

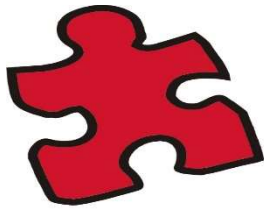
**YAVAPAI HUMANE SOCIETY
(A NONPROFIT CORPORATION)**

FINANCIAL STATEMENTS

Year Ended December 31, 2019
With Summarized Financial Information
For the Year Ended December 31, 2018

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**Schutte &
Hilgendorf** PLLC - CPA'S
Solving Accounting, Audit & Tax Puzzles

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Yavapai Humane Society

We have audited the accompanying financial statements of Yavapai Humane Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yavapai Humane Society as of December 31, 2019, 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.

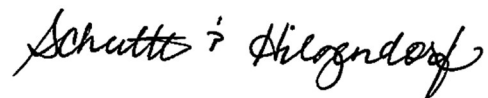
Report on Summarized Comparative Information

We have previously audited Yavapai Humane Society's 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As discussed in Note 2, in May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 – Revenue from Contracts with Customers (Topic 606), which amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures. The standard is effective for annual reporting periods beginning after December 15, 2018.

The Organization has adopted ASU No. 2014-09 as amended by ASU No. 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which was issued by the FASB in June 2018. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously audited financial statements were required on a retrospective basis. The presentation and disclosure of revenue have been enhanced in accordance with the standards.



Prescott, Arizona
June 10, 2020

YAVAPAI HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
December 31, 2019
(with summarized financial information for December 31, 2018)

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	\$ 701,063	\$ 633,851
Certificates of deposit	450,000	-
Accounts receivable	10,088	6,416
Inventory	24,400	50,627
Prepaid expenses	36,032	48,091
	<hr/>	<hr/>
Total current assets	1,221,583	738,985
Property and equipment, net	2,608,411	2,692,328
Investments held by ACF	1,544,194	1,714,501
Other assets	4,950	4,950
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 5,379,138</u>	<u>\$ 5,150,764</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 58,507	\$ 83,130
Accrued liabilities	95,385	124,179
Current portion of long-term obligations	18,102	17,192
Total current liabilities	<hr/> 171,994	<hr/> 224,501
Long-term obligations, net of current portion	<hr/> 212,920	<hr/> 237,221
	<hr/>	<hr/>
TOTAL LIABILITIES	384,914	461,722
NET ASSETS		
Without donor restrictions		
Undesignated	3,304,980	2,923,364
Board designated	1,544,194	1,714,501
With donor restrictions		
Restricted by time and purpose	132,705	38,832
Held in perpetuity	12,345	12,345
	<hr/>	<hr/>
TOTAL NET ASSETS	<u>4,994,224</u>	<u>4,689,042</u>
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,379,138</u>	<u>\$ 5,150,764</u>

