

DISTRICT COURT, ARAPAHOE COUNTY, COLORADO 7325 S. Potomac Street Centennial, Colorado 80112	
STATE OF COLORADO, ex rel. JOHN W. SUTHERS, ATTORNEY GENERAL, Plaintiff, v. COLORADO HUMANE SOCIETY & S.P.C.A., INC.; MARY C. WARREN, an individual; ROBERT WARREN, an individual; and STEPHENIE L. GARDNER, an individual; Defendants.	<p style="text-align: center;">▲ COURT USE ONLY ▲</p>
Waverton Group, LLC as custodian Richard A. Block, Managing Member 4101 East Louisiana Avenue Suite 300 Denver, Colorado 80246 Office: 303-781-9900 Fax: 303-781-4311 Email: rblock@xpn.com	Case Number: 2008-CV-2659 Division: 202
<p style="text-align: center;">CUSTODIAN’S SECOND REPORT AND SPECIAL REPORT ON THE STATUS OF THE DEFENDANT COLORADO HUMANE SOCIETY & S.P.C.A., INC.</p>	

Waverton Group, LLC, the custodian over Colorado Humane Society & S.P.C.A., Inc. (the “Colorado Humane Society” or the “Corporate Defendant”) and the assets of the Colorado Humane Society (the “Assets”), respectfully makes this Custodian’s Second Report and Special Report on the Status of the Defendant Colorado Humane Society & S.P.C.A., Inc. (this “Report” and the “Special Report” as to the status of the Corporate Defendant).

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I. THE CUSTODIANSHIP ESTATE

1. The State of Colorado filed its Complaint and Petition for Appointment of Custodian or for Dissolution (the “Complaint”) and its Motion for Preliminary Injunction, Order Appointing Custodian and for Forthwith Hearing (the “Motion”) in the District Court, Arapahoe County, Colorado (the “Arapahoe District Court”) on December 10, 2008.

2. The Complaint includes as defendants the Colorado Humane Society & S.P.C.A., Inc. (the “Colorado Humane Society” or the “Corporate Defendant”) and Mary C. Warren, Robert Warren, and Stephenie L. Gardner (the “Individual Defendants”).

3. A Stipulated Order Appointing Custodian and Issuing Preliminary Injunctive Relief (“Order Appointing Custodian”) was entered by

the Honorable Cheryl L. Post, Arapahoe District Judge on December 16, 2008.

4. The Custodian, in accordance with Provision 2 of the Order Appointing Custodian, filed an Oath of Custodian with the Arapahoe District Court on December 16, 2008 and thereupon entered into its duties as Custodian.

5. Effective in January, 2009, the Honorable Charles M. Pratt, Arapahoe District Judge, rotated to Division 202, and thereby assumed control over the Custodianship Estate.

6. Paragraph 6.d. of the Order Appointing Custodian reads as follows:

d. The Custodian is hereby instructed to make calendar monthly report of the condition of the Custodianship Estate as of the twentieth day of each month, within thirty (30) days of the twentieth day of each month, until the Custodian is satisfied that less frequent reporting is necessary. At that time and upon prior notice in the Custodian's Report, the Custodian may report within thirty (30) days of the twentieth day of every other month or every third month, but no less often than quarterly. The Custodian shall not be required to, but as reasonably necessary may, follow generally accepted accounting principles or use auditors or accountants in the preparation of reports to this Court.

7. In addition to the routine reporting requirement of paragraph 6.d. of the Order Appointing Custodian, the Custodian has been Instructed to

prepare a special report pursuant to paragraph 6.c. of the Order Appointing Custodian (the "Special Report") which reads as follows:

c. The Custodian is hereby instructed to file with this Court and serve upon the parties to the Custodianship action, within thirty (30) days after the date this Order is entered, a preliminary report setting out the identity, location, and value of CHS Assets and CHS Claims in the Custodianship Estate. Further, at the time the Custodian makes its preliminary report, the Custodian shall make recommendations to this Court regarding the continued operation of CHS and the further disposition of the Custodianship Estate;

8. Pursuant to paragraphs 6.d. of the Order Appointing Custodian the Custodian presents this Report, and pursuant to paragraph 6.c. of the Order Appointing Custodian, the Custodian Presents the Special Report in Section III below.

