Longmont Humane Society, Inc.

(a nonprofit Colorado corporation)

Longmont, Colorado

Financial Statements

December 31, 2013 and 2012

Longmont Humane Society, Inc.

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BROCK AND COMPANY
Certified Public Accountants
Business Advisors
A PROFESSIONAL CORPORATION

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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, 2013 and 2012, 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.

BOULDER FORT COLLINS LITTLETON LONGMONT NORTHGLENN

Basis for Qualified Opinion

We did not observe the taking of physical inventories at December 31, 2013 and 2012 (stated at $71,053 and $71,216, 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, 2013 and 2012, 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.

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 17 and 18 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.

Brock and Company, CPAs, P.C.

Certified Public Accountants

Longmont, Colorado
June 20, 2014

Longmont Humane Society, Inc.

Statements of Financial Position

December 31	**2013**	2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,048,935**	$ 358,367
Investments, at fair value	**5,704**	266,366
Accounts receivable	**22,288**	8,910
Inventory	**71,053**	71,216
Prepaid expenses and other current assets	**5,196**	2,925
Total current assets	**1,153,176**	707,784
Property and Equipment		
Building and improvements	**9,316,608**	9,317,484
Furniture, fixtures and equipment	**379,138**	370,088
Vehicles	**2,900**	8,735
Land improvements	**28,106**	28,106
	9,726,752	9,724,413
Less accumulated depreciation	**(1,853,056)**	(1,579,214)
Net property and equipment	**7,873,696**	8,145,199
Other Assets		
Beneficial interest in trusteed assets	**332,955**	314,435
Loan fees, net of accumulated amortization of $32,250 in 2013 and $27,750 in 2012	**12,750**	17,250
Deposits	**8,775**	10,039
Total other assets	**354,480**	341,724
Total assets	**$ 9,381,352**	$ 9,194,707

	2013	2012
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 55,467	$ 43,023
Accrued wages and taxes	38,786	34,311
Other accrued expenses	50,042	52,772
Deferred revenue	1,449	160
Current portion of capital lease payable	-	168
Current portion of bond payable	671,867	641,400
Total current liabilities	817,611	771,834
Long-Term Liabilities		
Bond payable, net of current portion	1,440,991	2,112,858
Total long-term liabilities	1,440,991	2,112,858
Total liabilities	2,258,602	2,884,692
Net Assets		
Unrestricted		
Undesignated	6,661,776	5,659,140
Board-designated endowment	-	336,440
Total unrestricted net assets	6,661,776	5,995,580
Temporarily restricted	460,974	314,435
Total net assets	7,122,750	6,310,015
Total liabilities and net assets	$ 9,381,352	$ 9,194,707

The accompanying Notes are an integral part of these financial statements

Longmont Humane Society, Inc.

Statements of Activities

Years ended December 31	2013		
Revenue and Support	**Unrestricted**	**Temporarily Restricted**	**Total**
Revenue			
Adoption, contractual, and other fee income	$ 715,136	$ -	$ 715,136
Public clinic	621,802	-	621,802
Behavior	77,020	-	77,020
Bingo	-	-	-
Retail merchandise net sales, less cost of $30,806 in 2013 and $25,150 in 2012	41,426	-	41,426
Thrift store net sales, less in-kind expense of $354,695 in 2013 and $377,454 in 2012	970	-	970
Realized gain on investments	28,173	955	29,128
Unrealized gain on investments	-	18,447	18,447
Interest and dividends	2,953	7,332	10,285
Other revenue	584	-	584
Total revenue	1,488,064	26,734	1,514,798
Support			
Contributions, cash and in-kind	1,956,598	128,019	2,084,617
Special event income	185,386	-	185,386
Special event expenses	(25,633)	-	(25,633)
Net assets released from restriction	8,214	(8,214)	-
Total support	2,124,565	119,805	2,244,370
Total revenue and support	3,612,629	146,539	3,759,168
Functional Expenses and Losses			
Functional Expenses			
Program services	1,880,606	-	1,880,606
Supporting services			
Fundraising	398,146	-	398,146
General and administrative	663,268	-	663,268
Total supporting services	1,061,414	-	1,061,414
Total functional expenses	2,942,020	-	2,942,020
Losses			
Realized loss on sale of investments	-	-	-
Loss on disposal of asset	4,413	-	4,413
Total losses	4,413	-	4,413
Total functional expenses and losses	2,946,433	-	2,946,433
Change in Net Assets	666,196	146,539	812,735
Net Assets, Beginning of Year	5,995,580	314,435	6,310,015
Net Assets, End of Year	$ 6,661,776	$ 460,974	$ 7,122,750