YAVAPAI HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with summarized financial information for December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Totals
REVENUE, GAINS AND OTHER SUPPORT				
Contributions	\$ 1,825,656	\$ 84,334	\$ 1,909,990	\$ 2,380,001
Program grants	17,860	118,750	136,610	64,625
In-kind contributions	35,494	-	35,494	29,058
Event revenue	110,682	-	110,682	53,424
Less costs of direct benefit to donors	(6,539)	-	(6,539)	-
Program revenue				
Lost & found/animal intake	392,379	-	392,379	377,515
Spay/neuter & shelter clinic	530,545	-	530,545	448,941
Adoption shelter	126,723	-	126,723	113,044
Thrift store	259,928	-	259,928	272,141
Equine center	15,133	-	15,133	16,177
Interest and net investment income (loss)	243,085	-	243,085	(100,675)
Other income (loss)	(655)	-	(655)	(8,889)
Total revenue, support, gains	<u>3,550,291</u>	<u>203,084</u>	<u>3,753,375</u>	<u>3,645,362</u>
Reclassification and release from net asset restrictions	109,211	(109,211)	-	-
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	\$ 3,659,502	\$ 93,873	\$ 3,753,375	\$ 3,645,362
EXPENSES				
Program services				
Lost & found/animal intake	347,958	-	347,958	308,440
Spay/neuter & shelter clinic	1,204,737	-	1,204,737	1,174,425
Adoption shelter	815,311	-	815,311	591,727
Thrift store	287,617	-	287,617	258,074
Equine center	162,888	-	162,888	156,915
Support services				
Administrative costs	254,805	-	254,805	199,610
Fund development	374,877	-	374,877	279,120
TOTAL EXPENSES	<u>3,448,193</u>	<u>-</u>	<u>3,448,193</u>	<u>2,968,311</u>
INCREASE(DECREASE) IN NET ASSETS	211,309	93,873	305,182	677,051
NET ASSETS, BEGINNING OF THE YEAR, AS PREVIOUSLY REPORTED	4,637,865	51,177	4,689,042	3,954,436
Restatement of prior period net assets	-	-	-	57,555
NET ASSET, END OF YEAR	<u>\$ 4,849,174</u>	<u>\$ 145,050</u>	<u>\$ 4,994,224</u>	<u>\$ 4,689,042</u>

YAVAPAI HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with summarized financial information for December 31, 2018)

	PROGRAM SERVICES						SUPPORT SERVICES		2018	
	LOST & FOUND/ ANIMAL INTAKE	SPAY/NEUTER & SHELTER CLINIC	ADOPTION SHELTER	THRIFT STORE	EQUINE CENTER	TOTAL	ADMINISTRATIVE COSTS	FUND DEVELOPMENT	2019 TOTALS	SUMMARIZED TOTALS
Adoption expense	\$ 128	\$ -	\$ 2,053	\$ -	\$ -	\$ 2,181	\$ -	\$ -	\$ 2,181	\$ 1,421
Advertising	-	14,399	195	17,230	5,174	36,998	-	27,046	64,044	48,197
Auto expense	253	2,800	1,145	2,500	2,476	9,174	2,175	1,730	13,079	11,542
Bad debt expense	5	254	293	-	-	552	-	168	720	897
Bank fees	1,440	5,507	1,779	4,984	326	14,036	2,629	7,533	24,198	20,706
Board expenses	-	-	-	-	-	-	1,934	-	1,934	1,342
Clinic supplies	-	99,430	-	-	1,882	101,312	-	-	101,312	86,381
Depreciation	2,040	44,626	53,704	20,771	22,650	143,791	6,892	5,937	156,620	160,095
Dues, licenses and subscriptions	675	3,758	805	392	399	6,029	4,757	8,361	19,147	15,235
Employee benefits	20,370	60,863	53,466	13,958	5,586	154,243	45,423	14,815	214,481	168,752
Employee costs	2,587	2,140	4,652	903	1,218	11,500	499	943	12,942	11,395
Event expenses	-	30	30	299	72	431	-	87,082	87,513	20,052
Insurance	14,606	35,880	26,791	11,652	5,853	94,782	8,034	3,114	105,930	100,534
Interest expense	-	-	-	14,519	-	14,519	-	-	14,519	12,834
Maintenance and repairs	4,383	13,063	22,155	9,634	3,531	52,766	2,452	962	56,180	54,315
Municipalities expense	10,230	13,503	2,284	-	-	26,017	-	-	26,017	30,912
Office supplies	414	3,228	856	319	145	4,962	1,389	1,525	7,876	7,535
Operational and medical supplies	40,039	145,125	93,374	4,971	15,300	298,809	1,998	5,152	305,959	252,559
Payroll taxes	14,382	44,535	37,067	11,895	7,456	115,335	5,838	8,574	129,747	118,309
Postage and printing	698	1,894	3,286	649	246	6,773	2,112	79,712	88,597	95,280
Professional fees	-	1,600	-	-	2,285	3,885	23,485	2,822	30,192	30,914
Rent expense	-	33,029	-	2,951	-	35,980	3,313	-	39,293	38,146
Salaries and wages	212,726	605,221	489,032	155,132	75,097	1,537,208	139,367	111,796	1,788,371	1,548,629
Utilities	22,982	14,732	21,891	14,752	8,242	82,599	2,308	6,697	91,604	88,078
Veterinary services	-	59,120	252	-	4,895	64,267	-	-	64,267	42,393
Volunteer expenses	-	-	201	106	55	362	200	908	1,470	1,858
	<u>\$ 347,958</u>	<u>\$ 1,204,737</u>	<u>\$ 815,311</u>	<u>\$ 287,617</u>	<u>\$ 162,888</u>	<u>\$ 2,818,511</u>	<u>\$ 254,805</u>	<u>\$ 374,877</u>	<u>\$ 3,448,193</u>	<u>\$ 2,968,311</u>
Percent of 2019 total expense	10.1%	34.9%	23.7%	8.3%	4.7%	81.7%	7.4%	10.9%		

