

Longmont Humane Society, Inc.

(a nonprofit Colorado corporation)

Longmont, Colorado

Financial Statements

December 31, 2015 and 2014

Longmont Humane Society, Inc.

Table of Contents

Independent Auditor's Report	Pages 1-2
Statements of Financial Position December 31, 2015 and 2014	Page 3
Statements of Activities Years ended December 31, 2015 and 2014	Page 4
Statements of Cash Flows Years ended December 31, 2015 and 2014	Page 5
Notes to Financial Statements	Pages 6-14
<u>Supplementary Information</u>	
Schedule of Functional Expenses Year ended December 31, 2015	Page 15
Schedule of Functional Expenses Year ended December 31, 2014	Page 16

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, 2015 and 2014, 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.

Independent Auditor's Report (continued)

Basis for Qualified Opinion

We did not observe the taking of physical inventories at December 31, 2015 and 2014 (stated at \$85,572 and \$73,824, 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, 2015 and 2014, 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 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
May 27, 2016

Longmont Humane Society, Inc.

Statements of Financial Position

December 31	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,382,144	\$ 1,331,254
Investments	202,534	-
Accounts receivable	12,365	22,525
Inventory	85,572	73,824
Prepaid expenses and other current assets	4,493	9,698
Total current assets	<u>1,687,108</u>	<u>1,437,301</u>
Property and Equipment		
Building and improvements	9,316,608	9,316,608
Furniture, fixtures and equipment	384,420	384,639
Vehicles	2,900	2,900
Land improvements	28,106	28,106
	<u>9,732,034</u>	<u>9,732,253</u>
Less accumulated depreciation	(2,389,093)	(2,125,665)
Net property and equipment	<u>7,342,941</u>	<u>7,606,588</u>
Other Assets		
Beneficial interest in trustee assets	312,864	327,723
Loan fees, net	6,979	10,645
Deposits	12,325	8,775
Total other assets	<u>332,168</u>	<u>347,143</u>
Total assets	<u>\$ 9,362,217</u>	<u>\$ 9,391,032</u>

	2015	2014
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 36,244	\$ 50,801
Accrued wages and taxes	68,726	64,026
Other accrued expenses	55,757	53,115
Deferred revenue	2,506	1,932
Current portion of note payable	80,120	74,354
Total current liabilities	<u>243,353</u>	<u>244,228</u>
Long-Term Liabilities		
Note payable, net of current portion	<u>2,067,569</u>	<u>2,147,689</u>
Total liabilities	<u>2,310,922</u>	<u>2,391,917</u>
Net Assets		
Unrestricted	6,665,570	6,451,977
Temporarily restricted	385,725	547,138
Total net assets	<u>7,051,295</u>	<u>6,999,115</u>
Total liabilities and net assets	<u>\$ 9,362,217</u>	<u>\$ 9,391,032</u>

Longmont Humane Society, Inc.

Statements of Activities

Years ended December 31

2015

Revenue and Support	Unrestricted	Temporarily Restricted	Total
Revenue			
Public clinic	\$ 907,152	\$ -	\$ 907,152
Adoption, contractual, and other fee income	745,122	-	745,122
Behavior	86,532	-	86,532
Retail merchandise sales	78,953	-	78,953
Retail merchandise cost of sales	(33,677)	-	(33,677)
Thrift store sales	340,144	-	340,144
Thrift store cost of sales, in-kind	(337,788)	-	(337,788)
Interest and dividends	2,404	-	2,404
Other revenue	10,098	-	10,098
Total revenue	<u>1,798,940</u>	<u>-</u>	<u>1,798,940</u>
Support			
Contributions, cash and in-kind	1,307,675	53,692	1,361,367
Special event income	213,114	-	213,114
Special event expenses	(28,894)	-	(28,894)
Net assets released from restriction	200,246	(200,246)	-
Total support	<u>1,692,141</u>	<u>(146,554)</u>	<u>1,545,587</u>
Total revenue and support	<u>3,491,081</u>	<u>(146,554)</u>	<u>3,344,527</u>
Functional Expenses and Losses			
Functional Expenses			
Program services	2,197,425	-	2,197,425
Supporting services			
Fundraising	435,684	-	435,684
General and administrative	643,288	-	643,288
Total functional expenses	<u>3,276,397</u>	<u>-</u>	<u>3,276,397</u>
Losses			
Change in value of trustee assets	-	14,859	14,859
Loss on disposal of asset	1,065	-	1,065
Unrealized loss on investments	26	-	26
Loss on extinguishment of debt	-	-	-
Total losses	<u>1,091</u>	<u>14,859</u>	<u>15,950</u>
Total functional expenses and losses	<u>3,277,488</u>	<u>14,859</u>	<u>3,292,347</u>
Change in Net Assets	213,593	(161,413)	52,180
Net Assets, Beginning of Year	<u>6,451,977</u>	<u>547,138</u>	<u>6,999,115</u>
Net Assets, End of Year	<u>\$ 6,665,570</u>	<u>\$ 385,725</u>	<u>\$ 7,051,295</u>