II. THE FINANCIAL REPORT

9. Financial Information. As of the date of this Report, the custodian has been unable to locate all of the financial information¹ for the Colorado Humane Society for 2007 and 2008. The custodian has located what it believes are the financial books and records for 2006 and before, but

¹ The custodian segregates the financial information of the Colorado Humane Society into two categories: (a) the financial books and records, and (b) the accounting system. Generally speaking, the financial books and records are the paper records generated at the time of the transaction, and would include receipts, bank statements, cancelled checks, deposit slips, etc. Conversely, the accounting system includes all financial information that is contained within the computerized accounting system. The importance of the distinction between the two is discussed in the body of this Report.

for reasons discussed throughout this Report, the custodian will not be reviewing the financial books and records for 2006 and before for accuracy absent a compelling reason to do so.

10. The custodian is aware that the State of Colorado and the attorneys for the Warrens² both have many boxes of documents that were produced by the Individual Defendants prior to the Complaint. The State and the attorneys for the Warrens are in the process of segregating the documents personal to the Warrens from the documents of the Colorado Humane Society. It would be inappropriate and possibly inconsistent with the privacy laws of Colorado relating to the documents of the Individual Defendants in the possession of the State for the custodian to have access to the documents of the Individual Defendants. The custodian expects to have access to the documents of the Colorado Humane Society in possession of the State and those in possession of the attorneys for the Warrens before the end of the month.

11. Base Year. The Colorado Humane Society operates on a fiscal year ending June 30th, and the custodian has elected to continue with that fiscal year end. Although the custodian cannot confirm that the financial

² The custodian has no interaction with Ms. Gardner, and to the knowledge of the custodian, Ms. Gardner is not represented by counsel.

information reflected by the June 30, 2006 financial statements is accurate, the June 30, 2006 financial statements were audited by Davis and Co. CPAs, PC, and will be presumed as accurate until demonstrated otherwise. The financial statements prepared by Davis & Co. are attached to this Report as Exhibit 1.

12. The custodian has elected to utilize the audited financial statements prepared for the Colorado Humane Society by Davis & Co. for the fiscal year ended June 30, 2006 for the purpose of rehabilitating the Colorado Humane Society. That will occur over the course of the next few months, because bringing the June 30, 2006 balances forward with any degree of reliability will take considerable time and resources. Even if the Custodian could operate without the limitations imposed on the custodian's time by the Order Appointing Custodian (see Attachment B incorporated into the Order Appointing Custodian by paragraph 16 of the Order), preparing a reliable set of books could take months, and may not be possible in the end. There may, however, be ways to work around this issue for the purpose of rehabilitating the Colorado Humane Society.

13. Pre-Custodian Accounting System. The custodian has identified what it believes to be the most current accounting system for the Colorado Humane Society. The computer application that is used to operate the

accounting system is an older version of the QuickBooks® accounting software.³ After analyzing the accounting information contained in the Colorado Humane Society accounting system, the custodian has found that the accounting information is neither thorough nor complete from July 1, 2006 through July of 2008, and is almost nonexistent from July of 2008 through December 16, 2008 (the date of the custodian's appointment). For that and other reasons, it is possible that the custodian will be required to reconstruct the books of the Colorado Humane Society for at least 2007 and 2008, and possibly 2006, back to the date the last year-end financial statements that were prepared by Davis & Co. for the Colorado Humane Society.

14. Custodian's Accounting System. Quickbooks® is not a double-entry accounting system. For that and related reasons, the custodian has determined that Quickbooks® is not adequate to manage the accounting function of a company with the complexities of the Colorado Humane Society and the custodianship. Instead, the custodian will be using Peachtree®, a mid-level, double-entry accounting system. Using a computer function in Peachtree®, the custodian has imported the historical accounting data from

³ None of the Colorado Humane Society computers that have been located by the custodian had the Quickbooks® application installed. As a result, the custodian had to purchase the software.

the Quickbooks® accounting system. As the custodian reconstructs the financial books and records of the Colorado Humane Society, the historical information in the accounting system will be updated and reported to this Court in future reports.⁴

15. Financial Statements. The custodian typically opens its custodianship books with the closing entries on the balance sheet of the defendant as they appeared on the date the custodian was appointed. Given the missing financial books and records and the incomplete and inaccurate accounting system, the custodian has determined that the closing balances on the financial statements prepared by Davis & Co. based on Davis & Co.'s audit of the Colorado Humane Society and dated June 30, 2006 are the most reliable information available to the custodian.