YAVAPAI HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(with summarized financial information for December 31, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase(decrease) in net assets	\$ 305,182	\$ 677,051
Adjustments to reconcile increase(decrease) in net assets to net cash (used) by operating activities:		
Depreciation expense	156,620	160,095
(Gain) Loss on disposition of assets	655	1,422
Change in donated inventory	26,227	667
Realized and unrealized (gain) loss on investments	(226,509)	113,682
Decrease (Increase) in:		
Accounts receivable	(3,672)	2,003
Prepaid expenses	12,059	(34,575)
Increase (Decrease) in:		
Accounts payable	(24,623)	6,483
Accrued liabilities	(28,794)	32,088
	<u>217,145</u>	<u>958,916</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(73,358)	(199,651)
Proceeds from sale of property and equipment	-	2,700
Purchases of certificates of deposit	(450,000)	-
Purchases of investments	(49,944)	(1,132,000)
Proceeds from investment withdrawals	459,400	341,301
Reinvested dividends, net of fees	(12,640)	(9,723)
	<u>(126,542)</u>	<u>(997,373)</u>
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(459)	(5,461)
Payments on long-term debt	(22,932)	(32,139)
	<u>(23,391)</u>	<u>(37,600)</u>
NET CASH (USED) BY FINANCING ACTIVITIES		
NET INCREASE(DECREASE) IN CASH	67,212	(76,057)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>633,851</u>	<u>709,908</u>
CASH AT END OF PERIOD	<u><u>\$ 701,063</u></u>	<u><u>\$ 633,851</u></u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u><u>\$ 14,519</u></u>	<u><u>\$ 12,834</u></u>

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS**

December 31, 2019

With summarized financial information for December 31, 2018

NOTE 1 – ORGANIZATION AND PURPOSE

Yavapai Humane Society (a nonprofit corporation) is located in Prescott, Arizona, and was incorporated on April 3, 1972. For almost 50 years, the Yavapai Humane Society has been advocating for, and promoting the care, health and re-homing of cats, dogs and horses. It is instilled in the Lost & Found department that strives to reunite all lost pets with their owners. It is cultivated the moment someone adopts a dog, cat or horse. It flourishes through the sales earned at the Thrift Store. It is implemented in the Spay/Neuter and Wellness clinic. It is harbored at the Equine Center where the bond between animal and human is defined. Yavapai Humane Society fiercely protects the belief that animals are extraordinarily special and will continue to do so for millennia to come.

Major sources of income include contributions from the general public, grants, adoption fees from the shelter and equine center, revenues from clinic operations for the care of animals, fees from municipalities for providing sheltering services, contractual fees for caring for lost and found animals, and revenue from the operation of the thrift store.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). 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. The significant accounting policies followed are described below.

Financial Statement Presentation

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board (FASB) in accordance with GAAP. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, based upon the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations may be expended for any purpose in performing the primary objectives of the Organization. Certain net assets without donor restrictions are designated for specific purposes or uses by the Organization’s Board and classified as *Board Designated Net Assets*.

