

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

Financial Statements As Of December 31, 2016

Together With Independent Auditors' Report



## **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, 2016, 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*  
10303 E. Dry Creek Road, Suite 400 • Englewood, CO 80112 • 303 771 0123 • 303 771 0078 fax

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, 2016, 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 24, 2017

# THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

## Statement Of Financial Position

As Of December 31, 2016

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<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 361,829
Accounts receivable, net	22,736
Promises to give	276,129
Investments	66,450
Prepaid expenses	39,747
Inventories	<u>67,645</u>
Total Current Assets	834,536
Promises to give	37,000
Investments	3,752,472
Beneficial interest in trusts, at market	2,362,759
Property and equipment, net of accumulated depreciation of \$3,350,628	3,592,167
Bond issuance costs, net of accumulated amortization of \$84,796	<u>20,107</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,599,041</u></b>
 <b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts payable, trade	\$ 102,606
Accrued payroll and other liabilities	208,047
Accrued interest	2,172
Deferred income	58,337
Current portion of liability under split-interest	8,100
Current portion of bond payable	<u>95,000</u>
Total Current Liabilities	474,262
Liability under split-interest agreement	80,685
Bond payable	<u>305,000</u>
Total Liabilities	<u>859,947</u>
Net Assets:	
Undesignated	3,489,514
Investment in facilities, property and equipment	<u>3,192,167</u>
Total Unrestricted	6,681,681
Temporarily restricted	1,349,206
Permanently restricted	<u>1,708,207</u>
Total Net Assets	<u>9,739,094</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 10,599,041</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, 2016

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support And Revenue:</b>				
Contributions, grants and bequests	\$ 1,319,351	\$ 204,323	\$ 3,000	\$ 1,526,674
Special events 575,358				
Direct benefit costs <u>(88,532)</u>	486,826			486,826
Adoption fees	664,624			664,624
Surrender fees	45,212			45,212
Veterinary clinic	1,739,636			1,739,636
Pet training	191,049			191,049
Governmental service contracts	185,754			185,754
Impound fees	33,520			33,520
Retail sales 161,242				
Direct costs of sales <u>(91,012)</u>	70,230			70,230
Thrift and gift shop sales	584,453			584,453
Other income	68,922			68,922
Change in value of split-interest agreement	(6,224)			(6,224)
Change in beneficial interest in trusts	(3,720)	6,336		2,616
Investment income, net	271,947			271,947
Net assets released from restrictions - Satisfaction of time/purpose restrictions	<u>115,478</u>	<u>(115,478)</u>		
Total Support and Revenue	<u>5,767,058</u>	<u>95,181</u>	<u>3,000</u>	<u>5,865,239</u>
<b>Expenses:</b>				
Program Services -				
Shelter, behavior and training	2,446,259			2,446,259
Veterinary clinic	2,087,846			2,087,846
Community outreach	<u>217,934</u>			<u>217,934</u>
Total Program Expenses	<u>4,752,039</u>			<u>4,752,039</u>
Supporting Services -				
Thrift and gift shop	393,489			393,489
Development and fundraising	461,941			461,941
General and administrative	<u>254,135</u>			<u>254,135</u>
Total Supporting Expenses	<u>1,109,565</u>			<u>1,109,565</u>
Total Expenses	<u>5,861,604</u>			<u>5,861,604</u>
<b>CHANGES IN NET ASSETS</b>	(94,546)	95,181	3,000	3,635
Net Assets, Beginning Of Year	<u>6,776,227</u>	<u>1,254,025</u>	<u>1,705,207</u>	<u>9,735,459</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$6,681,681</u>	<u>\$1,349,206</u>	<u>\$1,708,207</u>	<u>\$9,739,094</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, 2016

