

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

Financial Statements As Of December 31, 2015

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, 2015, 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, 2015, 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 23, 2016

# THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position  
As Of December 31, 2015

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## ASSETS

### Current Assets:

Cash and cash equivalents	\$ 302,153
Accounts receivable, net	36,414
Promises to give	243,709
Investments	130,893
Prepaid expenses	73,111
Inventories	<u>81,373</u>
Total Current Assets	867,653
Investments	3,701,921
Beneficial interest in trusts, at market	2,360,143
Property and equipment, net of accumulated depreciation of \$3,128,362	3,716,726
Bond issuance costs, net of accumulated amortization of \$79,550	<u>25,352</u>

### TOTAL ASSETS

\$ 10,671,795

## LIABILITIES AND NET ASSETS

### Current Liabilities:

Accounts payable, trade	\$ 139,476
Accrued payroll and other liabilities	165,735
Accrued interest	2,700
Deferred income	47,764
Current portion of liability under split-interest	8,100
Current portion of bond payable	<u>90,000</u>
Total Current Liabilities	453,775
Liability under split-interest agreement	82,561
Bond payable	<u>400,000</u>
Total Liabilities	<u>936,336</u>

### Net Assets:

Undesignated	3,549,501
Investment in facilities, property and equipment	<u>3,226,726</u>
Total Unrestricted	6,776,227
Temporarily restricted	1,254,025
Permanently restricted	<u>1,705,207</u>
Total Net Assets	<u>9,735,459</u>

### TOTAL LIABILITIES AND NET ASSETS

\$ 10,671,795

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, 2015

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support And Revenue:</b>				
Contributions, grants and bequests	\$ 1,622,799	\$ 302,008	\$ 12,000	\$ 1,936,807
Special events	524,101			
Direct benefit costs	<u>(80,142)</u>	443,959		443,959
Adoption fees	648,276			648,276
Surrender fees	49,625			49,625
Veterinary clinic	1,651,877			1,651,877
Pet training	172,139			172,139
Governmental service contracts	180,194			180,194
Impound fees	23,893			23,893
Retail sales	171,947			
Direct costs of sales	<u>(105,273)</u>	66,674		66,674
Thrift and gift shop sales	594,362			594,362
Other income	70,546			70,546
Change in value of split-interest agreement	(6,273)			(6,273)
Change in beneficial interest in trusts	(192,789)	3,207		(189,582)
Investment income, net	104,542			104,542
Net assets released from restrictions - Satisfaction of time/purpose restrictions	<u>242,819</u>	<u>(242,819)</u>		
<b>Total Support and Revenue</b>	<u><b>5,672,643</b></u>	<u><b>62,396</b></u>	<u><b>12,000</b></u>	<u><b>5,747,039</b></u>
<b>Expenses:</b>				
<b>Program Services -</b>				
Shelter, behavior and training	2,323,760			2,323,760
Veterinary clinic	2,024,380			2,024,380
Community outreach	<u>198,685</u>			<u>198,685</u>
<b>Total Program Expenses</b>	<u><b>4,546,825</b></u>			<u><b>4,546,825</b></u>
<b>Supporting Services -</b>				
Thrift and gift shop	394,127			394,127
Development and fundraising	475,286			475,286
General and administrative	<u>244,045</u>			<u>244,045</u>
<b>Total Supporting Expenses</b>	<u><b>1,113,458</b></u>			<u><b>1,113,458</b></u>
<b>Total Expenses</b>	<u><b>5,660,283</b></u>			<u><b>5,660,283</b></u>
<b>CHANGES IN NET ASSETS</b>	12,360	62,396	12,000	86,756
<b>Net Assets, Beginning Of Year</b>	<u><b>6,763,867</b></u>	<u><b>1,191,629</b></u>	<u><b>1,693,207</b></u>	<u><b>9,648,703</b></u>
<b>NET ASSETS, END OF YEAR</b>	<u><u><b>\$6,776,227</b></u></u>	<u><u><b>\$1,254,025</b></u></u>	<u><u><b>\$1,705,207</b></u></u>	<u><u><b>\$9,735,459</b></u></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, 2015