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 donors have stipulated that the funds or assets be maintained in perpetuity.

YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

With summarized financial information for December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. When a donor restriction ends or purpose is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions, and are reported in the statement of activities as net assets released from restrictions.

During the year ended December 31, 2018, one donor accounted for 36% of total revenue. No donor concentrations were noted for the year ended December 31, 2019.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents. As of December 31, 2019 and 2018, the Organization had cash deposits in excess of the Federal Deposit Insurance Corporation limits in the amount of \$281,097 and \$168,600, respectively. The Organization has not experienced any losses from these accounts. 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.

Certificates of Deposit

The Organization holds two certificates of deposit at separate banking institutions. The certificates were opened in December 2019 and mature in July 2020 and November 2020. They are included with current assets in the statement of financial position.

Accounts Receivable

Accounts receivable consist primarily of fees due from program services. Accounts deemed uncollectible are either charged to an allowance or written off to bad debt. As of December 31, 2019 and 2018, the Organization considers all receivables to be fully collectible. Therefore, the allowance for doubtful accounts is \$0 at December 31, 2019 and 2018.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

With summarized financial information for December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories consist of donated goods and items held for resale at the Thrift Store. Items are valued by using estimates, averages, and computational approximations, which are believed to approximate the fair value of the contributed inventory. This valuation method is considered a Level 3 fair value methodology, meaning that the inputs are based on assumptions, as described above, because observable inputs in an active market are not available.

Prepaid Expenses

As of December 31, 2019, prepaid expenses consist of insurance premiums, supplies, and rent paid in advance. As of December 31, 2018, prepaid expenses consist of insurance premiums and amounts paid in advance for upcoming events.

Property and Equipment

Property and equipment are stated at cost at date of acquisition or completion, or fair market value at date of donation in the case of gifts. The Organization's policy is to record purchases of property and equipment at costs in excess of \$2,500 as capital assets.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support 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 support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

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 upon demise or termination of the Organization, the land will revert to the City of Prescott. The value of the land is included in net assets with donor restrictions, held in perpetuity.

Fixed assets are depreciated using the straight-line method over the estimated useful lives of individual assets as follows:

Buildings and improvements	5 to 39 years
Equipment	3 to 15 years
Furniture and fixtures	7 years
Software	3 years
Vehicles	7 years

Repair and maintenance costs are expensed as incurred.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS**

December 31, 2019

With summarized financial information for December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, purpose and time restricted net assets are reclassified to undesignated net assets and reported in the Statements of Activities as net assets released from restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at December 31, 2019, contributions of \$7,500 have not been recognized in the accompanying financial statements because the conditions on which they depend have not been met. The unrecognized contribution is the second half of a \$15,000 grant, and the remaining funds will be disbursed once the first half has been spent and a progress report on how the funds were spent has been submitted and approved by the grantor.

There were no conditional promises to give at December 31, 2018.

In-Kind Contributions

The Organization records various types of in-kind contributions, including professional services, advertising, and goods and materials. Generally, professional 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. Contributions of tangible assets to the Thrift Store are reported as inventory.

The Organization receives a significant amount of unskilled, contributed time which does not meet the two recognition criteria described above. 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, 2019 and 2018, the Organization received 22,165 and 21,269 unskilled volunteer hours, respectively.

Advertising

The Organization uses advertising to promote its programs. The costs of advertising are expensed as incurred. Advertising expenses are \$64,044 and \$48,197 for the years ended December 31, 2019 and 2018, respectively.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS**

December 31, 2019

With summarized financial information for December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization has been classified as an Arizona Nonprofit Corporation that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; in addition, the Organization has no Unrelated Business Income Tax liabilities. Therefore, no provision has been made for income taxes due in the accompanying 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).

