THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Financial Statements As Of December 31, 2018

Together With Independent Auditors' Report

JDS professional group

certified public accountants, consultants and advisors

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, 2018, 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
www.jdscpagroup.com

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, 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Organization adopted the Financial Accounting Standards Board's Accounting Standards ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958)-Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

JDS Professional Group

May 29, 2019

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Financial Position
As Of December 31, 2018

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 488,147
Accounts receivable, net	28,253
Promises to give, net	114,544
Investments	52,430
Prepaid expenses	38,164
Inventories	75,799
Total Current Assets	797,337
Promises to give	52,000
Investments	5,564,655
Beneficial interest in trusts, at market	2,515,812
Other assets	9,617
Property and equipment, net of accumulated depreciation of $3,801,631	3,326,472
TOTAL ASSETS	$ 12,265,893
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable, trade	$ 115,731
Accrued payroll and other liabilities	260,516
Accrued interest	1,130
Deferred income	2,000
Current portion of liability under split-interest	8,100
Current portion of bond payable	100,000
Total Current Liabilities	487,477
Liability under split-interest agreement	76,780
Bond payable	105,000
Total Liabilities	669,257
Net Assets:	
Undesignated	5,510,918
Investment in facilities, property and equipment	3,121,472
Total net assets without donor restrictions	8,632,390
Net assets with donor restrictions	2,964,246
Total Net Assets	11,596,636
TOTAL LIABILITIES AND NET ASSETS	$ 12,265,893

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

Statement Of Activities
For The Year Ended December 31, 2018

		Without Donor Restrictions	With Donor Restrictions	Total
Support And Revenue:				
Contributions, grants and bequests		$ 1,337,397	$ 451,421	$ 1,788,818
Special events	642,953			
Direct benefit costs	(115,112)	527,841		527,841
Adoption fees		691,868		691,868
Surrender fees		49,065		49,065
Veterinary clinic		1,750,714		1,750,714
Pet training		182,020		182,020
Governmental service contracts		193,120		193,120
Impound fees		27,037		27,037
Retail sales	139,950			
Direct costs of sales	(85,804)	54,146		54,146
Thrift and gift shop sales		498,744		498,744
Other income		64,677		64,677
Change in value of split-interest agreement		(6,122)		(6,122)
Change in beneficial interest in trusts		16,989	(318,246)	(301,257)
Investment income, net		(190,720)		(190,720)
Net assets released from restrictions - Satisfaction of time/purpose restrictions		1,319,603	(1,319,603)	
Total Support and Revenue		6,516,379	(1,186,428)	5,329,951
Expenses:				
Program Services -				
Shelter, behavior and training		2,686,945		2,686,945
Veterinary clinic		2,184,518		2,184,518
Community outreach		195,566		195,566
Total Program Expenses		5,067,029		5,067,029
Supporting Services -				
Thrift and gift shop		331,742		331,742
Philanthropy		471,623		471,623
General and administrative		320,198		320,198
Total Supporting Expenses		1,123,563		1,123,563
Total Expenses		6,190,592		6,190,592
CHANGES IN NET ASSETS FROM OPERATIONS		325,787	(1,186,428)	(860,641)
Net Assets, Beginning Of Year		8,306,603	4,150,674	12,457,277
NET ASSETS, END OF YEAR		$ 8,632,390	$ 2,964,246	$ 11,596,636

