and event revenue	61,462	-	-	61,462	63,162
Program revenue					
Animal control	359,324	-	-	359,324	361,133
Clinic	451,477	-	-	451,477	450,119
Shelter	135,144	-	-	135,144	149,192
Thrift store	280,160	-	-	280,160	291,213
Equine center	7,350	-	-	7,350	-
Investment income/(loss)	115,468	-	-	115,468	44,232
Other revenue	36,803	-	-	36,803	40,374
Net assets released from restrictions	187,129	(187,129)	-	-	-
Total revenues and other support	3,214,220	24,231	-	3,238,451	3,119,212
EXPENSES:					
Program services					
Animal control	\$ 296,617	-	-	296,617	\$ 313,293
Clinic	1,193,215	-	-	1,193,215	1,147,433
Shelter	559,328	-	-	559,328	680,912
Thrift store	245,121	-	-	245,121	249,873
Equine center	111,632	-	-	111,632	113,797
Support services					
Administrative support	257,692	-	-	257,692	276,173
Fund development	292,035	-	-	292,035	288,820
Total expenses	2,955,640	-	-	2,955,640	3,070,301
Changes in net assets	258,580	24,231	-	282,811	48,911
NET ASSETS:					
Beginning of year	3,547,001	112,279	12,345	3,671,625	3,622,714
End of year	<u>\$ 3,805,581</u>	<u>\$ 136,510</u>	<u>\$ 12,345</u>	<u>\$ 3,954,436</u>	<u>\$ 3,671,625</u>

See accompanying Notes to the Financial Statements.

Yavapai County Humane Society
Statement of Cash Flows
For the Year Ended December 31, 2017
(with Comparative Totals For the Year Ended December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 282,811	\$ 48,911
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	143,954	143,010
Unrealized (gain)/loss on investments	(62,824)	66,642
Changes in operating assets and liabilities		
Accounts receivable	(4,465)	(2,556)
Prepaid expenses	5,453	(1,140)
Accounts payable	(10,775)	38,786
Accrued expenses	(8,897)	30,167
Deferred revenue	-	(14,818)
Net cash provided by operating activities	345,257	309,002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(143,986)	(142,038)
Proceeds from redemption of investments	55,181	321,202
Acquisition of property and equipment	(21,979)	(675,003)
Net cash (used in) investing activities	(110,784)	(495,839)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(27,790)	(23,942)
Net cash (used in) financing activities	(27,790)	(23,942)
Net increase (decrease) in cash and cash equivalents	206,683	(210,779)
CHANGE IN CASH AND CASH EQUIVALENTS:		
Beginning of year	503,225	714,004
End of year	\$ 709,908	\$ 503,225
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid for the year	\$ 13,260	\$ 14,565
NON-CASH INVESTING AND FINANCING:		
Acquisition of property and equipment		
Cost of equipment	\$ -	\$ 11,964
Notes payable	-	(11,964)

See accompanying Notes to the Financial Statements.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 1 – Organization

Yavapai County Humane Society (the “Organization”), a not-for profit corporation located in Prescott, Arizona, was incorporated on April 3, 1972. The Organization was deeded a parcel of land from the City of Prescott in 1976. Under conditions of the deed the land must be used for a nonprofit animal hospital and /or shelter, and the land would revert to the City upon demise or termination of existence of the Organization. The Organization operates cat, dog, and horse adoption centers serving its mission to promote and protect the health, safety, and welfare of companion animals. In addition, the Organization supports its mission with a Thrift Store and a Spay/Neuter & Wellness Clinic, which offers low-cost spay/neuter services, vaccinations, and microchips. The major sources of income include donations from the general public, adoptions fees from the shelter paid by the general public, revenue from clinic operations for the care of animals, animal control operations for the local communities, and the operation of a thrift store.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues and gains are recognized in the period in which they are earned and expenses and losses are recognized in the period in which the liability is incurred.

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board (“FASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the following criteria:

Unrestricted Net Assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e. the donor-stipulated purpose have been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets consist of contributed funds, subject to specific donor imposed restrictions, contingent upon specific performance of future event or a specific passage of time before the Organization may spend the funds.

Permanently Restricted Net Assets are assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Organization was deeded a parcel of land from the City of Prescott in 1976. The condition of the deed was that the land be used for a nonprofit animal hospital and/or shelter, and that the land would revert to the City upon demise or termination of existence of the Organization.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. This will affect the reported amount of assets and liabilities, 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.

