

THE HUMANE SOCIETY OF BOULDER
VALLEY, INC.

Financial Statements As Of December 31, 2011

Together With Independent Auditors' Report

JDS professional
group
certified public accountants, consultants and advisors

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Humane Society of Boulder Valley, Inc. as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of The Humane Society of Boulder Valley Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society of Boulder Valley, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

JDS Professional Group

May 18, 2012

Members:

American Institute of Certified Public Accountants • Colorado Society of Certified Public Accountants

5670 Greenwood Plaza Blvd., Suite 200 • Greenwood Village, CO 80111-2405 • 303 771 0123 • 303 771 0078 fax

www.jdscpagroup.com

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position
As Of December 31, 2011

Page -2-

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 292,593
Accounts receivable, net	23,437
Unconditional promises to give, net	34,030
Investments	403,776
Prepaid expenses	82,350
Inventories	<u>127,976</u>
Total Current Assets	964,162
Unconditional promises to give	10,000
Investments	2,671,809
Beneficial interest in trusts, at market	2,383,956
Property and equipment, net of accumulated depreciation of \$2,437,686	4,057,220
Bond issuance costs, net of accumulated amortization of \$58,570	<u>46,333</u>
TOTAL ASSETS	<u><u>\$ 10,133,480</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable, trade	\$ 70,215
Accrued payroll and other liabilities	248,838
Accrued interest	4,600
Deferred income	24,800
Current portion of liability under split-interest	8,100
Current portion of bond payable	<u>80,000</u>
Total Current Liabilities	436,553
Liability under split-interest agreement	89,567
Bond payable	<u>740,000</u>
Total Liabilities	<u>1,266,120</u>
Net Assets:	
Undesignated	2,940,804
Investment in facilities, property and equipment	<u>3,237,220</u>
Total Unrestricted	6,178,024
Temporarily restricted	997,040
Permanently restricted	<u>1,692,296</u>
Total Net Assets	<u>8,867,360</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,133,480</u></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, 2011

Page -3-

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support And Revenue:				
Contributions, grants and bequests	\$ 1,428,079	\$ 54,997	\$	\$ 1,483,076
Special events 542,541				
Direct benefit costs <u>(83,490)</u>	459,051			459,051
Adoption fees	705,883			705,883
Surrender fees	60,785			60,785
Humane education programs	106,554			106,554
Veterinary clinic	1,317,759			1,317,759
Pet training	139,525			139,525
Governmental service contracts	164,988			164,988
Impound fees	38,542			38,542
Retail sales 215,725				
Direct costs of sales <u>(130,204)</u>	85,521			85,521
Thrift and gift shop sales	468,760			468,760
Other income	87,295			87,295
Change in value of split-interest agreement	(6,471)			(6,471)
Change in beneficial interest in trusts	(167,814)	1,395		(166,419)
Investment income, net	50,053	4,160		54,213
Net assets released from restrictions - Satisfaction of time/purpose restrictions <u>278,746</u>	<u>278,746</u>	<u>(278,746)</u>		
Total Support and Revenue	<u>5,217,256</u>	<u>(218,194)</u>		<u>4,999,062</u>
Expenses:				
Program Services -				
Shelter, behavior and training	2,497,004			2,497,004
Veterinary clinic	1,489,155			1,489,155
Community outreach <u>275,287</u>	<u>275,287</u>			<u>275,287</u>
Total Program Expenses	<u>4,261,446</u>			<u>4,261,446</u>
Supporting Services -				
Thrift and gift shop	349,530			349,530
Development and fundraising	447,467			447,467
General and administrative <u>276,567</u>	<u>276,567</u>			<u>276,567</u>
Total Supporting Expenses	<u>1,073,564</u>			<u>1,073,564</u>
Total Expenses	<u>5,335,010</u>			<u>5,335,010</u>
CHANGES IN NET ASSETS	(117,754)	(218,194)		(335,948)
Net Assets, Beginning Of Year	<u>6,295,778</u>	<u>1,215,234</u>	<u>1,692,296</u>	<u>9,203,308</u>
NET ASSETS, END OF YEAR	<u>\$ 6,178,024</u>	<u>\$ 997,040</u>	<u>\$ 1,692,296</u>	<u>\$ 8,867,360</u>

