

THE HUMANE SOCIETY OF BOULDER
VALLEY, INC.

Financial Statements As Of December 31, 2017

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, 2017, 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, 2017, 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 18, 2018

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position
As Of December 31, 2017

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ASSETS

Current Assets:

Cash and cash equivalents	\$ 456,099
Accounts receivable, net	23,640
Promises to give, net	1,272,913
Investments	90,209
Prepaid expenses	27,536
Inventories	72,411
Total Current Assets	1,942,808
Promises to give	32,250
Investments	5,162,062
Beneficial interest in trusts, at market	2,583,846
Other assets	14,862
Property and equipment, net of accumulated depreciation of \$3,521,391	3,512,742

TOTAL ASSETS	<u>\$ 13,248,570</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable, trade	\$ 122,489
Accrued payroll and other liabilities	253,764
Accrued interest	1,670
Deferred income	21,512
Current portion of liability under split-interest	8,100
Current portion of bond payable	100,000
Total Current Liabilities	507,535
Liability under split-interest agreement	78,758
Bond payable, net	205,000
Total Liabilities	791,293

Net Assets:

Undesignated	5,093,310
Investment in facilities, property and equipment	3,207,742
Total Unrestricted	8,301,052
Temporarily restricted	2,445,918
Permanently restricted	1,710,307
Total Net Assets	12,457,277

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,248,570</u>
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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, 2017

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support And Revenue:				
Contributions, grants and bequests	\$ 2,608,271	\$ 1,158,476	\$ 2,100	\$ 3,768,847
Special events	601,298			
Direct benefit costs	(114,051)	487,247		487,247
Adoption fees	683,489			683,489
Surrender fees	43,865			43,865
Veterinary clinic	1,884,486			1,884,486
Pet training	183,351			183,351
Governmental service contracts	188,690			188,690
Impound fees	37,692			37,692
Retail sales	154,261			
Direct costs of sales	(88,927)	65,334		65,334
Thrift and gift shop sales	533,972			533,972
Other income	59,366			59,366
Change in value of split-interest agreement	(4,148)			(4,148)
Change in beneficial interest in trusts	124,691	96,396		221,087
Investment income, net	752,681			752,681
Net assets released from restrictions - Satisfaction of time/purpose restrictions	158,160	(158,160)		
Total Support and Revenue	7,807,147	1,096,712	2,100	8,905,959
Expenses:				
Program Services -				
Shelter, behavior and training	2,528,491			2,528,491
Veterinary clinic	2,304,430			2,304,430
Community outreach	243,916			243,916
Total Program Expenses	5,076,837			5,076,837
Supporting Services -				
Thrift and gift shop	353,707			353,707
Development and fundraising	489,707			489,707
General and administrative	267,525			267,525
Total Supporting	1,110,939			1,110,939
Total Expenses	6,187,776			6,187,776
CHANGES IN NET ASSETS	1,619,371	1,096,712	2,100	2,718,183
Net Assets, Beginning Of Year	6,681,681	1,349,206	1,708,207	9,739,094
NET ASSETS, END OF YEAR	\$ 8,301,052	\$ 2,445,918	\$ 1,710,307	\$ 12,457,277

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, 2017

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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	\$ 1,360,269	\$ 1,228,343	\$ 97,073	\$ 2,685,685	\$	\$ 228,961	\$ 148,487	\$ 377,448	\$ 3,063,133
Employee benefits	154,250	109,393	9,307	272,950		24,038	17,823	41,861	314,811
Payroll taxes	107,336	96,274	7,401	211,011		17,191	11,745	28,936	239,947
Total Salaries And Related Expenses	1,621,855	1,434,010	113,781	3,169,646		270,190	178,055	448,245	3,617,891
Advertising	4,270		1,139	5,409		3,561		3,561	8,970
Animal food	69,398			69,398					69,398
Bad debts		10,008		10,008					10,008
Bank and credit card service fees	20,303	25,406		45,709	8,556	14,508		23,064	68,773
Bond interest and fees	17,432	2,168		19,600		1,084	1,084	2,168	21,768
Contract services	145,740	234,215	101,947	481,902	229,900	76,126	18,182	324,208	806,110
Cost of special events						29,780		29,780	29,780
Depreciation and amortization	177,183	40,822	2,545	220,550	1,041	24,119	7,861	33,021	253,571
Dues and subscriptions	13,245	9,244	1,830	24,319		2,882	3,455	6,337	30,656
Equipment rental	5,587	2,964		8,551		1,303	1,191	2,494	11,045
Insurance	47,160	37,561	449	85,170	1,583	1,871	1,605	5,059	90,229
Legal and accounting					1,000		17,528	18,528	18,528
Miscellaneous	28,587	14,139	204	42,930		7,982	4,963	12,945	55,875
Office expense	3,997	3,851		7,848		877	3,401	4,278	12,126
Postage	319	4,792	1,469	6,580		17,611	513	18,124	24,704
Printing	1,079		9,034	10,113		2,478	1,239	3,717	13,830
Rent					99,755			99,755	99,755
Repair, maintenance and security	96,590	19,447		116,037		15,250	11,773	27,023	143,060
Supplies	130,137	19,783	10,419	160,339		10,308	2,914	13,222	173,561
Travel and training	19,972	15,972	835	36,779		6,723	1,252	7,975	44,754
Utilities	103,558	18,568		122,126	9,425	2,322	12,306	24,053	146,179
Vehicle expense	14,145	82	264	14,491	2,447	732	203	3,382	17,873
Veterinary supplies	7,934	411,398		419,332					419,332
Total Expenses	\$ 2,528,491	\$ 2,304,430	\$ 243,916	\$ 5,076,837	\$ 353,707	\$ 489,707	\$ 267,525	\$ 1,110,939	\$ 6,187,776

