

**Longmont Humane Society, Inc.**

(a nonprofit Colorado corporation)

Longmont, Colorado

**Financial Statements**

December 31, 2012 and 2011

# Longmont Humane Society, Inc.

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## **Independent Auditor's Report**

To the Board of Directors  
Longmont Humane Society, Inc.  
Longmont, Colorado

We have audited the accompanying financial statements of Longmont Humane Society, Inc. (a nonprofit Colorado corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The Organization's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

We did not observe the taking of physical inventories at December 31, 2012 and 2011 (stated at \$71,216 and \$95,553, respectively), since the Organization did not count or otherwise record inventories based on physical quantities. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Longmont Humane Society, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Uncertainty Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 2 to the financial statements, as shown in the financial statements, the Organization is in default on certain covenants of the bond agreement at December 31, 2012, primarily as a result of a net loss of \$398,126 incurred during the year ended December 31, 2012. The bond holders may demand repayment of the bond. However, no such demand has been made. The Organization is presently seeking capital donations and a revised debt agreement to permit the realization of assets and the liquidation of liabilities in the ordinary course of business. The Organization cannot predict what the outcome of the capital campaign or the debt agreement revision will be. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### **Opinion on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of functional expenses on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Brook and Company, CPA's, PC*  
Certified Public Accountants

Longmont, Colorado  
June 28, 2013

# Longmont Humane Society, Inc.

## Statements of Financial Position

December 31	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 358,367	\$ 207,553
Investments, at fair value	266,366	627,396
Pledges receivable	-	7,235
Other receivables	11,835	32,726
Inventory	71,216	95,553
Total current assets	<u>707,784</u>	<u>970,463</u>
<b>Property and Equipment</b>		
Building and improvements	9,317,484	9,317,484
Furniture, fixtures and equipment	370,088	357,250
Land improvements	28,106	28,106
Vehicles	8,735	12,249
	<u>9,724,413</u>	<u>9,715,089</u>
Less accumulated depreciation	<u>(1,579,214)</u>	<u>(1,293,015)</u>
Net property and equipment	<u>8,145,199</u>	<u>8,422,074</u>
<b>Other Assets</b>		
Cash restricted to investment in building and equipment	-	1,008
Investments restricted to investment in building	-	257,217
Investments, at fair value	-	260,792
Beneficial interest in trusteed assets	314,435	383,053
Loan fees, net of accumulated amortization of \$27,750 in 2012 and \$23,250 in 2011	17,250	21,750
Deposits	10,039	10,139
Total other assets	<u>341,724</u>	<u>933,959</u>
Total assets	<u>\$ 9,194,707</u>	<u>\$ 10,326,496</u>

	2012	2011
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 43,023	\$ 118,042
Accrued wages and taxes	34,311	28,088
Other accrued expenses	52,772	79,902
Deferred revenue	160	24,608
Current portion of capital lease payable	168	974
Current portion of bond payable	2,754,258	612,315
Total current liabilities	<u>2,884,692</u>	<u>863,929</u>
<b>Long-Term Liabilities</b>		
Capital lease payable, net of current portion	-	168
Bond payable, net of current portion	-	2,754,258
Total long-term liabilities	<u>-</u>	<u>2,754,426</u>
Total liabilities	<u>2,884,692</u>	<u>3,618,355</u>
<b>Net Assets</b>		
Unrestricted		
Undesignated	5,659,140	5,648,447
Board-designated endowment	336,440	418,416
Total unrestricted net assets	<u>5,995,580</u>	<u>6,066,863</u>
Temporarily restricted	314,435	641,278
Total net assets	<u>6,310,015</u>	<u>6,708,141</u>
Total liabilities and net assets	<u>\$ 9,194,707</u>	<u>\$ 10,326,496</u>