16. There are numerous problems, however, that arise by adopting the Davis & Co. financial statements. First, the Davis & Co. financial statements do not tie to the pre-appointment, Colorado Humane Society accounting system information. There is a discrepancy of approximately

⁴ It is important to note that basing the Colorado Humane Society accounting system on a June 30, 2006 year end, then updating the information for the period July 1, 2006 to December 16, 2008 will produce bizarre results in the Balance Sheet for the Colorado Humane Society prospectively. The custodian believes that these bizarre results can be isolated from the Income Statement for the operations of the Custodianship Estate, thereby enabling the custodian to accurately report its operations and status to the Court. The custodian will identify any anomalies that may arise as a result of this process.

\$425,000 in assets and a corresponding discrepancy in liabilities.⁵ Second, the Form 990 for June 30, 2007 does not tie to the Form 990 for June 30, 2006, which is the base year adopted by the custodian (see paragraph 19 below).

17. The custodian has prepared financial statements for the first month and four days of the Custodianship Estate. The Balance Sheet is attached to this Report as Exhibit 2 and the Income Statement is attached as Exhibit 3. As stated in footnote 4 above, the Balance Sheet contains references to information that was imported from the old accounting system. Those categories of assets and liabilities contain the phrase "Book Values, Unconfirmed" to designate information that was imported into the custodian's accounting system, but should not be considered reliable until the custodian has finished the task of updating the accounting system for the period between July 1, 2006 and December 16, 2008.

18. With one exception, the custodian believes that all of the financial information reported by the custodian for the Colorado Humane

⁵ The custodian believes that substantially all of these discrepancies are related to (a) the failure of the Colorado Humane Society to post the Rocky Ford property to the accounting system (\$390,000), and (b) a number of motor vehicles that were in the accounting system, but no longer owned on June 30, 2006. This belief is mostly conjecture based upon a preliminary analysis of the Davis & Co. financial statements and the old accounting system. Eventually, all discrepancies should be resolved by the custodian given the availability of time and resources to the custodian in the future.

Society for the period from and after December 16, 2008 is true and correct. The exception is that there are issues regarding withholding taxes payable both before and after the appointment of the custodian. Until the custodian is able to determine what withholding taxes are actually due, the financial statements may not accurately reflect the withholding taxes paid and payable. This is a high priority issue, and will be resolved prior to the next report.

19. Federal and State Income Tax Returns. The most recent Return of Organization Exempt From Income Tax (Internal Revenue Service Form 990) that the custodian has located is the Return with a fiscal year end of June 30, 2007. It would appear that the June 30, 2007 990 Returns were prepared by the Colorado Humane Society without the benefit of an audit by certified public accountants. The custodian has examined the June 30, 2007 990 Returns and found them to be partially inaccurate. As mentioned in paragraph 11 above, the 990 Returns prepared by Davis & Co. dated June 30, 2006 are presumed to be accurate, and the custodian has tied its books to the financial statements upon which the June 30, 2006 990 Returns are based. As part of rehabilitating the Colorado Humane Society, it will be necessary to bring all federal tax filings up to date. This will include amending the June 30, 2007 990 Returns, and preparing and filing the June 30, 2008 990

Returns. Provided adequate time and resources are available to the custodian, the custodian expects to timely file the June 30, 2009 990 Returns.

20. Invoice. Consistent with the Order Appointing Custodian, the custodian closes its invoice on the 20th of every month. Consistent with the Rate Card of Waverton Group, LLC as submitted to this Court, the custodian pays 80% of the custodian's fees when the invoice is presented, and accrues the remaining 20% for payment on the 20th of the following month. The custodian's invoice for January 20, 2008 is attached as Exhibit 4.

III. SPECIAL REPORT

A. General

21. Due to the fact that: (a) the custodian has been unable to locate the financial books and records for the Colorado Humane Society for the past two years, and (b) the accounting system for the Colorado Humane Society was incomplete for the past two years, the custodian has been compelled to reconstruct the financial information prior to December 16, 2008 for this Special Report. The reconstruction is an on-going process and will not likely be complete in less than a few months.

