

Longmont Humane Society, Inc.

(a nonprofit Colorado corporation)

Longmont, Colorado

Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017, and the related statements of activities, functional expenses, 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 audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, 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, 2018 and 2017, 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.

Brock and Company, CPAs, P.C.

Certified Public Accountants

Longmont, Colorado
May 29, 2019

Longmont Humane Society, Inc.

Statements of Financial Position

December 31	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,525,387	\$ 1,341,757
Investments	219,575	203,456
Accounts receivable	21,681	19,496
Inventory	83,843	87,373
Prepaid expenses and other current assets	46,960	33,633
Total current assets	<u>1,897,446</u>	<u>1,685,715</u>
Property and Equipment		
Building and improvements	9,547,035	9,482,035
Furniture, fixtures and equipment	394,270	395,356
Vehicles	2,900	2,900
Land improvements	30,412	30,412
	<u>9,974,617</u>	<u>9,910,703</u>
Less accumulated depreciation	<u>(3,127,757)</u>	<u>(2,898,848)</u>
Net property and equipment	<u>6,846,860</u>	<u>7,011,855</u>
Other Assets		
Cash, restricted for compensating balance	250,000	250,000
Beneficial interest in trusteed assets	318,570	339,564
Deposits	11,023	11,323
Total other assets	<u>579,593</u>	<u>600,887</u>
Total assets	<u>\$ 9,323,899</u>	<u>\$ 9,298,457</u>

	2018	2017
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 79,514	\$ 67,522
Accrued wages and taxes	101,793	83,455
Other accrued expenses	105,201	55,915
Deferred revenue	7,876	10,124
Current portion of note payable	73,142	54,639
Current portion of capital lease	3,753	-
Total current liabilities	<u>371,279</u>	<u>271,655</u>
Long-Term Liabilities		
Note payable, net of current portion	1,465,131	1,982,274
Capital lease, net of current portion	11,692	-
Total long-term liabilities	<u>1,476,823</u>	<u>1,982,274</u>
Total liabilities	<u>1,848,102</u>	<u>2,253,929</u>
Net Assets		
Without donor restrictions	7,157,227	6,704,964
With donor restrictions	318,570	339,564
Total net assets	<u>7,475,797</u>	<u>7,044,528</u>
Total liabilities and net assets	<u>\$ 9,323,899</u>	<u>\$ 9,298,457</u>

The accompanying Notes are an integral part of these financial statements

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Longmont Humane Society, Inc.

Statements of Activities

Years ended December 31

2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Gains, and Support			
Revenue and Gains			
Public clinic	\$ 1,434,735	\$ -	\$ 1,434,735
Adoption, contractual, and other fee income	725,482	-	725,482
Behavior	95,858	-	95,858
Retail merchandise sales	84,166	-	84,166
Retail merchandise cost of sales	(41,565)	-	(41,565)
Thrift store sales	303,479	-	303,479
Thrift store cost of sales, in-kind	(307,400)	-	(307,400)
Interest and dividends	2,383	-	2,383
Increase (decrease) in value of trustee assets	-	(20,994)	(20,994)
Other revenue	18,331	-	18,331
Total revenue	<u>2,315,469</u>	<u>(20,994)</u>	<u>2,294,475</u>
Support			
Contributions, cash and in-kind	1,871,198	-	1,871,198
Special event income	222,671	-	222,671
Special event expenses	(28,760)	-	(28,760)
Net assets released from restriction	-	-	-
Total support	<u>2,065,109</u>	<u>-</u>	<u>2,065,109</u>
Total revenue and support	<u>4,380,578</u>	<u>(20,994)</u>	<u>4,359,584</u>
Functional Expenses and Losses			
Functional Expenses			
Program services	2,752,261	-	2,752,261
Supporting services			
Fundraising	611,528	-	611,528
General and administrative	534,101	-	534,101
Total functional expenses	<u>3,897,890</u>	<u>-</u>	<u>3,897,890</u>
Losses			
Unrealized loss on investments	30,425	-	30,425
Loss on disposal of property and equipment	-	-	-
Total losses	<u>30,425</u>	<u>-</u>	<u>30,425</u>
Total functional expenses and losses	<u>3,928,315</u>	<u>-</u>	<u>3,928,315</u>
Change in Net Assets	452,263	(20,994)	431,269
Net Assets, Beginning of Year	6,704,964	339,564	7,044,528
Net Assets, End of Year	\$ 7,157,227	\$ 318,570	\$ 7,475,797