# Longmont Humane Society, Inc.

## Statements of Activities

Years ended December 31

2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Support</b>			
<b>Revenue</b>			
Adoption, contractual, and other fee income	\$ 656,441	\$ -	\$ 656,441
Public clinic	521,949	-	521,949
Behavior	86,672	-	86,672
Bingo	34,938	-	34,938
Retail merchandise net sales, less cost of \$25,150 in 2012 and \$38,926 in 2011	33,739	-	33,739
Thrift store net sales, less in-kind expense of \$377,454 in 2012 and \$632,360 in 2011	24,717	-	24,717
Unrealized gain on investments	17,977	21,863	39,840
Interest and dividends	8,714	12,625	21,339
Other revenue	1,344	-	1,344
Total revenue	<u>1,386,491</u>	<u>34,488</u>	<u>1,420,979</u>
<b>Support</b>			
Contributions, cash and in-kind	1,040,926	-	1,040,926
Special events	163,073	-	163,073
Net assets released from restriction	361,331	(361,331)	-
Total support	<u>1,565,330</u>	<u>(361,331)</u>	<u>1,203,999</u>
Total revenue and support	<u>2,951,821</u>	<u>(326,843)</u>	<u>2,624,978</u>
<b>Functional Expenses and Losses</b>			
<b>Functional Expenses</b>			
Program services	1,680,911	-	1,680,911
Supporting services			
Fundraising	673,881	-	673,881
General and administrative	663,536	-	663,536
Total supporting services	<u>1,337,417</u>	<u>-</u>	<u>1,337,417</u>
Total functional expenses	<u>3,018,328</u>	<u>-</u>	<u>3,018,328</u>
<b>Losses</b>			
Unrealized loss on investments	-	-	-
Realized loss on sale of investments	3,479	-	3,479
Loss on disposal of asset	1,297	-	1,297
Total losses	<u>4,776</u>	<u>-</u>	<u>4,776</u>
Total functional expenses and losses	<u>3,023,104</u>	<u>-</u>	<u>3,023,104</u>
<b>Change in Net Assets</b>	<b>(71,283)</b>	<b>(326,843)</b>	<b>(398,126)</b>
<b>Net Assets, Beginning of Year</b>	<u>6,066,863</u>	<u>641,278</u>	<u>6,708,141</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,995,580</u>	<u>\$ 314,435</u>	<u>\$ 6,310,015</u>

2011

Unrestricted	Temporarily Restricted	Total
\$ 642,625	\$ -	\$ 642,625
451,573	-	451,573
142,757	-	142,757
103,889	-	103,889
38,129	-	38,129
10,188	-	10,188
-	-	-
811	26,715	27,526
3,416	-	3,416
<u>1,393,388</u>	<u>26,715</u>	<u>1,420,103</u>
1,276,065	8,293	1,284,358
142,551	-	142,551
916,982	(916,982)	-
<u>2,335,598</u>	<u>(908,689)</u>	<u>1,426,909</u>
<u>3,728,986</u>	<u>(881,974)</u>	<u>2,847,012</u>
1,923,018	-	1,923,018
882,446	-	882,446
778,565	-	778,565
<u>1,661,011</u>	<u>-</u>	<u>1,661,011</u>
<u>3,584,029</u>	<u>-</u>	<u>3,584,029</u>
19,841	-	19,841
4,213	-	4,213
358	-	358
<u>24,412</u>	<u>-</u>	<u>24,412</u>
<u>3,608,441</u>	<u>-</u>	<u>3,608,441</u>
120,545	(881,974)	(761,429)
<u>5,946,318</u>	<u>1,523,252</u>	<u>7,469,570</u>
<u>\$ 6,066,863</u>	<u>\$ 641,278</u>	<u>\$ 6,708,141</u>