22. The custodian has attached its inventory of Assets of the Custodianship Estate as Exhibit 5 to this Report. Due to the nature of most

of the Assets, there was no way, given the time and resources available to the custodian, to place a reliable value on most of the Assets. With the continuation of the Custodianship Estate, the custodian will attempt to value Assets, and report those values to the Court, but without unnecessarily burdening the Custodianship Estate. All of the Assets identified are located at the Clinic, the Shelter, or in the case of the real property, in Otero County, Colorado. A discussion of some of the more significant and more troublesome Assets follows:

B. Assets

23. Pre-Appointment Assets. The Assets reflected on the Balance sheet attached to this Report as Exhibit 2 were produced from a combination of a physical inventory and by extracting certain information from the Balance Sheet for the Colorado Humane Society imported from the old accounting system. The Assets reflected on the current Balance Sheet are not considered reliable by the custodian. Over time, as the historical accounting is adjusted to actual, the current Balance Sheet of the Custodianship Estate should become completely reliable.

24. Assets of the Custodianship Estate. The Schedule of Assets attached to this Report as Exhibit 6 reflects the Assets that were physically

identified and located by the custodian since its appointment. There is a discussion of certain Assets and categories of Assets below.

25. Cash. On December 16, 2008, the custodian found \$186.77 in the Wells Fargo checking account, \$878.53 in the Columbia Management account, and on January 21, 2009, Mr. Warren turned over \$468.69 in cash that he possessed from December 14, 2008. Those three amounts, for a total of \$1,533.99, reflect all of the cash Assets that were in the Custodianship Estate on the date the custodian was appointed.

26. Real Property. The custodian has identified only one real property asset that is titled to the Colorado Humane Society. That property is comprised of two parcels in Otero County, Colorado. The public record discloses that the two parcels may be identified as follows:

Parcel Id No.	444300000075.0
Address	26866 RD 23, Rocky Ford, Colorado
Legal Description	NW1/4 NW1/4 LYING S OF AT &SF RY EX 120' N & S X 200' E & W IN NW COR & EX BEG 122.1' S & 30' E OF NW COR THENCE S 593.3' E191.4' N 593.3' W 191.4' TO PT OF BEG. P222 26-23-56 35.79A B656 P162 B984 P587-591
Acreage	31.07 Acres
Land Actual Value	\$15,715.00
Improvements Actual Value	\$85,018.00

Parcel Id	444300000074.0
Address	26928 RD 23 ROCKY FORD
Legal Description	A PT NW1/4 NW1/4 DESC AS FOLL BEG 120' S & 30' E OF MW COR THENCE S 592.7' E 191.4' N 592.7' W 191.4' TO BEG. P222D-222E 26-23-56 2.60A B709 P224
Acreage	2.6 Acres
Land Actual Value	\$12,160.00
Improvements Actual Value	\$84,833.00

The property was reportedly donated to the Colorado Humane Society by the estate of Ms. Anthonette S. Arnold. The deeds into the Colorado Humane Society contain the following restriction:

This grant specifically includes the restriction that the properties are never to be developed and all indigenous animals and animals owned by me at the time of my death are protected. The properties as a whole are to be used as a reserve for abused and abandoned animals. This restriction of use is to run with the land. Should this restriction be violated, the ownership of the property will revert back to my estate.

Currently, the property is leased,⁶ and the tenant cares for the remaining animals.⁷ The reference in the deed restriction above has been interpreted by others to be a reference to a prairie dog colony. According to

⁶ The custodian has been advised that there is a written agreement between the tenant and the Colorado Humane Society, but neither the tenant nor the custodian have been able to locate the contract. In addition, the tenant reports that there are various unwritten agreements with, and assurances from, the Colorado Humane Society to the tenant.

⁷ The tenant reports that the animals still surviving are: one horse, two goats, three sheep, and approximately five semi-feral cats.

the tenant, the prairie dog colony is now limited to about five or ten acres, although aerial photographs indicate that the whole property was host to prairie dogs a few years ago.

The custodian has determined that the property is of no value to the Custodianship Estate if it is subject to the deed restriction. In fact, the property is a burden to the Custodianship Estate with the deed restriction. Provided the custodian can support its decision with the law, the custodian's intention is to ask this Court to reform the deeds to the property and allow the custodian to sell the property free and clear of the deed restrictions. The custodian believes that the intent of Ms. Arnold can be better served by allowing the custodian to sell the property and use the proceeds for the general purposes of the Colorado Humane Society.