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, 2018

	Shelter, Behavior and Training	Veterinary Clinic	Community Outreach	Total Programs	Supporting Services: Thrift And Gift Shop	Supporting Services: Philanthropy	Supporting Services: General And Administrative	Supporting Services: Total Supporting	Total Expenses
Salaries	$ 1,449,962	$ 1,220,009	$ 91,768	$ 2,761,739	$	$ 217,223	$ 184,660	$ 401,883	$ 3,163,622
Employee benefits	161,092	121,727	10,114	292,933		25,944	27,434	53,378	346,311
Payroll taxes	112,907	92,853	6,575	212,335		16,024	12,420	28,444	240,779
Total Salaries And Related Expenses	1,723,961	1,434,589	108,457	3,267,007		259,191	224,514	483,705	3,750,712
Advertising	9,262			9,262		2,994		2,994	12,256
Animal food	70,173			70,173					70,173
Bad debts		4,981		4,981					4,981
Bank and credit card service fees	20,044	24,801		44,845	7,356	13,256		20,612	65,457
Bond interest and fees	13,682	1,710		15,392		855	855	1,710	17,102
Contract services	121,207	142,650	68,617	332,474	204,457	69,191	20,293	293,941	626,415
Cost of special events						24,351		24,351	24,351
Depreciation and amortization	221,279	32,228		253,507	1,067	23,298	7,614	31,979	285,486
Dues and subscriptions	9,712	11,694	1,783	23,189		2,971	3,641	6,612	29,801
Equipment rental	6,103	3,215		9,318		1,346	1,264	2,610	11,928
Insurance	43,066	28,744	562	72,372	1,670	2,192	1,384	5,246	77,618
Legal and accounting	6,529	641		7,170	392		19,261	19,653	26,823
Miscellaneous	26,196	9,184	187	35,567		9,881	4,233	14,114	49,681
Office expense	3,484	3,223		6,707		1,571	3,106	4,677	11,384
Postage	515	3,476	1,499	5,490		17,368	734	18,102	23,592
Printing	4,548	469	6,408	11,425		5,883	1,426	7,309	18,734
Rent					103,183			103,183	103,183
Repair, maintenance and security	140,693	26,168		166,861		15,071	15,877	30,948	197,809
Supplies	114,845	13,353	7,562	135,760		14,885	3,367	18,252	154,012
Travel and training	25,417	14,692	286	40,395		4,651	429	5,080	45,475
Utilities	100,730	18,418		119,148	11,702	2,350	12,014	26,066	145,214
Vehicle expense	12,836		205	13,041	1,915	318	186	2,419	15,460
Veterinary supplies	12,663	410,282		422,945					422,945
Total Expenses	$ 2,686,945	$ 2,184,518	$ 195,566	$ 5,067,029	$ 331,742	$ 471,623	$ 320,198	$ 1,123,563	$ 6,190,592

THE HUMANE SOCIETY OF BOULDER VALLEY, INC.

Statement Of Cash Flows
For The Year Ended December 31, 2018

Cash flows from operating activities:	
Changes in net assets	$ (860,641)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	280,240
Amortization of bond issuance	5,245
Net loss on investments	425,045
Donated investments	(21,169)
Change in allowance for doubtful accounts	3,500
Change in beneficial interest in trusts	68,034
Change in value of split-interest agreement	6,122
Contributions restricted for endowment in perpetuity	(233,224)
Changes in assets and liabilities:	
(Increase) in accounts receivable	(5,113)
Decrease in promises to give	1,134,619
(Increase) in prepaid expenses	(10,628)
(Increase) in inventories	(3,388)
(Decrease) in accounts payable	(6,658)
(Decrease) in deferred income	(19,512)
(Decrease) in accrued interest	(540)
Increase in accrued payroll, and other liabilities	7,651
Net cash provided by operating activities	769,583
Cash flows from investing activities:	
Purchases of investments	(5,472,389)
Sales of investments	4,703,699
Payments on split-interest agreement	(8,100)
Purchases of property and equipment	(93,970)
Net cash (used in) investing activities	(870,760)
Cash flows from financing activities:	
Proceeds from contributions restricted for investment of endowment in perpetuity	233,224
Payments on bond payable	(100,000)
Net cash (used in) financing activities	133,224
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,047
Cash And Cash Equivalents, Beginning Of Year	456,100
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 488,147
Supplemental Cash Flow Information:	
Cash paid for interest	$ 7,815

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

Financial statement presentation follows the recommendations of *Financial Statements for Not-for-Profit Organizations*. Under this standard, the Organization is required to report information regarding financial position and activities according to the following net asset classifications:

> **Net assets without donor restrictions**: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
>
> **Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are prepetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

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.

Measure Of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non operating activities. Operating activities consists of those items attributable to the Organization's ongoing program services and investment earnings. Nonoperating activities are limited to activities considered to be of a more unusual or nonrecurring nature.

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 $8,500.

Unconditional Promises To Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Management 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, 2018, the allowance was $7,000.

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, 2018, 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

The Organization reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

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 39,594 volunteer hours for the year ended December 31, 2018. 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.

Methods Used for Allocation of Expenses from Management and General Activities

The cost of providing program and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries, wages and related payroll	Time and effort
Contract services, insurance	Allocated by estimated proportion of benefit
Equipment rental	Full-time equivalent
Miscellaneous	Full-time equivalent
Printing	Space allocation in newsletter
Repairs, maintenance and security; utilities	Square footage allocation
Bond interest and fees	Square footage allocation
Depreciation and amortization	Square footage allocation

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The change required by the update have been applied retrospectively to all periods presented. A key change required by ASU No. 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Subsequent Events

The Society has performed an evaluation of subsequent events through May 29, 2019, 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 $643,945. The resulting deferred tax asset amounted to $150,683 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, 2018, the valuation allowance increased by $30,256. The net operating loss carryforward amounts expire in varying amounts 2021 through 2037. During the year ended December 31, 2018, no income tax expense was incurred.