The accompanying Notes are an integral  
part of these financial statements



# Longmont Humane Society, Inc.

## Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years ended December 31	2012	2011
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (398,126)	\$ (761,429)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	287,391	281,983
Amortization	4,500	4,500
Loss on disposal of asset	1,297	358
Net unrealized (gain) loss on investments	(39,840)	19,841
Realized loss on investments	3,479	4,213
Donated investments	-	(5,675)
Increase (decrease) from changes in assets and liabilities		
Pledges receivable	7,235	10,882
Other receivables	20,891	(11,924)
Inventory	24,337	20,634
Deposits	100	(4,125)
Accounts payable	(75,019)	8,413
Accrued wages and taxes	6,223	2,316
Other accrued expenses	(27,130)	(22)
Deferred revenue	(24,448)	14,608
Net cash used by operating activities	<u>(209,110)</u>	<u>(415,427)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of investments	1,742,622	1,309,837
Purchases of investments	(758,604)	(671,968)
Transfer from restricted cash	1,008	371,893
Purchases of equipment	(12,838)	(101,107)
Proceeds from sale of equipment	1,025	-
Net cash provided by investing activities	<u>973,213</u>	<u>908,655</u>
<b>Cash Flows From Financing Activities</b>		
Payments on bond payable	(612,315)	(584,550)
Payments on capital lease payable	(974)	(912)
Net cash used by financing activities	<u>(613,289)</u>	<u>(585,462)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>150,814</b>	<b>(92,234)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b><u>207,553</u></b>	<b><u>299,787</u></b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 358,367</u></b>	<b><u>\$ 207,553</u></b>
<b>Supplemental Information</b>		
Cash paid for interest	<u>\$ 157,653</u>	<u>\$ 185,454</u>

The accompanying Notes are an integral part of these financial statements

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 1 - Nature of Organization and Significant Accounting Policies

*Nature of Organization.* The Longmont Humane Society, Inc. (the Organization) was incorporated in November 1972 for the purpose of providing humane care and treatment for any domestic animal in need. The Organization also provides related education and public services to the community in and around Longmont, Colorado.

The Organization's program services include, but are not limited to, adoption services, education, and veterinary services. The Organization also operates a thrift store with the proceeds benefiting these program services.

*Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Basis of Accounting.* The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

*Net Asset Classification.* The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. The Organization complies with established standards for external reporting by not-for-profit organizations, which requires that resources be classified for reporting purposes into three net asset categories according to externally (donor) imposed restrictions. The three net asset categories are as follows:

*Unrestricted net assets.* Unrestricted net assets are not subject to donor-imposed stipulations.

*Temporarily restricted net assets.* Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time. Once the stipulation is met, the assets are released from restriction and the expenditure is recorded in the activities of unrestricted net assets.

*Permanently restricted net assets.* Permanently restricted net assets are subject to donor-imposed stipulations that require the donated assets to be maintained permanently by the Organization. Generally, the donors of these assets would permit the Organization to use all or part of the income earned on the corpus for general or specific purposes. Currently, there are no permanently restricted net assets.

*Board-designated endowment.* The State of Colorado enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) was effective September 1, 2008. The provisions of this law apply to endowment funds existing on or established after that date. The Board of Directors has determined that the designated unrestricted net assets meet the definition of endowment funds under UPMIFA.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 1 - Nature of Organization and Significant Accounting Policies (continued)

In February 2006, the Organization adopted certain investment policies. Specifically, these policies require that the Organization investment instruments be in individual stocks and diversified stock mutual funds.

*Functional Allocation of Expenses.* Direct expenses have been allocated to the applicable program for which the expenses were incurred. Indirect expenses have been allocated between program and supporting services based on an analysis of personnel time and space utilized for the related activities.

*Cash and Cash Equivalents.* The Organization considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Certain cash is restricted for long-term purposes and, accordingly, is excluded from cash and cash equivalents.

*Investments.* Investments in marketable securities with readily determinable fair values and any investments in debt securities are reported at their fair values, with corresponding entries to record all earnings, realized gains and losses, and unrealized gains and losses.

*Fair Value Measurements.* The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the 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 FASB ASC 820 are described below:

*Level 1.* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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; and
- 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.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 1 - Nature of Organization and Significant Accounting Policies (continued)

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.

The valuation methodology may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization 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.

*Merchandise and Thrift Store Inventory.* Merchandise inventory consists of pet supplies, purchases for resale, which is stated at the lower of cost (first-in, first-out method) or market. Management has determined that no allowance for obsolete merchandise inventory is necessary at December 31, 2012 and 2011.

Thrift store inventory consists of donated items for resale such as clothing, linens, furniture, décor, and other household items. The inventory is stated at estimated fair value, less an estimated allowance for obsolete inventory. When items are sold, the revenue recorded is equal to the corresponding cost of sales. The assessed value of thrift store inventory is subject to estimate, and it is reasonably possible that the estimate may change in the near term and the change may be material.

