Denver Dumb Friends League

Financial Report

June 30, 2020

Contents

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Independent Auditor's Report

To the Board of Directors
Denver Dumb Friends League

We have audited the accompanying financial statements of Denver Dumb Friends League (the "League"), which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denver Dumb Friends League as of June 30, 2020 and the results of its 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.

Report on Summarized Comparative Information

We have previously audited Denver Dumb Friends League's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 1, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matters

As described in Note 3 to the financial statements, the League has been impacted by the ongoing worldwide COVID-19 pandemic.

To the Board of Directors
Denver Dumb Friends League

As described in Note 2 to the financial statements, the League adopted the provisions under Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Our opinion is not modified with respect to these matters.

Plante & Moran, PLLC

October 20, 2020

Statement of Financial Position

June 30, 2020
(with summarized comparative information for 2019)

	2020	2019
Assets		
Cash and cash equivalents	$ 10,953,927	$ 5,259,880
Investments (Note 7)	64,276,914	72,710,130
Operational promises to give (Note 6)	1,442,031	1,245,142
Capital campaign promises to give (Note 6)	1,096,209	1,873,818
Beneficial interest in charitable trusts and net assets of a community foundation (Note 8)	2,699,486	2,720,617
Assets held under deferred compensation arrangements (Note 15)	306,751	328,591
Prepaid expenses and other assets	675,514	626,152
Assets held for sale (Note 2)	-	1,000,000
Property, plant, and equipment - Net (Note 10)	51,369,027	44,589,255
Total assets	**$ 132,819,859**	**$ 130,353,585**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 1,962,922	$ 1,845,374
Accrued compensation and amounts withheld	1,121,363	913,524
Deferred compensation	306,751	303,383
Debt (Note 11)	5,000,000	-
Total liabilities	8,391,036	3,062,281
Net Assets		
Without donor restrictions	116,374,402	113,905,077
With donor restrictions (Note 13)	8,054,421	13,386,227
Total net assets	124,428,823	127,291,304
Total liabilities and net assets	**$ 132,819,859**	**$ 130,353,585**

See notes to financial statements.

Denver Dumb Friends League

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2020

(with summarized comparative information for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Contributions	$ 5,864,175	$ 4,668,659	$ 10,532,834	$ 7,798,619
Legacy and bequest contributions	4,713,296	-	4,713,296	9,608,722
Capital campaign contributions	-	299,766	299,766	1,106,029
In-kind donations	757,524	-	757,524	3,506,135
Special event revenue - Net of direct expenses of $130,431	1,382,465	-	1,382,465	1,790,661
Shelter and service fees	3,467,048	-	3,467,048	3,192,191
Change in value of charitable trusts and net assets of a community foundation	-	(21,131)	(21,131)	90,756
Other income	298,457	-	298,457	483,098
Net assets released from restrictions	10,294,757	(10,294,757)	-	-
Total revenue, gains, and other support	26,777,722	(5,347,463)	21,430,259	27,576,211
Expenses				
Program services:				
Shelter services	8,295,099	-	8,295,099	6,854,737
Shelter veterinary services	3,830,915	-	3,830,915	3,423,747
Community veterinary services	4,139,396	-	4,139,396	3,170,663
Community and educational services	1,677,990	-	1,677,990	1,952,280
Harmony Equine Center	1,321,285	-	1,321,285	1,341,326
Investigative services	507,025	-	507,025	576,101
Total program services	19,771,710	-	19,771,710	17,318,854
Support services:				
Management and general	1,650,406	-	1,650,406	1,397,191
Fundraising and development	2,948,038	-	2,948,038	2,862,785
Total support services	4,598,444	-	4,598,444	4,259,976
Total expenses	24,370,154	-	24,370,154	21,578,830
Increase (Decrease) in Net Assets - Before nonoperating income (loss)	2,407,568	(5,347,463)	(2,939,895)	5,997,381
Nonoperating Income (Loss)				
Net investment return	187,230	15,657	202,887	3,534,689
Loss on disposal of assets	(125,473)	-	(125,473)	-
Total nonoperating income	61,757	15,657	77,414	3,534,689
Increase (Decrease) in Net Assets	2,469,325	(5,331,806)	(2,862,481)	9,532,070
Net Assets - Beginning of year	113,905,077	13,386,227	127,291,304	117,759,234
Net Assets - End of year	**$ 116,374,402**	**$ 8,054,421**	**$ 124,428,823**	**$ 127,291,304**

