

**THE HUMANE SOCIETY OF BOULDER**  
**VALLEY, INC.**

Financial Statements As Of December 31, 2013

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.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Humane Society of Boulder Valley, Inc. which comprise the statement of financial position as of December 31, 2013, and the related statement of activities, functional expenses and cash flow 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.

#### *Members:*

*American Institute of Certified Public Accountants • Colorado Society of Certified Public Accountants*  
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Independent Auditor's Report (Continued)

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 The Humane Society of Boulder Valley, Inc., as of December 31, 2013, 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.

***JDS Professional Group***

May 22, 2014

# THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position  
As Of December 31, 2013

Page -3-

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<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 268,625
Accounts receivable, net	28,737
Unconditional promises to give, net	49,720
Investments	591,297
Prepaid expenses	67,088
Inventories	91,220
Total Current Assets	1,096,687
Unconditional promises to give	22,000
Investments	3,438,496
Beneficial interest in trusts, at market	2,603,301
Property and equipment, net of accumulated depreciation of \$2,789,248	3,661,067
Bond issuance costs, net of accumulated amortization of \$69,060	35,842
<b>TOTAL ASSETS</b>	<b><u>\$ 10,857,393</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts payable, trade	\$ 105,160
Accrued payroll and other liabilities	281,467
Accrued interest	3,630
Deferred income	45,176
Current portion of liability under split-interest	8,100
Current portion of bond payable	85,000
Total Current Liabilities	528,533
Liability under split-interest agreement	86,163
Bond payable	575,000
Total Liabilities	<u>1,189,696</u>
Net Assets:	
Undesignated	3,796,405
Investment in facilities, property and equipment	3,001,067
Total Unrestricted	6,797,472
Temporarily restricted	1,177,018
Permanently restricted	1,693,207
Total Net Assets	<u>9,667,697</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 10,857,393</u></b>

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, 2013

Page -4-

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support And Revenue:</b>				
Contributions, grants and bequests	\$ 1,451,034	\$ 221,468	\$ 911	\$ 1,673,413
Special events	593,894			
Direct benefit costs	<u>(85,394)</u>	508,500		508,500
Adoption fees	763,614			763,614
Surrender fees	56,222			56,222
Humane education	101,624			101,624
Veterinary clinic	1,436,723			1,436,723
Pet training	189,232			189,232
Governmental service contracts	171,289			171,289
Impound fees	30,167			30,167
Retail sales	194,586			
Direct costs of sales	<u>(109,693)</u>	84,893		84,893
Thrift and gift shop sales	490,803			490,803
Other income	73,496			73,496
Change in value of split-interest agreement	(6,375)			(6,375)
Change in beneficial interest in trusts	114,112	11,104		125,216
Investment income, net	552,823			552,823
Net assets released from restrictions - Satisfaction of time/purpose	<u>100,008</u>	<u>(100,008)</u>		
<b>Total Support and Revenue</b>	<u>6,118,165</u>	<u>132,564</u>	<u>911</u>	<u>6,251,640</u>
<b>Expenses:</b>				
<b>Program Services -</b>				
Shelter, behavior and training	2,570,402			2,570,402
Veterinary clinic	1,736,742			1,736,742
Community outreach	<u>238,755</u>			<u>238,755</u>
<b>Total Program Expenses</b>	<u>4,545,899</u>			<u>4,545,899</u>
<b>Supporting Services -</b>				
Thrift and gift shop	317,674			317,674
Development and fundraising	426,742			426,742
General and administrative	<u>245,784</u>			<u>245,784</u>
<b>Total Supporting Expenses</b>	<u>990,200</u>			<u>990,200</u>
<b>Total Expenses</b>	<u>5,536,099</u>			<u>5,536,099</u>
<b>CHANGES IN NET ASSETS</b>	582,066	132,564	911	715,541
Net Assets, Beginning Of Year	<u>6,215,406</u>	<u>1,044,454</u>	<u>1,692,296</u>	<u>8,952,156</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 6,797,472</u>	<u>\$1,177,018</u>	<u>\$1,693,207</u>	<u>\$ 9,667,697</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, 2013

