

THE HUMANE SOCIETY OF BOULDER
VALLEY, INC.

Financial Statements As Of December 31, 2022

(With Summarized Financial Information For
The Year Ended December 31, 2021)

Together With Independent Auditors' Report





INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Humane Society of Boulder Valley, Inc.:

Opinion

We have audited the accompanying financial statements of Humane Society of Boulder Valley, Inc. (the "Society"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

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Independent Auditors' Report (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

Independent Auditors' Report (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Reporting on Summarized Comparative Information

We have previously audited the Society's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 8, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

JDS Professional Group

December 5, 2023

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position

As Of December 31, 2022

(With Summarized Financial Information As of December 31, 2021)

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	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 682,318	\$ 334,739
Accounts receivable, net	492,842	51,050
Promises to give, net	363,053	182,173
Investments	5,290,531	9,619,507
Prepaid expenses	33,243	125,888
Inventories	9,218	13,158
Total Current Assets	6,871,205	10,326,515
Promises to give, less current portion	48,173	82,216
Beneficial interest in trusts, at market	2,565,889	3,287,285
Cash restricted to purchase of capital expenditures	433,261	
Investments restricted to endowments	164,660	191,340
Investments restricted to purchase of capital expenditures	389,506	384,231
Promises to give restricted for capital expenditures	415,660	147,160
Property and equipment, net	6,476,173	3,230,133
TOTAL ASSETS	<u>\$ 17,364,527</u>	<u>\$ 17,648,880</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, trade	\$ 196,711	\$ 197,730
Accrued payroll and other liabilities	347,193	330,160
Current portion of liability under split-interest	8,100	8,100
Total Current Liabilities	552,004	535,990
Liability under split-interest agreement	69,227	71,446
Total Liabilities	621,231	607,436
Net Assets:		
Undesignated	5,731,565	6,939,442
Designated by the Board for capital campaign		2,496,620
Investment in facilities, property and equipment	6,476,173	3,230,133
Total net assets without donor restrictions	12,207,738	12,666,195
Net assets with donor restrictions	4,535,558	4,375,249
Total Net Assets	16,743,296	17,041,444
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,364,527</u>	<u>\$ 17,648,880</u>

The accompanying notes are an integral part of the financial statements.

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Activities

For The Year Ended December 31, 2022

(With Summarized Financial Information For The Year Ended December 31, 2021)

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	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support And Revenue:				
Contributions, grants and bequests	\$ 2,051,902	\$ 2,241,279	\$ 4,293,181	\$ 2,854,954
Government contributions	454,452		454,452	752,744
Special events	363,219		363,219	463,786
Adoption fees	602,094		602,094	803,662
Surrender fees	46,488		46,488	46,142
Veterinary hospital	1,768,273		1,768,273	1,876,382
Pet training	293,014		293,014	339,361
Governmental service contracts	223,720		223,720	215,110
Impound fees	23,088		23,088	23,110
Retail sales, net of direct costs	28,577		28,577	34,801
Thrift and gift shop sales				348,995
Contribution of nonfinancial assets	67,109		67,109	101,670
Other income	47,567		47,567	32,793
Change in value of split-interest agreement	(5,881)		(5,881)	(5,924)
Change in beneficial interest in trusts		(721,396)	(721,396)	262,446
Investment income, net	(946,442)		(946,442)	1,141,104
Net assets released from restrictions - Satisfaction of time/purpose restrictions	1,359,574	(1,359,574)		
Total Support and Revenue	6,376,754	160,309	6,537,063	6,436,182
Expenses:				
Program Services -				
Shelter, behavior and training	2,878,609		2,878,609	2,498,477
Veterinary hospital	2,708,554		2,708,554	2,573,002
Community outreach	182,422		182,422	193,833
Total Program Services	5,769,585		5,769,585	5,265,312
Supporting Services -				
Thrift and gift shop				317,593
Philanthropy	569,101		569,101	594,718
General and administrative	496,525		496,525	379,810
Total Supporting Expenses	1,065,626		1,065,626	1,292,121
Total Expenses	6,835,211		6,835,211	6,557,433
CHANGES IN NET ASSETS FROM OPERATIONS	(458,457)	160,309	(298,148)	2,733,703
Net Assets, Beginning Of Year	12,666,195	4,375,249	17,041,444	14,307,741
NET ASSETS, END OF YEAR	\$ 12,207,738	\$ 4,535,558	\$ 16,743,296	\$ 17,041,444

The accompanying notes are an integral part of the financial statements.