Statement of Functional Expenses

Year Ended June 30, 2020

(with summarized comparative information for 2019)

	Program Services							Support Services			Total Expenses	
	Shelter Services	Shelter Veterinary Services	Community Veterinary Services	Community and Educational Services	Harmony Equine Center	Investigative Services	Total Program Services	Management and General	Fundraising and Development	Total Support Services	2020	2019
Salaries and related expenses	$ 4,947,295	$ 2,586,782	$ 2,578,897	$ 1,038,184	$ 537,913	$ 381,070	$ 12,070,141	$ 1,046,153	$ 1,669,820	$ 2,715,973	$ 14,786,114	$ 12,972,904
Medical supplies and diagnostics	7,792	942,863	581,982	-	19,237	-	1,551,874	-	-	-	1,551,874	1,374,491
Professional services	280,310	152,699	125,275	136,298	150,089	44,100	888,771	345,075	105,321	450,396	1,339,167	1,367,166
Facilities expenses	761,651	19,439	185,048	52,629	77,042	1,473	1,097,282	24,667	19,196	43,863	1,141,145	904,737
Animal care, food, and supplies	545,288	4,791	8,159	-	209,528	225	767,991	-	-	-	767,991	694,616
IT and communications	192,392	26,027	48,516	93,332	19,850	15,241	395,358	49,604	84,119	133,723	529,081	423,841
Media and public awareness	17,603	424	1,128	209,256	11,076	609	240,096	107	264,113	264,220	504,316	560,206
Miscellaneous	23,092	23,570	301,653	27,275	955	-	376,545	27,683	62,503	90,186	466,731	233,139
Printing and publications	11,593	309	11,940	37,947	94	734	62,617	32,549	376,017	408,566	471,183	560,347
Vehicles and mileage	35,311	1,551	47,739	2,932	24,951	36,374	148,858	6,250	30,627	36,877	185,735	167,931
Insurance	82,720	1,027	26,988	9,188	23,410	9,816	153,149	31,352	-	31,352	184,501	166,054
Postage and shipping	9,322	4,499	5,446	21,012	39	113	40,431	13,838	106,801	120,639	161,070	263,999
Pet supply store purchases	107,856	-	-	-	-	-	107,856	-	1,100	1,100	108,956	125,911
Bank and merchant services fees	31,893	47	10,573	3,165	108	299	46,085	3,541	92,478	96,019	142,104	150,248
Donor and volunteer costs	1,450	-	7	1,740	153	-	3,350	24,800	90,473	115,273	118,623	122,685
Animal identification	30,765	50,942	21,243	-	830	-	103,780	-	-	-	103,780	127,076
Contributions	37,591	15,250	15,250	10,000	-	-	78,091	3,124	-	3,124	81,215	438,473
Supplies	13,526	695	8,005	7,022	6,105	16,971	52,324	13,653	3,455	17,108	69,432	55,738
Direct special event costs	-	-	-	-	-	-	-	-	130,431	130,431	130,431	232,863
Depreciation	1,157,649	-	161,547	28,010	239,905	-	1,587,111	28,010	42,015	70,025	1,657,136	869,268
Less expenses included with revenue on the statement of activities and changes in net assets	-	-	-	-	-	-	-	-	(130,431)	(130,431)	(130,431)	(232,863)
Total functional expenses	**$ 8,295,099**	**$ 3,830,915**	**$ 4,139,396**	**$ 1,677,990**	**$ 1,321,285**	**$ 507,025**	**$ 19,771,710**	**$ 1,650,406**	**$ 2,948,038**	**$ 4,598,444**	**$ 24,370,154**	**$ 21,578,830**

See notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2020
(with summarized comparative information for 2019)