2014

Unrestricted	Temporarily Restricted	Total
\$ 758,403	\$ -	\$ 758,403
730,295	-	730,295
70,808	-	70,808
75,539	-	75,539
(33,300)	-	(33,300)
324,232	-	324,232
(328,883)	-	(328,883)
498	-	498
3,743	-	3,743
<u>1,601,335</u>	<u>-</u>	<u>1,601,335</u>
1,175,671	159,747	1,335,418
184,465	31,692	216,157
(36,956)	-	(36,956)
100,043	(100,043)	-
<u>1,423,223</u>	<u>91,396</u>	<u>1,514,619</u>
3,024,558	91,396	3,115,954
2,112,065	-	2,112,065
445,916	-	445,916
667,694	-	667,694
<u>3,225,675</u>	<u>-</u>	<u>3,225,675</u>
-	5,232	5,232
-	-	-
-	-	-
8,682	-	8,682
<u>8,682</u>	<u>5,232</u>	<u>13,914</u>
3,234,357	5,232	3,239,589
(209,799)	86,164	(123,635)
6,661,776	460,974	7,122,750
<u>\$ 6,451,977</u>	<u>\$ 547,138</u>	<u>\$ 6,999,115</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	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 52,180	\$ (123,635)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	265,082	272,609
Amortization	3,666	4,478
Net unrealized loss on investments	26	-
Change in value of trustee assets	14,859	5,232
Loss on disposal of asset	1,065	-
Loss on extinguishment of debt	-	8,682
Provision for bad debts	3,776	5,054
Donated investments	(1,273)	-
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	6,384	(5,291)
Inventory	(11,748)	(2,771)
Prepaid expenses and other current assets	5,205	(4,502)
Deposits	(3,550)	-
Accounts payable	(14,557)	(4,666)
Accrued wages and taxes	4,700	25,240
Other accrued expenses	2,642	3,073
Deferred revenue	574	483
Net cash provided by operating activities	<u>329,031</u>	<u>183,986</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	-	5,704
Purchases of investments	(201,287)	-
Purchases of equipment	(2,500)	(5,501)
Net cash provided (used) by investing activities	<u>(203,787)</u>	<u>203</u>
Cash Flows From Financing Activities		
Borrowings (payments) on long-term debt	(74,354)	98,130
Net cash provided (used) by financing activities	<u>(74,354)</u>	<u>98,130</u>
Net Increase in Cash and Cash Equivalents	50,890	282,319
Cash and Cash Equivalents, Beginning of Year	1,331,254	1,048,935
Cash and Cash Equivalents, End of Year	<u>\$ 1,382,144</u>	<u>\$ 1,331,254</u>
Supplemental Information		
Cash paid for interest	\$ 100,246	\$ 100,043
Bond payable refinanced with a note	\$ -	\$ 2,210,988
Loan fees paid with a note	\$ -	\$ 11,055

The accompanying Notes are an integral
part of these financial statements

Page 5

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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.

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.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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

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.

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.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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

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 Foundation 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, 2015 and 2014.

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, 2015 and 2014.

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.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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

Property and Equipment (continued). 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, 2015 and 2014 was \$265,082 and \$272,609, respectively.

Loan Fees. Loan fees have been capitalized and amortized using the straight-line method over the life of the related loan, which is 3 years. Amortization expense was \$3,666 and \$4,478 for the years ended December 31, 2015 and 2014, respectively. Unamortized loan fees of \$8,682 related to the debt agreement refinanced in November 2014 were expensed as a loss on the extinguishment of debt for the year ended December 31, 2014.

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, 2015 and 2014.

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, 2015 and 2014.

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, 2015 and 2014 were \$8,885 and \$11,795, respectively.

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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

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 2012 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, 2014 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 27, 2016, the date at which the financial statements were available for release.