The actual assessed value of the two parcels is as follows (achieved by adding the land and improvements actual value as determined by Otero County) is \$197,726. The tenant has advised the custodian that he believes the property is worth less than the actual value determined by Otero County, however, the book value of the property on the Colorado Humane Society accounting system was set at \$390,000. The custodian is in the process of having the property appraised for sale pending a determination by this Court that the custodian may sell the property.

27. Cars, Trucks, and Trailers. The custodian has determined that there are four trucks and one car owned by the Colorado Humane Society (as reflected on the Schedule of Assets attached as Exhibit 4). The custodian has determined that there may be one or more trailers owned by the Colorado Humane Society, but there are no trailers in the custody of the custodian at this time. In addition, the custodian has determined that there may be more cars, trucks, and trailers that belong to the Colorado Humane Society that are not currently in the custody of the custodian, but the custodian has been unable to confirm that. Beyond those determinations, the custodian has not been able to make any more progress, notwithstanding considerable attention to this matter.

28. The custodian is awaiting an analysis that is being prepared by the State on cars, trucks, and trailers, the title to which is or has been registered to the Colorado Humane Society through the Motor Vehicle Division for the State over the course of approximately the past fifteen years (*i.e.*, however far back the computerized records for the Motor Vehicle Division go).

C. Liabilities

29. Liabilities, Generally. The Custodian has spent a relatively small amount of time confirming the liabilities of the Colorado Humane Society.

30. Secured Creditors. The custodian has identified no secured creditors.

31. Administrative Creditors. As a 501(c)(3) charity, the Colorado Humane Society incurs no federal or state income tax. Provided the charitable status has been maintained, there should be no claims by the United States nor the State of Colorado for unpaid income taxes. As mentioned above, the custodian has identified an error in the manner in which federal withholding taxes have been calculated. The custodian believes that there may be both past administrative claims, and a small amount of current liability from a recalculation of federal withholding taxes. The custodian does not expect these taxes and tax claims to be significant or threatening to the Custodianship Estate.

32. Priority Wage Claimants. When the custodian was appointed, the Colorado Humane Society employed ten people, not including the Individual Defendants. (The Colorado Humane Society employs seven people today). Of the ten people originally employed, most had received their

paychecks the day the custodian was appointed. When the employees tried to cash their checks, there were insufficient funds to cover most of the payroll. The custodian made advances to the employees in the amount of their checks, and will expect the employees to file wage claims for the amount of the checks. Although this would appear, on its face, to be unnecessary, the custodian could not pay one group of unsecured creditors while not paying the others. The reason for the advances was because, without the employees, the Colorado Humane Society would surely fail, and the custodian was not will to risk the entire operation on a few thousand dollars of advances.

33. Unsecured Creditors. The custodian will not pay any pre-appointment unsecured creditors without a claim having been filed. Within the next thirty days, the custodian intends to file its Motion for Order to Present and File Claims. In addition to establishing a claims procedure, the Order will also establish a bar date for claimants. In the meanwhile, and in anticipation of the Order, the custodian has provided a claim form for creditors to complete and file with the custodian (not the Court).

IV. OTHER MATTERS

34. Board of Advisors; Agents of the Custodian. The custodian has invited the following people to join the custodian's Board of Advisors:

Susan Fredinburg	Currently the manager of the Colorado Humane Society Shelter and Clinic
Carole Hughes	Animal rights expert from New York with no stake in the outcome of the Colorado Humane Society
Beth Pugh	Marketing professional with expertise in animal shelters and clinics
Peter Reshetniak	Chief Executive Officer of the Raptor Education Foundation
Martha Smith	President, All Breed Rescue Network, Inc., and animal shelter expert, and note author
Elaine Marlier	Manager of Petco in Golden, Colorado, animal shelter expert and noted author on animal adoption
Sharan Wilson	Executive Director, Freedom Service Dogs, Inc.

In addition to the abovementioned Advisors, the custodian has invited additional Advisors and report the names of those as they accept the invitation.

35. Clinic Facilities. The Colorado Humane Society currently operates out of two different facilities: the animal shelter located at 2760 South Platte River Drive, Englewood, Colorado, 80110 (the "Shelter") and the veterinarian clinic located at 4704 West Bowles Avenue, Littleton, Colorado, 80123 (the "Clinic"). The property and improvements that comprise the Shelter are owned by the City of Englewood. The property that comprises

the Clinic is rented from Dr. Pat Sokolof. A complication with the Clinic property is that it is surrounded by property occupied by the Warrens.