Page -5-

	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach	Total Programs	Thrift And Gift Shop	Supporting Services			Total Expenses
						Development And Fundraising	General And Administrative	Total Supporting	
Salaries	\$ 1,439,834	\$ 991,177	\$ 102,283	\$ 2,533,294	\$	\$ 163,823	\$ 138,386	\$ 302,209	\$ 2,835,503
Employee benefits	126,153	72,086	4,122	202,361		10,746	11,586	22,332	224,693
Payroll taxes	112,855	77,479	8,514	198,848		12,911	10,636	23,547	222,395
Total Salaries And Related Expe	1,678,842	1,140,742	114,919	2,934,503		187,480	160,608	348,088	3,282,591
Advertising	2,235	122	3,118	5,475	424	4,144		4,568	10,043
Animal food	78,504			78,504					78,504
Bad debts	740	8,273		9,013	148	1,053		1,201	10,214
Bank and credit card service fees	19,531	23,899	5,597	49,027	7,881	18,890		26,771	75,798
Bond interest and fees	28,931	3,616		32,547		1,808	1,808	3,616	36,163
Contract services	107,900	159,479	86,891	354,270	200,156	91,434	19,607	311,197	665,467
Cost of special events						28,069		28,069	28,069
Depreciation and amortization	190,947	28,413	4,117	223,477	1,182	8,472	7,320	16,974	240,451
Dues and subscriptions	3,003	6,983	1,917	11,903		2,540	1,851	4,391	16,294
Equipment rental	9,295	4,800		14,095		1,708	1,759	3,467	17,562
Insurance	40,075	26,011	1,480	67,566	1,265	1,452	1,009	3,726	71,292
Legal and accounting							18,543	18,543	18,543
Miscellaneous	18,012	7,285	850	26,147	792	1,533	4,962	7,287	33,434
Office expense	6,144	3,550	192	9,886		1,408	2,577	3,985	13,871
Postage	705	2,154	1,310	4,169		22,075	994	23,069	27,238
Printing	6,667	1,905	4,859	13,431	70	7,738	804	8,612	22,043
Rent					90,942			90,942	90,942
Repair, maintenance and security	113,858	20,652		134,510		30,827	8,694	39,521	174,031
Supplies	125,534	13,828	7,987	147,349		11,701	3,064	14,765	162,114
Telephone	12,099	5,178	51	17,328		1,369	1,664	3,033	20,361
Travel and training	10,547	9,476	745	20,768		2,143	623	2,766	23,534
Uniforms	2,275	1,188		3,463		73		73	3,536
Utilities	89,218	9,792		99,010	12,516		9,792	22,308	121,318
Vehicle expense	15,549		4,722	20,271	2,298	825	105	3,228	23,499
Veterinary supplies	9,791	259,396		269,187					269,187
Total Expenses	\$ 2,570,402	\$ 1,736,742	\$ 238,755	\$ 4,545,899	\$ 317,674	\$ 426,742	\$ 245,784	\$ 990,200	\$ 5,536,099

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, 2013

Page -6-

Cash flows from operating activities:	
Changes in net assets	\$ 715,541
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	235,206
Amortization of bond issue costs	5,245
Net gain on investments	(365,693)
Change in allowance for doubtful accounts	(3,122)
Change in beneficial interest in trusts	(126,484)
Change in value of split-interest agreement	6,375
Contributions restricted for long-term purposes	(911)
Changes in current assets and liabilities:	
Decrease in accounts receivable	5,289
(Increase) in unconditional promises to give	(3,878)
Decrease in prepaid expenses	3,862
Decrease in inventories	9,334
Increase in accounts payable	7,550
(Decrease) in deferred income	(1,344)
(Decrease) in accrued interest	(470)
Increase in accrued payroll, and other liabilities	13,145
Net cash provided by operating activities	<u>499,645</u>
Cash flows from investing activities:	
Purchases of investments	(2,949,465)
Sales of investments	2,575,225
Payments on split-interest agreement	(8,100)
Purchases of property and equipment	(40,986)
Net cash (used in) investing activities	<u>(423,326)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for investment in permanent endowment	911
Payments on bond payable	(80,000)
Net cash (used in) financing activities	<u>(79,089)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,770)</b>
Cash And Cash Equivalents, Beginning Of Year	<u>271,395</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 268,625</b>
<b>Supplemental Cash Flow Information:</b>	
Cash paid for interest	<u>\$ 22,520</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, 2013

Page -7-

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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 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 \$10,000.

#### 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 \$1,000.

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, 2013, the discount related to promises to give expected to be received in more than one year is immaterial to the financial statements.

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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.

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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 51,625 volunteer hours for the year ended December 31, 2013. 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 22, 2014, 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 \$274,606. The resulting deferred tax asset amounted to \$97,211 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, 2013, the valuation allowance increased by \$43,227. The net operating loss carryforward amounts expire in varying amounts 2021 through 2032. During the year ended December 31, 2013, 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, 2013, 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 2010. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2009. 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 net of the allowance as of December 31, 2013 totaled \$71,720 and \$49,720 promises are due in less than one year with the remaining \$22,000 expected to be collected within two to five years.

(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, 2013:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 481,582	\$	\$	\$ 481,582
Equity mutual funds	1,096,800			1,096,800
Fixed income	693,173			693,173
Equities				
Small cap	210,592			210,592
Mid cap	255,240			255,240
Large cap	289,932			289,932
High yield	15,672			15,672
International	78,453			78,453
Emerging markets	7,716			7,716
Energy	25,475			25,475
Goods and services	287,346			287,346
Financial	158,458			158,458
Bond funds	29,539			29,539
Technology	89,841			89,841

# THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

## Notes To Financial Statements

Page -13-

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Commodities	108,396			108,396
Real estate investment trust			7,886	7,886
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total	<u>\$ 3,828,215</u>	<u>\$</u>	<u>\$ 201,578</u>	<u>\$ 4,029,793</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 land and interest in time share was based upon the appraised value as of the date of donation. Management has determined the fair value has not changed relative to the donated land as there is no current interest in the vacant land.