Note 2 - Fair Value Measurements

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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt and equity securities				
U.S. Equities	\$ 1,247	\$ -	\$ -	\$ 1,247
Certificates of deposit	-	201,287	-	201,287
Beneficial interest in trusteed assets	-	-	312,864	312,864
	<u>\$ 1,247</u>	<u>\$ 201,287</u>	<u>\$ 312,864</u>	<u>\$ 515,398</u>

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 2 - Fair Value Measurements (continued)

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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trusteed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,723</u>	<u>\$ 327,723</u>

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

	<u>Beneficial Interest in Trusteed Assets</u>
Balance as of January 1, 2014	\$ 332,955
Change in value of trusteed assets	<u>(5,232)</u>
Balance as of December 31, 2014	327,723
Change in value of trusteed assets	<u>(14,859)</u>
Balance as of December 31, 2015	<u>\$ 312,864</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. Effective as of January 1, 2014, the beneficial interest in trusteed assets transferred out of level 1 and in to level 3 of the fair value levels.

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

	<u>2015</u>	<u>2014</u>
Interest and dividends earned on investments	\$ 2,404	\$ 498
Unrealized loss on investments	<u>(26)</u>	-
Change in value of trusteed assets	<u>(14,859)</u>	<u>(5,232)</u>
	<u>\$ (12,481)</u>	<u>\$ (4,734)</u>

Note 3 – Inventory

Inventory consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Thrift store merchandise	\$ 59,205	\$ 56,433
Well Pet Clinic	25,764	17,237
Retail merchandise and other	9,483	8,619
Allowance for obsolete inventory	<u>(8,880)</u>	<u>(8,465)</u>
	<u>\$ 85,572</u>	<u>\$ 73,824</u>

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 4 – Long-Term Debt and Pledged Assets

Long-term debt obligations are as follows at December 31:

	<u>2015</u>	<u>2014</u>
Note payable to Citywide Banks, interest at 4.5%, monthly interest only payments through May 2015 then quarterly principal and interest payments of \$44,254 through November 2017 when the remaining principal is due, collateralized by substantially all business assets.	\$ 2,147,689	\$ 2,222,043
Less current portion	<u>(80,120)</u>	<u>(74,354)</u>
	<u>\$ 2,067,569</u>	<u>\$ 2,147,689</u>

Scheduled maturities of the long-term note payable are as follows at December 31, 2015:

<u>Year</u>	<u>Amount</u>
2016	\$ 80,120
2017	2,067,569
	<u>\$ 2,147,689</u>

The agreement with Citywide is subject to certain financial covenants, for which the most restrictive pertains to maintaining a minimum of cash on hand.

Note 5 - Commitments

Operating Leases. The Organization leases equipment under multiple noncancelable operating leases, which expire April 2017 through October 2017. Rent expense under the leases totaled \$6,047 and \$5,912 for the years ended December 31, 2015 and 2014, respectively.

The Organization leases a building for the thrift store under a noncancelable operating lease. The lease requires monthly payments of \$7,079, and expires August 2020. Rent expense under the lease, including utilities and taxes, totaled \$116,596 and \$116,246 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014.

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, 2015:

<u>Year</u>	<u>Land and Facilities</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 70,795	\$ 5,648	\$ 76,443
2017	85,818	3,286	89,104
2018	88,431	-	88,431
2019	91,105	-	91,105
2020	61,939	-	61,939
Thereafter	14	-	14
	<u>\$ 398,102</u>	<u>\$ 8,934</u>	<u>\$ 407,036</u>

Page 12

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 6 – Temporarily Restricted Net Assets

The following summarizes the changes in net assets temporarily restricted for the years ended December 31:

	Building Fund	Trusteed Assets	2015 General Support	Total
Balance, January 1, 2014	\$ 128,019	\$ 332,955	\$ -	\$ 460,974
Receipts	91,439	-	100,000	191,439
Expenditures and losses	<u>(100,043)</u>	<u>(5,232)</u>	<u>-</u>	<u>(105,275)</u>
Balance, December 31, 2014	119,415	327,723	100,000	547,138
Receipts	53,692	-	-	53,692
Expenditures and losses	<u>(100,246)</u>	<u>(14,859)</u>	<u>(100,000)</u>	<u>(215,105)</u>
Balance, December 31, 2015	<u>\$ 72,861</u>	<u>\$ 312,864</u>	<u>\$ -</u>	<u>\$ 385,725</u>