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Functional Expenses

For the Year Ended December 31, 2022

(With Summarized Financial Information For the Year Ended December 31, 2021)

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	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach	Total Programs	Philanthropy	General And Administrative	Total Supporting	2022 Expenses	2021 Expenses
Salaries	\$ 1,775,912	\$ 1,629,881	\$ 113,420	\$ 3,519,213	\$ 260,976	\$ 249,569	\$ 510,545	\$ 4,029,758	\$ 3,667,138
Employee benefits	168,315	148,859	8,628	325,802	14,164	38,871	53,035	378,837	347,306
Payroll taxes	137,459	125,207	8,701	271,367	19,275	19,705	38,980	310,347	284,835
Total Salaries and related expenses	2,081,686	1,903,947	130,749	4,116,382	294,415	308,145	602,560	4,718,942	4,299,279
Advertising	2,186			2,186	14,294		14,294	16,480	10,953
Animal food	46,846			46,846				46,846	46,038
Contract services	114,988	211,549	32,721	359,258	124,371	92,256	216,627	575,885	579,348
Cost of special events					26,623		26,623	26,623	22,477
Credit card and sales platform processing fees	42,785	49,831		92,616	38,898		38,898	131,514	120,411
Depreciation and amortization	160,867	28,644		189,511	8,294	9,646	17,940	207,451	242,217
Dues and subscriptions	7,298	13,396	1,704	22,398	2,131	3,531	5,662	28,060	25,383
Equipment rental	3,060	2,436		5,496	1,089	792	1,881	7,377	7,411
Insurance	36,923	27,693	925	65,541	5,652	4,730	10,382	75,923	79,128
Legal and accounting	680	544		1,224		20,265	20,265	21,489	20,630
Miscellaneous	19,836	21,033	50	40,919	3,047	5,165	8,212	49,131	49,738
Office expense	3,005	2,934		5,939	289	2,063	2,352	8,291	9,466
Postage	94	1,628	2,478	4,200	15,021	1,074	16,095	20,295	27,015
Printing	4,593	180	13,013	17,786	2,158	556	2,714	20,500	14,763
Rent	36,232			36,232				36,232	70,740
Repair, maintenance and security	92,262	22,919		115,181	18,662	12,063	30,725	145,906	184,578
Supplies	101,110	18,046	782	119,938	8,351	8,985	17,336	137,274	134,685
Travel and training	7,234	14,778		22,012	3,323	16,478	19,801	41,813	27,840
Utilities	99,275	19,462		118,737	2,486	10,773	13,259	131,996	157,613
Vehicle expense	10,114			10,114				10,114	17,593
Veterinary supplies	7,535	369,534		377,069				377,069	410,127
Total Expenses	\$ 2,878,609	\$ 2,708,554	\$ 182,422	\$ 5,769,585	\$ 569,104	\$ 496,522	\$ 1,065,626	\$ 6,835,211	\$ 6,557,433

The accompanying notes are an integral part of the financial statements.

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Cash Flows

For The Year Ended December 31, 2022

(With Summarized Financial Information For The Year Ended December 31, 2021)

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	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Changes in net assets from operations	\$ (298,148)	\$ 2,733,703
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	207,451	242,217
Loss on disposal of assets	12,401	35,582
Donated investments	(916,170)	
Net (gain)/loss on investments	1,226,810	(801,364)
Change in allowance for doubtful accounts	6,000	1,000
Change in beneficial interest in trusts	721,396	(262,477)
Change in value of split-interest agreement	5,881	5,924
Contributions restricted for endowment in perpetuity	(2,000)	(3,500)
Forgiveness of PPP funds		(752,744)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(447,792)	(26,935)
(Increase) decrease in promises to give	(415,337)	451,101
(Increase) decrease in prepaid expenses	92,645	(104,135)
Decrease in inventories	3,940	15,618
Increase (decrease) in accounts payable	(1,019)	91,415
Increase in accrued payroll, and other liabilities	<u>17,033</u>	<u>37,827</u>
Net cash provided by operating activities	<u>213,091</u>	<u>1,663,232</u>
Cash flows from investing activities:		
Purchases of investments	(3,745,713)	(7,600,202)
Sales of investments	7,785,453	5,544,496
Payments on split-interest agreement	(8,100)	(8,100)
Purchases of property and equipment	<u>(3,465,891)</u>	<u>(574,884)</u>
Net cash provided by (used in) investing activities	<u>565,749</u>	<u>(2,638,690)</u>
Cash flows from financing activities:		
Refundable advance proceeds		752,744
Proceeds from contributions restricted for investment of endowment in perpetuity	<u>2,000</u>	<u>3,500</u>
Net cash provided by financing activities	<u>2,000</u>	<u>756,244</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	780,840	(219,214)
Cash And Cash Equivalents, Beginning Of Year	<u>334,739</u>	<u>553,953</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,115,579</u></u>	<u><u>\$ 334,739</u></u>