The Society follows *Accounting for Uncertainty in Income Taxes* which requires the Society to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. During the year ended December 31, 2018, 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 2015. Additionally, the Society is no longer subject to audits on its related state return by taxing authorities for years prior to 2014. 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, 2018, promises to give consisted of the following:

Within one year	$	121,544
Less allowance for uncollectible promises to give		(7,000)
Within one year, net		114,544
Due in one to three years		52,000
	$	166,544

(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, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds-				
Fixed income	$ 716,018	$	$	$ 716,018
Equity funds	2,575,698			2,575,698
Equities -				
International	15,298			15,298
Domestic equity	35,127			35,127
Foreign large blend	237,625			237,625
Ultra-short bond	168,889			168,889
Small cap	589,209			589,209
Goods and services	181,824			181,824
Energy	49,008			49,008
Financial markets	82,879			82,879
Large cap	247,451			247,451
Technologies	442,183			442,183
Commodities	19,313			19,313
Real assets	10,441			10,441
Donated land			190,692	190,692
Interest in time share			3,000	3,000
Total investments at fair value	$ 5,370,963	$	$ 193,692	5,564,655
Money market				52,430
Total investments				$ 5,617,085

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	$ 193,692

The following schedule summarizes investment income for the year ended December 31, 2018:

Interest and dividend income	$ 139,091
Investment advisor fees	(22,711)
Net realized gain	(149,326)
Net unrealized gain	(270,175)
Income distributed by beneficial trusts	112,401
Investment income, net	$ (190,720)

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, 2018, the Society's cash demand deposits exceeded the FDIC insurance limit by approximately $50,000.

(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, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income	$ 586,798	$	$	$ 586,798
Equity funds	145,339			145,339
Equities -				
Large cap	658,327			658,327
EAFE	303,967			303,967
Goods and services	63,090			63,090
Emerging markets	80,097			80,097
International	89,277			89,277
Real assets	65,038			65,038
Domestic funds	244,468		223,224	467,692
Investments at fair value	$ 2,236,401	$	$ 223,224	2,459,625
Money market funds				56,187
Total investments				$ 2,515,812

The Beneficial Interests in Trusts which are considered Level 1 based upon the underlying investments. The level 1 trusts are maintained in separate investment accounts on behalf of the Society and are not commingled with other funds by the Trustee, the Natalie Benet Trust is commingled with other funds by the trustee and therefore level 3. 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 Society is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as ent assets with donor restrictions until the Board appropriates amounts for expenditures and any purpose restrictions have been met. The Board of Trustees of the Organization has interpreted SPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Society would consider the fund to be underwater in if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted SPIMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. In accordance with SPMIFA, the Organization 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, 2018:

	With Donor Restrictions
Endowment net assets, beginning of the year	$ 1,751,268
Contribution	234,324
Investment return, net	(130,393)
Appropriation of endowment assets for expenditures	(72,634)
Endowment net assets, end of the year	$ 1,782,565

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

As of December 31, 2018, three funds totaling $1,824,940 of contributions perpetual in nature had a fair value of $1,635,884 resulting in a combined deficiency of $189,056.

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. During the year ended December 31, 2018, the Society had followed its spending policy.

(8) **Property And Equipment**

The following summarizes property and equipment as of December 31, 2018:

Land	$ 24,480
Buildings and improvements	5,654,071
Equipment	744,308
Automobiles	195,613
Furniture and fixtures	298,071
Software	211,559
	7,128,102
Less: accumulated depreciation	(3,801,630)
	$ 3,326,472

(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, 2018, was $84,880.

(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 $7,815 for the year ended December 31, 2018. 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 $3,752 and $298, respectively, for the year ended December 31, 2018.

Future annual maturities of bond payable as of December 31, 2018, are as follows:

Year Ended December 31,	
2019	$ 100,000
2020	105,000
	$ 205,000

(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, 2018, are as follows:

Year ended December 31,	
2019	$ 110,970
2020	111,108
2021	6,453
2022	5,672
2023	5,672
	$ 239,875

Rent expense for the year ended December 31, 2018 was $115,111.

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.

