Denver Dumb Friends League

Consolidated Financial Report

June 30, 2019

Contents

Plante & Moran, PLLC
Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Denver Dumb Friends League

We have audited the accompanying consolidated financial statements of Denver Dumb Friends League and its subsidiary (the "League"), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denver Dumb Friends League and its subsidiary as of June 30, 2019 and the results of their changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, Denver Dumb Friends League adopted the provisions under Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of July 1, 2018 and applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

To the Board of Directors
Denver Dumb Friends League

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Denver Dumb Friends League and its subsidiary as of June 30, 2018 were audited by EKS&H LLLP, whose report dated October 4, 2018 expressed an unqualified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Plante & Moran, PLLC

October 1, 2019

Consolidated Statement of Financial Position

June 30, 2019
(with summarized comparative information for 2018)

	2019	2018
Assets		
Cash and cash equivalents	$ 5,259,880	$ 7,609,782
Investments (Note 7)	72,710,130	78,226,845
Operational promises to give (Note 6)	1,416,450	1,229,750
Capital campaign promises to give (Note 6)	1,702,510	2,414,109
Beneficial interest in charitable trusts and net assets of a community foundation (Note 8)	2,720,617	2,449,195
Assets held under deferred compensation arrangements (Note 16)	328,591	319,935
Prepaid expenses and other assets	417,155	145,573
Assets held for sale (Note 2)	1,000,000	1,000,000
Intangible assets (Note 11)	208,997	208,997
Property and equipment - Net (Note 10)	44,589,255	26,393,863
Total assets	**$ 130,353,585**	**$ 119,998,049**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 1,845,374	$ 1,194,228
Accrued compensation and benefits	913,524	741,458
Deferred compensation	303,383	303,129
Total liabilities	3,062,281	2,238,815
Net Assets		
Without donor restrictions	113,905,077	88,035,691
With donor restrictions (Note 13)	13,386,227	29,723,543
Total net assets	127,291,304	117,759,234
Total liabilities and net assets	**$ 130,353,585**	**$ 119,998,049**

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2019

(with summarized comparative information for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Contributions	$ 5,450,622	$ 2,347,997	$ 7,798,619	$ 6,130,167
Legacy and bequest contributions	9,608,722	-	9,608,722	5,994,808
Capital campaign contributions	-	1,106,029	1,106,029	30,450,386
In-kind donations	3,506,135	-	3,506,135	1,266,067
Special event revenue - Net of direct expenses of $232,863	1,643,951	146,710	1,790,661	2,110,439
Shelter and service fees	3,192,191	-	3,192,191	2,275,769
Change in value of charitable trusts and net assets of a community foundation	-	90,756	90,756	76,307
Other income	483,098	-	483,098	278,587
Net assets released from restrictions	20,032,046	(20,032,046)	-	-
Total revenue, gains, and other support	43,916,765	(16,340,554)	27,576,211	48,582,530
Expenses				
Program services:				
Shelter services	6,854,737	-	6,854,737	7,074,505
Veterinary services	3,423,747	-	3,423,747	3,530,607
Community solutions	3,170,663	-	3,170,663	-
Community and educational services	1,952,280	-	1,952,280	1,832,628
Harmony Equine Center	1,341,326	-	1,341,326	1,301,157
Investigative services	576,101	-	576,101	535,395
Total program services	17,318,854	-	17,318,854	14,274,292
Support services:				
Management and general	1,397,191	-	1,397,191	1,331,640
Fundraising and development	2,862,785	-	2,862,785	2,462,466
Total support services	4,259,976	-	4,259,976	3,794,106
Total expenses	21,578,830	-	21,578,830	18,068,398
Increase (Decrease) in Net Assets - Before nonoperating income (loss)	22,337,935	(16,340,554)	5,997,381	30,514,132
Nonoperating Income (Loss)				
Net investment return	3,531,451	3,238	3,534,689	4,612,747
Loss on disposal of assets	-	-	-	(672,813)
Total nonoperating income	3,531,451	3,238	3,534,689	3,939,934
Increase (Decrease) in Net Assets	25,869,386	(16,337,316)	9,532,070	34,454,066
Net Assets - Beginning of year	88,035,691	29,723,543	117,759,234	83,305,168
Net Assets - End of year	**$ 113,905,077**	**$ 13,386,227**	**$ 127,291,304**	**$ 117,759,234**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