*Property and Equipment.* It is the Organization's policy to capitalize property and equipment at cost for purchases over \$500, while repair and maintenance items are charged to expense. Donations of property and equipment are capitalized at their estimated fair value at the date of gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Amortization of assets under capital leases are included in depreciation expense.

In general, asset lives are as follows:

	<u>Life in Years</u>
Building and improvements	40
Furniture, fixtures and equipment	3 - 10
Land improvements	10
Vehicles	10

Depreciation expense for the years ended December 31, 2012 and 2011 was \$287,391 and \$281,983, respectively.

*Loan Fees.* Loan fees have been capitalized and amortized using the straight-line method over the life of the related loan, which is 10 years.

Amortization expense was \$4,500 for each of the years ended December 31, 2012 and 2011.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 1 - Nature of Organization and Significant Accounting Policies (continued)

*Impairment of Long-Lived Assets.* In the event that facts and circumstances indicate that property and equipment, or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value would be necessary. No impairment losses were recorded during the years ended December 31, 2012 and 2011.

*Sales Tax.* The Organization excludes sales taxes assessed to its customers, from its sales. Sales taxes assessed on sales are recorded as accrued liabilities on the Statements of Financial Position until remitted to state and local agencies. At December 31, 2012 and 2011, accrued sales taxes were \$2,779 and \$4,961, respectively.

*Contributions and Promises to Give.* Contributions are recognized when the donation is received. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions and grants that are restricted by the donor or grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

All pledges and accounts receivable are current and are stated net of allowances for uncollectible accounts. Management provides for probable uncollectible accounts through a provision for bad debt expenses and an adjustment to the allowance account, based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a reduction to the allowance account and a corresponding reduction to pledges and accounts receivable. Management believes that all pledges and accounts receivable are fully collectible at December 31, 2012 and 2011.

*Contributed Services and Supplies.* Contributed services are recognized if services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Total donated supplies, materials and professional services for the years ended December 31, 2012 and 2011 was \$23,842 and \$7,985, respectively.

A substantial number of individuals have made contributions of their time to assist the Organization in a variety of tasks and services. The value of these services is not recorded in the accompanying financial statements, as these services do not meet the criteria for recognition.

*Advertising.* The Organization expenses advertising costs, including donated advertising, as they are incurred. Total advertising expense for the years ended December 31, 2012 and 2011 was \$8,236 and \$21,475, respectively.

*Income Taxes.* The Organization is a nonprofit corporation exempt from income taxes as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. The Organization may be subject to income tax on unrelated business income. Income taxes from unrelated business income are recognized when incurred.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 1 - Nature of Organization and Significant Accounting Policies (continued)

The Organization follows the provisions of ASC 740, pertaining to accounting for uncertainty in income taxes. The pronouncement requires the use of a more-likely-than-not recognition criteria before and separate from the measurement of a tax position. An entity shall initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. With respect to the Organization, this would primarily relate to the determination of unrelated business taxable income and to the maintenance of its tax exempt status.

Management has evaluated the adopted policies and procedures that have been implemented to provide assurance that income is properly characterized and activities that jeopardize its tax exempt status are within limits established under existing tax code and regulations. Management has determined the effects of uncertain tax positions are not material to the Organization for recognition or disclosure in the accompanying financial statements and, accordingly, no income tax liability has been recorded for uncertain income tax positions in the accompanying financial statements.

Income tax years from 2009 through the current year are open for examination. Penalties and interest may be assessed on income taxes that are delinquent. The assessment of uncertain income taxes is subject to estimate, and it is reasonably possible that the estimate may change in the near term and the change may be material.

*Reclassifications.* Certain amounts from the financial statements for the year ended December 31, 2011 have been reclassified to conform with reporting for 2012, without affecting the change in net assets.

*Subsequent Events.* The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through June 28, 2013, the date at which the financial statements were available for release.