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					Supporting Services				
	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach	Total Programs	Thrift And Gift Shop	Development And Fundraising	General And Administrative	Total Supporting	Total Expenses
Salaries	\$ 1,214,441	\$ 1,114,120	\$ 84,509	\$ 2,413,070	\$	\$ 205,466	\$ 124,464	\$ 329,930	\$ 2,743,000
Employee benefits	129,457	85,689	6,231	221,377		17,026	14,387	31,413	252,790
Payroll taxes	95,391	87,106	6,422	188,919		15,448	8,934	24,382	213,301
Total Salaries And Related Expenses	1,439,289	1,286,915	97,162	2,823,366		237,940	147,785	385,725	3,209,091
Advertising	1,909			1,909		2,988		2,988	4,897
Animal food	75,427			75,427					75,427
Bad debts		10,811		10,811					10,811
Bank and credit card service fees	22,392	26,964		49,356	10,828	15,486		26,314	75,670
Bond interest and fees	23,739	2,967		26,706		1,484	1,484	2,968	29,674
Contract services	111,366	190,810	89,609	391,785	272,457	83,579	16,875	372,911	764,696
Cost of special events						30,389		30,389	30,389
Depreciation and amortization	169,265	27,195	17	196,477	1,156	8,387	7,498	17,041	213,518
Dues and subscriptions	3,254	8,538	1,776	13,568		2,839	2,507	5,346	18,914
Equipment rental	5,967	3,090		9,057		1,253	1,198	2,451	11,508
Insurance	51,431	43,626	475	95,532	1,339	1,905	1,426	4,670	100,202
Legal and accounting	1,250			1,250		500	15,438	15,938	17,188
Miscellaneous	29,833	6,564	39	36,436	1,123	4,102	17,857	23,082	59,518
Office expense	4,241	3,088		7,329		1,713	3,330	5,043	12,372
Postage	723	4,877	1,905	7,505		22,859	1,093	23,952	31,457
Printing	5,431	546	6,341	12,318		10,969	515	11,484	23,802
Rent					91,461			91,461	91,461
Repair, maintenance and security	79,896	20,915		100,811		21,259	9,617	30,876	131,687
Supplies	146,070	20,656	291	167,017		16,297	3,697	19,994	187,011
Travel and training	29,611	14,050	733	44,394		7,219	1,099	8,318	52,712
Utilities	107,012	17,938		124,950	12,615	2,365	12,463	27,443	152,393
Vehicle expense	12,338	457	337	13,132	3,148	1,753	163	5,064	18,196
Veterinary supplies	3,316	334,373		337,689					337,689
Total Expenses	\$ 2,323,760	\$ 2,024,380	\$ 198,685	\$ 4,546,825	\$ 394,127	\$ 475,286	\$ 244,045	\$ 1,113,458	\$ 5,660,283

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, 2015

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Cash flows from operating activities:	
Changes in net assets	\$ 86,756
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	208,272
Amortization of bond issue costs	5,245
Loss on disposal of property and equipment	1,128
Net loss on investments	91,102
Donated investments	(29,486)
Change in allowance for doubtful accounts	(4,000)
Change in beneficial interest in trusts	177,082
Change in value of split-interest agreement	6,274
Changes in assets and liabilities:	
(Increase) in accounts receivable	(15,580)
(Increase) in promises to give	(78,715)
(Increase) in prepaid expenses	(1,595)
(Increase) in inventories	(5,046)
(Decrease) in accounts payable	(8,602)
(Decrease) in deferred income	(316)
(Decrease) in accrued interest	(500)
(Decrease) in accrued payroll, and other liabilities	(41,109)
Net cash provided by operating activities	<u>390,910</u>
Cash flows from investing activities:	
Purchases of investments	(2,023,625)
Sales of investments	1,930,510
Payments on split-interest agreement	(8,100)
Purchases of property and equipment	(204,758)
Cash received on disposal of property and equipment	<u>1,905</u>
Net cash (used in) investing activities	<u>(304,068)</u>
Cash flows from financing activities:	
Payments on bond payable	<u>(85,000)</u>
Net cash (used in) financing activities	<u>(85,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,842
Cash And Cash Equivalents, Beginning Of Year	<u>300,311</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 302,153</u></u>
<b>Supplemental Cash Flow Information:</b>	
Cash paid for interest	<u><u>\$ 16,966</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 behavior, 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: <ul style="list-style-type: none"> <li>• Quoted prices for similar assets or liabilities in active markets;</li> <li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li> <li>• Inputs other than quoted prices that are observable for the asset or liability;</li> <li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> |

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.

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 \$14,000.

#### 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 are fully collectible and has therefore not established an allowance account.

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, 2015, 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.

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**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 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 45,771 volunteer hours for the year ended December 31, 2015. 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 23, 2016, 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 \$351,949. The resulting deferred tax asset amounted to \$124,590 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, 2015, the valuation allowance increased by \$21,737. The net operating loss carryforward amounts expire in varying amounts 2021 through 2034. During the year ended December 31, 2015, 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, 2015, 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 2012. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2011. 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) **Promises To Give**

Promises to give net of the allowance as of December 31, 2015 totaled \$243,709 and all promises are due in less than one year.