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, 2017

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Cash flows from operating activities:	
Changes in net assets	\$ 2,718,183
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	248,327
Amortization of bond issuance	5,245
Net (gain) on investments	(542,508)
Donated investments	(48,694)
Donated property and equipment	(23,000)
Change in allowance for doubtful accounts	3,000
Change in beneficial interest in trusts	(223,187)
Change in value of split-interest agreement	4,148
Changes in assets and liabilities:	
(Increase) in accounts receivable	(904)
(Increase) in promises to give	(995,033)
Decrease in prepaid expenses	12,211
(Increase) in inventories	(4,766)
Increase in accounts payable	19,883
(Decrease) in deferred income	(36,825)
Increase in accrued interest	46,617
(Decrease) in accrued payroll, and other liabilities	(502)
Net cash provided by operating activities	<u>1,182,195</u>
Cash flows from investing activities:	
Purchases of investments	(4,789,272)
Sales of investments	3,946,223
Payments on split-interest agreement	(6,075)
Purchases of property and equipment	<u>(145,901)</u>
Net cash (used in) investing	<u>(995,025)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for investment in permanent endowment	2,100
Payments on bond payable	<u>(95,000)</u>
Net cash (used in) financing activities	<u>(92,900)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	94,270
Cash And Cash Equivalents, Beginning Of Year	<u>361,829</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 456,099</u></u>
Supplemental Cash Flow Information:	
Cash paid for interest	<u><u>\$ 11,019</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, 2017

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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.

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 determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collection. Promises to give are written off when deemed uncollectible. As of December 31, 2017, the allowance was \$3,000.

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, 2017, the discount related to promises to give expected to be received in more than one year is immaterial to the financial statements.

Inventories

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

Investments

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property And Equipment

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

Buildings and improvements	10 to 40 years
Equipment	5 to 12 years
Automobiles	5 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.

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 40,208 volunteer hours for the year ended December 31, 2017. Amounts applicable to these donated services are not reflected in the accompanying financial statements because the volunteers' time does not meet the criteria for recognition.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Functional Allocation of Expenses

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

Subsequent Events

The Society has performed an evaluation of subsequent events through May 18, 2018, 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 \$514,647. The resulting deferred tax asset amounted to \$120,427 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, 2017, the valuation allowance decreased by \$30,393. The net operating loss carryforward amounts expire in varying amounts 2021 through 2036. During the year ended December 31, 2017, 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, 2017, 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 2014. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2013. 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, 2017, promises to give consisted of the following:

Within one year	\$ 1,275,913
Less allowance for uncollectible promises to give	<u>(3,000)</u>
Within one year, net	1,272,913
Due in one to five years	<u>32,250</u>
	<u><u>\$ 1,305,163</u></u>

(5) Investments And Concentration Of Credit Risk

The following table presents the Society's fair value hierarchy and major categories for those assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds-				
Fixed income	\$ 1,499,025	\$	\$	\$ 1,499,025
Equity funds	290,151			290,151
Equities -				
International	42,299			42,299
Foreign large blend	203,159			203,159
Small cap	666,544			666,544
Goods and services	235,434			235,434
Energy	9,306			9,306
Financial markets	194,352			194,352
Emerging markets	878,148			878,148
Large cap	667,460			667,460
Technologies	253,217			253,217
Commodities	29,275			29,275
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total investments at fair value	<u>\$ 4,968,370</u>	<u>\$</u>	<u>\$ 193,692</u>	<u>5,162,062</u>
Money market				90,209
Total investments				<u>\$ 5,252,271</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, 2017:

Interest and dividend income	\$ 115,208
Investment advisor fees	(19,849)
Net realized gain	139,487
Net unrealized gain	403,022
Income distributed by beneficial trusts	<u>114,813</u>
Investment income, net	<u>\$ 752,681</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, 2017, the Society's cash demand deposits exceeded the FDIC insurance limit by approximately \$50,000.