36. The Clinic Lease. The custodian has offered to amend the rental agreement with Dr. Sokolof to provide the following, and Dr. Sokolof has indicated her conditional acceptance of those terms, which are as follows:

- a. *Rent* – The Custodianship Estate will pay \$1,500 per month plus a percentage of net income, the percentage to be negotiated;
- b. *Maintenance* – The Custodianship Estate will be responsible for the maintenance of the facilities occupied by the Colorado Humane Society;
- c. *Spaces* – The Colorado Humane Society will occupy all of the spaces currently occupied and will expand into all of the spaces within the building, but not including the barn. Specifically, the expansion space will include the five dog kennels on the lower split level, which the Colorado Humane Society will use for sick animals;
- d. *Warrens* – The Warrens will be given thirty days notice to vacate as soon as an amendment to the lease is signed by Dr. Sokolof and the Custodianship Estate;
- e. *Moving* – The Custodianship Estate will provide two moving people for up to one day to assist Dr. Sokolof in moving any of her property currently located in the spaces to be occupied by the Colorado Humane Society.

37. Department of Agriculture. The Colorado Department of Agriculture, under the Pet Animal Care Facilities Act and the regulations promulgated thereunder (“PACFA”) regulates the business of animal shelters in the State of Colorado. The custodian has provided a letter of assurance to

Kate Anderson, DVM, Program Administrator for the Pet Animal Care Facilities Program, Department of Agriculture. In its letter, the custodian has assured the Program Administrator that it intends to comply with PACFA in every sense. The custodian has asked the Program Administrator to make arrangements for routine or unscheduled inspections of both the Clinic and the Shelter for compliance with PACFA. The custodian is aware of two unscheduled inspections by the PACFA inspector, once for each location. The custodian has been advised, indirectly, that there was one violation of PACFA in the Shelter and one in the Clinic. The custodian must segregate the dogs with kennel cough from the healthy dogs in the Shelter, and the cat room at the Clinic is in need of ventilation.⁸ The custodian will continue to cooperate with the Program Administrator and her staff, and report any violations of PACFA to the Program Administrator and to the Court.

38. Temporary Use Permit, Clinic. The custodian has submitted a request for a temporary use permit in order to continue to use the Clinic as a veterinary clinic. The City of Littleton has approved that request in writing.

⁸ The cleanliness and lack of violations of PACFA at the Clinic and the Shelter is a testament to the hard-working staff that is employed at the Clinic and the Shelter. The conditions are vastly improved from the day the custodian was appointed.

39. Custodian's Attorney. The custodian has engaged Fairfield and Woods to represent the custodian in the Custodianship Action.

V. INFORMATIONAL REPORT

40. Informational Report, Generally. The custodian segregates its Reports into two primary segments, the second of which is this segment, the Informational Report. The purpose of this is to allow the custodian to Report litigation matters with conclusions of law and editorial content for the benefit of the Court and beneficiaries of the Custodianship Estate without submitting the Informational Report to the Court for approval. In this way, the custodian is capable of describing the pending litigation in the Custodianship Estate without attracting objections to the descriptions contained therein. Furthermore, the portion of the Custodian's Reports that are above the Informational Section are customarily approved and entered as Orders of the Court upon approval. This is procedurally sound as it simply asks the Court to adopt the findings of fact from the custodian. Conversely, as a matter of custodianship law, the Court is obligated to review the custodian's conclusions of law *de novo*, so the Informational Section often contains conclusions of law. Accordingly, there is no advantage to approving the custodian's conclusions of law, and every disadvantage in having to resolve the issues involving the custodian's conclusions of law prematurely.

Custodian's Second Report
January 23, 2009
Page 23.

The custodian has nothing to report in the Information Section of this Report.

WHEREFORE, Waverton Group, LLC, as custodian, requests that this Court enter an Order approving Section I(The Custodianship Estate), Section II, (The Financial Report), Section III (Special Report), and Section IV (Other Matters). No request is made for approval of Section IV (Informational Report), which is included in this Report for informational purposes only.