Year ended December 31,	
2019	$ 138,000
2020	138,000
2021	138,000
2022	120,000
2023	120,000
2024	30,000
	$ 684,000

(12) **Net assets with Donor Restrictions**

As of December 31, 2018, net assets with donor restriction consisted of the following:

Subject to expenditure for specified purpose:	
Grace Bennett Jones Trust, principal and income distributions available	$ 879,928
Anti-cruelty fund	5,890
Spay and neuter	15,000
Behavior modification and transfer	35,000
Adoption	15,000
Medical access fund	54,019
Total	1,004,837
Subject to the passage of time:	
Time restricted contributions	176,844
Subject to spending policy and appropriation:	
Virginia Christensen Trust, income distributions only for programs and capital improvement	1,356,852
Anna Belle Morris Trust, income distributions only	55,808
Natalie Bentzen Trust, income distributions for general operations	223,224
Endowment Fund - SHARE program	6,000
Endowment Fund - Humane education	50,000
Endowment Fund - other	90,681
Total	1,782,565
Grand total	$ 2,964,246

(13) **Expenses**

Total expenses incurred during the year ended December 31, 2018, are as follows:

Total expenses reported by function	$	6,190,592
Cost of retail sales		85,804
Cost of direct benefit to donors		115,112
	$	6,391,508

(14) **In-Kind Contributions**

During the year ended December 31, 2018, the Society received $206,450 of donated goods and services. These services are included in the expense functions on the statement of activities as follows:

Shelter, behavior and training	$ 144,907
Veterinary clinic	8,170
Community outreach	37,646
Thrift and gift shop	2,992
Philanthropy	11,294
General and administrative	1,441
	$ 206,450

(15) **Advertising Costs**

The Society expenses the costs of advertising the first time the advertising takes place. During the year ended December 31, 2018, advertising expense amounted to $12,256.

(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 $51,635 for the year ended December 31, 2018.

(17) Liquidity and Availability of Financial Assets

	2018
Financial assets at year end	
Cash and cash equivalents	$ 488,147
Accounts receivable, net	28,253
Promises to give, current	114,544
Investments	5,617,085
Total financial assets	6,248,029
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Investment in land and timeshare	(193,692)
Donor restricted endowments	(119,491)
Charitable gift annuity payments	(98,914)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,835,932

The Society's goal is to maintain financial assets to meet at least 4 months of operating expenses. As part of its liquidity plan, other cash holdings and investments will be deposited in accounts which preserve capital and provide growth. The Society also received distributions from its trust accounts and endowment funds which are not included above.

As discussed in Note 7, the Organization can elect to receive an annual distribution from its endowment that is available to the Organization for its unrestricted use.

(18) Adoption of Accounting Standards Update 2016-14

The following financial statement line items for the year ended December 31, 2017, were reclassified as a result of the adoption of FASB Accounting Standards Update No. 2014-16, *Presentation of Financial Statements of Not-For-Profit Entities*.

	As Previously Reported	Adoption of ASU No. 2016-14	As Reclassified
Temporarily restricted net assets	$ 2,440,367	$ (2,440,367)	$
Permanently restricted net assets	1,710,307	(1,710,307)	
Net assets with donor restrictions		4,150,674	4,150,674
Unrestricted net assets	8,306,603	(8,306,603)	
Net assets without donor restriction		8,306,603	8,306,603
Total	$ 12,457,277	$	$ 12,457,277

(19) New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for the Organization for the year ended December 31, 2019. Early application is permitted for the Organization. The Organization is evaluating the effect that ASU No. 2015-14 will have on its financial statement and related disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer off assets as an exchange transaction or a contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605, *Not-For-Profit Entities* - Revenue Recognition, which exchange transactions are accounted for under other guidance such as ASC 606, *Revenue from Contracts with Customers*. The guidance also clarifies how entities will determine whether a contribution is conditional. The timing of revenue and expense recognition depends upon whether a contribution is conditional or unconditional. The new standard is effective for the Organization for the year ended December 31, 2019. Early adoption is permitted. The Organization is evaluating the effect that ASU No. 2018-08 will have on its financial statements and related disclosures.

In December of 2018, FASB issued ASU No. 2018-20, Leases. ASU No. 2018-20 which requires the Organization to recognize all leased assets on the statement of financial position with corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosure as to the nature and extend of leasing activities. The requirements of this statements are effective for the Organization's year ended December 31, 2020. The Organization has not evaluated the impact due to the timing of implementation of this standard.