### Note 2 - Liquidity, Capital Resources and Results of Operations

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 6, the Organization's bond payable is subject to compliance with provisions of a bond agreement. At December 31, 2012, the Organization is in violation of certain provisions of the bond agreement and as such the bond holders may demand repayment of the debt. The callable debt has resulted with current liabilities of \$2,884,692 while current assets are \$707,784. Management has met with representatives of the bank in an attempt to restructure the bond agreement; however, at the present time, future financing for the Organization is not determinable. In addition, the Organization is seeking additional sources of capital, but there can be no assurance that the Organization will be successful in accomplishing its objectives. Since the Organization's animal shelter facility is pledged as collateral for the bond, foreclosure by the bank would seriously impair the Organization's ability to continue as a going concern and to realize its investment in assets through future successful operations. There are significant uncertainties surrounding the Organization's ability to continue its operations and to satisfy its creditors on a timely basis.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 2 - Liquidity, Capital Resources and Results of Operations (continued)

Additionally, during the year ended December 31, 2012, the Organization used cash from operating activities of \$209,110. To improve cash flow from operating activities, the Organization is currently in process of opening an additional thrift store. The Organization has also reduced certain fixed operating costs by closing its Well Pet Clinic satellite campus and bringing those operations within the animal shelter facility.

The Organization's operations and financial condition are dependent upon the ability to restructure the bond agreement, raise capital funds, and improve cash flows from operations.

### Note 3 - Investments and Fair Value Measurements

Investment income consisted of the following for the years ended December 31:

	2012	2011
Interest and dividends earned on investments	\$ 21,339	\$ 27,526
Unrealized gain (loss) on investments	39,840	(19,841)
Realized loss on investments	(3,479)	(4,213)
	<u>\$ 57,700</u>	<u>\$ 3,472</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments, at fair value, as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Equities	\$ 266,366	\$ -	\$ -	\$ 266,366
Beneficial Interest in Trusteed Assets				
Mutual Funds:				
Foreign Large Blend	55,094	-	-	55,094
Large Blend	36,855	-	-	36,855
Large Growth	33,604	-	-	33,604
Mid-Cap Blend	21,721	-	-	21,721
Exchange Traded	17,017	-	-	17,017
Mid-Cap Growth	14,471	-	-	14,471
Small Growth	13,652	-	-	13,652
Intermediate-term	12,915	-	-	12,915
World Bond	3,064	-	-	3,064
Total Mutual Funds	<u>208,393</u>	-	-	<u>208,393</u>
Corporate Bonds	98,328	-	-	98,328
Cash Equivalents	7,705	-	-	7,705
Mineral Interests	9	-	-	9
Total Beneficial Interest in Trusteed Assets	<u>314,435</u>	-	-	<u>314,435</u>
Total Investments at Fair Value	<u>\$ 580,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 580,801</u>

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 3 - Investments and Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments, at fair value, as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ -	\$ 775,392	\$ -	\$ 775,392
Equities	370,013	-	-	370,013
Beneficial Interest in Trusteed Assets				
Mutual Funds:				
Large Growth	52,612	-	-	52,612
Foreign Large Blend	24,927	-	-	24,927
Exchange Traded	22,829	-	-	22,829
Mid-Cap Blend	22,779	-	-	22,779
Large Blend	14,523	-	-	14,523
Mid-Cap Growth	13,538	-	-	13,538
Small Growth	13,348	-	-	13,348
Total Mutual Funds	<u>164,556</u>	<u>-</u>	<u>-</u>	<u>164,556</u>
Corporate Bonds	128,340	-	-	128,340
Government Bonds	80,291	-	-	80,291
Cash Equivalents	9,857	-	-	9,857
Mineral Interests	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
Total Beneficial Interest in Trusteed Assets	<u>383,053</u>	<u>-</u>	<u>-</u>	<u>383,053</u>
Total Investments at Fair Value	<u>\$ 753,066</u>	<u>\$ 775,392</u>	<u>\$ -</u>	<u>\$ 1,528,458</u>

The following is a description of the valuation methods used for the Organization's assets measured at fair value in the above tables:

*Equities, Mutual Funds, and Bonds.* These investments are publicly traded investments, which are valued using quoted active market prices. The equities, mutual funds, and bonds are classified within level 1 of the fair value hierarchy of ASC 820.

*Certificates of Deposit.* These investments are held at a financial institution and are stated at the account balance as determined by the financial institution, which approximates fair value. The certificates of deposit are classified within level 2 of the valuation hierarchy of ASC 820.



# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 4 - Receivables

Other receivables consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Contracts	\$ 8,910	\$ 21,492
Other trade	2,925	10,297
Accrued interest	-	937
	<u>\$ 11,835</u>	<u>\$ 32,726</u>

### Note 5 – Inventory

Inventory consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Merchandise	\$ 4,338	\$ 4,409
Well Pet Clinic	15,230	-
Thrift stores	67,732	110,820
Allowance for obsolete inventory	<u>(16,084)</u>	<u>(19,676)</u>
	<u>\$ 71,216</u>	<u>\$ 95,553</u>

### Note 6 – Bond Payable

The Town of Lyons, Colorado issued \$6,036,000 of revenue bonds (Series 2006 Bond) for purposes of the improvement and expansion of the Longmont Humane Society's animal shelter facility in Longmont, Colorado. The Series 2006 Bond was sold to Wells Fargo Brokerage Services, LLC (Wells Fargo) pursuant to a leasehold deed of trust and security agreement (the loan agreement) executed in November 2006 by Longmont Humane Society to the Public Trustee of Boulder County, Colorado for the benefit of Wells Fargo. The loan agreement with Wells Fargo matures in November 2016 and requires annual payments of \$772,228, which includes interest at 4.75%. Total outstanding borrowings were \$2,754,258 and \$3,366,573 as of December 31, 2012 and 2011, respectively.

The Series 2006 Bond is collateralized by the Organization's animal shelter facility building, including all structures, fixtures, and other improvements made to the property.

As of December 31, 2012, the Organization was not in compliance with certain covenants related to this debt agreement. The violation relates to the minimum required debt service ratio. Accordingly, the debt is callable by the bond holders.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 6 – Bond Payable (continued)

Future scheduled minimum payments required under long-term debt obligations are as follows at December 31, 2012:

<u>Year</u>	<u>Amount</u>
2013	\$ 641,400
2014	671,867
2015	703,781
2016	737,210
	<u>\$ 2,754,258</u>

### Note 7 - Commitments

*Operating Leases.* The Organization leases equipment under multiple noncancelable operating leases, which expire from February 2013 to October 2017. Rent expense under the leases totaled \$3,920 and \$3,754 for the years ended December 31, 2012 and 2011, respectively.

The Organization leases buildings under multiple noncancelable operating leases for the thrift stores and the public clinic. The leases require monthly payments of \$8,838, and expire from October 2015 to August 2016. Rent expense under these leases totaled \$150,066 and \$179,074 for the years ended December 31, 2012 and 2011, respectively.

The Organization leases land in Longmont, Colorado under a noncancelable operating lease. The lease requires annual payments of \$1, and expires April 2034. Rent expense, including in-kind, under the lease totaled \$36,000 for each of the years ended December 31, 2012 and 2011.

Future annual minimum lease payments under operating leases, excluding the in-kind portion of the land lease, are as follows:

<u>Year</u>	<u>Land and Facilities</u>	<u>Equipment</u>	<u>Total</u>
2013	\$ 106,861	\$ 3,855	\$ 110,716
2014	109,280	3,368	112,648
2015	107,458	3,368	110,826
2016	58,364	3,368	61,732
2017	1	2,526	2,527
Thereafter	17	-	17
	<u>\$ 381,981</u>	<u>\$ 16,485</u>	<u>\$ 398,466</u>

*Capital Lease.* The Organization leases equipment under a noncancelable capital lease. The lease expired February 2013. The leased equipment has a cost of \$4,340 and accumulated depreciation of \$4,195 at December 31, 2012.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 7 - Commitments (continued)

Future annual minimum lease payments under the capital lease are as follows at December 31, 2012.