(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, 2015:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 130,893	\$	\$	\$ 130,893
Equity mutual funds	983,627			983,627
Fixed income	527,354			527,354
Equities				
Small cap	133,073			133,073
Mid cap	211,138			211,138
Large cap	899,715			899,715
Conservative	443			443
International	98,028			98,028
Emerging markets	2,905			2,905
Goods and services	231,315			231,315
Financial	309,860			309,860
Bond funds	14,320			14,320
Technology	59,766			59,766
Commodities	36,685			36,685
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total	<u>\$ 3,639,122</u>	<u>\$</u>	<u>\$ 193,692</u>	<u>\$ 3,832,814</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 intent to sell the land.

The following schedule summarizes investment income for the year ended December 31, 2015:

Interest and dividend income	\$ 97,124
Investment advisor/trustee fees	(21,887)
Net realized gain	(22,441)
Net unrealized gain	(68,661)
Income distributed by beneficial trusts	<u>120,407</u>
Investment income, net	<u>\$ 104,542</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, 2015, the Society's cash demand deposits did not exceed the FDIC insurance limit.

As of December 31, 2015, 74% of unconditional promises to give was from one donor.

**(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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 153,928	\$	\$	\$ 153,928
Equity mutual fund	84,018			84,018
Equities				
Large cap	513,630			513,630
Mid cap	111,735			111,735
Emerging markets	25,284			25,284
Real assets	49,098			49,098
Domestic	350,703			350,703
International	622,340			622,340
Fixed income	449,407			449,407
Total	<u>\$ 2,360,143</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,360,143</u>

The Beneficial Interests in Trusts are considered Level 1 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 2 or 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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (26,259)	\$ 34,104	\$ 1,693,207	\$ 1,701,052
Investment return:				
Interest income, net of fees	30,384	3,207		33,591
Net gain/loss on securities (realized and unrealized)	(68,861)			(68,861)
Total investment return	(38,477)	3,207		(35,270)
Contribution			12,000	12,000
Appropriation of endowment assets for expenditures	(77,054)	(7,200)		(84,254)
Endowment net assets, end of the year	<u>\$ (141,790)</u>	<u>\$ 30,111</u>	<u>\$ 1,705,207</u>	<u>\$ 1,593,528</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, 2015, two funds had deficiencies in the amount of \$141,790.

### Return Objectives and Risk Parameters

An Investment Policy Statement (IPS) was adopted by the Board in May 2014. 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, 2015:

Land	\$ 24,480
Buildings and improvements	5,575,749
Equipment	707,076
Automobiles	205,574
Furniture and fixtures	254,694
Software	77,515
	<u>6,845,088</u>
Less: accumulated depreciation	<u>(3,128,362)</u>
	<u>\$ 3,716,726</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, 2015, was \$90,661.

**(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 \$16,966 for the year ended December 31, 2015. 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 \$7,299 and \$648 respectively, for the year, ended December 31, 2015.

Future annual maturities of bond payable as of December 31, 2015, are as follows:

Year Ended December 31,

2016	\$ 90,000
2017	95,000
2018	100,000
2019	100,000
2020	105,000
	<u>\$ 490,000</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, 2015, are as follows:

Year ended December 31,

2016	\$ 106,439
2017	106,993
2018	106,993
2019	98,629
2020	98,629
	<u>\$ 517,683</u>

Rent expense for the year ended December 31, 2015 was \$102,969.

(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, 2015, are available for the following:

Grace Bennett Jones Trust, principal and income distributions available	\$ 910,217
Endowment fund earnings	30,111
Care of Great Danes and Wolfhounds	1,660
Anti-cruelty fund	5,890
Food guarding study	1,668
Spay neuter	20,000
Behavior modification	6,625
Sensation harnesses	1,500
Subsidized vet care	23,645
Time restricted contributions	252,709
	<u>\$ 1,254,025</u>

Permanently restricted net assets as of December 31, 2015, 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	57,491
	<u>\$ 1,705,207</u>

(13) **Expenses**

Total expenses incurred are as follows:

Total expenses reported by function	\$ 5,660,283
Cost of retail sales	105,273
Cost of direct benefit to donors	80,142
Investment advisor/trustee fees	21,887
	<u>\$ 5,867,585</u>

(14) **In-Kind Contributions**

During the year ended December 31, 2015, the Society received \$133,250 of donated services, of which \$1,750 was for pro-bono legal services. These services are included in the expense functions on the statement of activities as follows:

Community outreach	\$ 65,750
Development and fundraising	20,225
Shelter, behavior and training	34,125
Veterinary clinic	13,150
	<u>\$ 133,250</u>

(15) **Advertising Costs**

The Society expenses the costs of advertising the first time the advertising takes place. For the year ended December 31, 2015, advertising expense amounted to \$11,797.

(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 \$23,440 for the year ended December 31, 2015.