2012		
Unrestricted	Temporarily Restricted	Total
$ 656,441	$ -	$ 656,441
521,949	-	521,949
86,672	-	86,672
34,938	-	34,938
33,739	-	33,739
24,717	-	24,717
-	-	-
17,977	21,863	39,840
8,714	12,625	21,339
1,344	-	1,344
1,386,491	34,488	1,420,979
1,040,926	-	1,040,926
163,073	-	163,073
(16,169)	-	(16,169)
361,331	(361,331)	-
1,549,161	(361,331)	1,187,830
2,935,652	(326,843)	2,608,809
1,680,911	-	1,680,911
657,712	-	657,712
663,536	-	663,536
1,321,248	-	1,321,248
3,002,159	-	3,002,159
3,479	-	3,479
1,297	-	1,297
4,776	-	4,776
3,006,935	-	3,006,935
(71,283)	(326,843)	(398,126)
6,066,863	641,278	6,708,141
$ 5,995,580	$ 314,435	$ 6,310,015

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	2013	2012
Cash Flows From Operating Activities		
Change in net assets	$ 812,735	$ (398,126)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	284,666	287,391
Amortization	4,500	4,500
Loss on disposal of asset	4,413	1,297
Net unrealized gain on investments	(18,447)	(39,840)
Realized (gain) loss on investments	(29,128)	3,479
Donated investments	(19,312)	-
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	(13,378)	7,235
Inventory	163	24,337
Prepaid expenses and other current assets	(2,271)	20,891
Deposits	1,264	100
Accounts payable	12,444	(75,019)
Accrued wages and taxes	4,475	6,223
Other accrued expenses	(2,730)	(27,130)
Deferred revenue	1,289	(24,448)
Net cash provided (used) by operating activities	1,040,683	(209,110)
Cash Flows From Investing Activities		
Proceeds from sale of investments	779,250	1,742,622
Purchases of investments	(470,221)	(758,604)
Transfer from restricted cash	-	1,008
Purchases of equipment	(17,576)	(12,838)
Proceeds from sale of equipment	-	1,025
Net cash provided by investing activities	291,453	973,213
Cash Flows From Financing Activities		
Payments on bond payable	(641,400)	(612,315)
Payments on capital lease payable	(168)	(974)
Net cash used by financing activities	(641,568)	(613,289)
Net Increase in Cash and Cash Equivalents	690,568	150,814
Cash and Cash Equivalents, Beginning of Year	358,367	207,553
Cash and Cash Equivalents, End of Year	$ 1,048,935	$ 358,367
Supplemental Information		
Cash paid for interest	$ 128,288	$ 157,653

The accompanying Notes are an integral part of these financial statements

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.

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.

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.

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.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Equities, mutual funds, and bonds are investments which are publicly traded and are valued using quoted prices in active markets. There have been no changes in the methodologies used at December 31, 2013 and 2012.

The method 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.

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 believes that all accounts receivable are fully collectible at December 31, 2013 and 2012.

Merchandise and Thrift Store Inventory. Merchandise inventory consisting of pet supplies and merchandise for resale, are 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, 2013 and 2012.

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.

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

Property and Equipment (continued). 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:

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

Depreciation expense for the years ended December 31, 2013 and 2012 was $284,666 and $287,391, 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, 2013 and 2012.

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, 2013 and 2012.

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, 2013 and 2012, accrued sales taxes were $2,848 and $2,779, respectively.

Contributions. 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.

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 for the years ended December 31, 2013 and 2012.

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.

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

Advertising. The Organization expenses advertising costs, including donated advertising, as they are incurred. Advertising expenses for the years ended December 31, 2013 and 2012 were $11,468 and $8,236, 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 2010 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, 2012 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 June 20, 2014, the date at which the financial statements were available for release.

Note 2 - 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 5, the Organization's bond payable requires an annual principal and interest payment of $772,228. At December 31, 2013, the Organization has concerns regarding it's ability to meet the current obligation of the debt. Management is currently reviewing options to refinance the bond agreement; however, at the present time, future financing for the Organization is not determinable.

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

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. 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

The Organization's fair value hierarchy for those investment assets measured at fair value on a recurring basis is as follows at December 31, 2013:

	Level 1	Level 2	Level 3	Total
U.S. Equities	$ 5,704	$ -	$ -	$ 5,704
Beneficial Interest in Trusteed Assets				
Mutual Funds:				
World Bond	39,491	-	-	39,491
Large Growth	38,769	-	-	38,769
Foreign Large Blend	31,817	-	-	31,817
Intermediate-term	22,302	-	-	22,302
Large Value	19,359	-	-	19,359
Mid-Cap Blend	14,254	-	-	14,254
Exchange Traded	12,211	-	-	12,211
Mid-Cap Growth	12,272	-	-	12,272
Small Growth	10,744	-	-	10,744
Loan Participation Fund	12,554	-	-	12,554
Short Government	9,499	-	-	9,499
Commodities Broad Basket	9,294	-	-	9,294
Total Mutual Funds	232,566	-	-	232,566
Corporate Bonds	88,889	-	-	88,889
Cash Equivalents	11,491	-	-	11,491
Mineral Interests	9	-	-	9
Total Beneficial Interest in Trusteed Assets	332,955	-	-	332,955
Total Investments at Fair Value	$ 338,659	$ -	$ -	$ 338,659