(with summarized comparative information for 2018)

	Program Services							Support Services			Total Expenses	
	Shelter Services	Veterinary Services	Community and Educational Services	Harmony Equine Center	Investigative Services	Community Solutions	Total Program Services	Management and General	Fundraising and Development	Total Support Services	2019	2018
Salaries and related expenses	$ 4,644,581	$ 2,090,839	$ 1,144,307	$ 443,048	$ 411,156	$ 1,968,755	$ 10,702,686	$ 848,102	$ 1,422,116	$ 2,270,218	$ 12,972,904	$ 11,090,254
Medical supplies and diagnostics	141	766,932	-	32,416	-	575,002	1,374,491	-	-	-	1,374,491	875,726
Animal care, food, and supplies	417,356	18,658	-	253,608	1,170	3,824	694,616	-	-	-	694,616	525,498
Animal identification	27,692	85,116	-	1,006	-	13,262	127,076	-	-	-	127,076	128,853
Professional services	202,600	135,283	124,462	184,257	13,350	106,632	766,584	377,423	223,159	600,582	1,367,166	1,249,887
Facilities expenses	528,483	21,740	50,510	64,623	2,502	193,614	861,472	21,329	21,936	43,265	904,737	715,757
Printing and publications	9,252	178	68,444	1,166	386	14,573	93,999	12,739	453,609	466,348	560,347	470,393
Media and public awareness	25,139	-	263,616	27,288	6,203	6,952	329,198	-	231,008	231,008	560,206	291,289
IT and communications	126,563	18,939	74,369	18,672	19,962	53,678	312,183	42,567	69,091	111,658	423,841	388,772
Postage and shipping	10,217	5,102	27,948	39	669	6,394	50,369	3,624	210,006	213,630	263,999	219,133
Insurance	70,007	4,733	4,321	40,526	13,757	3,289	136,633	29,421	-	29,421	166,054	159,146
Pet supply store purchases	125,911	-	-	-	-	-	125,911	-	-	-	125,911	124,668
Vehicles and mileage	47,589	827	5,437	24,847	43,879	37,609	160,188	6,390	1,353	7,743	167,931	172,310
Supplies	14,102	1,635	4,276	6,073	4,443	8,164	38,693	11,893	5,152	17,045	55,738	99,106
Donor and volunteer costs	2,954	24	44,645	296	523	27	48,469	358	73,858	74,216	122,685	156,830
Contributions	80,450	247,023	100,000	-	3,000	8,000	438,473	-	-	-	438,473	232,300
Bank and merchant services fees	33,343	-	5,539	179	50	6,532	45,643	687	103,918	104,605	150,248	147,862
Miscellaneous	27,438	17,150	23,524	5,066	20,729	74,386	168,293	34,194	30,652	64,846	233,139	152,023
Investment fees	-	-	-	-	-	-	-	391,958	-	391,958	391,958	243,861
Direct special event costs	-	-	-	-	-	-	-	-	232,863	232,863	232,863	279,758
Depreciation	460,919	9,568	10,882	238,216	34,322	89,970	843,877	8,464	16,927	25,391	869,268	868,591
Less expenses included with revenue on the consolidated statement of activities and changes in net assets	-	-	-	-	-	-	-	(391,958)	(232,863)	(624,821)	(624,821)	(523,619)
Total functional expenses	**$ 6,854,737**	**$ 3,423,747**	**$ 1,952,280**	**$ 1,341,326**	**$ 576,101**	**$ 3,170,663**	**$ 17,318,854**	**$ 1,397,191**	**$ 2,862,785**	**$ 4,259,976**	**$ 21,578,830**	**$ 18,068,398**

See notes to consolidated financial statements.