2017

Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,308,759	\$ -	\$ 1,308,759
729,185	-	729,185
90,557	-	90,557
79,006	-	79,006
(35,657)	-	(35,657)
305,349	-	305,349
(330,865)	-	(330,865)
999	-	999
-	21,578	21,578
17,811	-	17,811
<u>2,165,144</u>	<u>21,578</u>	<u>2,186,722</u>
1,442,884	-	1,442,884
210,379	-	210,379
(30,857)	-	(30,857)
5,392	(5,392)	-
<u>1,627,798</u>	<u>(5,392)</u>	<u>1,622,406</u>
<u>3,792,942</u>	<u>16,186</u>	<u>3,809,128</u>
2,687,694	-	2,687,694
515,939	-	515,939
610,077	-	610,077
<u>3,813,710</u>	<u>-</u>	<u>3,813,710</u>
-	-	-
146	-	146
<u>146</u>	<u>-</u>	<u>146</u>
<u>3,813,856</u>	<u>-</u>	<u>3,813,856</u>
(20,914)	16,186	(4,728)
<u>6,725,878</u>	<u>323,378</u>	<u>7,049,256</u>
<u>\$ 6,704,964</u>	<u>\$ 339,564</u>	<u>\$ 7,044,528</u>

The accompanying Notes are an integral
part of these financial statements

Longmont Humane Society, Inc.

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Compensation and benefits	\$ 1,851,456	\$ 384,718	\$ 168,314	\$ 2,404,488
Public clinic expenses	407,000	-	-	407,000
Rent, facilities and land	28,800	122,495	5,400	156,695
Repairs and maintenance	88,311	-	29,437	117,748
Utilities	88,267	7,021	5,015	100,303
Interest expense	-	-	70,152	70,152
Insurance	10,065	-	57,035	67,100
Development expenses	1,620	52,391	-	54,011
Kennel supplies	47,178	-	-	47,178
Legal and professional	-	-	34,837	34,837
Bank fees	-	-	31,531	31,531
Thrift store expenses	-	30,482	-	30,482
Fee related expenses	27,345	-	-	27,345
Miscellaneous expenses	-	-	19,426	19,426
Advertising	5,989	5,989	-	11,978
Telephone and internet	8,175	1,105	1,768	11,048
Office supplies	5,261	2,630	2,630	10,521
Volunteer program expenses	8,122	1,433	-	9,555
Behavior expenses	8,188	-	-	8,188
Dues and subscriptions	3,055	940	705	4,700
Postage	894	2,324	358	3,576
Foster care expenses	717	-	-	717
Vehicle expenses	477	-	25	502
Staff development	281	-	94	375
Total expenses before depreciation	2,591,201	611,528	426,727	3,629,456
Depreciation	161,060	-	107,374	268,434
Total expenses	\$ 2,752,261	\$ 611,528	\$ 534,101	\$ 3,897,890

The accompanying Notes are an integral part of these financial statements.

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Longmont Humane Society, Inc.

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Compensation and benefits	\$ 1,804,538	\$ 304,663	\$ 234,356	\$ 2,343,557
Public clinic expenses	395,594	-	-	395,594
Rent, facilities and land	32,400	116,596	7,224	156,220
Utilities	92,374	7,348	5,249	104,971
Insurance	14,126	-	80,048	94,174
Repairs and maintenance	66,549	-	22,183	88,732
Interest expense	-	-	76,433	76,433
Kennel supplies	58,979	-	-	58,979
Development expenses	1,468	47,462	-	48,930
Legal and professional	-	-	32,735	32,735
Thrift store expenses	-	26,024	-	26,024
Bank fees	-	-	24,292	24,292
Fee related expenses	20,160	-	-	20,160
Miscellaneous expenses	-	-	14,455	14,455
Office supplies	6,548	3,274	3,274	13,096
Volunteer program expenses	9,291	1,640	-	10,931
Telephone and internet	7,105	2,335	711	10,151
Behavior expenses	7,347	-	-	7,347
Advertising	3,544	3,544	-	7,088
Dues and subscriptions	2,891	890	667	4,448
Postage	832	2,163	333	3,328
Foster care expenses	1,171	-	-	1,171
Vehicle expenses	472	-	25	497
Staff development	334	-	111	445
Total expenses before depreciation	2,525,723	515,939	502,096	3,543,758
Depreciation	161,971	-	107,981	269,952
Total expenses	<u>\$ 2,687,694</u>	<u>\$ 515,939</u>	<u>\$ 610,077</u>	<u>\$ 3,813,710</u>

The accompanying Notes are an integral part of these financial statements.