Note 3 - Investments (continued)

The Organization's fair value hierarchy for those investment assets measured at fair value on a recurring basis is as follows at 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	208,393	-	-	208,393
Corporate Bonds	98,328	-	-	98,328
Cash Equivalents	7,705	-	-	7,705
Mineral Interests	9	-	-	9
Total Beneficial Interest in Trusteed Assets	314,435	-	-	314,435
Total Investments at Fair Value	$ 580,801	$ -	$ -	$ 580,801

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. For the years ended December 31, 2013 and 2012, there were no significant transfers in or out of levels 1, 2, or 3.

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

	2013	2012
Interest and dividends earned on investments	**$ 10,285**	$ 21,339
Unrealized gain on investments	**18,447**	39,840
Realized gain (loss) on investments	**29,128**	(3,479)
	$ 57,860	$ 57,700

Note 4 – Inventory

Inventory consists of the following at December 31:

	2013	2012
Merchandise	**$ 6,262**	$ 4,338
Well Pet Clinic	**12,173**	15,230
Thrift stores	**61,904**	67,732
Allowance for obsolete inventory	**(9,286)**	(16,084)
	$ 71,053	$ 71,216

Note 5 – 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 $2,112,858 and $2,754,258 as of December 31, 2013 and 2012, 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. The agreement is subject to certain financial covenants, for which the most restrictive pertains to a minimum debt to earnings ratio.

Future scheduled minimum payments required under long-term debt obligations are as follows at December 31, 2013:

Year	Amount
2014	$ 671,867
2015	703,781
2016	737,210
	$ 2,112,858

Note 6 - Commitments

Operating Leases. The Organization leases equipment under a noncancelable operating lease, which expires October 2017. Rent expense under the lease totaled $4,765 and $3,920 for the years ended December 31, 2013 and 2012, respectively.

The Organization leases a building under a noncancelable operating lease for the thrift store. The lease requires monthly payments of $6,874, and expires August 2016. Rent expense under the lease totaled $106,529 and $105,725 for the years ended December 31, 2013 and 2012, respectively.

Note 6 - Commitments (continued)

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, 2013 and 2012.

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, 2013:

Year	Land and Facilities	Equipment	Total
2014	$ 83,312	$ 3,368	$ 86,680
2015	85,818	3,368	89,186
2016	58,364	3,368	61,732
2017	1	2,526	2,527
2018	1	-	1
Thereafter	16	-	16
	$ 227,512	$ 12,630	$ 240,142

Note 7 – Temporarily Restricted Net Assets

The balances of temporarily restricted net assets are as follows:

	January 1, 2013 Balance	**Receipts**	**Disbursements**	**December 31, 2013 Balance**
Building Fund	**$ -**	**$ 128,019**	**$ -**	**$ 128,019**
Trusteed Assets				
Patterson	**261,386**	**19,464**	**5,364**	**275,486**
Clark	**53,049**	**7,270**	**2,850**	**57,469**
	$ 314,435	**$ 154,753**	**$ 8,214**	**$ 460,974**

	January 1, 2012 Balance	Receipts	Disbursements	December 31, 2012 Balance
Building Fund	$ 258,225	$ -	$ 258,225	$ -
Trusteed Assets				
Patterson	321,681	27,554	87,849	261,386
Clark	61,372	6,934	15,257	53,049
	$ 641,278	$ 34,488	$ 361,331	$ 314,435

The building fund is 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 8 – Board-Designated Endowment

In 2008, the Board of Directors approved the designation of an endowment fund. In 2013, the Board of Directors elected to undesignate the net assets and use the funds to pay the required debt payment. The endowment was 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, 2013 and 2012.

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

	2013	2012
Endowment net assets, beginning of year	**$ 336,440**	$ 418,416
Investment return		
Interest and dividends	**1,086**	4,266
Net appreciation		
Unrealized gain (loss)	**(71)**	24,580
Realized gain (loss)	**28,173**	(10,082)
Total investment return	**29,188**	18,764
Transfers of undesignated net assets	**(365,628)**	(100,740)
Endowment net assets, end of year	**$ -**	$ 336,440

Note 9 - Special Events

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

	2013	2012
Homeward Bound		
Gross proceeds	**$ 102,707**	$ 112,072
Direct costs	**(20,715)**	(12,988)
Net revenue	**$ 81,992**	$ 99,084
Paws in the Park		
Gross proceeds	**$ 52,210**	$ 36,880
Direct costs	**(1,827)**	(2,364)
Net revenue	**$ 50,383**	$ 34,516
Raise More Money		
Gross proceeds	**$ 9,435**	$ -
Direct costs	**(1,630)**	-
Net revenue	**$ 7,805**	$ -