Denver Dumb Friends League

Consolidated Statement of Cash Flows

Year Ended June 30, 2019
(with summarized comparative information for 2018)

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 9,532,070	$ 34,454,066
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	869,268	868,591
Contribution of interest in net assets of a community foundation	(180,666)	-
Contribution of building	(3,000,000)	-
Net realized and unrealized gains on investments	(3,210,535)	(4,104,881)
Change in value of beneficial interest in charitable trusts and net assets of a community foundation	(90,756)	(76,307)
Capital campaign contributions	(1,106,029)	(31,129,002)
Loss on disposal of property and equipment	-	672,813
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Promises to give	(186,700)	(755,125)
Prepaid expenses and other assets	(279,984)	(71,922)
Accounts payable and accrued expenses	651,146	(472,027)
Accrued compensation and benefits	172,066	(135,653)
Net cash and cash equivalents provided by (used in) operating activities	3,169,880	(749,447)
Cash Flows from Investing Activities		
Purchases of investments	(15,693,603)	(34,882,329)
Proceeds from sale of investments	24,420,853	15,014,464
Purchases of property and equipment	(16,064,660)	(9,180,616)
Net cash and cash equivalents used in investing activities	(7,337,410)	(29,048,481)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for capital campaign	1,817,628	29,390,195
Payments on note payable	-	(158,463)
Net cash and cash equivalents provided by financing activities	1,817,628	29,231,732
Net Decrease in Cash and Cash Equivalents	(2,349,902)	(566,196)
Cash and Cash Equivalents - Beginning of year	7,609,782	8,175,978
Cash and Cash Equivalents - End of year	**$ 5,259,880**	**$ 7,609,782**

See notes to consolidated financial statements.

Note 1 - Nature of Business

Denver Dumb Friends League, doing business as Dumb Friends League (DFL), a nonprofit organization, is the largest community-based animal welfare organization in the Rocky Mountain region. The mission of DFL is: "Working with our compassionate community, we will end pet homelessness and animal suffering."

DFL's programs include the following:

Shelter Services

DFL provides compassionate care through the most comprehensive, direct services for any pet in Colorado who is vulnerable to homelessness, suffering, and abuse because every pet in our community deserves to be nurtured, safe, and cherished.

As a socially conscious pet animal shelter that turns no pet away, DFL received 21,080 pets at its two locations in Denver and Castle Rock, Colorado, including 4,015 pets through transfers in from other shelters, in fiscal year 2019. Of those, 18,751 were either adopted out, reunited with owners, or transferred to placement partners. Its in-shelter behavior programs provided training using positive reinforcement techniques to 6,148 pets.

Veterinary Services

DFL provides all necessary medical care to the animals in our shelters. Before the animals are ready for adoption, our skilled team examines, evaluates, vaccinates, spays/neuters (for unaltered cats and dogs), microchips, and performs other needed surgeries. DFL partners with veterinarians in the Denver area through a Connect to Care program, which ensures pets receive the vital ongoing veterinary care they need to be happy and healthy.

DFL’s shelter veterinary team performed more than 11,550 surgeries, including 8,198 spay/neuter surgeries for pets prior to adoption; 1,942 dental surgeries; and 1,410 orthopedic, soft tissue, and wound-repair surgeries. It also provided general health exams, vaccinations, microchip implants, and treatment for a wide variety of medical conditions to the animals in the shelters.

Community Outreach Services

The Dumb Friends League Solutions - Veterinary Hospital (Solutions), which opened on October 1, 2018, exists to prevent and alleviate suffering in pets whose caretakers would otherwise be unable to provide this care. Out of respect for our clients and out of concerns about creating barriers when documentation is challenging, we serve our clients on an honor system. If owners can otherwise afford to provide care for their pet, they are requested to obtain that care from one of the excellent veterinarians in our community.

Solutions is a full-service animal hospital that provides preventive care, so animals are less likely to contract diseases that cause suffering, and care for injured and ill pets. Solutions also provides surgical care, including dental procedures, for pets owned by people in need. During fiscal year 2019, the hospital performed 802 surgeries, including 81 orthopedic procedures; completed 3,449 sick/injured animal examinations; and provided 760 wellness examinations.