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, 2011

	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach
Salaries	\$ 1,414,320	\$ 837,268	\$ 121,884
Employee benefits	130,259	66,205	7,588
Payroll taxes	120,008	66,770	10,337
Total Salaries And Related Expenses	1,664,587	970,243	139,809
Advertising	11,500		732
Animal food	44,188		
Bad debts	870	9,289	
Bank and credit card service fees	20,304	24,853	1,644
Bond interest and fees	33,858	4,455	1,782
Contract services	140,811	133,368	86,786
Cost of special events			
Depreciation and amortization	200,477	26,233	9,962
Dues and subscriptions	3,981	6,530	1,716
Equipment rental	10,541	5,948	784
Insurance	30,552	17,378	1,384
Legal and accounting	900		
Miscellaneous	9,585	3,212	1,084
Office expense	6,868	2,975	54
Postage	930	4,078	2,462
Printing	6,357	904	8,461
Rent			
Repair, maintenance and security	79,873	15,897	3,123
Supplies	105,228	11,939	5,675
Telephone	11,490	4,451	767
Travel and training	6,632	4,254	
Uniforms	1,899	654	3,866
Utilities	75,392	8,699	
Vehicle expense	14,507		5,196
Veterinary supplies	15,674	233,795	
Total Expenses	\$ 2,497,004	\$ 1,489,155	\$ 275,287

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

Supporting Services					
Total Programs	Thrift And Gift Shop	Development And Fundraising	General And Administrative	Total Supporting	Total Expenses
\$ 2,373,472	\$ 161,985	\$ 206,309	\$ 153,753	\$ 522,047	\$ 2,895,519
204,052	15,699	17,049	11,865	44,613	248,665
197,115	13,751	15,733	11,587	41,071	238,186
2,774,639	191,435	239,091	177,205	607,731	3,382,370
12,232	14,251	979		15,230	27,462
44,188					44,188
10,159		1,290		1,290	11,449
46,801	7,124	10,719		17,843	64,644
40,095		2,227	2,228	4,455	44,550
360,965	11,871	89,046	33,354	134,271	495,236
		22,261		22,261	22,261
236,672	1,406	8,314	7,319	17,039	253,711
12,227	294	2,479	1,252	4,025	16,252
17,273	1,176	1,972	1,084	4,232	21,505
49,314	3,110	1,416	955	5,481	54,795
900			19,265	19,265	20,165
13,881	1,342	1,433	3,040	5,815	19,696
9,897	328	906	2,029	3,263	13,160
7,470	17	26,600	1,487	28,104	35,574
15,722	814	8,280	907	10,001	25,723
	90,682			90,682	90,682
98,893	2,639	16,616	1,210	20,465	119,358
122,842	3,544	10,786	1,087	15,417	138,259
16,708	3,885	1,282	495	5,662	22,370
10,886		1,562	14,878	16,440	27,326
6,419				-	6,419
84,091	12,978		8,699	21,677	105,768
19,703	2,634	208	73	2,915	22,618
249,469					249,469
\$ 4,261,446	\$ 349,530	\$ 447,467	\$ 276,567	\$ 1,073,564	\$ 5,335,010

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Cash Flows
For The Year Ended December 31, 2011

Page -5-

Cash flows from operating activities:	
Changes in net assets	\$ (335,948)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	248,467
Amortization of bond issue costs	5,245
Loss on disposal	514
Net loss on investments	84,551
Change in allowance for doubtful accounts	250
Change in beneficial interest in trusts	166,419
Change in value of split-interest agreement	6,471
Changes in current assets and liabilities:	
(Increase) in accounts receivable	(610)
Decrease in unconditional promises to give	142,290
(Increase) in prepaid expenses	(21,939)
Decrease in inventories	6,734
(Decrease) in accounts payable	(44,608)
Increase in deferred income	22,040
(Decrease) in accrued interest	(1,800)
Increase in accrued payroll, and other liabilities	<u>13,783</u>
Net cash provided by operating activities	<u>291,859</u>
Cash flows from investing activities:	
Purchases of investments	(1,594,344)
Sales of investments	1,554,177
Payments on split-interest agreement	(8,100)
Purchases of property and equipment	<u>(127,649)</u>
Net cash (used in) investing activities	<u>(175,916)</u>
Cash flows from financing activities:	
Payments on bond payable	<u>(75,000)</u>
Net cash (used in) financing activities	<u>(75,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,943
Cash And Cash Equivalents, Beginning Of Year	<u>251,650</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 292,593</u>
Supplemental Cash Flow Information:	
Cash paid for interest	<u><u>\$ 27,557</u></u>

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

(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 veterinary clinic; and retail sales of donated items at the thrift shop and of pet supplies.

(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 is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Society also follows guidance on net asset classification for donor restricted endowment funds subject to the enacted Colorado legislation, House Bill 08-1173, which sets forth standards of conduct for managing and investing institutional funds, appropriation for expenditure of accumulation of endowment funds, delegation of management and investment functions and release or modification of restrictions on management, investment or purpose of such funds.

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.

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:

- 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.