Functional Allocation of Expenses

The costs of providing the programs and other various activities have been summarized on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All time and expenses are tracked internally and reported by department based on actual usage. Expenses that are directly identifiable by department are charged directly to programs on the basis of what department incurred the cost. Expenses that are directly identifiable by department include salaries and wages, supplies, maintenance and repairs, municipalities expense, postage and printing. Expenses such as employee benefits and payroll taxes are allocated based on salary allocations by department. Other program-related expenses, such as depreciation, insurance, and utilities, are allocated based on property and equipment usage by department. Administration and fundraising expenses include both directly identifiable and allocated expenses not easily identifiable with specific program operations but related to the overall support and management of the Organization. All other expenses are allocated on the basis of estimates of time and effort.

Use of Estimates

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

Change in Accounting Principal

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 – Revenue from Contracts with Customers (Topic 606), which amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures. The standard is effective for annual reporting periods beginning after December 15, 2018.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

With summarized financial information for December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization has adopted ASU No. 2014-09 as amended by ASU No. 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which was issued by the FASB in June 2018. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously audited financial statements were required on a retrospective basis. The presentation and disclosure of revenue have been enhanced in accordance with the standards.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at December 31,

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 701,063	\$633,851
Certificates of deposit	450,000	-
Accounts receivable	10,088	6,416
Inventory	<u>24,400</u>	<u>50,627</u>
Total financial assets at year-end	1,185,551	690,894
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed purpose restrictions	<u>(132,705)</u>	<u>(38,832)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,052,846</u>	<u>\$652,062</u>

The Organization maintains sufficient resources to meet donor-imposed restrictions. As part of the Organization’s liquidity management plan, the board has established a reserve fund (see Note 4). Although the goal is to leave these funds invested, they can be drawn upon, if necessary, to meet unexpected liquidity needs. The balance of these funds as of December 31, 2019 and 2018, respectively, is \$647,240 and \$887,099.

In addition, the Organization maintains a revolving line of credit with JPMorgan Chase Bank that can be drawn upon to meet unexpected liquidity needs (see Note 6). The credit limit is \$100,000, and as of December 31, 2019 and 2018, the amount available to draw upon was \$100,000.

NOTE 4 – INVESTMENTS HELD BY ACF

Investments are presented in these financial statements at fair market value. The Board has established policies regarding investment objectives and investment guidelines for each fund type. The Organization maintains two general funds and one reserve fund that are held by the Arizona Community Foundation (ACF). The Board has established policies regarding investment objectives and investment guidelines for each fund type. The Organization has no variance power over the funds.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS**

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With summarized financial information for December 31, 2018

NOTE 4 – INVESTMENTS HELD BY ACF (continued)

As of December 31, 2019 and 2018, the Organization has a recorded balance of \$1,544,194 and \$1,714,501. Under the agreements, the Board may request the entirety of the invested assets at any time. Funds are invested in pooled investments in equitable market securities and fixed income securities held by ACF.

The fair values of these investments have been estimated using the net asset value (NAV) per share of the investments as provided by ACF, based on the value of each of the underlying investments, less applicable fees charged. The NAV is used as a practical expedient to estimate fair value. The practical expedient is not used when it is determined to be probable that the fund will sell for a different amount than the reported NAV.

As of December 31, the carrying value of investment assets held by ACF are summarized as follows:

	<u>2019</u>	<u>2018</u>
Board Designated General Funds	\$ 896,954	\$ 827,402
Board Designated Reserve Fund	647,240	887,099
	<u>\$1,544,194</u>	<u>\$1,714,501</u>

Changes in investment assets held by ACF are as follows:

	<u>2019</u>	<u>2018</u>
Investments held by ACF on January 1	\$1,714,501	\$1,027,761
Contributions	49,944	1,132,000
Investment return, net of fees	12,640	9,723
Net appreciation/(depreciation)	226,509	(113,683)
Distributions	<u>(459,400)</u>	<u>(341,300)</u>
Investments held by ACF on December 31	<u>\$1,544,194</u>	<u>\$1,714,501</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Land	\$ 128,383	\$ 128,383
Buildings and improvements	3,072,258	3,032,074
Equipment	446,775	439,125
Furniture & fixtures	23,068	23,068
Software	34,328	19,599
Vehicles	116,214	116,214
Construction in progress	<u>66,094</u>	<u>66,094</u>
	3,887,120	3,824,557
Less accumulated depreciation	<u>(1,278,709)</u>	<u>(1,132,229)</u>
Total, net of accumulated depreciation	<u>\$2,608,411</u>	<u>\$2,692,328</u>

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

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NOTE 5 – PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the year ended December 31, 2019 and 2018 is \$156,620 and \$160,095, 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 – LINE OF CREDIT

In September 2018 and again in August 2019, the Organization renewed a revolving line of credit with JPMorgan Chase Bank. The current line matures in October 2020. The credit limit is \$100,000 with interest payable monthly at 1.00% per annum over the bank's Prime Rate. The line was not utilized during 2019 or 2018, and there was no outstanding balance as of December 31, 2019 or 2018. The line of credit is secured by property and equipment.

NOTE 7 – CAPITAL LEASE

The Organization entered into a capital lease with Wells Fargo Financial Leasing, Inc. for a copy machine in 2015 that expired in February 2019. The copier had a \$1 purchase option at the end of the lease, which the Organization exercised.

Following is a summary of property held under capital lease as of December 31, 2018:

Copier	\$21,319
Accumulated depreciation	<u>(12,184)</u>
	<u>\$ 9,135</u>

As of December 31, 2018, future minimum lease payments total \$460, less \$1 imputed interest, for a net present value of \$459, which is recorded on the statement of financial position under current portion of capital lease obligation. The capital lease was paid in full during 2019.

Interest expense on capital leases, at an imputed interest rate of 1.73%, was \$1 and \$59 for the years ended December 31, 2019 and 2018, respectively.

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NOTE 8 – LONG-TERM DEBT

As of December 31, 2019 and 2018, the Organization had the following long-term debt outstanding:

	<u>2019</u>	<u>2018</u>
Note payable to National Bank of Arizona, with monthly payments of \$2,621, including principal and interest, due in full October 2033; interest rate adjusted every 5 years at LIBOR + 2.75% (5.90% through 2023); secured by building.	\$231,022	\$253,954
Less: current portion	<u>(18,102)</u>	<u>(16,733)</u>
Total long-term debt	<u>\$212,920</u>	<u>\$237,221</u>

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

Year ending December 31,	
2020	\$ 18,102
2021	19,254
2022	20,436
2023	21,691
2024	22,998
Thereafter	<u>128,541</u>
	<u>\$231,022</u>

NOTE 9 – OPERATING LEASES

The Organization leases office space for clinic program services, a mobile office for administrative services, and three storage units under operating leases. The lease for the clinic, dated November 2016, requires escalating monthly payments that increase 3% each lease year, expiring October 2020. As of December 31, 2019, monthly payments are \$2,759 plus tax. The mobile office lease, dated December 2016, requires monthly payments of \$259 plus tax for 48 months, expiring December 2020. The storage units are rented on a month-to-month basis. Total rent expense and associated fees for the years ended December 31, 2019 and 2018, was \$39,293 and \$38,146, respectively.

The minimum lease payments required under the above operating leases as of December 31, are as follows:

Year ending December 31, 2020	<u>\$31,663</u>
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YAVAPAI HUMANE SOCIETY
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NOTE 10 – RESTRICTIONS ON NET ASSETS

All donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. Net assets with donor restrictions include donor-restricted contributions and grants restricted by time and purpose as well as those that are held in perpetuity, depending on the nature of the restrictions. When a restriction expires, net assets with time and purpose restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