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 December 31, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of fees due from program services and are non-interest bearing. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2017, the Organization expects all accounts receivable to be fully collectible.

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service. Contributions and pledges receivable that are expected to be collected over one year are recorded at their net realizable value.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

In-Kind Contributions

The Organization records various types of in-kind contributions including professional services, advertising and materials. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or property and equipment.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Expenditures for repairs, maintenance, renewals, and betterments are capitalized when management determines that such expenditures will extend the useful life of the asset beyond one year. Property and equipment are stated at cost or at estimated fair value at the date of the gift. Depreciation is computed on the straight-line method over the following estimated useful life:

Buildings and improvements	39 years
Equipment	7 years
Furniture and fixtures	7 years
Software	3 years
Vehicles	5 years

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 temporarily restricted support. 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. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances indicate a long-lived asset may be impaired, the asset value will be reduced to fair value. Fair value is determined through various valuation techniques including quoted market values and third-party independent appraisals, as considered necessary.

Functional Allocation of Expenses

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

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from federal and state income tax on related activities under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Under the guidance of *Accounting for Uncertainty in Income Taxes*, the Center utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

At December 31, 2017, management believes there were no uncertain tax positions.

Board Designated Endowment Funds

The Organization has established board-designated agency endowment funds with the Arizona Community Foundation (the “Community Foundation”) that are permanent and irrevocable. All legal and fiduciary control for them rests with the Community Foundation. Net assets associated with the endowment funds are, classified and reported, based on the existence or absence of restrictions imposed by the donors.

The state of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (the “Act”). The Board of Directors of the Organization has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the Organization classifies as permanently restricted net assets the original value of the gifts donated to permanent endowments, the original value of subsequent gifts, and accumulations to permanent endowments made in accordance with the donor stipulations.

Board Designated Reserve Funds

The Organization has established a revocable board-designated reserve fund with the Community Foundation. Net assets associated with the reserve fund are, classified and reported, based on the existence or absence of restrictions imposed by the donors. The Community Foundation acts as a steward of the nonprofit’s reserve fund and the organization can request the entirety of its assets back at any time.

Variance Power

Both the endowment funds and reserve fund held by the Community Foundation are subject to the Community Foundation’s “variance power,” as set forth in the Community Foundation’s governing documents. If the Community Foundation ceases to be a qualified organization or is dissolved, the Organization’s assets will be distributed to the Organization. If the Organization is no longer a qualifying organization, the funds will be distributed to another qualifying organization providing a similar exempt purpose.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

Spending and Distribution Policy

Board Designated Endowment Funds

The Organization's Endowment Funds are subject to the Community Foundation's spending and annual distribution policies which provides a maximum cap for expenditures and annual distributions to ensure that the fund is not eroded over time. Additional information regarding the Community Foundation's spending and distribution policies can be found on their website: <https://www.azfoundation.org/>.

Distributions in excess of the Community Foundation's spending policy may be made to the Organization in any year as determined by the Community Foundation's Board of Directors, subject to the following conditions:

- (1) the distribution is for the purpose of enabling the Organization to acquire or renovate a capital asset;
- (2) the Organization is faced with unexpected financial needs that are not likely to recur, and the distribution will enable the Organization to meet those needs.

The request for distributions in excess of the spending and annual distribution policies is advisory in nature and must be made in writing to the Community Foundation's Board and be approved by the Organization's Board of Directors. The request may be accepted or rejected, in whole or in part, by the Community Foundation in its sole and absolute discretion.

Board Designated Reserve Fund

The Organization has adopted a distribution policy for its Board Designated Reserve Fund that allows for a reinvestment of all investment income but may choose to receive a set distribution of investment income as determined by the Organization's Board of Directors. Any changes to the distribution policy or request in excess of the set distribution policy up to the entirety of the fund's assets requires a two-thirds (2/3) vote of the Board of Directors. These funds are not subject to the Community Foundation's spending policy.

Fair Value Measurements

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments and, with none being held for trading purposes, approximate the carry values of such amounts.

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value and establish disclosures about fair value measurements. Assets and liabilities recorded at fair value in the Statement of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

For cash and cash equivalents, the Organization uses the carrying amounts, which approximate fair value due to their short maturity.

For long-term debt borrowings, the fair values are estimated using discounted cash flow analysis, based on the Organization's current incremental borrowing rates for similar types of borrowing arrangements. As of December 31, 2017 and 2016, the fair values of long-term debt borrowings were not considered to be materially different from the recorded values.