Money markets: Reflected at cost which approximates fair value.

Equity mutual funds, equities, fixed income and other investments: Valued at the closing price reported on the active market on which the individual securities are traded.

Real estate investment trust: Valued as reported by the Organization which issued the investment.

Donated land and 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.

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 balance sheets.

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.

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 clinic and has therefore established an allowance account for \$6,500.

Unconditional Promises To Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Management believes promises to give may not be fully collectible and has therefore established an allowance account for \$750.

Promises to give are recorded at net realizable value if expected to be collected within one year and at fair value if expected to be collected in more than one year. As of the December 31, 2011, the discount related to promises to give expected to be received in more than one year is immaterial to the financial statements.

Inventories

Inventories of pet supplies are stated at the lower of cost or market value with cost determined by using the first-in, first-out (FIFO) method. Inventories also consist of materials donated to the Thrift Shop and are valued at their estimated fair value.

Investments

Investment income and gains restricted by donors are reported as increases in unrestricted net assets 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 to 12 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.

Bond Issuance Costs

Issuance costs related to the issuance of the bond payable are amortized over the life of the bond.

Contributions And Grants

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence of any donor restrictions.

Support, including investment income, that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released in the Statement of Activities as satisfaction of restrictions.

Donated Services, Materials, Facilities, And Property And Equipment

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 56,252 volunteer hours for the year ended December 31, 2011. 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.

Functional Allocation of Expenses

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

Subsequent Events

The Society has performed an evaluation of subsequent events through May 18, 2012, 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 approximately \$198,000. The resulting deferred tax asset is approximately \$70,000 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, 2011, the valuation allowance increased by \$15,595. The net operating loss carryforward amounts expire in varying amounts 2021 through 2030. During the year ended December 31, 2011, 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 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, 2011, 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 2008. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2007. 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.

(4) **Unconditional Promises To Give**

Unconditional promises to give consist of the following:

Amount due in less than one year	\$	34,780
Amount due in one to five years		<u>10,000</u>
Total unconditional promises to give		44,780
Less: Allowance for doubtful accounts		<u>(750)</u>
	\$	<u><u>44,030</u></u>

(5) **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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 268,349	\$	\$	\$ 268,349
Equity mutual funds	377,135			377,135
Fixed income	861,686			861,686
Equities	1,364,014			1,364,014
Real estate investment trust			10,709	10,709
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total	<u>\$ 2,871,184</u>	<u>\$</u>	<u>\$ 204,401</u>	<u>\$ 3,075,585</u>

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

The changes in the investments for which the Society has used Level 3 inputs to determine the fair value are as follows:

Balance, January 1, 2011	\$ 203,967
Investment income	434
Balance, December 31, 2011	<u>\$ 204,401</u>

The following schedule summarizes investment income for the year ended December 31, 2011:

Interest and dividend income	\$ 63,324
Investment advisor/trustee fees	(19,157)
Realized loss	(17,288)
Net unrealized loss	(67,263)
Income distributed by beneficial trusts	<u>94,597</u>
Investment income, net	<u>\$ 54,213</u>

The Society is required to maintain cash received under the bond agreement in a separate bank account and is to be used for the payments on the bond payable. As of December 31, 2011, the balance was \$415,048 and is included in investments.

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, 2011, the Society's cash demand deposits did not exceed the FDIC insurance limit.

As of December 31, 2011, 80% of unconditional promises to give was from two donors.

(6) 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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 104,735	\$	\$	\$ 104,735
Equity mutual fund	89,399			89,399
Equities	1,095,819			1,095,819
Fixed income	995,795			995,795
Other	98,208			98,208
Total	<u>\$ 2,383,956</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,383,956</u>

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

The changes in the investments for which the Society has used Level 3 inputs to determine the fair value are as follows:

Balance, January 1, 2011	\$ 83,509
Sales and transfers	(85,987)
Total gains or losses (realized and unrealized)	2,478
Balance, December 31, 2011	<u>\$ -</u>

(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 Board of Directors of the Society (the "Board") interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor

stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (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, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$	\$ 27,128	\$ 1,692,296	\$ 1,719,424
Investment return:				
Interest income, net of fees	23,553	(141)		23,412
Net gain/loss on securities (realized and unrealized)	(67,072)	(830)		(67,902)
Total investment return	(43,519)	(971)		(44,490)
Appropriation of endowment assets for expenditures	(68,110)	(8,224)		(76,334)
Endowment net assets, end of the year	<u>\$ (111,629)</u>	<u>\$ 17,933</u>	<u>\$ 1,692,296</u>	<u>\$ 1,598,600</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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that may occur after the investment of permanently restricted contributions and appropriation that was deemed prudent by the Board. As of December 31, 2011, such deficiencies amounted to \$111,629.