The accompanying notes are an integral part of the financial statements.

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Notes To Financial Statements
For The Year Ended December 31, 2022

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(1) Nature Of The Society

The Humane Society of Boulder Valley, Inc. (the “Society”) serves Boulder, Colorado and the surrounding areas. Its mission is to protect and enhance the lives of companion animals by promoting healthy relationships between pets and people.

The Society is supported by contributions and grants; fees for services, such as: adoptions, lost and found services, pet training and behavior, and veterinary hospital; and retail sales of donated items at the thrift shop and of pet supplies. During December 2021, the thrift store was permanently closed.

(2) Summary Of Significant Accounting Policies

Method Of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis Of Presentation

The Society reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and with donor restrictions as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Prior - Year Amounts

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 Society’s audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates, and those differences could be material.

Recently Adopted Accounting Standards

In 2023, USMEF adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which required lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements. The adoption did not result in any impact on amounts reported on the Statement of Financial Position and the Statement of Activities during the year ended December 31, 2022.

Measure Of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non operating activities. Operating activities consists of those items attributable to the Society's ongoing program services and investment earnings. Nonoperating activities are limited to activities considered to be of a more unusual or nonrecurring nature.

Fair Value Measurements

The Society follows *Fair Value Measurements*, which among other things requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Mutual funds: Valued at the published net asset value (NAV) of the shares held at the reporting date.

Equities: Valued at the closing prices reported on the active market on which the individual securities are traded.

Pooled trust: Valued as reported by the trust holding the investments.

Donated interest in time share: Reflected at fair market value at the date of the donation.

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

The carrying amount reported in the statement of financial position for cash and cash equivalents, accounts receivable, unconditional promises to give, accounts payable and accrued payroll and other liabilities and accrued interest, approximate fair value because of the immediate or short-term maturities of these financial instruments.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

Cash And Cash Equivalents

The Society considers cash and cash equivalents to be cash on hand, demand deposits and repurchase accounts with maturities of 90 days or less, except those held for long-term investments.

Statement Of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents consists of demand deposits, and short term investments available for current use with an original maturity of three months or less.

Reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts in the statement of cash flows as of December 31, 2022:

Cash and cash equivalents	\$ 682,318
Restricted cash	433,261
	<u>\$ 1,115,579</u>

Cash And Investments Restricted To Purchase Of Capital Expenditures

Cash and investments restricted to purchase of capital expenditures has been restricted by donors and is not available for operating purposes.

Accounts Receivable

The Society uses the allowance method to record uncollectible accounts. The allowance is based on past experience and on specific analysis of the collectability of individual accounts receivable. Management believes receivables may not be fully collectible for the veterinary hospital and has therefore established an allowance account for \$10,000.

Leases

The Society determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities on the Statements of Financial Position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Society does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Compensated Absences

The Society accrues for the costs of compensated absences to the extent that the employee's right to receive payment relates to service already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated.

Inventories

Inventories of pet supplies are stated at the lower of cost or net realizable value with cost determined by using the first-in, first-out (FIFO) method.

Investments

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property And Equipment

Expenditures for property and equipment, in excess of \$1,000, are stated at cost and depreciated using straight-line methods based upon estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Equipment	5 to 12 years
Automobiles	5 years
Furniture and fixtures	12 years
Software	3 years

Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments which materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of the assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the change in net assets. Construction in progress is not depreciated until the asset is placed into service.