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ (2,862,481)	$ 9,532,070
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,657,136	869,268
Loss on disposal of assets	125,473	-
Contribution of investments	(1,967,844)	-
Contribution of interest in net assets of a community foundation	-	(180,666)
Contribution of building	-	(3,000,000)
Net realized and unrealized losses (gains) on investments	260,708	(3,210,535)
Change in value of beneficial interest in charitable trusts and net assets of a community foundation	21,131	(90,756)
Capital campaign contributions	(299,766)	(1,106,029)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Promises to give	(142,700)	(186,700)
Prepaid expenses and other assets	(24,154)	(279,984)
Accounts payable and accrued expenses	117,548	651,146
Accrued compensation and benefits	207,839	172,066
Net cash and cash equivalents (used in) provided by operating activities	(2,907,110)	3,169,880
Cash Flows from Investing Activities		
Purchases of investments	(9,580,601)	(15,693,603)
Proceeds from sale of investments	19,720,953	24,420,853
Purchases of property and equipment	(8,449,681)	(16,064,660)
Proceeds from sale of contributed land	887,300	-
Net cash and cash equivalents provided by (used in) investing activities	2,577,971	(7,337,410)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for capital campaign	1,023,186	1,817,628
Proceeds from debt	5,000,000	-
Net cash and cash equivalents provided by financing activities	6,023,186	1,817,628
Net Increase (Decrease) in Cash and Cash Equivalents	5,694,047	(2,349,902)
Cash and Cash Equivalents - Beginning of year	5,259,880	7,609,782
Cash and Cash Equivalents - End of year	**$ 10,953,927**	**$ 5,259,880**

See notes to financial statements.

Note 1 - Nature of Business

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

The League's programs include the following:

Shelter Services

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

As a socially conscious animal shelter that turns no pet away, the League received 18,884 pets at its two locations in Denver and Castle Rock, Colorado in fiscal year 2020, including 2,667 pets through transfers in from other shelters. Of those, 17,035 pets were adopted out, reunited with owners, or transferred to placement partners. Its shelter behavior programs provided training, using positive reinforcement techniques to build confidence in 5,408 pets.

The League assumed the operations of the Valley Humane League in Alamosa, Colorado in May 2020, offering animal shelter and spay/neuter services to the San Luis Valley. The League received 136 pets and adopted out, reunited with owners, or transferred 132 pets during May and June 2020.

Shelter Veterinary Services

The League 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. The League partners with veterinarians in the Denver area through a Connect for Care program, which ensures pets receive the vital ongoing veterinary care they need to be happy and healthy.

The League's shelter veterinary team performed more than 10,050 surgeries, including 7,683 spay/neuter surgeries; 1,061 dental surgeries; and 1,306 orthopedic, soft tissue, and wound repair surgeries. It also provides general health exams and treatment for a wide variety of medical conditions to the animals in the shelters.

Community Veterinary Services

The Dumb Friends League Solutions - Veterinary Hospital (Solutions) 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 concern of 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 directed to obtain that care from one of the excellent veterinarians in our community.

Solutions is a full-service animal hospital that provides preventive care and urgent care for injured and ill pets. Solutions also provides surgical care for pets owned by people in need. During fiscal year 2020, the hospital performed 1,167 surgeries, including 899 soft tissue surgeries and 164 abdominal surgeries; completed 5,541 sick/injured animal examinations; and provided 463 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 2020, the spay/neuter clinic team and volunteers performed 12,045 donor-subsidized surgeries in its cat spay/neuter clinic and two mobile spay/neuter units.

Note 1 - Nature of Business (Continued)

In fiscal year 2020, the League expanded its outreach services through a unique mobile Pet Resource Center, which tours Denver neighborhoods and community centers providing education and animal care and wellness services. The Pet Resource Center conducted 27 well pet events providing vaccinations to 1,423 pets and 11 pet hygiene classes in fiscal year 2020.

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 year 2020, the League provided education to 15,851 children and adults through 631 humane education programs.