Return Objectives and Risk Parameters

An Investment Policy Statement (IPS) was adopted by the Board in May 2011. 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. The Pooled Fund's stated goal is to average an annual return of 5% over inflation, as measured by the Consumer Price Index (CPI). Actual returns in any given year may vary from this amount.

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.

(8) **Property And Equipment**

The following summarizes property and equipment as of December 31, 2011:

Land	\$ 24,480
Buildings and improvements	5,281,376
Equipment	754,237
Automobiles	124,436
Furniture and fixtures	231,046
Software	79,331
	<u>6,494,906</u>
Less: accumulated depreciation	<u>(2,437,686)</u>
	<u>\$ 4,057,220</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, 2011, was \$97,667.

(10) **Bond Payable**

On March 15, 2001, the Society entered into a bond payable agreement for \$3,650,000 from the proceeds of the issuance of Boulder County, Colorado, Variable Rate Demand Development Revenue Bonds, Series 2001. The Society entered into an interest rate swap agreement with a financial institution, the objective of which was to allow the Society to pay a fixed interest rate rather than the variable rate included in the original bond agreement. Payments on the principal balance are due annually commencing May 1, 2002 through May 1, 2020, with interest payments due quarterly at a 3.13% fixed rate, until maturity. Interest expense incurred on this payable amounted to \$27,557 for the year ended December 31, 2011. The bond payable is secured by a letter of credit held with Wells Fargo Bank, NA. The letter of credit expires on November 1, 2012, and provides for the renewal of such upon that date. Failure to renew the letter of credit will result in the mandatory redemption of the bonds. Under the letter of credit agreement, the Society is required to pay annual letter of credit fees and quarterly remarketing fees equal to 1% and 0.125%, respectively, of the outstanding principal balance.

The annual letter of credit fees and quarterly remarketing fees amounted to \$9,114 and \$1,058 respectively, for the year, ended December 31, 2011.

Future annual maturities of bond payable as of December 31, 2011, are as follows:

Year Ended
December 31,

2012	\$ 80,000
2013	80,000
2014	85,000
2015	85,000
2016	90,000
2017 and thereafter	<u>400,000</u>
Total	<u>\$ 820,000</u>

(11) **Commitments**

The Society has a lease agreement for the thrift and gift shop as well as an equipment lease. Future minimum rent payments on these leases as of December 31, 2011, are as follows:

Year ended
December 31,

2012	\$ 105,799
2013	102,085
2014	90,942
2015	<u>90,942</u>
Total	<u>\$ 389,768</u>

(12) **Restricted Net Assets**

Donor imposed restrictions on net assets have been segregated into temporarily restricted and permanently restricted net assets. Temporarily restricted net assets as of December 31, 2011, are available for the following:

Grace Bennett Jones Trust, principal and income distributions available	\$ 904,358
Endowment fund earnings	17,933
Care of Great Danes and Wolfhounds	1,660
Anti-cruelty fund	5,890
Provide training for other humane organizations	10,000
Professional development	918
Felinality project R&D fund	16,000
Veterinarian care	4,417

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Notes To Financial Statements

Page -18-

SHARE program	500
Time restricted contributions	10,864
Homeless animal care and protection	20,000
Equipment purchase	4,500
	<u>\$ 997,040</u>

Permanently restricted net assets as of December 31, 2011, consist of the following:

Virginia Christensen Trust, income distributions only for programs and capital improvement	\$ 1,529,877
Anna Belle Morris Trust, income distributions only	61,839
Endowment Fund - SHARE program	6,000
Endowment Fund - Humane education	50,000
Endowment Fund - other	44,580
	<u>\$ 1,692,296</u>

(13) **Expenses**

Total expenses incurred are as follows:

Total expenses reported by function	\$ 5,335,010
Cost of retail sales	130,204
Cost of direct benefit to donors	83,490
Investment advisor/trustee fees	19,157
	<u>\$ 5,567,861</u>

(14) **In-Kind Contributions**

During the year ended December 31, 2011, the Society received \$175,230 of donated services, of which \$1,800 was for pro-bono legal services. These services are included in the expense functions on the statement of activities as follows:

Legal	\$ 1,800
Community outreach	69,372
Development and fundraising	17,343
Shelter, behavior and training	69,372
Veterinary clinic	17,343
	<u> </u>
Total	<u>\$ 175,230</u>

(15) **Advertising Costs**

The Society expenses the costs of advertising the first time the advertising takes place. For the year ended December 31, 2011, advertising expense amounted to \$27,462.

(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 \$11,586 for the year ended December 31, 2011.