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Longmont Humane Society, Inc.

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years ended December 31	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 431,269	\$ (4,728)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	268,434	269,952
Net unrealized loss on investments	30,425	-
Change in value of trustee assets	20,994	(21,578)
Loss on disposal of property and equipment	-	146
Provision for bad debts	1,759	3,199
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	(3,944)	(3,459)
Inventory	3,530	22,061
Prepaid expenses and other current assets	(13,327)	(31,072)
Deposits	300	(148)
Accounts payable	11,992	(45,317)
Accrued wages and taxes	18,338	(2,830)
Other accrued expenses	49,286	(10,197)
Deferred revenue	(2,248)	6,380
Net cash provided by operating activities	<u>816,808</u>	<u>182,409</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	203,456	-
Purchases of investments	(250,000)	(406)
Purchases of property and equipment	(83,700)	(37,029)
Net cash used by investing activities	<u>(130,244)</u>	<u>(37,435)</u>
Cash Flows From Financing Activities		
Repayments on note payable	(498,640)	(52,358)
Borrowings on capital lease	(4,294)	-
Net cash used by financing activities	<u>(502,934)</u>	<u>(52,358)</u>
Net Increase in Cash and Cash Equivalents	183,630	92,616
Cash and Cash Equivalents, Beginning of Year	<u>1,341,757</u>	<u>1,249,141</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,525,387</u>	<u>\$ 1,341,757</u>
Supplemental Information		
Cash paid for interest	\$ 70,152	\$ 76,433
Equipment acquired with capital lease	\$ 19,739	\$ -

The accompanying Notes are an integral
part of these financial statements

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Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

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.

Changes in Accounting Principles. Commencing on January 1, 2018, the Organization adopted the provisions of FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, which became effective. The update changes the presentation of net assets, required the presentation of the statement of functional expenses, modifies the presentation of cash flows, requires certain disclosures about liquidity and availability of resources, and provides for disclosures of investment return. The change in accounting principle has been retroactively applied to all periods presented.

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 two net asset categories according to externally (donor) imposed restrictions. The two net asset categories are as follows:

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 perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

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

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.

Cash required to be held in a financial institution pursuant to a long-term debt agreement are classified as long-term assets in the accompanying statement of financial position.

Investments. The Organization's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization's management determines the valuation policies utilizing information provided by the investment advisors and custodians. See fair value measurements below.

Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. 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.

Fair Value Measurements. The Organization reports using 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. The 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 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;
- 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.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

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

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 measurements. 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 on a recurring basis:

Debt and Equity Securities. The Organization values securities with readily determinable market values at fair value as determined by quoted market prices on national securities exchanges valued at the closing price on the last business day of the fiscal year. Securities traded on the over-the-counter market are valued at the last reported bid price.

Certificates of Deposit. The Organization values certificates of deposit at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Early withdrawal charges may apply in the event the instruments are liquidated prior to their scheduled maturity date.

Beneficial Interest in Trusteed Assets. The Organization is named the beneficiary of trusts. Contribution revenue and the related assets are recognized using the present value of the assets expected to be received. Subsequent changes to the fair value of the assets are recognized as changes in the value of trusteed assets in the accompanying statement of activities.

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 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. There have been no changes in the methodologies used at December 31, 2018 and 2017.

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 statements of financial position.

Accounts Receivable. Accounts receivable are stated net of allowances for uncollectible accounts. At the time accounts receivable are originated, the Organization considers an allowance for doubtful accounts based on the creditworthiness of the client. The allowance is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future uncollectible amounts. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Organization on an ongoing basis. Management estimates that all significant accounts receivable are fully collectible at December 31, 2018 and 2017.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

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

Inventory. Merchandise inventory consisting of pet supplies and merchandise for resale and Well Pet Clinic inventory, consisting of medications and supplies, are stated at the lower of cost (first-in, first-out method) or market.

Thrift store inventory consisting of donated items for resale such as clothing, linens, furniture, décor, and other household items, are 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. In general, asset lives are as follows:

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

Depreciation expense for the years ended December 31, 2018 and 2017 was \$268,434 and \$269,952, respectively.

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, 2018 and 2017.

Contributions. Contributions are recognized when the donation is received. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, donor restricted net assets are reclassified to without donor restricted net assets. Contributions and grants that are restricted by the donor or grantor are reported as increases in donor restricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Contributed Services. 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. There were no contributed services recorded in the accompanying financial statements for the years ended December 31, 2018 and 2017.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

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

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. Advertising expenses for the years ended December 31, 2018 and 2017 were \$11,978 and \$7,088, 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. Accordingly, no provision for income taxes has been made.