Dated this 23rd day of January, 2009

Respectfully submitted,




Waverton Group, LLC, custodian,
Richard A. Block Managing Member

VERIFICATION

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

I, Richard A. Block, being duly sworn upon oath, solemnly affirm as follows: I am the Managing Member of Waverton Group, LLC, ("Waverton"); (b) Waverton is the custodian in Civil Action No. 2008-CV-2659 in District Court, Arapahoe County, Colorado, the Honorable Charles M. Pratt, Arapahoe District Judge, presiding; (c) I prepared the Custodian's Second Report and Special Report on the Status of the Defendant Colorado Humane Society & S.P.C.A., Inc. dated the 23rd day of January, 2009 on behalf of Waverton; and (d) the information contained therein is true and accurate to the best of my knowledge and belief.



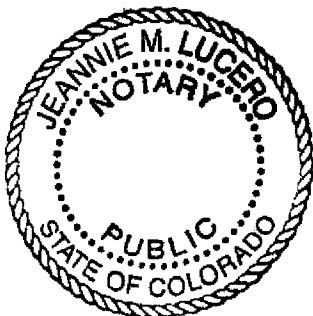
Waverton Group, LLC,
as Custodian
by Richard A. Block, Managing Member

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

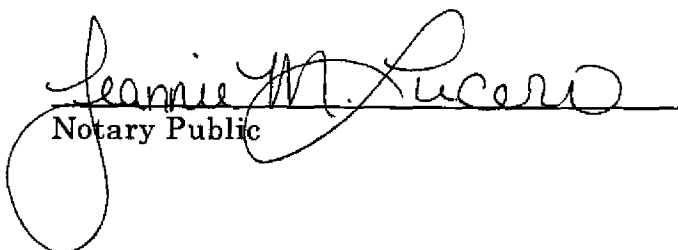
Subscribed and sworn to before me by Richard A. Block as the Managing Member of Waverton Group, LLC as custodian on the 23rd day of January, 2009.

Witness my hand and official seal.

My commission expires: 06/09/2010




My Commission Expires 06/09/2010



Notary Public

CERTIFICATE OF DELIVERY OR MAILING

I, Richard A. Block, Managing Member of Waverton Group, LLC, the custodian in Civil Action No. 2008-CV-2659 in Arapahoe County District Court, State of Colorado, the Honorable Cheryl L. Post, District Court Judge, presiding, hereby certifies that on the 23th day of January, 2009, a true and correct copy of the Custodian's Second Report dated the 23th day of January, 2009 was electronically delivered, hand delivered, or placed in the United States first class mail, postage prepaid, and addressed to the individuals named on the Certified Mailing List below.


s/Lori Richards
Lori Richards

CERTIFICATE OF MAILING
Custodian's Second Report
Rule 5 Mailing List

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Exhibit 5

Schedule of Assets

Physical Inventory as at December 16, 2008

Real Estate	Estimated Value
Farm in Otero County, Colorado	197,726.00
 Automotive	
Truck 1995 GMC Pickup	2,500.00
Truck 1995 Ford Econoline	1,500.00
Truck 1995 3500 Chevrolet Animal transport	7,500.00
Truck 2003 Ford F150 Pickup	5,000.00
Car 2004 Chrysler PT Cruiser	-
	<hr/>
	16,500.00
 Furniture, Fixtures, and Equipment	
2 Isolett	
ACO Truck topper	
Adams Readacrit Centrifuge	
Anesthesia Machine	
Anesthesia Equipment	
Anesthesia Equipment	
Anesthesia Equipment	
Anesthesia Equipment	
Anesthesia Equipment	
Autoclaves	
Boxes of aspen pet product supplies	
Brother copy/fax machine	
Cages	
Clay Adams Compact 2 Centrifuge	
Computer	
Computer	
Computer	
desks	
Diagnostic Equipment	
Digital Camera	
Digital Camera (broken)	
EKG Machine	
Electric dryer in barn	
File cabinets	
freezer	

Inventory of Assets

Page 2.