Note 9 - Special Events (continued)

	2013	2012
Dog Wash		
Gross proceeds	**$ 6,051**	$ 3,326
Direct costs	**(715)**	(8)
Net revenue	**$ 5,336**	$ 3,318
Holiday Photos		
Gross proceeds	**$ 3,205**	$ 5,496
Direct costs	**(395)**	(637)
Net revenue	**$ 2,810**	$ 4,859
Miscellaneous and other events		
Gross proceeds	**$ 11,778**	$ 5,299
Direct costs	**(351)**	(172)
Net revenue	**$ 11,427**	$ 5,127

Note 10 - 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.

The Organization's investments subject to credit risk consist primarily of mutual funds. The credit risk is reduced by maintaining the investments in a variety of funds. The investment funds are held and managed by a single financial institution trustee.

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, 2013 and 2012.

Longmont Humane Society, Inc.

Schedule of Functional Expenses

Year ended December 31, 2013

	Program Services	Supporting Services: Fundraising	Supporting Services: General and Administrative	Total Expenses
Compensation and benefits	$ 1,234,255	$ 192,352	$ 176,322	$ 1,602,929
Public clinic expenses	198,574	-	-	198,574
Interest expense	-	-	128,288	128,288
Rent-thrift stores	-	106,529	-	106,529
Utilities	59,441	4,953	34,674	99,068
Repairs and maintenance	70,410	-	23,470	93,880
Insurance	13,738	-	77,849	91,587
Rent and supplies, in-kind	55,604	-	6,178	61,782
Legal and professional	-	-	60,063	60,063
Development expenses	1,795	58,045	-	59,840
Thrift store expenses	-	24,767	-	24,767
Kennel supplies	22,029	-	-	22,029
Bank fees	-	-	21,325	21,325
Fee related expenses	20,943	-	-	20,943
Advertising	5,734	5,734	-	11,468
Miscellaneous expenses	-	-	8,633	8,633
Telephone and internet	5,593	799	1,598	7,990
Office supplies	3,457	1,729	1,729	6,915
Investment fees	-	-	5,693	5,693
Behavior expenses	4,951	-	-	4,951
Rent-equipment	3,336	477	953	4,766
Volunteer program expenses	3,839	677	-	4,516
Amortization	2,700	-	1,800	4,500
Postage	758	1,970	303	3,031
Dues and subscriptions	1,706	114	455	2,275
Vehicle expenses	618	-	69	687
Foster care expenses	325	-	-	325
Total expenses before depreciation	1,709,806	398,146	549,402	2,657,354
Depreciation	170,800	-	113,866	284,666
Total expenses	$ 1,880,606	$ 398,146	$ 663,268	$ 2,942,020

Longmont Humane Society, Inc.

Schedule of Functional Expenses

Year ended December 31, 2012

	Program Services	Supporting Services: Fundraising	Supporting Services: General and Administrative	Total Expenses
Compensation and benefits	$ 1,061,125	$ 437,924	$ 185,276	$ 1,684,325
Public clinic expenses	174,350	-	-	174,350
Interest expense	-	-	157,653	157,653
Rent-thrift stores	-	122,593	-	122,593
Utilities	59,299	4,942	34,591	98,832
Insurance	11,758	-	66,630	78,388
Repairs and maintenance	50,458	-	16,819	67,277
Rent and supplies, in-kind	53,789	-	5,977	59,766
Development expenses	1,310	42,369	-	43,679
Legal and professional	-	-	40,861	40,861
Bank fees	-	-	29,711	29,711
Kennel supplies	29,517	-	-	29,517
Behavior expenses	25,667	-	-	25,667
Bingo expenses	-	21,232	-	21,232
Fee related expenses	20,446	-	-	20,446
Thrift store expenses	-	19,006	-	19,006
Advertising	4,118	4,118	-	8,236
Telephone and internet	3,496	2,097	1,398	6,991
Office supplies	2,736	1,368	1,368	5,472
Amortization	2,700	-	1,800	4,500
Miscellaneous expenses	-	-	5,149	5,149
Postage	676	1,756	270	2,702
Dues and subscriptions	1,778	118	474	2,370
Vehicle expenses	2,020	-	224	2,244
Rent-equipment	1,137	-	379	1,516
Volunteer program expenses	1,072	189	-	1,261
Foster care expenses	1,024	-	-	1,024
Total expenses before depreciation	1,508,476	657,712	548,580	2,714,768
Depreciation	172,435	-	114,956	287,391
Total expenses	$ 1,680,911	$ 657,712	$ 663,536	$ 3,002,159