The Organization utilizes 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 2015 through the current year are open for examination. Penalties and interest may be assessed on income taxes that are delinquent.

Reclassifications. Certain amounts from the financial statements for the year ended December 31, 2017 have been reclassified to conform to current year presentation, 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 May 29, 2019, the date at which the financial statements were available for release.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

Note 2 - Availability, Liquidity and Subsequent Event

The following represents the Organization's financial assets for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Financial assets at year end		
Cash and cash equivalents	\$ 1,525,387	\$ 1,341,757
Restricted cash	250,000	250,000
Investments	219,575	203,456
Accounts receivable	21,681	19,496
Line of credit	250,000	-
Total financial assets	<u>2,016,643</u>	<u>1,814,709</u>
Less amounts not available to be used within one year		
Cash restricted for compensating balances	<u>250,000</u>	<u>250,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,766,643</u>	<u>\$ 1,564,709</u>

The Organization has financial assets to meet approximately six months of operating expenses. During 2018, the Organization made accelerated loan payments, which may be discontinued or reduced, if necessary.

The Organization maintains an unsecured \$250,000 line of credit agreement with Vectra Bank, which is available to fund general expenditures. In May 2019, the Organization renewed the line of credit to mature in May 2020.

Note 3 - Fair Value Measurements and Subsequent Event

The following table summarizes the Organization's fair value of assets and liabilities measured on a recurring basis by fair value hierarchy as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 219,575	\$ -	\$ 219,575
Beneficial interest in trusteed assets	-	-	318,570	318,570
	<u>\$ -</u>	<u>\$ 219,575</u>	<u>\$ 318,570</u>	<u>\$ 538,145</u>

The following table summarizes the Organization's fair value of assets and liabilities measured on a recurring basis by fair value hierarchy as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 203,456	\$ -	\$ 203,456
Beneficial interest in trusteed assets	-	-	339,564	339,564
	<u>\$ -</u>	<u>\$ 203,456</u>	<u>\$ 339,564</u>	<u>\$ 543,020</u>

Longmont Humane Society, Inc.

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Note 3 - Fair Value Measurements and Subsequent Event (continued)

The changes in the investments for which the Organization has used Level 3 inputs to determine the fair values are as follows:

	Beneficial Interest in Trusteed Assets
Balance as of January 1, 2017	\$ 317,986
Change in value of trusteed assets	21,578
Balance as of December 31, 2017	<u>339,564</u>
Change in value of trusteed assets	<u>(20,994)</u>
Balance as of December 31, 2018	<u><u>\$ 318,570</u></u>

Changes in Fair Value Levels. The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets available for benefits.

During April 2019, the financial institution called one of the certificates of deposit with a face value of \$100,000 and paid out \$108,259.

Net investment income (losses) consisted of the following for the years ended December 31:

	2018	2017
Unrealized loss on investments	\$ (30,425)	\$ -
Change in value of trusteed assets	(20,994)	21,578
Interest and dividends earned on investments	2,383	999
	<u>\$ (49,036)</u>	<u>\$ 22,577</u>

Note 4 - Inventory

Inventory consists of the following at December 31:

	2018	2017
Thrift store merchandise	\$ 53,973	\$ 57,894
Well Pet Clinic	25,661	28,050
Retail merchandise and other	13,089	10,309
Allowance for obsolete inventory	(8,880)	(8,880)
	<u>\$ 83,843</u>	<u>\$ 87,373</u>

Longmont Humane Society, Inc.

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Note 5 - Notes Payable and Pledged Assets

The Organization has an unsecured \$250,000 line of credit agreement with Vectra Bank with no outstanding borrowings at December 31, 2018 and 2017. The agreement bears interest at the bank's index rate, which is based on LIBOR, with a floor of 3.00%. The agreement contains a covenant pertaining to the maintenance of a minimum debt service coverage ratio, and expires in May 2020.

The Organization has a note payable to Vectra Bank with outstanding borrowings of \$1,538,273, and \$2,036,913 at December 31, 2018 and 2017, respectively. The note bears interest at 3.65%, and is due in monthly installments of \$10,733, including principal and interest. The agreement is collateralized by personal property, certain intangible assets, and a specified cash account, which is required to have a minimum balance of \$250,000. The note matures in August 2023, at which time all outstanding principal and interest becomes due.