Harmony Equine Center

The Dumb Friends League Harmony Equine Center (the "Center") 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 2020, the Center received in 189 equines, adopted out 181 equines, and transferred out 47 equines to placement partners.

Colorado Humane Society

The Colorado Humane Society (CHS) program is provided to prevent cruelty and neglect of animals within the state of Colorado through collaboration with law enforcement agencies. CHS state-commissioned agents responded to 1,783 cases in fiscal year 2020 involving 1,725 animals, serving 55 counties.

Note 2 - Significant Accounting Policies

Adoption of New Accounting Pronouncements

As of July 1, 2019, the League adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded 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 Association adopted the new standard on a modified retrospective basis. The standard did not require a restatement of prior year amounts.

As of July 1, 2019, the League adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): 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 Association adopted the new standard on a modified prospective basis.

Basis of Accounting

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

Classification of Net Assets

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

Note 2 - Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which 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 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 financial statements and believes that the reported values are reasonable. Unrealized gains and losses are included in the change in net assets on the statement of activities and changes in net assets.

Concentrations of Credit Risk

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

Note 2 - Significant Accounting Policies (Continued)

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 year ended June 30, 2020, the League sold the donated land with a value of $1,000,000 for approximately $950,000, less closing costs.

Revenue Recognition

Revenue from contracts with customers is composed of the following shelter and service fees:

Adoption Fees

The League prepares animals for adoption through the behavior program and provides health exams, vaccinations, spay and neuter services for unaltered cats and dogs, and microchips. For the year ended June 30, 2020, total adoption revenue was approximately $2.6 million and is a primary source of income. Adoption fees are recognized at the point in time the customer pays for the animal and the animal is transferred to the customer.

Service Fees

The League provides services for clients, which include spay and neuter clinics, euthanasia, cremation, and return-to-owner services. For the year ended June 30, 2020, total service fee revenue was approximately $338,000 and is recognized at a point in time, as payment is due at the time services are rendered.

Government Contracts

The League has contracts with Douglas County and Alamosa County, Colorado to provide services for stray, abandoned, or impounded animals and a contract with the City and County of Denver, Colorado for mobile spay and neuter services. For the year ended June 30, 2020, total government contract revenue was approximately $119,000 and is recognized at the point in time when services are rendered.

Gift Shop

Revenue from the sale of merchandise is recognized at the point in time when a sale is made to a customer and totaled approximately $206,000 during the year ended June 30, 2020.

Note 2 - Significant Accounting Policies (Continued)

Other Information

Accounts receivable related to contracts with customers as of July 1, 2019 and June 30, 2020 were $229,964 and $342,643, respectively, and are classified within other assets.

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 $471,022 during the year ended June 30, 2020, $210,955 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, 2020 totaled $757,524.

Many individuals volunteer their time and perform a variety of tasks that assist the League in its programs and general operations. The League received 199,887 volunteer hours during the year ended June 30, 2020, but these were not recognized in the financial statements because they did not meet the criteria for recognition.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the 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

The League is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Prior-year Information

The 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 financial statements for fiscal year 2019, from which the summarized information was derived.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the League's year ending June 30, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The League is still evaluating which method it will apply. Upon adoption, the League will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which removes requirements to disclose (1) the valuation processes for Level 3 fair value measurements and (2) the changes in unrealized gains and losses for the period for recurring Level 3 fair value measurements and modifies the disclosure requirements for a rollforward for Level 3 fair value measurements to instead require only the disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities, among other changes not currently relevant to the League. The new guidance will be effective for the League’s year ending June 30, 2021 and will be applied retrospectively to all periods presented. The League is currently assessing the impact this new standard will have on its financial statements.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 20, 2020, which is the date the financial statements were available to be issued.

Denver Dumb Friends League worked with the City and County of Alamosa, Colorado in 2019 to develop plans to build and operate a community animal center in Alamosa, Colorado. The facility, to be named the San Luis Valley Animal Center, will offer pet admission, adoption, and community veterinary services to residents in the San Luis Valley region of Colorado. Land for the building was purchased from the City and County of Alamosa in May 2020. Construction of the facility, expected to cost $2 million, began in June 2020 and is expected to be completed by February 2021.