Following is a description of the valuation methodologies used for assets measured at fair value.

Beneficial interest in assets held by community foundation: Valued based upon the fair value of the underlying pooled investments in marketable equity and fixed income securities held at the Arizona Community Foundation.

Upcoming Financial Accounting Standards Implementation

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the options to present the cash flow statements on a direct or indirect method as well as includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for the Organization for the year ending December 31, 2018. The Organization has not evaluated the impact of this statement.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU established principals for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 2 – Summary of Significant Accounting Policies (Continued)

Upcoming Financial Accounting Standards Implementation (Continued)

services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The requirements of this statement are effective for the Organization for the year ending December 31, 2018. The Organization has not evaluated the impact of this statement.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as assets on the statement of financial position with a corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for the Organization for the year ending December 31, 2019. The Organization has not evaluated the impact of this statement.

Note 3 – Cash and Cash Equivalents

The following table presents cash and cash equivalents as of December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Per Books</u>	<u>Per Bank</u>	<u>Per Books</u>	<u>Per Bank</u>
Demand deposit	\$ 425,312	\$ 370,778	343,906	\$432,170
Money market accounts	283,933	283,933	158,656	363,484
Petty cash	663	-	663	-
Total	\$ 709,908	\$ 654,711	\$503,225	\$795,654

Financial instruments potentially subjecting the Organization to concentration or credit risk consist primarily of bank demand deposit in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage limits. Bank balances in excess of amounts covered by federal depository insurance are uninsured and uncollateralized. Bank balances in excess of amounts covered by federal depository insurance were \$118,424 and \$96,982 as of June 30, 2017 and 2016, respectively. Amounts held in excess of FDIC coverage are held in major institutions and management believes there is no significant exposure of credit risk on cash and cash equivalents.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 4 – Beneficial Interest in Assets Held by Community Foundation

During the year ended December 31, 2013, the Organization was bequeathed \$1,376,665. This amount was not donor restricted. Subsequently, the board designated \$1,000,000 of this amount for the purpose of improving or increasing the care facilities for animals and also subsidizing adoption fees, spaying fees and other expenses of pet care improvement consistent with the bequest and transferred these funds to the Community Foundation to be held in nonprofit endowment and reserve funds. The amounts transferred are classified as beneficial interest in assets held by community foundation on the statement of net position. The following table presents securities held at the Community Foundation by the Organization measured at fair value by classification within the fair value hierarchy as of December 31, 2017 and 2016:

	Level 1	Level 2	Level 3	2017	(Level 2) 2016
Beneficial interest in assets held by community foundation	\$ -	\$ 1,027,761	\$ -	\$ 1,027,761	\$ 876,132
Total	\$ -	\$ 1,027,761	\$ -	\$ 1,027,761	\$ 876,132

Changes in beneficial interest in assets held by Community Foundation for the fiscal year ended December 31, 2017 and 2016 are as follows:

	2017	2016
Beneficial interest in assets held by community foundation, January 1,	\$ 876,132	\$ 1,121,938
Contributions	84,700	25,000
Investment income (expense), net	7,998	(51)
Net appreciation (depreciation)	107,131	43,945
Distributions	(48,200)	(314,700)
Beneficial interest in assets held by community foundation, December 31,	<u>\$ 1,027,761</u>	<u>\$ 876,132</u>

As of December 31, 2017 and 2016 the Organization's endowment fund balance was \$913,057 and \$851,132, respectively. Of this balance, the remaining bequeathed balance outstanding was \$679,946 and \$637,292, respectively. As of December 31, 2017 and 2016 the Organization's reserve balance was \$114,704 and \$25,000, respectively. These amounts are classified as unrestricted board designated net assets.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 5 – Property and Equipment

Property and equipment at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 128,383	\$ 128,383
Construction in process	66,094	65,727
Buildings and improvements	2,901,034	2,926,407
Equipment	411,545	444,302
Furniture and fixtures	4,193	8,925
Software	19,599	27,119
Vehicles	114,715	109,952
Total property and equipment	<u>3,645,563</u>	<u>3,710,815</u>
Less: accumulated depreciation	<u>(1,000,850)</u>	<u>(944,127)</u>
Net property and equipment	<u>\$ 2,644,713</u>	<u>\$ 2,766,688</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$143,954 and \$143,010, respectively.