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					Supporting Services				Total Expenses
	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach	Total Programs	Thrift And Gift Shop	Development And Fundraising	General And Administrative	Total Supporting	
Salaries	\$ 1,310,684	\$ 1,132,548	\$ 89,827	\$ 2,533,059	\$	\$ 195,866	\$ 138,023	\$ 333,889	\$ 2,866,948
Employee benefits	131,822	91,053	7,574	230,449		19,013	16,085	35,098	265,547
Payroll taxes	103,391	87,902	6,864	198,157		14,846	9,181	24,027	222,184
Total Salaries And Related Expenses	1,545,897	1,311,503	104,265	2,961,665		229,725	163,289	393,014	3,354,679
Advertising	1,425		399	1,824		4,579		4,579	6,403
Animal food	65,798			65,798					65,798
Bad debts		7,998		7,998					7,998
Bank and credit card service fees	27,030	31,871		58,901	14,618	13,929		28,547	87,448
Bond interest and fees	21,910	2,739		24,649		1,369	1,369	2,738	27,387
Contract services	128,227	181,259	97,406	406,892	263,434	80,336	17,254	361,024	767,916
Cost of special events						36,686		36,686	36,686
Depreciation and amortization	183,766	32,886		216,652	1,117	19,095	7,726	27,938	244,590
Dues and subscriptions	8,467	10,591	1,828	20,886		2,123	2,486	4,609	25,495
Equipment rental	5,977	3,130		9,107		1,256	1,207	2,463	11,570
Insurance	52,293	41,081	616	93,990	1,496	1,694	1,654	4,844	98,834
Legal and accounting						500	19,193	19,693	19,693
Miscellaneous	24,252	9,277	252	33,781	266	3,368	5,305	8,939	42,720
Office expense	3,722	4,023		7,745		1,801	4,803	6,604	14,349
Postage	445	4,671	4,320	9,436		17,104	1,744	18,848	28,284
Printing	8,408	384	7,757	16,549	42	12,148	804	12,994	29,543
Rent					98,075			98,075	98,075
Repair, maintenance and security	100,672	19,200		119,872		20,285	12,128	32,413	152,285
Supplies	125,845	14,471		140,316	223	7,735	2,154	10,112	150,428
Travel and training	18,504	19,926	803	39,233		4,892	1,204	6,096	45,329
Utilities	98,586	17,680		116,266	11,582	2,095	11,594	25,271	141,537
Vehicle expense	17,795		288	18,083	2,636	1,221	221	4,078	22,161
Veterinary supplies	7,240	375,156		382,396					382,396
Total Expenses	\$ 2,446,259	\$ 2,087,846	\$ 217,934	\$ 4,752,039	\$ 393,489	\$ 461,941	\$ 254,135	\$ 1,109,565	\$ 5,861,604

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, 2016

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Cash flows from operating activities:	
Changes in net assets	\$ 3,635
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	239,006
Amortization of bond issue costs	5,245
Loss on disposal of property and equipment	336
Net (gain) on investments	(85,081)
Contributions restricted for long-term purposes	(3,000)
Donated investments	(2,159)
Change in allowance for doubtful accounts	(6,000)
Change in beneficial interest in trusts	(3,116)
Change in value of split-interest agreement	6,274
Changes in assets and liabilities:	
Decrease in accounts receivable	24,408
(Increase) in promises to give	(69,420)
Decrease in prepaid expenses	34,085
Decrease in inventories	13,728
(Decrease) in accounts payable	(36,870)
Increase in deferred income	10,573
(Decrease) in accrued interest	(528)
Increase in accrued payroll, and other liabilities	42,312
Net cash provided by operating activities	<u>173,428</u>
Cash flows from investing activities:	
Purchases of investments	(4,505,567)
Sales of investments	4,606,697
Payments on split-interest agreement	(8,100)
Purchases of property and equipment	<u>(114,782)</u>
Net cash (used in) investing activities	<u>(21,752)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for investment in permanent endowment	3,000
Payments on bond payable	<u>(95,000)</u>
Net cash (used in) financing activities	<u>(92,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	59,676
Cash And Cash Equivalents, Beginning Of Year	<u>302,153</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 361,829</u></u>
<b>Supplemental Cash Flow Information:</b>	
Cash paid for interest	<u><u>\$ 14,035</u></u>

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

# THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Notes To Financial Statements  
For The Year Ended December 31, 2016

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## (1) Nature Of The Society

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

The Society is supported by contributions and grants; fees for services, such as: adoptions, lost and found services, pet training and behavior, and veterinary 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.

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

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

*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 \$8,000.

#### 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, 2016, 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 44,539 volunteer hours for the year ended December 31, 2016. 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 24, 2017, 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 \$426,044. The resulting deferred tax asset amounted to \$150,820 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, 2016, the valuation allowance increased by \$47,967. The net operating loss carryforward amounts expire in varying amounts 2021 through 2035. During the year ended December 31, 2016, 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, 2016, 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 2013. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2012. 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**

As of December 31, 2016, promises to give consisted of the following:

Receivables due in less than one year	\$ 276,129
Receivables due in one to five years	37,000
	<u>\$ 313,129</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, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 66,450	\$	\$	\$ 66,450
Mutual funds-				
Fixed income	837,114			837,114
Equity funds	313,238			313,238
Equities -				
International	22,349			22,349
Foreign large blend	157,518			157,518
Small cap	259,270			259,270
Goods and services	273,844			273,844
Financial markets	241,966			241,966
Emerging markets	58,071			58,071
Large cap	1,282,551			1,282,551
Technologies	61,227			61,227
Commodities	51,632			51,632
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total	<u>\$ 3,625,230</u>	<u>\$</u>	<u>\$ 193,692</u>	<u>\$ 3,818,922</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 a reconciliation of level 3 investments:

Beginning balance	\$ 193,692
Investment income	
Ending balance	<u>\$ 193,692</u>

The following schedule summarizes investment income for the year ended December 31, 2016:

Interest and dividend income	\$ 92,277
Investment advisor fees	(20,224)
Net realized gain	3,315
Net unrealized gain	81,766
Income distributed by beneficial trusts	<u>114,813</u>
Investment income, net	<u>\$ 271,947</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, 2016, the Society's cash demand deposits did not exceed the FDIC insurance limit.

As of December 31, 2016, 57% 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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 109,303	\$	\$	\$ 109,303
Mutual funds				
Fixed income	546,014			546,014
Equity funds	83,257			83,257
Equities -				
Large cap	505,018			505,018
Mid cap	90,937			90,937
EAFE	289,067			289,067
Global equity	141,148			141,148
Emerging markets	26,934			26,934
International	113,666			113,666
Real assets	54,368			54,368
Domestic funds	403,047			403,047
Total	<u>\$ 2,362,759</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,362,759</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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (141,790)	\$ 30,111	\$ 1,705,207	\$ 1,593,528
Investment return:				
Interest income, net of fees	22,806	6,336		29,142
Net gain/loss on securities (realized and unrealized)	42,014			42,014
Total investment return	64,820	6,336		71,156
Contribution			3,000	3,000
Appropriation of endowment assets for expenditures	(75,448)	(7,351)		(82,799)
Endowment net assets, end of the year	<u>\$ (152,418)</u>	<u>\$ 29,096</u>	<u>\$ 1,708,207</u>	<u>\$ 1,584,885</u>



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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, 2016, two funds had deficiencies in the amount of \$152,418.

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, 2016:

Land	\$ 24,480
Buildings and improvements	5,611,142
Equipment	710,074
Automobiles	205,575
Furniture and fixtures	263,699
Software	127,825
	<u>6,942,795</u>
Less: accumulated depreciation	<u>(3,350,628)</u>
	<u>\$ 3,592,167</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, 2016, was \$88,785.

(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 \$14,035 for the year ended December 31, 2016. 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 \$6,182 and \$547 respectively, for the year, ended December 31, 2016.

Future annual maturities of bond payable as of December 31, 2016, are as follows:

Year Ended December 31,

2017	\$ 95,000
2018	100,000
2019	100,000
2020	105,000
	<u>\$ 400,000</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, 2016, are as follows:

Year ended December 31,

2017	\$ 106,993
2018	106,993
2019	98,629
2020	98,629
	<u>\$ 411,244</u>

Rent expense for the year ended December 31, 2016 was \$109,645.

During the fiscal year ending December 31, 2016, the Society entered into two purchase agreements. Total commitments under the purchase agreements for 2017 is \$80,619 and for the years ending 2018 through 2021 will be \$70,680 per year.

(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, 2016, are available for the following:

Grace Bennett Jones Trust, principal and income distributions available	\$ 923,462
Endowment fund earnings	29,096
Care of Great Danes and Wolfhounds	1,660
Anti-cruelty fund	5,890
Spay neuter	10,000
Behavior modification	26,000
Subsidized veterinary care	41,469
Time restricted contributions	311,629
	<u>\$ 1,349,206</u>

Permanently restricted net assets as of December 31, 2016, 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	60,491
	<u>\$ 1,708,207</u>

(13) **Expenses**

Total expenses incurred are as follows:

Total expenses reported by function	\$ 5,861,604
Cost of retail sales	91,012
Cost of direct benefit to donors	88,532
Investment advisor fees	20,224
	<u>\$ 6,061,372</u>

(14) **In-Kind Contributions**

During the year ended December 31, 2016, the Society received \$216,175 of donated services. These services are included in the expense functions on the statement of activities as follows:

Community outreach	\$ 71,913
Development and fundraising	22,074
General and administrative	250
Shelter, behavior and training	107,556
Veterinary clinic	14,382
	<u>\$ 216,175</u>

(15) **Advertising Costs**

The Society expenses the costs of advertising the first time the advertising takes place. For the year ended December 31, 2016, advertising expense amounted to \$6,403.

(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 \$32,310 for the year ended December 31, 2016.