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 7 - Special Events

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

	2015	2014
Homeward Bound		
Gross proceeds	\$ 139,724	\$ 123,967
Direct costs	<u>(22,319)</u>	<u>(32,257)</u>
Net revenue	<u>\$ 117,405</u>	<u>\$ 91,710</u>
Paws in the Park		
Gross proceeds	\$ 32,193	\$ 30,621
Direct costs	<u>(3,690)</u>	<u>(3,049)</u>
Net revenue	<u>\$ 28,503</u>	<u>\$ 27,572</u>
Miscellaneous and other events		
Gross proceeds	\$ 41,197	\$ 61,569
Direct costs	<u>(2,885)</u>	<u>(1,650)</u>
Net revenue	<u>\$ 38,312</u>	<u>\$ 59,919</u>
Total		
Gross proceeds	\$ 213,114	\$ 216,157
Direct costs	<u>(28,894)</u>	<u>(36,956)</u>
Net revenue	<u>\$ 184,220</u>	<u>\$ 179,201</u>

Longmont Humane Society, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 8 - 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.

Longmont Humane Society, Inc.

Schedule of Functional Expenses

Year ended December 31, 2015

	Program Services	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Compensation and benefits	\$ 1,503,422	\$ 234,299	\$ 214,775	\$ 1,952,496
Public clinic expenses	259,011	-	-	259,011
Rent	32,400	116,596	3,599	152,595
Utilities	64,892	5,408	37,854	108,154
Interest expense	-	-	100,246	100,246
Insurance	14,274	-	80,883	95,157
Repairs and maintenance	57,503	-	19,168	76,671
Kennel supplies	46,852	-	-	46,852
Development expenses	1,333	43,116	-	44,449
Legal and professional	-	-	38,137	38,137
Fee related expenses	24,225	-	-	24,225
Thrift store expenses	-	24,060	-	24,060
Bank fees	-	-	21,637	21,637
Miscellaneous expenses	-	-	12,684	12,684
Telephone and internet	7,797	1,114	2,228	11,139
Office supplies	5,172	2,586	2,586	10,344
Advertising	4,443	4,442	-	8,885
Volunteer program expenses	5,423	957	-	6,380
Behavior expenses	5,046	-	-	5,046
Postage	1,151	2,991	460	4,602
Amortization	2,200	-	1,466	3,666
Dues and subscriptions	1,732	115	462	2,309
Staff development	950	-	317	1,267
Investment fees	-	-	713	713
Vehicle expenses	365	-	40	405
Foster care expenses	185	-	-	185
Total expenses before depreciation	2,038,376	435,684	537,255	3,011,315
Depreciation	159,049	-	106,033	265,082
Total expenses	\$ 2,197,425	\$ 435,684	\$ 643,288	\$ 3,276,397

Longmont Humane Society, Inc.

Schedule of Functional Expenses

Year ended December 31, 2014

	Program Services	Supporting Services		Total Expenses
		Fundraising	General and Administrative	
Compensation and benefits	\$ 1,447,219	\$ 225,541	\$ 206,745	\$ 1,879,505
Public clinic expenses	216,248	-	-	216,248
Rent	32,400	116,246	3,600	152,246
Utilities	63,000	5,250	36,750	105,000
Interest expense	-	-	100,043	100,043
Insurance	14,031	-	79,511	93,542
Repairs and maintenance	64,366	-	21,455	85,821
Legal and professional	-	-	71,107	71,107
Development expenses	1,824	58,983	-	60,807
Kennel supplies	53,361	-	-	53,361
Thrift store expenses	-	26,541	-	26,541
Fee related expenses	21,439	-	-	21,439
Bank fees	-	-	19,012	19,012
Miscellaneous expenses	-	-	12,624	12,624
Office supplies	6,266	3,133	3,133	12,532
Advertising	5,897	5,898	-	11,795
Telephone and internet	7,321	1,046	2,092	10,459
Behavior expenses	5,352	-	-	5,352
Volunteer program expenses	3,903	689	-	4,592
Amortization	2,687	-	1,791	4,478
Postage	962	2,500	385	3,847
Investment fees	-	-	-	-
Dues and subscriptions	1,335	89	356	1,780
Foster care expenses	477	-	-	477
Vehicle expenses	412	-	46	458
Total expenses before depreciation	1,948,500	445,916	558,650	2,953,066
Depreciation	163,565	-	109,044	272,609
Total expenses	<u>\$ 2,112,065</u>	<u>\$ 445,916</u>	<u>\$ 667,694</u>	<u>\$ 3,225,675</u>