YAVAPAI HUMANE SOCIETY
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

Year Ended December 31, 2018
With Summarized Financial Information
For the Year Ended December 31, 2017

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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, 2018, 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, 2018, 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.

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Prior Period Financial Statements

The financial statements of Yavapai Humane Society as of December 31, 2017, were audited by other auditors whose opinion, dated June 19, 2018, expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

Yavapai Humane Society's 2017 financial statements were audited by other auditors, who expressed an unmodified audit opinion on those audited financial statements in their report dated June 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, except as noted below, 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, the Financial Accounting Standards Board recently issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities which supersedes accounting standards that currently exist under GAAP and addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and return on investments. In August 2016, the FASB issued ASU 2016-14, which is effective for periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. The ASU has been applied retrospectively to all periods presented.

Restatement of Prior Period Net Assets

As discussed in Note 11 to the financial statements, prior period net assets were restated due to a prior period understatement of amounts previously reported for thrift store inventory as of December 31, 2017, and a prior period understatement of amounts previously reported for property and equipment and of amounts previously reported for capital lease obligations as of December 31, 2017. These understatements were discovered by management of the Organization during the current year. Accordingly, amounts reported for inventory, property and equipment, and capital lease obligations have been restated in the 2017 financial statements now presented, and adjustments have been made to net assets without donor restrictions as of December 31, 2017 and 2016, to correct these understatements. Our opinion is not modified with respect to this matter.

Schutts & Hilgendorf

Prescott, Arizona
May 31, 2019

YAVAPAI HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
December 31, 2018
(with summarized financial information for December 31, 2017)

ASSETS	2018	(restated) 2017
Current Assets		
Cash and cash equivalents	$ 633,851	$ 709,908
Accounts receivable	6,416	8,419
Inventory	50,627	51,294
Prepaid expenses	48,091	13,516
Total current assets	738,985	783,137
Property and equipment, net	2,692,328	2,656,894
Investments held by ACF	1,714,501	1,027,761
Other assets	4,950	4,950
TOTAL ASSETS	$ 5,150,764	$ 4,472,742
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 83,130	$ 76,647
Accrued liabilities	124,179	92,091
Current portion of long-term obligations	17,192	28,441
Total current liabilities	224,501	197,179
Long-term obligations, net of current portion	237,221	263,572
TOTAL LIABILITIES	461,722	460,751
NET ASSETS		
Without donor restrictions		
Undesignated	2,923,364	2,835,375
Board designated	1,714,501	1,027,761
With donor restrictions		
Restricted by time and purpose	38,832	136,510
Held in perpetuity	12,345	12,345
TOTAL NET ASSETS	4,689,042	4,011,991
TOTAL LIABILITIES AND NET ASSETS	$ 5,150,764	$ 4,472,742

See notes to financial statements

YAVAPAI HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(with summarized financial information for December 31, 2017)

	2018			(restated) 2017
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Totals
REVENUE, GAINS AND OTHER SUPPORT				
Contributions	$ 2,358,774	$ 21,227	$ 2,380,001	$ 1,545,206
Program grants	10,450	54,175	64,625	230,255
In-kind contributions	29,058	-	29,058	37,736
Event revenue	53,424	-	53,424	43,724
Program revenue				
Lost & found/animal intake	377,515	-	377,515	391,014
Spay/neuter & shelter clinic	448,941	-	448,941	480,308
Adoption shelter	113,044	-	113,044	110,888
Thrift store	272,141	-	272,141	277,480
Equine center	16,177	-	16,177	7,450
Interest and investment income/(loss)	(100,675)	-	(100,675)	115,468
Other income (loss)	(8,889)	-	(8,889)	(2,319)
Total revenue, support, gains	3,569,960	75,402	3,645,362	3,237,210
Reclassification and release from net asset restrictions	173,080	(173,080)	-	-
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	$ 3,743,040	$ (97,678)	$ 3,645,362	$ 3,237,210
EXPENSES				
Program services				
Lost & found/animal intake	$ 308,440	-	308,440	296,617
Spay/neuter & shelter clinic	1,174,425	-	1,174,425	1,193,215
Adoption shelter	591,727	-	591,727	559,328
Thrift store	258,074	-	258,074	245,121
Equine center	156,915	-	156,915	111,632
Support services		-	-	
Administraive costs	199,610	-	199,610	257,692
Fund development	279,120	-	279,120	289,713
TOTAL EXPENSES	2,968,311	-	2,968,311	2,953,318
INCREASE(DECREASE) IN NET ASSETS	774,729	(97,678)	677,051	283,892
NET ASSETS, BEGINNING OF THE YEAR, AS PREVIOUSLY REPORTED	3,805,581	148,855	3,954,436	3,671,625
Restatement of prior period net assets	57,555	-	57,555	56,474
NET ASSET, END OF YEAR	$ 4,637,865	$ 51,177	$ 4,689,042	$ 4,011,991