Revenue And Revenue Recognition

The Society recognizes revenue from adoption fees when the animal is transferred to the new home. Surrender and impound fees, government service contracts and veterinary hospital revenue as services are performed. Pet training revenues are recognized over the training period. Retail and thrift and gift shop sales are recognized at the time of sale as returns are minimal. Sponsorships are recognized as a contribution as the Society does not provide any material benefits to the sponsors. Other revenue is recognized as services are performed. Total revenue recognized at a point-in-time and over time amounted to \$2,739,807 and \$293,014, respectively.

The Society recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year. As of December 31, 2022, there was no material difference between the present value of the promises to give and the amount recorded in the financial statements which is at face value.

Management determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collection. Promises to give are written off when deemed uncollectible. As of December 31, 2022, the allowance was \$5,000.

Conditional promises to give with a measurable performance or other barrier and a right of return/right of release are not recognized until the conditions on which they depend have been met. As of December 31, 2022, the Society had no conditional promises to give.

The Society reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated services, materials (including goods donated to the Thrift Shop for resale), and facilities that meet required criteria are reflected in the financial statements as contributions and expenses at fair market value or rates estimated by management at the time of the donation. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Society. The Society received 39,020 volunteer hours for the year ended December 31, 2022. Amounts applicable to these donated services are not reflected in the accompanying financial statements because the volunteers' time does not meet the criteria for recognition.

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 restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Methods Used for Allocation of Expenses from Management and General Activities

The cost of providing program and other activities 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 benefitted. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, wages and related payroll	Time and effort
Contract services, insurance	Allocated by estimated proportion of benefit
Equipment rental	Full-time equivalent
Miscellaneous	Full-time equivalent
Printing	Space allocation in newsletter
Repairs, maintenance and security; utilities	Square footage allocation
Depreciation	Square footage allocation

Subsequent Events

The Society has performed an evaluation of subsequent events through December 5, 2023, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes.

(3) Tax Exempt Status And Deferred Tax

The Society, a public charity, has previously received notice from the Internal Revenue Service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code. Certain portions of the Society's operation are subject to unrelated business income tax. The Society has a net operating loss carry forward of \$2,386,384. The resulting deferred tax asset amounted to \$558,414 and has been fully allowed for as the Society does not expect to utilize it. Accordingly, this has not been reflected in the financial statements. During the year ended December 31, 2022, the valuation allowance increased by \$378,491. During the year ended December 31, 2022, no income tax expense was incurred.

The Society follows *Accounting for Uncertainty in Income Taxes* which requires the Society to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. During the year ended December 31, 2022, the Society's management evaluated its tax positions to determine the existence of uncertainties, and did not note any matters that would require recognition or which may have an affect on its tax-exempt status.

The Society is no longer subject to U.S. federal tax audits on its Form 990 and Form 990-T for years prior to 2019. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2018. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations. Although the outcome of tax audits is uncertain, the Society believes no issues would arise.

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Notes To Financial Statements

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(4) Promises To Give

As of December 31, 2022, promises to give are expected to be collected as follows:

Within one year	\$ 736,713
Less allowance for uncollectible promises to give	(5,000)
Within one year, net	731,713
Due in one to five years	73,100
Due in six to ten years	22,073
	<u>\$ 826,886</u>

(5) Beneficial Interest In Trusts

The following table presents the Society's fair value hierarchy and major categories for those assets measured at fair value on a recurring basis as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
International funds	\$ 39,375	\$	\$	\$ 39,375
Equity funds	323,523			323,523
Equities -				
Large cap	756,908			756,908
EAFE	238,628			238,628
International	78,776			78,776
Alternative	44,258			44,258
Real assets	60,283			60,283
Fixed income	623,942			623,942
Goods and services	155,114			155,114
Pooled trust - equities, fixed income, and other			217,733	217,733
Investments at fair value	<u>\$ 2,320,807</u>	<u>\$</u>	<u>\$ 217,733</u>	<u>2,538,540</u>
Money market funds				27,349
Total investments				<u>\$ 2,565,889</u>

The Beneficial Interests in Trusts which are considered Level 1 based upon the underlying investments. The level 1 trusts are maintained in separate investment accounts on behalf of the Society and are not commingled with other funds by the Trustee, the Natalie Bentzen Trust is commingled with other funds by the trustee and therefore level 3. Accordingly, such investments are not reflected as Level 2 or 3 as the investments fair market value represents the Society's interest.