The agreement with Vectra Bank is subject to certain financial covenants, for which the most restrictive requires the maintenance of a minimum debt service coverage ratio. The agreement limits property and equipment acquisitions and new debt.

Scheduled maturities of the long-term note payable are as follows at December 31, 2018:

<u>Year</u>	<u>Amount</u>
2019	\$ 73,142
2020	76,713
2021	79,561
2022	82,514
2023	85,576
Thereafter	1,140,767
	<u>\$ 1,538,273</u>

Note 6 - Commitments

Operating Leases. The Organization leases equipment under multiple noncancelable operating leases, which expire in October 2021. Rent expense under the leases totaled \$685 and \$1,768 for the years ended December 31, 2018 and 2017.

The Organization leases a building for the thrift store under a noncancelable operating lease. The lease requires monthly payments of \$7,079, with escalating payments, and expires August 2020. Rent expense under the lease, including utilities and taxes, totaled \$120,696 and \$120,221 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2018 and 2017

Note 6 - Commitments (continued)

Future annual minimum lease payments required under all noncancelable operating leases, excluding the in-kind portion of the land lease, are as follows at December 31, 2018:

<u>Year</u>	<u>Land and Facilities</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 91,105	\$ 1,350	\$ 92,455
2020	61,939	1,350	63,289
2021	1	1,125	1,126
2022	1	-	1
2023	1	-	1
Thereafter	11	-	11
	<u>\$ 153,058</u>	<u>\$ 3,825</u>	<u>\$ 156,883</u>

Note 7 - Capital Leases

During 2018, the Organization commenced a noncancelable capital lease for laundry equipment with a cost of \$19,739. The lease requires monthly payments of \$386 through January 2023, and contains nominal purchase option. Accumulated depreciation of the equipment totaled \$3,948 as of December 2018.

Future annual minimum lease payments required under capital leases are as follows at December 31, 2018:

<u>Year</u>	<u>Amount</u>
2019	\$ 4,416
2020	4,416
2021	4,416
2022	3,784
	<u>17,032</u>
Less amount representing interest	<u>(1,587)</u>
	<u>\$ 15,445</u>

Longmont Humane Society, Inc.

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Note 8 - Net Assets with Donor Restrictions

The following summarizes the changes in net assets with donor restrictions for the years ended December 31:

	Building Fund	Trusteed Assets	Total
Balance, January 1, 2017	\$ 5,392	\$ 317,986	\$ 323,378
Receipts	-	21,578	21,578
Expenditures	(5,392)	-	(5,392)
Balance, December 31, 2017	-	339,564	339,564
Unrealized loss	-	(20,994)	(20,994)
Balance, December 31, 2018	<u>\$ -</u>	<u>\$ 318,570</u>	<u>\$ 318,570</u>

The building fund was restricted to debt service on the underlying mortgage and other building maintenance or improvement needs. The trusteed assets are restricted to future periods and humane educational programs.

Note 9 - Related Party Transactions

The Organization processes credit and debit card transactions through a company owned by a board member. Credit card transaction expenses paid to the related party for the years ended December 31, 2018 and 2017 were \$30,873 and \$28,525, respectively.

Note 10 - Special Events

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

	2018	2017
Homeward Bound		
Gross proceeds	\$ 166,123	\$ 135,221
Direct costs	(22,033)	(24,683)
Net revenue	<u>\$ 144,090</u>	<u>\$ 110,538</u>
Paws in the Park		
Gross proceeds	\$ 25,867	\$ 27,414
Direct costs	(3,851)	-3912.45
Net revenue	<u>\$ 22,016</u>	<u>\$ 23,502</u>

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Note 10 - Special Events (continued)

Paws on the Patio		
Gross proceeds	\$ 7,607	\$ 15,087
Direct costs	(1,578)	-1563.47
Net revenue	<u>\$ 6,029</u>	<u>\$ 13,524</u>
Other events		
Gross proceeds	\$ 23,074	\$ 32,657
Direct costs	(1,298)	(698)
Net revenue	<u>\$ 21,776</u>	<u>\$ 31,959</u>
Total		
Gross proceeds	\$ 222,671	\$ 210,379
Direct costs	(28,760)	(30,857)
Net revenue	<u>\$ 193,911</u>	<u>\$ 179,522</u>

Note 11 - Concentrations

Concentrations of Credit Risk. The Organization's primary customers are local governments and individuals. The Organization performs ongoing credit evaluations of its customers and generally does not require collateral. The Organization provides reserves for credit losses, as necessary, based on a thorough review of all outstanding accounts. Such losses and yearly provisions have been within management's expectations.

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.