YAVAPAI HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(with summarized financial information for December 31, 2017)

	PROGRAM SERVICES						SUPPORT SERVICES			(restated) 2017
	LOST & FOUND/ ANIMAL INTAKE	SPAY/NEUTER & SHELTER CLINIC	ADOPTION SHELTER	THRIFT STORE	EQUINE CENTER	TOTAL	ADMINISTRATIVE COSTS	FUND DEVELOPMENT	2018 TOTALS	SUMMARIZED TOTALS
Adoption expense	$ -	$ 136	$ 1,285	$ -	$ -	$ 1,421	$ -	$ -	$ 1,421	$ 1,573
Advertising	-	18,974	73	13,777	3,687	36,511	40	11,646	48,197	59,293
Auto expense	212	1,210	1,420	2,211	3,270	8,323	1,412	1,807	11,542	9,051
Bad debt expense	524	178	71	-	-	773	-	124	897	-
Bank fees	1,345	3,302	1,674	4,239	318	10,878	2,688	7,140	20,706	21,359
Board expenses	-	-	-	-	-	-	1,342	-	1,342	116
Clinic supplies	-	84,993	-	-	1,388	86,381	-	-	86,381	110,081
Depreciation	2,058	46,653	46,804	20,546	27,773	143,834	9,631	6,630	160,095	147,000
Dues, licenses and subscriptions	675	950	743	177	33	2,578	3,959	8,698	15,235	15,538
Employee benefits	15,073	62,997	27,904	11,915	4,894	122,783	29,944	16,025	168,752	130,768
Employee costs	1,037	2,404	2,217	460	72	6,190	4,727	478	11,395	5,420
Event expenses	-	470	-	-	-	470	18	19,564	20,052	18,857
Insurance	12,791	35,932	23,567	10,998	5,697	88,985	9,215	2,334	100,534	112,610
Interest expense	-	-	-	12,776	-	12,776	-	58	12,834	13,412
Maintenance and repairs	6,814	11,910	13,680	4,602	6,760	43,766	1,239	9,310	54,315	57,675
Municipalities expense	12,233	15,643	3,036	-	-	30,912	-	-	30,912	30,312
Office supplies	616	2,303	556	329	346	4,150	2,450	935	7,535	8,916
Operational and medical supplies	27,243	131,073	70,302	4,710	15,476	248,804	1,737	2,018	252,559	271,013
Payroll taxes	15,557	48,075	27,359	11,630	5,431	108,052	3,210	7,047	118,309	121,799
Postage and printing	600	1,428	3,644	389	437	6,498	1,135	87,647	95,280	97,803
Professional fees	530	1,849	1,427	-	2,213	6,019	24,365	530	30,914	44,326
Rent expense	-	32,382	-	2,302	-	34,684	3,462	-	38,146	37,122
Salaries and wages	189,675	620,584	346,355	142,252	66,558	1,365,424	96,596	86,609	1,548,629	1,483,824
Utilities	21,457	15,412	19,610	14,761	7,497	78,737	2,440	6,901	88,078	87,745
Veterinary services	-	35,369	-	-	4,919	40,288	-	2,105	42,393	66,492
Volunteer expenses	-	198	-	-	146	344	-	1,514	1,858	1,213
	$ 308,440	$ 1,174,425	$ 591,727	$ 258,074	$ 156,915	$ 2,489,581	$ 199,610	$ 279,120	$ 2,968,311	$ 2,953,318
Percent of 2018 total expense	10.4%	39.6%	19.9%	8.7%	5.3%	83.9%	6.7%	9.4%		

YAVAPAI HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with summarized financial information for December 31, 2017)