Construction in process is associated with architectural planning and design costs related to improvements to the main shelter. The project is expected to be long-term in nature and assets will be placed into service when completed.

Note 6 – Long-term Debt

Notes payable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Note payable to National Bank of Arizona, with monthly fixed principal payments, plus interest, until maturity, October 31, 2033. Interest rate is at 4.5% and the note is secured by the building.	\$ 278,629	\$ 302,819
Non-interest bearing note payable to Jerry Kipp, a related party and member of the board of directors, with monthly fixed principal payments until maturity, January 1, 2020. Unpaid principal after the maturity date shall accrue interest at a rate of 5% annually. The note is secured by the equipment.	<u>7,464</u>	<u>11,064</u>
Total notes payable	286,093	313,883
Less: current portion	<u>(22,980)</u>	<u>(21,588)</u>
Total long-term portion	<u>\$ 263,113</u>	<u>\$ 292,295</u>

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 6 – Long-term Debt (Continued)

Future minimum payments on long-term debt are as followed:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 22,980	\$ 12,071	\$ 35,051
2019	20,534	11,181	31,715
2020	21,202	10,249	31,451
2021	22,175	9,275	31,450
2022	23,194	8,257	31,451
Thereafter	<u>176,008</u>	<u>85,648</u>	<u>261,656</u>
Total	<u>\$ 286,093</u>	<u>\$ 136,681</u>	<u>\$ 422,774</u>

Note 7 – Revolving Line of Credit

The Organization has a \$100,000 revolving line of credit, of which \$100,000 was unused at December 31, 2017 and 2016. The unpaid interest on the outstanding balance is due monthly and is calculated at a rate of one (1) percent over prime (4.25% at December 31, 2017 and 2016). The credit line is unsecured.

Note 8 – Operating Leases

The Organization leases office space for clinic program services under the terms of an operating lease. For the years ended December 31, 2017 and 2016, the operating lease was continuing on a month-to-month basis. Total rent expense, association fees, and property taxes for the leased space for the years ended December 31, 2017 and 2016, was \$30,906 and \$29,086, respectively.

Note 9 – Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$59,293 and \$35,287, respectively.

Note 10 – In-Kind Contributions

The Organization receives a significant amount of unskilled, contributed time which does not meet the recognition criteria described in Note 2. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements. During the years ended December 31, 2017 and 2016, the Organization received 22,016 and 29,472 unskilled volunteer hours, respectively.

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 10 – In-Kind Contributions (Continued)

The Organization also receives a significant amount of skilled, contributed time which does meet the recognition criteria described in Note 2. Contributed time relates primarily to the construction of the Equine Center for those services rendered by individuals with advanced degrees or sufficient professional experience in their field. The Organization has estimated the value of this contributed time using rates for comparable services. For the years ended December 31, 2017 and 2016, the total amount of skilled, contributed time was \$0 and \$283,992, respectively.

Note 11 – Restrictions on Net Assets

Restrictions on temporarily restricted net assets at December 31, 2017 and 2016, relate to contributions designated for specific purposes.

For the years ended December 31, 2017 and 2016, net assets whose use by the Organization was subject to donor-imposed restrictions were fulfilled by actions of the Organization pursuant to those restrictions. Accordingly, the expending of such net assets are shown in the statement of activities as a release of net assets from temporary restrictions.

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Capital improvement projects	\$ 24,633	\$ -
Low cost spay/neuter programs	53,737	11,926
Pre-adoption	7,109	35,415
Vaccinations	-	310
Cattery/Cat care	3,681	2,751
Temporary boarding assistance	3,712	5,562
Special Treatment And Recovery (STAR)	34,834	44,820
Low cost medical surgeries	6,021	3,435
Website maintenance	2,783	8,060
Total	<u>\$ 136,510</u>	<u>\$ 112,279</u>

Yavapai County Humane Society
Notes to The Financial Statements (Continued)
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

Note 12 – Reclassification of Net Assets

The Organization has decreased the beginning balance of unrestricted board designated net assets and increased the beginning balance of unrestricted undesignated as of December 31, 2016 in the amount of \$245,806. The amounts represent the change in the balance of the endowment funds not previously recognized.