Colorado State University is working with developers of the National Western Center project near downtown Denver, Colorado to offer various animal welfare and sustainability programs in new facilities on the grounds of the Center. The League will lease space from the university to operate a second location for its Solutions Veterinary Clinic services, providing low-cost pet veterinary care to the underserved community in the Denver metropolitan area. This collaboration with Colorado State University will increase the League’s ability to provide a much-needed service to the area but also support the education of university veterinary externs and showcase the League’s work with pet animals to visitors of the National Western Center through education programs and presentations. Facilities for the League’s operations at National Western Center are expected to be completed by January 2022.

Note 3 - Change to Economic Environment

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As a result of the pandemic, Denver Dumb Friends League has transitioned many of its employees to a remote working environment, although direct shelter animal and veterinary care required on-site work. Shelter workers were declared essential in Colorado. The League has also experienced various fluctuations in its investment portfolio due to ongoing market volatility. Due to the pandemic, the League has also been forced to transition adoption services to a virtual process. Elective surgeries through Solutions were suspended for a period of time during the fiscal year, including spay/neuter services; however, life-saving surgeries continued. Special events, such as the Furry Scurry, took place virtually, impacting participation, and Lulu's BBQ fundraiser, which was scheduled to be held in August 2020, was canceled. The actual effects of the ongoing pandemic on the League's future revenue, expenses, cash flows, and financial condition cannot be estimated at this time.

Note 4 - 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, 2020, the League's financial resources were as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 10,953,927
Accounts and interest receivable (included in prepaids and other assets)	346,643
Operational promises to give due in one year	239,150
Investments	64,276,914
Total financial assets	75,816,634
Less amounts not available to be used within one year:	
Investments not available within one year	(6,243,815)
Assets restricted by donors	(4,227,814)
Financial assets available to meet general expenditures within one year	$ 65,345,005

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.

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 provides expanded shelter, transfer, and adoption programs to the Denver community and opened in August 2019. Remaining phases of the renovation project is expected to continue into fiscal year 2021.

Note 5 - Capital Campaign (Continued)

During the year ended June 30, 2020, the League raised $299,766 of contributions for the capital campaign. As of June 30, 2020, a total of $1,096,209 of pledges receivable is outstanding related to the capital campaign.

The League has entered into a guaranteed maximum price construction agreement with a general contractor totaling approximately $35,000,000, along with other agreements for architectural and construction services within the project budget. The remaining contractual commitment is approximately $5,400,000 as of June 30, 2020.

Note 6 - Promises to Give

Promises to give consist of the following at June 30, 2020:

Due in less than one year	$ 786,082
Due in one to five years	1,517,277
Due after five years	400,000
Less unamortized discount on promises to give	(140,119)
Less allowance for uncollectible promises to give	(25,000)
Total	$ 2,538,240
Capital campaign promises to give	$ 1,096,209
Operational promises to give	1,442,031
Total	$ 2,538,240

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.

Note 7 - Investments (Continued)

Investments are stated at fair value and consist of the following as of June 30, 2020:

Large-cap equities	$ 18,945,424
Small-cap equities	2,781,237
Hedged equities	11,618,326
International equities	6,448,690
Emerging markets	4,670,191
Balanced fund	185,606
Absolute return	11,083,182
Fixed income	3,979,280
Cash and cash equivalents	4,564,978
Total	$ 64,276,914

Investment return for the year ended June 30, 2020 is summarized as follows:

Interest and dividend income	$ 771,320
Net realized and unrealized losses on investments	(260,709)
Less investment management fees	(307,724)
Net investment return	$ 202,887

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.

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 $2,063,447 at June 30, 2020.

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 $451,042 at June 30, 2020.

Interest in the Net Assets of a Community Foundation

The League has an endowment fund held at Community First Foundation, which is valued at fair value and is recorded as net assets with restrictions. The balance of the endowment fund was $184,997 at June 30, 2020.

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.

Note 9 - Fair Value Measurements (Continued)

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 statement of financial position.

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.