(6) Investments And Concentration Of Credit Risk

The following table presents the Society's fair value hierarchy and major categories for those assets measured at fair value on a recurring basis as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Mutual funds-				
Fixed income	\$ 461,421	\$	\$	\$ 461,421
Equity funds	978,600			978,600
Equities and ETFs -				
Emerging markets	31,454			31,454
Fixed income bonds	1,722,267			1,722,267
International	566,946			566,946
Goods and services	429,093			429,093
Large blend	607,299			607,299
Small blend	177,824			177,824
Mid cap	155,699			155,699
High growth	136,528			136,528
REIT	8,263			8,263
Interest in time share			3,000	3,000
Total investments at fair value	<u>\$ 5,275,394</u>	<u>\$</u>	<u>\$ 3,000</u>	<u>5,278,394</u>
Money market				566,303
Total investments				<u>\$ 5,844,697</u>

The investments consist of numerous individual stocks in which no concentrations exist relative to any sectors or geographic areas.

The valuation technique used to measure the fair value of the Level 3 investments for the donated interest in time share was based upon the appraised value as of the date of donation. The Society has not obtained an appraisal on the property, and accordingly the value has not been adjusted during the year ended December 31, 2022.

The following schedule summarizes a reconciliation of level 3 investments:

Beginning balance	\$ 3,000
Ending balance	<u>\$ 3,000</u>

The following schedule summarizes investment income for the year ended December 31, 2022:

Interest and dividend income	\$ 155,799
Investment advisor fees	(16,892)
Net realized gain	(596,789)
Net unrealized gain	(630,022)
Income distributed by beneficial trusts	<u>144,461</u>
Investment income, net	<u>\$ (946,442)</u>

The Society's cash demand deposits are held at financial institutions in which deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2022, the Society's cash demand deposits did not exceed the FDIC insurance limit.

(7) **Endowments**

General

The Society's Endowment Fund was established by action of the Board of Directors (the "Board") to be maintained in perpetuity. The Endowment Fund may include both donor-restricted endowment funds as well as funds designated by the Board to function as endowments. The endowment funds may be established for either specific purposes or general operating use. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditures and any purpose restrictions have been met. The Board of Trustees of the Society has interpreted SPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Society would consider the fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Society has interpreted SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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- (1) The duration and preservation of the fund
- (2) The purposes of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

Changes in Endowment Net Assets as of December 31, 2022:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of the year	\$ 2,336,796
Contribution	2,000
Investment return, net	(348,791)
Appropriation of endowment assets for expenditures	<u>(130,567)</u>
Endowment net assets, end of the year	<u><u>\$ 1,859,438</u></u>

Funds held in Trust

Funds held in trust in perpetuity by designation of the donor for the benefit of the Society are also subject to the restrictions of UPMIFA, and as such must be accounted for in a similar manner. However, appropriations from funds held in trust are determined in accordance with provisions of each individual trust. The Society is the trustee on the beneficial interest in trusts.

Funds with Deficiencies

As of December 31, 2022, three funds totaling \$1,824,940 of contributions perpetual in nature had a fair value of \$1,694,737 resulting in a deficiency of \$130,203.

Return Objectives and Risk Parameters

An Investment Policy Statement (IPS) was adopted by the Board in November 2020. The Endowment Fund is invested as a portion of the “Pooled Fund” which strives to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Pooled Fund is invested with a long-term strategy with a balanced portfolio of equity, fixed-income, alternative assets, and cash.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year 5% of its endowment fund’s average fair value over the prior eight quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of at least the CPI annually. This is consistent with the Society’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Appropriation may be made in the form of the Society’s expenditure budget on an annual basis. During the year ended December 31, 2022, the Society had followed its spending policy.

(8) Property And Equipment

The following summarizes property and equipment as of December 31, 2022:

Land	\$ 24,480
Construction in progress	3,341,773
Buildings and improvements	6,345,592
Equipment	816,819
Automobiles	173,052
Furniture and fixtures	269,714
Software	114,562
	<u>11,085,992</u>
Less: accumulated depreciation	<u>(4,609,819)</u>
	<u>\$ 6,476,173</u>

(9) Split-Interest Agreement

On August 21, 2006, the Society received property with a fair market value of \$180,000 under a charitable gift annuity agreement. Terms of the agreement call for quarterly payments to the donor under a joint annuity arrangement based upon an annuity rate of 4.5% of the initial fair market value of the property. The liability is discounted as 6.2% utilizing appropriate actuarial assumptions. The liability as of December 31, 2022, was \$77,327.