As part of our ongoing efforts to reduce the number of cats on our streets and in shelters, the Dumb Friends League Solutions - Cat Spay/Neuter Clinic offers fully subsidized (free) spay/neuter surgeries and age-appropriate core vaccinations for Colorado cats, including owned cats, feral cats, trap-neuter-return (TNR) cats, and community cats (tame or feral free-roaming cats). Anyone can bring a cat to the clinic for spay/neuter surgery. In fiscal year 2019, the spay/neuter veterinary team and volunteers performed 16,873 donor-subsidized surgeries in its cat spay/neuter clinic and two mobile spay/neuter units.

Note 1 - Nature of Business (Continued)

Community and Educational Services

Humane education and community engagement play an essential role in ending pet homelessness and animal suffering. Events and programs are offered at our shelters and throughout the Denver metro communities on various animal welfare topics. In fiscal 2019, DFL provided education to 16,008 children and adults through 813 humane education programs.

Harmony Equine Center

The Dumb Friends League Harmony Equine Center (the "Center"), which opened in 2012, is a rehabilitation and adoption facility for Colorado's abused and neglected equines that have been removed from their owners by law enforcement, as well as a training center for horses from rescue groups in the Midwest and Southwest that do not have the resources to train horses in preparation for adoption. In fiscal year 2019, the Center received 364 equines, adopted out 200 equines, and transferred out 35 equines to placement partners.

Investigative Services

In January 2010, DFL formed The Colorado Humane Society & SPCA, Inc. (CHS), a separate nonprofit corporation whose mission is to prevent cruelty and neglect of animals within the state of Colorado through collaboration with law enforcement agencies. CHS state-commissioned agents responded to 577 cases in fiscal year 2019, serving in 48 counties. CHS was merged into DFL in February 2019, but work continues in the state of Colorado as a program of DFL.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of DFL and CHS (collectively, the "League"). Prior to the merger, DFL was the sole member of CHS with the ability to appoint all board members of CHS. All material intercompany accounts and transactions have been eliminated in consolidation.

In February 2019, DFL merged with CHS to form a single entity managed by the League and a single board of directors. All assets of CHS were transferred to DFL, including intangible assets consisting of the CHS trademark, logo, and other assets valued at $208,997.

Adoption of New Accounting Pronouncement

As of July 1, 2018 and applied retrospectively to all years presented, the League adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the League, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated, as follows: net assets of $29,286,959 previously reported as temporarily restricted net assets and net assets of $436,584 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions.

Basis of Accounting

The accompanying consolidated financial statements of the League have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Note 2 - Significant Accounting Policies (Continued)

Classification of Net Assets

Net assets of the League are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the League.

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 League or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Unconditional promises to give cash and other assets to the League are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Cash Equivalents

For the purpose of the accompanying financial statements, the League considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents unless held for reinvestment as part of the investment portfolio.

Investments

Investments are initially recorded at cost, which is the purchase price of the investments or, in the case of assets contributed to the League, at their fair value at the date of contribution. After initial acquisition, the League reports investments at fair value. Fair value is determined, as described in more detail below, under the fair value measurements policy and in Note 9. The League's management is responsible for the fair value measurement of investments reported in the consolidated financial statements and believes that the reported values are reasonable. Unrealized gains and losses are included in the change in net assets on the consolidated statement of activities and changes in net assets.

Note 2 - Significant Accounting Policies (Continued)

Concentrations of credit risk

Financial instruments that potentially subject the League to concentrations of credit risk consist principally of cash and cash equivalents, investments, promises to give, and beneficial interest in charitable trusts.

The League places its cash and money market accounts with creditworthy, high-quality financial institutions. At times, a portion of these cash balances is not insured by the FDIC or related entity.

The League has significant investments and, therefore, is subject to concentrations of credit risk. Investments are made by investment managers engaged by the League, and the investments are monitored for the League by an independent investment advisor. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy, reviewed annually, is prudent for the long-term welfare of the League and its beneficiaries.

Credit risk with respect to promises to give is limited due to the number and creditworthiness of the individuals, corporations, and foundations that comprise the contributor base.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair value at the date of donation. The League capitalizes property and equipment with a cost or fair value at the date of donation of $5,000 or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 40 years. Construction-in-progress assets are capitalized, but not depreciated until placed into service.