<u>Year</u>	<u>Amount</u>
2013	\$ 170
Less amount representing interest	<u>2</u>
Present value of minimum lease payments	\$ 168

### Note 8 – Temporarily Restricted Net Assets

The balances of temporarily restricted net assets are as follows:

	<b>January 1, 2012</b>			<b>December 31, 2012</b>
	<u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
Building Fund	\$ 258,225	\$ -	\$ 258,225	\$ -
Patterson	321,681	27,554	87,849	261,386
Clark	61,372	6,934	15,257	53,049
	<u>\$ 641,278</u>	<u>\$ 34,488</u>	<u>\$ 361,331</u>	<u>\$ 314,435</u>
	January 1, 2011			December 31, 2011
	<u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
Building Fund	\$ 1,061,191	\$ 8,293	\$ 811,259	\$ 258,225
Patterson	331,816	21,429	31,564	321,681
Clark	67,345	5,286	11,259	61,372
Clinic Equipment	62,900	-	62,900	-
	<u>\$ 1,523,252</u>	<u>\$ 35,008</u>	<u>\$ 916,982</u>	<u>\$ 641,278</u>

### Note 9 – Board-Designated Endowment

The Board of Directors approved the designation of an endowment fund. The endowment is currently held in money markets, certificates of deposit, and equities. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. All designated endowment net assets are unrestricted as of December 31, 2012 and 2011.

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 9 – Board-Designated Endowment (continued)

Changes in endowment net assets are as follows for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Endowment net assets, beginning of year	\$ 418,416	\$ 432,223
Investment return		
Interest and dividends	4,266	2,325
Net appreciation		
Unrealized gain	24,580	729
Realized gain (loss)	(10,082)	(11,159)
Total investment return	<u>18,764</u>	<u>(8,105)</u>
Transfers of undesignated net assets	<u>(100,740)</u>	<u>(5,702)</u>
Endowment net assets, end of year	<u>\$ 336,440</u>	<u>\$ 418,416</u>

### Note 10 - Special Events

The Organization derived net revenue from the following special fundraising events as of December 31:

	<u>2012</u>	<u>2011</u>
<b>Homeward Bound</b>		
Gross proceeds	\$ 112,072	\$ 78,364
Direct costs	(12,988)	(34,810)
Net revenue	<u>\$ 99,084</u>	<u>\$ 43,554</u>
<b>Ella's Walk</b>		
Gross proceeds	\$ 36,880	\$ 39,269
Direct costs	(2,364)	(4,294)
Net revenue	<u>\$ 34,516</u>	<u>\$ 34,975</u>
<b>Holiday Photos</b>		
Gross proceeds	\$ 5,496	\$ 3,153
Direct costs	(637)	(754)
Net revenue	<u>\$ 4,859</u>	<u>\$ 2,399</u>
<b>Dog Wash</b>		
Gross proceeds	\$ 3,326	\$ 14,046
Direct costs	(8)	(3,413)
Net revenue	<u>\$ 3,318</u>	<u>\$ 10,633</u>
<b>Miscellaneous and other events</b>		
Gross proceeds	\$ 5,299	\$ 7,719
Direct costs	(172)	(1,311)
Net revenue	<u>\$ 5,127</u>	<u>\$ 6,408</u>

# Longmont Humane Society, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Note 11 - Concentration of Credit Risk

*Bank Deposits.* The Organization routinely maintains cash balances in excess of federally insured limits.

*Geographical Concentration.* The Organization receives predominantly all of its support and revenue from Longmont, Colorado and surrounding communities. The effects of this concentration of credit risk on the Organization's financial statements have not been determined for the years ended December 31, 2012 and 2011.

# Longmont Humane Society, Inc.

## Schedule of Functional Expenses

Year ended December 31, 2012

	<u>Program Services</u>	<u>Fundraising</u>
Compensation and benefits	\$ 1,061,125	\$ 437,924
Public clinic expenses	174,350	-
Interest expense	-	-
Rent-thrift stores	-	122,593
Utilities	59,299	4,942
Insurance	11,758	-
Repairs and maintenance	50,458	-
In-kind expenses - land, supplies, and services	53,789	-
Development expenses	1,310	42,369
Legal and professional	-	-
Bank fees	-	-
Kennel supplies	29,517	-
Behavior expenses	25,667	-
Bingo expenses	-	21,232
Fee related expenses	20,446	-
Thrift store expenses	-	19,006
Special events	-	16,169
Advertising	4,118	4,118
Telephone and internet	3,496	2,097
Office supplies	2,736	1,368
Amortization	2,700	-
Miscellaneous expenses	-	-
Postage	676	1,756
Dues and subscriptions	1,778	118
Vehicle expenses	2,020	-
Rent-equipment	1,137	-
Volunteer program expenses	1,072	189
Foster care expenses	1,024	-
Total expenses before depreciation	<u>1,508,476</u>	<u>673,881</u>
Depreciation	<u>172,435</u>	<u>-</u>
Total expenses	<u>\$ 1,680,911</u>	<u>\$ 673,881</u>