	As Originally Reported December 31, 2016	Reclassification of Net Assets	As Restated December 31, 2016
Net Assets:			
Unrestricted			
Board designated	\$ 1,121,938	\$ (245,806)	\$ 876,132
Undesignated	2,425,063	245,806	2,670,869
Temporarily restricted	112,279	-	112,279
Permanently restricted	12,345	-	12,345
Total	<u>\$ 3,671,625</u>	<u>\$ -</u>	<u>\$ 3,671,625</u>

Note 13 – Contingencies

General Liability and Workers' Compensation

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; job-related illnesses or injuries to employees; and natural disasters for which the Organization carries commercial insurance. The Organization purchases commercial insurance to cover the risk of loss for property and business liability. There are no known claims or incidents that may result in the assertion of material claims arising from potential losses.

Litigations

The Organization may from time to time be involved in litigation and regulatory investigations, which may arise in the normal course of doing business. Based upon the opinion with legal counsel and management, there are no existing, pending, or unasserted claims or legal actions as of December 31, 2017 and 2016.

Note 14 – Subsequent Events

The Organization has evaluated subsequent events through June 19, 2018, the date which the financial statements were available to be issued. No significant events that would be expected to materially impact the financial statements were identified.

SUPPLEMENTARY INFORMATION

Yavapai County Humane Society
Schedule of Functional Expenses
For the Year Ended December 31, 2017
(with Comparative Totals for the Year Ended December 31, 2016)

	Program Costs					Support Services			Summarized	
	Animal Control	Clinic	Shelter	Thrift Store	Equine Center	Total Program Costs	Administrative Costs	Fund Development	Total 2017	Total 2016
EXPENSES:										
Adoption expense	\$ -	\$ 226	\$ 447	\$ -	\$ 900	\$ 1,573	\$ -	\$ -	\$ 1,573	\$ 560
Advertising	-	25,210	-	12,087	2,784	40,081	385	18,827	59,293	35,287
Bank charges	1,400	5,262	1,587	4,337	-	12,586	2,794	5,979	21,359	19,846
Board expenses	-	-	-	-	-	-	116	-	116	2,322
Depreciation	2,757	48,245	53,053	21,055	3,916	129,026	9,768	5,160	143,954	143,010
Development	-	76	-	-	50	126	-	18,731	18,857	17,374
Dues/subscriptions/licenses	-	3,678	1,425	143	100	5,346	4,173	6,019	15,538	7,925
Employee benefits	-	4,963	124	352	200	5,639	8,747	2,098	16,484	23,350
Employee costs	373	1,571	671	169	45	2,829	2,348	243	5,420	43,449
Insurance	1,940	5,154	7,693	6,358	2,926	24,071	6,318	1,018	31,407	22,544
Insurance - Health	22,894	82,783	42,017	11,991	5,877	165,562	18,916	11,009	195,487	91,257
Interest	-	-	-	13,260	-	13,260	-	-	13,260	14,564
Maintenance and repairs	3,181	10,909	23,309	4,375	4,436	46,210	4,058	6,798	57,066	82,724
Medical supplies	(60)	88,638	(15)	-	531	89,094	(15)	(36)	89,043	157,790
Municipalities expense	13,836	16,472	4	-	-	30,312	-	-	30,312	26,954
Office expense	358	2,096	774	358	84	3,670	3,032	1,528	8,230	10,013
Payroll	183,961	573,859	310,225	133,621	57,993	1,259,659	134,899	89,266	1,483,824	1,561,382
Payroll taxes	15,974	47,178	26,703	11,605	4,770	106,230	8,156	7,413	121,799	206,627
Postage and printing	753	486	3,725	391	514	5,869	1,737	95,717	103,323	110,817
Professional fees	-	235	200	-	-	435	43,801	-	44,236	36,622
Rent	-	30,906	1,959	2,865	-	35,730	1,392	-	37,122	35,318
Supplies	27,076	163,958	33,510	5,589	13,199	243,332	1,489	14,624	259,445	211,484
Utilities	22,081	12,576	22,911	14,900	5,905	78,373	3,655	5,717	87,745	99,366
Vehicles	93	1,527	1,027	1,665	2,233	6,545	1,458	1,048	9,051	13,522
Veterinary services	-	63,709	-	-	2,783	66,492	-	-	66,492	95,253
Volunteer expenses	-	127	-	-	210	337	-	876	1,213	941
In-Kind expenses	-	3,371	27,979	-	2,176	33,526	465	-	33,991	-
Total expenses	\$ 296,617	\$ 1,193,215	\$ 559,328	\$ 245,121	\$ 111,632	\$ 2,405,913	\$ 257,692	\$ 292,035	\$ 2,955,640	\$ 3,070,301