Asset Held for Sale

During the fiscal year ended June 30, 2018, the League received land valued at $1,000,000 that is currently held for sale. Subsequent to June 30, 2019, the land was sold for approximately $950,000.

Revenue Recognition

Shelter and service fees are recognized as revenue when those services have been provided.

Advertising Expense

The League uses advertising to promote its programs among the audiences it serves. Advertising expense is charged to income during the year in which it is incurred. Advertising expense was $512,615 during the year ended June 30, 2019, $190,350 of which was received at no charge and is included in in-kind gifts.

Donated Goods and Services

Donated goods and services are recorded as contributions and corresponding assets or expenses at their estimated fair values at the date of donation. Donated goods and services received during the year ended June 30, 2019 totaled $3,506,135, $3,000,000 of which related to land and a building transferred to the League from PetAid Colorado (see Note 4).

Many individuals volunteer their time and perform a variety of tasks that assist the League in its programs and general operations. The League received 217,398 volunteer hours during the year ended June 30, 2019, but these were not recognized in the consolidated financial statements because they did not meet the criteria for recognition.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Costs have been allocated between the various programs and support services on several bases and estimates. Certain salaries and related benefits have been allocated based on time and effort. Facilities costs have been allocated based on square footage. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

DFL and CHS are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by DFL and CHS and recognize a tax liability if DFL and CHS have taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS) or other applicable taxing authorities. Management has analyzed the tax positions taken by DFL and CHS and has concluded that, as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. DFL and CHS are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

DFL and CHS follow the *Accounting for Uncertainty in Income Taxes* accounting standard, which requires each organization to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. DFL and CHS believe that they have appropriate support for any tax positions taken and, as such, do not have any uncertain tax positions that are significant to the consolidated financial statements.

Prior-year Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the League's consolidated financial statements for fiscal year 2018, from which the summarized information was derived.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The League plans to apply the standard using the modified retrospective method. The new guidance will be effective for the League’s year ending June 30, 2020.

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the League's year ending June 30, 2020.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 1, 2019, which is the date the financial statements were available to be issued.

In May 2019, the League entered into negotiations with the City and County of Alamosa, Colorado to build and operate the Dumb Friends League regional animal center in Alamosa, Colorado. The terms of the negotiation are expected to include the donation or purchase of land for the center, the construction of the new animal center on that land, and operation of the center in Alamosa. The League estimates it will invest approximately $1,700,000 for this project. The League expects to finalize negotiation and build the center during fiscal year 2020 and commence operations in early fiscal year 2021.

Note 3 - Liquidity and Availability of Resources

The League regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also working to maximize the investment of its reserves. For the purpose of analyzing resources available to meet general expenditures over a 12-month period, the League considers all expenditures related to its ongoing shelter and veterinary service, community education, and investigation programs to be general expenditures. Resources available for its construction project are not considered general expenditures.

At June 30, 2019, the League's financial resources were as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 5,259,880
Accounts and interest receivable (included in prepaids and other assets)	265,720
Operational promises to give	1,416,450
Investments	72,710,130
Total financial assets	79,652,180
Less amounts not available to be used within one year:	
Investments not available within one year	(5,341,990)
Assets restricted by donors	(8,963,100)
Financial assets available to meet general expenditures within one year	$ 65,347,090

The League's invested resources are reserves available to cover general expenditures over the next 12 months, if needed. The League budgets conservatively and operates with a deficit budget each year, estimating revenue based on known and achievable sources and historical and expected costs necessary to provide its programs or typical and customary costs necessary to provide new programs to the communities it serves in Colorado. Deficits have historically been covered by donations and estate gifts supporting general expenditures. The League also has a line of credit for $2,500,000 (see Note 12) available for use.

Note 4 - PetAid Colorado Dissolution

In September 2018, the League entered into a letter of intent with PetAid Colorado (PetAid), a 501(c)(3) organization, whereby PetAid would dissolve and transfer its assets to the League. The transaction closed on September 30, 2018. Based on the agreement, the League received contributed assets valued at approximately $3,000,000. The League also entered into an assignment and assumption agreement with PetAid and Community First Foundation (CFF) whereby the League will assume the rights and obligations of the PetAid endowment fund held by CFF (see Note 8).