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**Supporting Services**

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<b>General and Administrative</b>	<b>Total</b>	<b>Total Expenses</b>
\$ 185,276	\$ 623,200	\$ 1,684,325
-	-	174,350
157,653	157,653	157,653
-	122,593	122,593
34,591	39,533	98,832
66,630	66,630	78,388
16,819	16,819	67,277
5,977	5,977	59,766
-	42,369	43,679
40,861	40,861	40,861
29,711	29,711	29,711
-	-	29,517
-	-	25,667
-	21,232	21,232
-	-	20,446
-	19,006	19,006
-	16,169	16,169
-	4,118	8,236
1,398	3,495	6,991
1,368	2,736	5,472
1,800	1,800	4,500
5,149	5,149	5,149
270	2,026	2,702
474	592	2,370
224	224	2,244
379	379	1,516
-	189	1,261
-	-	1,024
<hr/>	<hr/>	<hr/>
548,580	1,222,461	2,730,937
<hr/>	<hr/>	<hr/>
114,956	114,956	287,391
<hr/>	<hr/>	<hr/>
\$ 663,536	\$ 1,337,417	\$ 3,018,328
<hr/>	<hr/>	<hr/>

# Longmont Humane Society, Inc.

## Schedule of Functional Expenses

Year ended December 31, 2011

	Program Services	Fundraising
Compensation and benefits	\$ 1,251,703	\$ 516,576
Interest expense	-	-
Rent-thrift stores	-	162,351
Public clinic expenses	154,137	-
Insurance	15,005	-
Utilities	57,406	4,784
Repairs and maintenance	70,818	-
Thrift store expenses	-	54,329
Behavior expenses	51,316	-
Bingo expenses	-	46,157
Legal and professional	-	-
Special events	-	42,353
In-kind expenses - land, supplies, and services	36,971	-
Kennel supplies	40,148	-
Development expenses	-	36,740
Bank fees	-	-
Advertising	10,738	10,737
Fee related expenses	19,429	-
Office supplies	8,074	4,037
Miscellaneous expenses	-	-
Foster care expenses	12,791	-
Telephone and internet	4,213	2,528
Dues and subscriptions	5,996	400
Volunteer program expenses	4,423	780
Vehicle expenses	4,096	-
Amortization	2,700	-
Staff development	2,600	-
Rent-equipment	1,005	-
Postage	259	674
Total expenses before depreciation	1,753,828	882,446
Depreciation	169,190	-
Total expenses	\$ 1,923,018	\$ 882,446



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Supporting Services

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<u>General and Administrative</u>	<u>Total</u>	<u>Total Expenses</u>
\$ 218,552	\$ 735,128	\$ 1,986,831
185,454	185,454	185,454
-	162,351	162,351
-	-	154,137
85,026	85,026	100,031
33,487	38,271	95,677
23,606	23,606	94,424
-	54,329	54,329
-	-	51,316
-	46,157	46,157
44,616	44,616	44,616
2,229	44,582	44,582
4,108	4,108	41,079
-	-	40,148
1,934	38,674	38,674
33,076	33,076	33,076
-	10,737	21,475
-	-	19,429
4,037	8,074	16,148
22,803	22,803	22,803
-	-	12,791
1,685	4,213	8,426
1,599	1,999	7,995
-	780	5,203
455	455	4,551
1,800	1,800	4,500
866	866	3,466
335	335	1,340
104	778	1,037
<hr/>	<hr/>	<hr/>
665,772	1,548,218	3,302,046
<hr/>	<hr/>	<hr/>
112,793	112,793	281,983
<hr/>	<hr/>	<hr/>
\$ 778,565	\$ 1,661,011	\$ 3,584,029
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