Net assets with donor restrictions as of December 31, 2019 and 2018, are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Capital improvement projects	\$ 24,633	\$24,633
Equine center capital improvements	35,000	-
Animal food	31,850	-
Low cost spay/neuter programs	23,949	2,515
New Hope program	782	5,699
Cattery/cat care	1,341	481
Temporary boarding assistance	5,193	2,653
Special treatment and recovery (STAR)	2,469	-
Low cost medical surgeries	6,954	1,540
Vaccinations	310	-
Website maintenance	<u>224</u>	<u>1,311</u>
	<u>\$132,705</u>	<u>\$38,832</u>

Net assets with donor restrictions, presented in these financial statements as held in perpetuity, are due to donor-imposed restrictions. In 1976, the Organization was deeded a parcel of land from the City of Prescott. Under conditions of the deed, the land must be used for a nonprofit animal hospital and/or shelter. Upon demise or termination of the Organization, the land will revert to the City of Prescott.

	<u>2019</u>	<u>2018</u>
Net assets held in perpetuity at December 31:		
Land	<u>\$12,345</u>	<u>\$12,345</u>

NOTE 11 - REVENUE AND REVENUE RECOGNITION

Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Organization records special events revenue equal to the fair value of direct benefit to donors, and contribution income for the excess received, when the event takes place.

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NOTES TO FINANCIAL STATEMENTS**

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NOTE 11 - REVENUE AND REVENUE RECOGNITION (continued)

Revenue from adoption fees from the shelter and equine center is recognized at a point in time when the animal is transferred to a new home. Revenues from clinic operations for the care of animals and fees from municipalities for providing sheltering services and licenses are recognized at a point in time when services are provided. Revenue from the operation of the thrift store is recognized at the point of sale.

The Organization also receives contractual fees for caring for lost and found animals. Per the terms of the agreements, the annual fees for providing such services are received in equal monthly installments throughout the year. Because services are provided on a continual basis over a period of time, revenue is recognized ratably over the life of the contracts. Although the contract terms extend beyond December 31, 2019, the contracts can be terminated or amended by either party with advance written notice. Therefore, no deferred revenue is recognized for the remaining contract terms. The Organization expects the contracts to continue and to be renewed.

During the years ended December 31, 2019 and 2018, \$277,169 and \$271,539 of revenue, respectively, was recognized from services transferred over time. All other revenue was recognized at a point in time.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

Prior to fiscal year 2018, donated Thrift Store inventory was not recorded when received due to uncertainty over the ability of the store to sell the inventory. As such, value was assigned when items were sold, and those sales were recorded as thrift store revenue.

FASB has clarified its position on in-kind contributions, including contributed inventory, and in-kind inventory contributions are now required to be reported when received. As a result, the Organization recorded inventory valuations as of December 31, 2017 and 2018, and beginning net assets for the year ended December 31, 2018 were increased by \$51,294.

In addition, in the prior year, the Organization discovered that a capital lease that began in 2015 had not been previously recorded. As a result, the Organization restated its financial statements for the year ended December 31, 2017 in order to record the asset acquired and the related capital lease obligation. The effect of the correction on the December 31, 2017 balances was to increase plant and equipment by \$21,319, increase accumulated depreciation by \$9,138, establish a capital lease obligation balance of \$5,920, which increased liabilities, record additional depreciation expense of \$3,046, reduce printing expense by \$5,520 for the monthly rental payments that were recorded as expense, and increase interest expense by \$152 for the effects of imputed interest. Beginning net assets for the year ended December 31, 2018 were increased by \$6,261.

Beginning net assets without donor restrictions as of December 31, 2018 were increased by \$57,555 as a result of these corrections.

**YAVAPAI HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS**

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NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 10, 2020, the date which the financial statements were available to be issued. On January 1, 2020, the Organization began offering a Simple IRA plan for all employees that includes a matching employer contribution.

Subsequent to year-end, the Organization is continuing to monitor its investment portfolio and liquidity to minimize the potential impact of the COVID-19 pandemic. The extent to which the COVID-19 pandemic may impact the Organization's operations, financial condition, and cash flows will depend on future developments - which are highly uncertain and cannot be reasonably predicted.