Note 5 - Capital Campaign

As of June 30, 2019, the League completed its $40,000,000 fundraising campaign and phases 1 and 2 of the renovation project that began in fiscal year 2017 to its largest animal shelter operation in Denver. The Leslie A. Malone Center will provide expanded shelter, transfer, and adoption programs to the Denver community beginning in August 2019. Remaining phases of the renovation project are expected to continue into fiscal year 2021.

During the year ended June 30, 2019, the League raised $1,106,029 of contributions for the capital campaign. As of June 30, 2019, a total of $1,702,510 of pledges receivable are outstanding related to the capital campaign.

The League has entered into a guaranteed maximum price construction agreement with a general contractor totaling approximately $31,000,000, along with other agreements for architectural and construction services within the project budget. As of June 30, 2019, the League has capitalized approximately $27,500,000 of amounts related to the renovation project.

Note 6 - Promises to Give

Promises to give consist of the following at June 30, 2019:

Due in less than one year	$ 1,015,615
Due in one to five years	1,924,653
Due after five years	400,000
Less unamortized discount on promises to give	(196,308)
Less allowance for uncollectible promises to give	(25,000)
Total	$ 3,118,960
Capital campaign promises to give	$ 1,702,510
Operational promises to give	1,416,450
Total	$ 3,118,960

Promises to give are from various entities, including foundations, corporations, and individuals. The discount factor utilized in the present value calculation is the borrowing rate available to the League as of June 30 of the fiscal year in which the commitment is made.

Note 7 - Investments

The League's investment assets, which include publicly traded and private investments, are dedicated to providing the financial resources needed to meet the League's charitable objectives. The League's investments, with limited exceptions, are managed by independent professional investment management firms and are held in various investment structures, such as individually managed accounts, commingled mutual funds and trusts, foreign domiciled hedge funds, and limited partnerships. Marketable and private alternative investments are exposed to various risks that may cause the reported value of the League's investment assets to fluctuate from period to period and result in a material change to the net assets of the League. Investments in equity securities fluctuate in value in response to many factors, such as the activities and financial condition of individual companies, business and industry market conditions, and the general economic environment. The value of fixed-income securities fluctuates in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions.

Some investment managers retained by the League are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes. Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the League's investment portfolio.

Investments are stated at fair value and consist of the following as of June 30, 2019:

Large-cap equities	$ 17,951,638
Small-cap equities	2,927,772
Hedged equities	11,311,590
International equities	10,724,971
Emerging markets	1,055,878
Balanced fund	175,263
Absolute return	15,478,677
Fixed income	4,115,011
Cash and cash equivalents	8,969,330
Total	$ 72,710,130

Investment return for the year ended June 30, 2019 is summarized as follows:

Interest and dividend income	$ 702,103
Net realized and unrealized gains on investments	3,210,535
Less investment management fees	(377,949)
Net investment return	$ 3,534,689

Note 8 - Beneficial Interest in Charitable Trusts and Net Assets of Community Foundation

Beneficial Interest in Charitable Trusts

The League follows the provisions of the American Institute of Certified Public Accountants audit and accounting guide, *Not-For-Profit Organizations*, which requires the recording of all unconditional, irrevocable split-interest agreements under which the League is entitled to receive a benefit. Split-interest agreements are carried out through the formation of charitable trusts, the trustees of which may be either the League or third parties, such as commercial banks.

Note 8 - Beneficial Interest in Charitable Trusts and Net Assets of Community Foundation (Continued)

The League was named as the beneficiary in assets held by a trust, whereby the assets of the trust are invested and managed by an outside trustee in accordance with a trust instrument established by the donor. All income earned by the trust will be distributed annually to the League for use in its operations. At the sole discretion of the trustee, distributions of principal may be made to the League as is deemed necessary or advisable by the trustee to assist the League in achieving its objectives. The beneficial interest in this trust, recorded as net assets with donor restrictions, was $2,063,771 at June 30, 2019.