(10) Commitments

During the year ending December 31, 2016, the Society entered into two purchase agreements. These purchase agreements were subsequently amended in April of 2018. Total commitments under the purchase agreements are as follows.

<u>Year ended December 31,</u>	
2023	\$ 120,000
2024	30,000
	<u>\$ 150,000</u>

(11) Line Of Credit

The Society has a revolving line of credit with a financial institution with a maximum line of \$2,000,000. The line will bear interest at a rate per annum which is equal to the Wall Street Journal "index", which was 5.44% as of December 31, 2022, no amounts were outstanding.

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(12) Net Assets With Donor Restrictions

As of December 31, 2022, net assets with donor restriction consisted of the following:

Subject to expenditure for specified purpose:

Grace Bennett Jones Trust, principal and income distributions available	\$ 871,111
Safety Net	65,313
Anti-cruelty fund	5,890
Medical access fund	55,486
Capital campaign	1,238,427
Total	<u>2,236,227</u>

Subject to the passage of time:

Time restricted contributions	<u>439,893</u>
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Subject to spending policy and appropriation:

Virginia Christensen Trust, income distributions only for programs and capital improvement	1,423,271
Anna Belle Morris Trust, income distributions only	53,774
Natalie Bentzen Trust, income distributions for general operations	217,733
Endowment Fund - SHARE program	6,000
Endowment Fund - Humane education	50,000
Endowment Fund - other	108,660
Total	<u>1,859,438</u>
Grand total	<u>\$ 4,535,558</u>

(13) Expenses

Total expenses incurred during the year ended December 31, 2022, are as follows:

Total expenses reported by function	\$ 6,835,211
Cost of retail sales	28,598
	<u>\$ 6,863,809</u>

(14) Contributed Nonfinancial Assets**Gifts-In-Kind**

The Society's gifts-in-kind received and utilized during the year ended December 31, 2022, consisted of the following:

	Program Services	Management & General	Fundraising	Total
Animal food - shelter	\$ 43,000	\$	\$	\$ 43,000
Supplies - shelter	6,500			6,500
Legal	544			544
Contract services	9,691	2,458	4,916	17,065
	<u>\$ 59,735</u>	<u>\$ 2,458</u>	<u>\$ 4,916</u>	<u>\$ 67,109</u>

Legal services and contracts services were valued using actual costs for paid services by the same vendors. Animal food and supplies were valued using U.S. retail prices (principal market) of identical items.

All gifts-in-kind received by the Society for the year ended December 31, 2022, were considered without donor restrictions and able to be used by the Society as determined by the board of directors and management.

(15) Advertising Costs

The Society expenses the costs of advertising the first time the advertising takes place. During the year ended December 31, 2022, advertising expense amounted to \$16,480.

(16) Retirement Plan

In June 2006, the Society implemented an Internal Revenue Code Section 403(b) tax-deferred plan. Employees scheduled to work at least 20 per week are eligible to participate in the plan. Employees wishing to participate elect to defer any whole percentage of their compensation (up to 75%) or a flat dollar amount per payroll period, provided they do not contribute more than the maximum permitted by law. The Society's plan includes discretionary employer matching or profit sharing contributions. Employees meeting other minimum eligibility requirements are eligible to receive employer contributions following one year of service. Pension expense totaled \$61,744 for the year ended December 31, 2022.

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(17) Liquidity And Availability Of Financial Assets

The following reflects the Society's financial assets as of December 31, 2022:

Financial assets at year end	
Cash and cash equivalents	\$ 682,318
Accounts receivable, net	492,842
Promises to give, current	363,053
Investments	<u>5,290,531</u>
Total financial assets	6,828,744
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Investment in timeshare	<u>(3,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 6,825,744</u></u>

The Society's goal is to maintain financial assets to meet at least 4 months of operating expenses. As part of its liquidity plan, other cash holdings and investments will be deposited in accounts which preserve capital and provide growth. The Society also received distributions from its trust accounts and endowment funds which are not included above.

As discussed in Note 7, the Society can elect to receive an annual distribution from its endowment that is available to the Society for its unrestricted use.