	2018	(restated) 2017
CASH FLOW FROM OPERATING ACTIVITIES		
Increase(decrease) in net assets	$ 677,051	$ 283,891
Adjustments to reconcile increase(decrease) in net assets to net cash (used) by operating activities:		
Depreciation expense	160,095	147,000
(Gain) Loss on disposition of assets	1,422	2,319
Change in donated inventory	667	1,241
Realized and unrealized (gain) loss on investments	113,682	(62,824)
Decrease (Increase) in:		
Accounts receivable	2,003	(4,465)
Prepaid expenses	(34,575)	5,453
Increase (Decrease) in:		
Accounts payable	6,483	(10,775)
Accrued liabilities	32,088	(8,897)
NET CASH PROVIDED BY OPERATING ACTIVITIES	958,916	352,943
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(199,651)	(24,298)
Proceeds from sale of property and equipment	2,700	-
Purchases of investments	(1,132,000)	(143,986)
Proceeds from investment withdrawals	341,301	55,181
Reinvested dividends, net of fees	(9,723)	-
NET CASH (USED) BY INVESTING ACTIVITES	(997,373)	(113,103)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(5,461)	(5,367)
Payments on long-term debt	(32,139)	(27,790)
NET CASH (USED) BY FINANCING ACTIVITIES	(37,600)	(33,157)
NET INCREASE(DECREASE) IN CASH	(76,057)	206,683
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	709,908	503,225
CASH AT END OF PERIOD	$ 633,851	$ 709,908
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 12,834	$ 13,412

See notes to financial statements

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

<u>Basis of Accounting</u>

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.

<u>Financial Statement Presentation</u>

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.

> <u>Net assets without donor restrictions</u> – 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*.
>
> <u>Net assets with donor restrictions</u> – 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.

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, and during the year ended December 31, 2017, one donor accounted for 10% of total revenue.

<u>Comparative Financial Information</u>

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, 2017, from which the summarized information was derived.

<u>Cash and Cash Equivalents</u>

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, 2018 and 2017, the Organization had cash deposits in excess of the Federal Deposit Insurance Corporation limits in the amount of $168,600 and $447,706, 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.

<u>Accounts Receivable</u>

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, 2018 and 2017, the Organization considers all receivables to be fully collectible. Therefore, the allowance for doubtful accounts is $0 at December 31, 2018 and 2017.

<u>Inventories</u>

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.

GAAP requires that contributed inventory be recorded when received, if material. Because inventory was not recorded in the prior year, a prior period adjustment was made to establish inventory as of December 31, 2017. See Note 11.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

As of December 31, 2017, prepaid expenses consist of insurance premiums. 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.

Advertising

The Organization uses advertising to promote its programs. The costs of advertising are expensed as incurred. Advertising expenses are $48,197 and $59,293 for the years ended December 31, 2018 and 2017, respectively.

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).

Contributions

Contributions 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.

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, 2018 and 2017, the Organization received 21,269 and 22,016 unskilled volunteer hours, respectively.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Except for a prior period adjustment as explained in Note 11, net assets and changes in net assets are unchanged due to these reclassifications. Although summarized comparative information is presented, except as explained in Note 11, there were no changes to functional expense totals by program service or support services as a result of these reclassifications.

Change in Accounting Principal

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and return investment. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 3 – AVAILABILITY AND LIQUIDITY

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

	2018	2017
Cash and cash equivalents	$633,851	$709,908
Accounts receivable	6,416	8,419
Inventory	50,627	51,294
Total financial assets at year-end	690,894	769,908
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed purpose restrictions	(38,832)	(136,510)
Financial assets available to meet cash needs for general expenditures within one year	$652,062	$633,111

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, 2018 and 2017, respectively, is $887,099 and $114,704.

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, 2018 and 2017, 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.

As of December 31, 2018 and 2017, the Organization has a recorded balance of $1,714,501 and $1,027,761. 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 use 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.

NOTE 4 – INVESTMENTS HELD BY ACF (continued)

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

	2018	2017
Board Designated General Funds	$ 827,402	$ 913,057
Board Designated Reserve Fund	887,099	114,704
	$1,714,501	$1,027,761

Changes in investment assets held by ACF are as follows:

	2018	2017
Investments held by ACF on January 1	$1,027,761	$ 876,132
Contributions	1,132,000	84,700
Investment return, net of fees	9,723	7,998
Net appreciation/(depreciation)	(113,682)	107,131
Distributions	(341,300)	(48,200)
Investments held by ACF on December 31	$1,714,501	$1,027,761

NOTE 5 – PROPERTY AND EQUIPMENT

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

	2018	2017
Land	$ 128,383	$ 128,383
Buildings and improvements	3,032,074	2,901,034
Equipment	439,125	432,864
Furniture & fixtures	23,068	4,193
Software	19,599	19,599
Vehicles	116,214	114,715
Construction in progress	66,094	66,094
	3,824,557	3,666,882
Less accumulated depreciation	(1,132,229)	(1,009,988)
Total, net of accumulated depreciation	$2,692,328	$2,656,894