The League receives net income from two perpetual trusts, but will never receive the assets of the perpetual trusts. Distributions from these trusts are unrestricted. The beneficial interest in the perpetual trusts, recorded as net assets with restrictions, was $471,844 at June 30, 2019.

Interest in the Net Assets of a Community Foundation

During the year ended June 30, 2019, the League entered into an assignment and assumption agreement (see Note 4) for an endowment fund previously held by PetAid at Community First Foundation. The League recorded its interest in the endowment at the date of the agreement of approximately $181,000. The endowment fund is valued at fair value and is recorded as net assets with restrictions. The balance of the endowment fund was $185,002 at June 30, 2019.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the League has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

As required by accounting principles generally accepted in the United States of America (GAAP), the League uses net asset value (NAV) per share or its equivalent (practical expedient), such as member units or an ownership interest in partners' capital, to estimate the fair value of an alternative investment, and GAAP requires additional fair value disclosures of the League's alternative investments. Certain investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy. The fair value amounts presented in the following table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated statement of financial position.

Note 9 - Fair Value Measurements (Continued)

The following is a description of valuation methodologies used for assets measured at fair value:

Large-cap equities, international equities (other than investments in certain entities that calculate NAV per share), fixed-income funds, and balanced funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Absolute return funds, hedged equities, small-cap equities, emerging markets, and international equities: Value calculated using NAV per share of the investments.

There were no changes in the League's valuation techniques during the year.

The following table summarizes the League's assets by the above fair value hierarchy levels as of June 30, 2019:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Balance at June 30, 2019
Assets:					
Large-cap equities	$ 17,951,638	$ -	$ -	$ -	$ 17,951,638
Small-cap equities	-	-	-	2,927,772	2,927,772
Hedged equities	-	-	-	11,311,590	11,311,590
International equities	3,816,243	-	-	6,908,728	10,724,971
Emerging markets	-	-	-	1,055,878	1,055,878
Balanced fund	175,263	-	-	-	175,263
Absolute return funds	-	-	-	15,478,677	15,478,677
Fixed-income funds	4,115,011	-	-	-	4,115,011
Beneficial interest in charitable trusts and net assets of community foundation	-	-	2,720,617	-	2,720,617
Total assets	$ 26,058,155	$ -	$ 2,720,617	$ 37,682,645	$ 66,461,417

Cash and cash equivalents in the amount of $8,969,330 as of June 30, 2019 are included in investments, but are not subject to fair value reporting and, therefore, are not included in the above table.

The fair value of investments held in beneficial interest in charitable trusts and net assets of community foundation include Levels 1 and 2; however, the League's pro rata share of the interests in the trusts is not quoted in active markets and, therefore, is classified under Level 3 in the fair value hierarchy.

Investments in Entities that Calculate Net Asset Value per Share

The League holds shares or interests in investments at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment.

Note 9 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedged equity funds (a)	$ 11,311,590	$ -	Quarterly to annually	30-60 days
Absolute return funds (b)	15,478,677	-	Monthly to annually	60-95
International equity (c)	6,908,728	-	Daily to monthly	10-30 days
Emerging markets (d)	1,055,878	-	Weekly	5-10 days
Small-cap equity (e)	2,927,772	-	Monthly	30 days
Total	$ 37,682,645	$ -		

(a) This category includes investments in hedge funds that invest both long and short, primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using net asset value per share of the investments. The investments dominate exposure in the U.S. market, but will also take advantage of investment opportunities in Europe, Asia, and emerging markets. One investment is subject to a one-year lockup period and can be redeemed with certain restrictions.

(b) This category includes multistrategy absolute return investments focused on analyzing the probability-adjusted returns of individual securities and assets and capturing the alpha in mispriced assets/securities across conventional and alternative financial strategies. Management initiates long and short position, targeting solid absolute risk-adjusted returns. Two investments are subject to a one-year lockup period and can be redeemed with certain restrictions.

(c) This category includes investments in funds that focus on long-only international equities. The underlying assets are liquid, and the fund's managers provide details of those assets.

(d) This category includes investments in funds that invest in emerging market companies. The fund will typically invest in equity securities or equity-linked instruments of companies located in emerging markets that have superior long-term earnings growth potential.