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, 2013	\$ 201,163
Investment income	415
Balance, December 31, 2013	<u>\$ 201,578</u>

The following schedule summarizes investment income for the year ended December 31, 2013:

Interest and dividend income	\$ 93,954
Investment advisor/trustee fees	(21,729)
Net realized gain	93,615
Net unrealized gain	272,077
Income distributed by beneficial trusts	<u>114,906</u>
Investment income, net	<u>\$ 552,823</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, 2013, the balance was \$497,452 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, 2013, the Society's cash demand deposits did not exceed the FDIC insurance limit.

As of December 31, 2013, 57% 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, 2013:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 230,779	\$	\$	\$ 230,779
Equity mutual fund	86,593			86,593
Equities				
Large cap	368,736			368,736
Mid cap	99,191			99,191
Emerging markets	15,474			15,474
Real assets	77,494			77,494
Domestic	360,682			360,682
International	441,799			441,799
Fixed income	693,466			693,466
Other	37,310	191,777		229,087
Total	<u>\$ 2,411,524</u>	<u>\$ 191,777</u>	<u>\$</u>	<u>\$ 2,603,301</u>

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

**(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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (49,204)	\$ 23,452	\$ 1,692,296	\$ 1,666,544
Investment return:				
Interest income, net of fees	26,515	17,204		43,719
Net gain/loss on securities (realized and unrealized)	106,843			106,843
Total investment return	133,358	17,204		150,562
Contributions			911	911
Appropriation of endowment assets for expenditures	(74,163)	(6,100)		(80,263)
Endowment net assets, end of the year	<u>\$ 9,991</u>	<u>\$ 34,556</u>	<u>\$ 1,693,207</u>	<u>\$ 1,737,754</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, 2013, one fund had a deficiency in the amount of \$2,777.

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, 2013:

Land	\$ 24,480
Buildings and improvements	5,294,569
Equipment	679,367
Automobiles	124,436
Building remodel costs	18,570
Furniture and fixtures	231,378
Software	77,515
	<u>6,450,315</u>
Less: accumulated depreciation	<u>(2,789,248)</u>
	<u>\$ 3,661,067</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, 2013, was \$94,263.

(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 \$22,520 for the year ended December 31, 2013. The bond payable is secured by a letter of credit held with Wells Fargo Bank, NA. The letter of credit expires on May 1, 2020. Under the letter of credit agreement, the Society is required to pay annual letter of credit fees and quarterly remarketing fees equal to 1.26% and 0.125%, respectively, of the outstanding principal balance.

The annual letter of credit fees and quarterly remarketing fees amounted to \$7,947 and \$856 respectively, for the year, ended December 31, 2013.

Future annual maturities of bond payable as of December 31, 2013, are as follows:

Year Ended December 31,

2014	\$ 85,000
2015	85,000
2016	90,000
2017	95,000
2018	100,000
2019 and thereafter	<u>205,000</u>
Total	<u>\$ 660,000</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, 2013, are as follows:

Year ended December 31,

2014	\$ 99,306
2015	99,306
2016	8,364
2017	8,364
2018	<u>8,364</u>
Total	<u>\$ 223,704</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, 2013, are available for the following:

Grace Bennett Jones Trust, principal and income distributions available	\$ 1,001,594
Endowment fund earnings	34,556
Care of Great Danes and Wolfhounds	1,660
Anti-cruelty fund	5,890
Passthrough for other humane organizations	5,053
Cat adoption construction	48,930
Behavior modification	9,000

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Subsidized vet care	115
Time restricted contributions	70,220
	<u>\$ 1,177,018</u>

Permanently restricted net assets as of December 31, 2013, 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	45,491
	<u>\$ 1,693,207</u>

(13) **Expenses**

Total expenses incurred are as follows:

Total expenses reported by function	\$ 5,536,099
Cost of retail sales	109,693
Cost of direct benefit to donors	85,394
Investment advisor/trustee fees	21,729
	<u>\$ 5,752,915</u>

(14) **In-Kind Contributions**

During the year ended December 31, 2013, the Society received \$132,500 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:

General and administrative	\$ 1,800
Community outreach	65,350
Development and fundraising	19,605
Shelter, behavior and training	32,675
Veterinary clinic	13,070
	<u>                    </u>
Total	<u>\$ 132,500</u>

(15) **Advertising Costs**

The Society expenses the costs of advertising the first time the advertising takes place. For the year ended December 31, 2013, advertising expense amounted to \$10,042.

(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 \$21,374 for the year ended December 31, 2013.