Depreciation expense for the year ended December 31, 2018 and 2017 is $160,095 and $147,000, 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, the Organization renewed a revolving line of credit with JPMorgan Chase Bank. 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 2018 or 2017, and there was no outstanding balance as of December 31, 2018 or 2017. 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 expires in February 2019. The copier has a $1 purchase option at the end of the lease, which the Organization intends to exercise. Because the capital lease was not reported in the prior period financial statements, a prior period adjustment was made to record the capital lease as of December 31, 2017. See Note 11.

Following is a summary of property held under capital lease as of December 31, 2018 and 2017:

	2018	2017
Copier	$21,319	$21,319
Accumulated depreciation	(12,184)	(9,138)
	$ 9,135	$12,181

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.

Interest expense on capital leases, at an imputed interest rate of 1.73%, was $59 and $153 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2018 and 2017, the Organization had the following long-term debt outstanding:

	2018	2017
Note payable to National Bank of Arizona, with monthly payments of $2,621, including principal and interest, due in full October 2033; interest rate of LIBOR + 2.75% (5.90% as of December 31, 2018); secured by building.	$253,954	$278,629
Non-interest bearing note payable to a related party, with monthly payments of $300, secured by equipment, paid in full in June 2018.	-	7,464
Total notes payable	253,954	286,093
Less: current portion	(16,733)	(22,980)
Total long-term debt	$237,221	$263,113

NOTE 8 – LONG-TERM DEBT (continued)

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

Year ending December 31,	
2019	$ 16,733
2020	17,721
2021	18,849
2022	20,007
2023	21,236
Thereafter	159,408
	$253,954

NOTE 9 – OPERATING LEASES

The Organization leases office space for clinic program services, a mobile office for administrative services, and two 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, 2018, monthly payments are $2,679 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, 2018 and 2017, was $38,146 and $37,122, respectively.

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

Year ending December 31,	
2019	$36,524
2020	31,680
	$68,204

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.

NOTE 10 – RESTRICTIONS ON NET ASSETS (continued)

Net assets with donor restrictions as of December 31, 2018 and 2017, are available for the following purposes:

	2018	2017
Capital improvement projects	$24,633	$ 24,633
Low cost spay/neuter programs	2,515	53,737
New Hope program	5,699	7,109
Cattery/cat care	481	3,681
Temporary boarding assistance	2,653	3,712
Special treatment and recovery (STAR)	-	34,834
Low cost medical surgeries	1,540	6,021
Website maintenance	1,311	2,783
	$38,832	$136,510

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.

Net assets held in perpetuity at December 31:	2018	2017
Land	$12,345	$12,345

NOTE 11 – PRIOR PERIOD ADJUSTMENT

In prior years, 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 has recorded inventory as of December 31, 2016, 2017, and 2018 and has restated its financial statements as of December 31, 2017.

Inputs for measuring the fair value of contributed inventory items may be obtained from published catalogs, vendors, independent appraisals, and other sources. If methods such as estimates, averages, or computational approximations can reduce the cost of measuring the fair value of inventory, use of those methods is appropriate, provided the methods are applied consistently, and the results of applying those methods are reasonably expected not to be materially difference from the results of the detailed measurement of the fair value of contributed inventory.

NOTE 11 – PRIOR PERIOD ADJUSTMENT (continued)

The Organization has elected to measure contributed inventory items by using estimates, averages, and computational approximations, which are believed to reasonably approximate the fair value of contributed inventory.

The effect of the correction on the December 31, 2017 balances was to increase inventory by $51,294 and decrease thrift store revenue by $1,241 to reflect a reduction in inventory from December 31, 2016 to December 31, 2017. Beginning net assets were increased by $52,535.

In addition, during the current year, the Organization discovered that a capital lease that began in 2015 had not been previously recorded. As a result, the Organization has 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 were increased by $3,939.

The cumulative effect of both prior period adjustments to the December 31, 2017 balances was to increase assets by $6,475, increase liabilities by $5,920, increase beginning net assets by $56,474, decrease revenues by $1,241, and increase expenses by $2,322. Beginning net assets without donor restrictions as of December 31, 2018 were increased by $57,555 as a result of these corrections.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 31, 2019, the date which the financial statements were available to be issued. No items were noted that would require disclosure in these financial statements.