Note 9 - Fair Value Measurements (Continued)

The following table summarizes the League's assets by the above fair value hierarchy levels as of June 30, 2020:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2020				
	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, 2020
Assets:					
Large-cap equities	$ 18,945,424	$ -	$ -	$ -	$ 18,945,424
Small-cap equities	-	-	-	2,781,237	2,781,237
Hedged equities	-	-	-	11,618,326	11,618,326
International equities	3,385,745	-	-	3,062,945	6,448,690
Emerging markets	-	-	-	4,670,191	4,670,191
Balanced fund	185,606	-	-	-	185,606
Absolute return funds	-	-	-	11,083,182	11,083,182
Fixed-income funds	3,979,280	-	-	-	3,979,280
Beneficial interest in charitable trusts and net assets of community foundation	-	-	2,699,486	-	2,699,486
Total assets	$ 26,496,055	$ -	$ 2,699,486	$ 33,215,881	$ 62,411,422

Cash and cash equivalents in the amount of $4,564,978 as of June 30, 2020 are included in investments, but are not subject to fair value reporting and, therefore, are not included in the above table.

The fair values 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 where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment.

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

	Investments Held at June 30, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedged equity funds (a)	$ 11,618,326	$ -	Monthly to annually	30-60 days
Absolute return funds (b)	11,083,182	940,000	Monthly to annually	60-95 days
International equity (c)	3,062,945	-	Daily to monthly	10-30 days
Emerging markets (d)	4,670,191	-	Weekly to monthly	5-30 days
Small-cap equity (e)	2,781,237	-	Monthly	30 days
Total	$ 33,215,881	$ 940,000		

Note 9 - Fair Value Measurements (Continued)

(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 totaling approximately $2,733,000 can be redeemed annually on the investment anniversary date with 60 days' notice with certain restrictions. One investment totaling approximately $3,161,000 is subject to a continual rolling three-year lockup period that is available on the investment anniversary with 60 days' notice.

(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. One investment totaling approximately $960,000 is illiquid and is subject to the discretion of the fund manager.

(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, REITs, 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	$ 2,720,617
Change in value	(21,131)
Ending balance	$ 2,699,486

Note 10 - Property and Equipment

The League's property and equipment are composed of the following as of June 30, 2020:

Land	$ 4,658,306
Buildings	45,028,781
Transportation equipment	1,472,809
Furniture and fixtures	2,630,103
Computer equipment and software	894,881
Construction in progress	7,345,694
Total cost	62,030,574
Accumulated depreciation	10,661,547
Net property and equipment	$ 51,369,027

Note 11 - Debt

During June 2020, the League borrowed $5 million on a $10 million financing agreement with the Colorado Housing and Finance Authority and a bank. Payments on the principal drawn to date and interest thereon is to be made annually beginning on June 1, 2021, with all remaining unpaid principal and interest due on June 1, 2027. The note bears interest at a fixed rate of 2.982 percent and is collateralized by the Leslie A. Malone Center land and building.

The debt matures as follows for the years ending June 30:

2021	$ 654,668
2022	673,601
2023	693,082
2024	713,126
2025	733,750
Thereafter	1,531,773
Total	$ 5,000,000

Note 12 - Line of Credit

Under a line of credit agreement with a bank, the League had available borrowings of approximately $2,500,000 for short-term operational needs. The line of credit was at the bank's prime rate less 0.50 percent, expired in May 2020, and was not renewed. No amounts were drawn during fiscal year 2020 or were outstanding under this agreement at June 30, 2020.

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	$ 2,259,211
San Luis Valley	2,056,153
Lulu mobile	360,353
Veterinary services	333,285
Hope fund	185,606
Other	160,327
Total subject to expenditures for a specified purpose	5,354,935
Beneficial interest in charitable trusts and net assets of community foundation	2,699,486
Total	$ 8,054,421

Note 14 - 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 $337,000 for the year ended June 30, 2020.

Note 15 - 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, at 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, 2020, the assets and related liabilities under the IRS Code Section 457(b) deferred compensation plan are recorded at their fair market values.