(e) This category includes investments in funds that seek to generate long-term, lower volatility returns in excess of the U.S. equity market by investing in companies that are thought to be well-positioned in attractively structured, stable industries and are less vulnerable to business disruptions. The portfolio invests primarily in common stocks and depository receipts, REIT's, convertible bonds, preferred stock, rights, warrants, exchange-traded funds, and similar equity equivalents, as well as debt securities, cash, and cash equivalents.

Level 3 Changes

The changes in the financial assets for which the League has used Level 3 inputs to determine fair value are as follows:

	Beneficial Interest in Charitable Trusts and net Assets of Community Foundation
Beginning balance	$ 2,449,195
Contributions	180,666
Change in value	90,756
Ending balance	$ 2,720,617

Note 10 - Property and Equipment

The League's property and equipment are composed of the following as of June 30, 2019:

Land	$ 3,559,238
Buildings	18,711,728
Transportation equipment	1,392,093
Furniture and fixtures	1,856,839
Computer equipment and software	794,979
Construction in progress	27,544,486
Total cost	53,859,363
Accumulated depreciation	9,270,108
Net property and equipment	$ 44,589,255

Note 11 - Intangible Assets

Intangible assets represent a trade name and other intellectual property from the acquisition of CHS in fiscal year 2010. Under generally accepted accounting principles, trade names and certain intellectual property are considered to have indefinite lives and are not amortized; however, they are subject to an annual impairment test. As of June 30, 2019, the League determined that there was no impairment of the trade name and other intellectual property acquired. The League cannot predict the occurrence of certain events or changes in circumstances that might adversely affect their carrying value.

Note 12 - Line of Credit

Under a line of credit agreement with a bank, the League has available borrowings of approximately $2,500,000 for short-term operational needs. The line of credit is at the bank's prime rate less 0.50 percent (5.0 percent as of June 30, 2019) and expires in May 2020. No amounts were drawn during fiscal year 2019 or were outstanding under this agreement at June 30, 2019.

Note 13 - Net Assets

Net assets with donor restrictions as of June 30 are available for the following purposes:

Subject to expenditures for a specified purpose:	
Capital campaign	$ 9,896,846
Veterinary services	552,096
Hope fund	175,263
Other programs	41,405
Total subject to expenditures for a specified purpose	10,665,610
Beneficial interest in charitable trusts and net assets of community foundation	2,720,617
Total	$ 13,386,227

Note 14 - Operating Leases

The League leases certain office equipment under noncancelable operating leases that expire through August 2024. Future minimum lease payments required under these noncancelable operating leases are as follows:

Years Ending June 30	Amount
2020	$ 48,700
2021	48,700
2022	8,025
2023	6,645
2024	6,645
Thereafter	1,661
Total	$ 120,376

Rent expense for leases totaled approximately $52,000 for the year ended June 30, 2019.

Note 15 - Retirement Plans

The League sponsors a 401(k) plan for substantially all employees. The plan is a safe harbor 401(k) plan open to employees of the League who have attained the age of 18 and who have completed 90 days of service. Employees may begin participating in the plan on the first day of the quarter coinciding with or immediately following the date they satisfy the eligibility requirements. Under the plan agreement, the League makes a matching contribution up to 100 percent of each participant's elective deferral, not to exceed 3 percent of the participant's compensation, plus 50 percent of each participant's elective deferral in excess of 3 percent, but not in excess of 5 percent of the participant's compensation.

Contributions to the plan totaled approximately $257,000 for the year ended June 30, 2019.

Note 16 - Deferred Compensation

Effective December 15, 2005, the League adopted an eligible deferred compensation plan under IRS Code Section 457(b). This plan is available to certain eligible employees. The League may, in its sole discretion, contribute an amount on behalf of eligible employees up to the maximum amount permitted by law. No employee contributions are permitted. Participants are fully vested in all contributions made on their behalf. All benefits and related investments are solely the property of the League.

At June 30, 2019, the assets and related liabilities under the IRS Code Section 457(b) deferred compensation plan are recorded at their fair market values.