As of December 31, 2017, 75% 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	\$ 598,433	\$	\$	\$ 598,433
Equity funds	135,074			135,074
Equities -				
Large cap	590,373			590,373
EAFE	434,659			434,659
Goods and service	63,344			63,344
Global equity	147,844			147,844
Emerging markets	15,369			15,369
International	109,948			109,948
Real assets	73,738			73,738
Domestic funds	283,912			283,912
Investments at fair value	<u>2,452,694</u>	<u>\$</u>	<u>\$</u>	<u>2,452,694</u>
Money market funds				131,152
Total investments				<u>\$ 2,583,846</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, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (152,418)	\$ 29,096	\$ 1,708,207	\$ 1,584,885
Investment return:				
Interest income, net of fees	52,988	24,711		77,699
Net gain/loss on securities (realized and unrealized)	167,335			167,335
Total investment return	220,323	24,711		245,034
Contribution			2,100	2,100
Appropriation of endowment assets for expenditures	(73,456)	(7,295)		(80,751)
Endowment net assets, end of the year	<u>\$ (5,551)</u>	<u>\$ 46,512</u>	<u>\$ 1,710,307</u>	<u>\$ 1,751,268</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, 2017, one fund had a deficiency in the amount of \$5,551.

Return Objectives and Risk Parameters

An Investment Policy Statement (IPS) was adopted by the Board in October 2017. 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, 2017:

Land	\$ 24,480
Buildings and improvements	5,628,572
Equipment	737,327
Automobiles	153,458
Furniture and fixtures	296,461
Software	193,835
	<u>7,034,133</u>
Less: accumulated depreciation	<u>(3,521,391)</u>
	<u><u>\$ 3,512,742</u></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, 2017, was \$86,858.

(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 \$11,019 for the year ended December 31, 2017. 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 \$5,000 and \$420, respectively, for the year ended December 31, 2017.

Future annual maturities of bond payable as of December 31, 2017, are as follows:

Year Ended December 31,

2018	\$ 100,000
2019	100,000
2020	<u>105,000</u>
	<u>\$ 305,000</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, 2017, are as follows:

Year ended December 31,

2018	\$ 112,329
2019	104,605
2020	104,605
2021	781
	<u>\$ 322,320</u>

Rent expense for the year ended December 31, 2017 was \$99,755.

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

<u>Year ended December 31,</u>	
2018	\$ 105,000
2019	138,000
2020	138,000
2021	138,000
2022	120,000
2023	120,000
2024	30,000
	<u>\$ 789,000</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, 2017, are available for the following:

Grace Bennett Jones Trust, principal and income distributions available	\$ 995,147
Virginia Christensen Trust, principal and income distributions available	2,534
Endowment fund earnings	43,978
Care of Great Danes and Wolfhounds	1,660
Anti-cruelty fund	5,890
Surgery lights	4,970
Behavior modification	8,000
Bark tank program	2,468
Safety net program	20,000
Conference travel	500
Medical access fund	53,479
Time restricted contributions	1,307,292
	<u>\$ 2,445,918</u>

Permanently restricted net assets as of December 31, 2017, 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	62,591
	<u>\$ 1,710,307</u>

(13) Expenses

Total expenses incurred during the year ended December 31, 2017 are as follows:

Total expenses reported by function	\$ 6,187,776
Cost of retail sales	88,927
Cost of direct benefit to donors	114,051
Investment advisor fees	19,849
	<u>\$ 6,410,603</u>

(14) In-Kind Contributions

During the year ended December 31, 2017, the Society received \$229,800 of donated goods and services. These services are included in the expense functions on the statement of activities as follows:

Shelter, behavior and training	\$ 118,650
Veterinary clinic	14,820
Community outreach	74,100
Development and fundraising	22,230
	<u>\$ 229,800</u>

(15) Advertising Costs

The Society expenses the costs of advertising the first time the advertising takes place. For the year ended December 31, 2017, advertising expense amounted to \$8,970.

(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 \$44,352 for the year ended December 31, 2017.