Full size kenmore refridgerator
Gas dryer in barn
Gestetner Copier
Haier Mini Fridge
Heidbrink Anesthesia Machine
HP Computer/PrinterLa Junta
HP laserjet 4 printer
HP pavillion computer
IBM G74 Computer Monitor
IDEXX QBC Centrifuge
IDEXX Vetlyte
IDEXX Vetest
Infusion pump
Infusion pump
Isolette infant incubator
Kenmore Dryer
Kenmore washer
Kennel Equipment
Kennels
Kennels
Kennels
Kennels
Kennels
Kennels (est.)
Kenmore Dryer
Matrix Anesthesia Machine
miscellaneous anesthesia supplies
miscellaneous grooming supplies
miscellaneous Medical supplies
Miscellaneous Office supplies
miscellaneous Surgical supplies
nebulair nebulizer and supplies
Nikon Microscope
Nikon Microsope
Nonin Pulse Oximeters
Office Equipment
Office Furniture
Old Burdik ECG machine
old hand pump dental machine
Old HP ECG machine

Inventory of Assets

Page 3.

older microscope
Ophthalmic surgery pack
Orthopedic surgery Pack
Oster clippers
Rocky Ford Property
Safe
Safe
Safe
safe
Sensors
Shor - Line surgery tables
Shor line surgical mayo stand
shore line kennel - medium size
shore line kennel - small size
shore line kennels - 1 large, 4 small
shore line kennels - 2 med
shore line kennels - 4 medium
shore line kennels - 6 medium
Shore line kennels-1large, 2 medium
Shore line kennels-2 large 8 small
Shore line kennels-6 small
Shorline 5 Cat cages
Shor-line Surgery light
Spay & Neuter Equipment
Stainless Steel Tables
Stainless steel tables
Stat Spin Centrifuge
Suction pump
Surgery Equipment
Surgery Equipment
Surgery Equipment
Surgery Equipment
Surgery spay pack
Surgery Table &
Surgery Table &
Surgery Table &
Tattnauer Autoclave
Travenol Fluid pumps
Very old exam/surgery tables
VMS Anesthesia machine

Inventory of Assets

Page 4.

Wahl Clippers

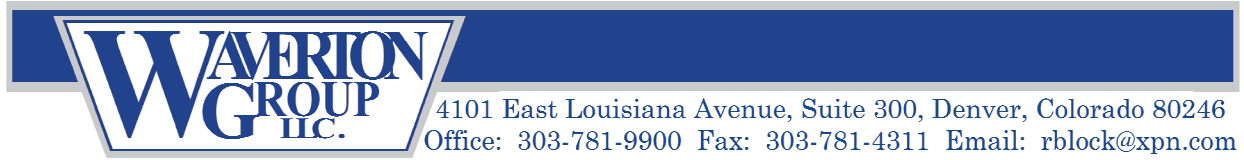
Washer & Dryer

wood tables

Total Estimate of Value

230,726.00

Exhibit 4



INVOICE January 20, 2009
Client: Colorado Humane Society & S.P.C.A., Inc.
For: Professional Services and Expenses
By: Waverton Group, LLC
From: December 21, 2008
To: January 20, 2009

Date:	Services:	Hours Billed:
21-Dec-08	Prepared First Report.	2.50
22-Dec-08	Communicated with N. Strauch, B. Rohde, T. Munds, S. Staiert, J. Nielson, E. Rose, C. O'Hara, D. Geis, C. Hughes, S. Fredinburg; prepared First Report; prepared request for temporary use permit to the City of Littleton for the Clinic; worked on accounting issues.	11.25
23-Dec-08	Communicated with J. Davis, P. Sokolof, L. Richey, M. Kruger, F. Winocur, prepared request for temporary use permit to the City of Littleton for the Clinic; worked on accounting issues; worked on Clinic issues.	7.50
24-Dec-08	Communicated with F. Winocur, K. McGreevy, L. Richey, S. Fredinburg, prepared memo to L. Richey; prepared memo to K. McGreevy and F. Winocur; prepared standard claim forms for pre-appointment creditors; prepared First Report; organized the custodian's web site; reviewed Definitions and Standards in Animal Evaluation; worked on accounting issues; worked on delivery of Order Appointing Custodian to pre-appointment creditors.	8.75

INVOICE

January 20, 2009

Client:

Colorado Humane Society & S.P.C.A., Inc.

Page 2.

Date:	Services:	Hours Billed:
26-Dec-08	Communicated with G. Robel, P. Reshetniak, S. Fredinburg, C.Silcott; worked on request for temporary use permit.	2.00
29-Dec-08	Worked on domain registration and correction of web site; prepared memo to K. McGreevy and F. Winokur; worked on tax exempt status; worked on turnover issues from the Warrens, checks deposited by R. Warren on December 10.	3.75
30-Dec-08	Communicated with L. Richey, M. Flaherty, worked on payroll issues; worked on inventory; worked on numerous operating issues.	1.00
2-Jan-09	Communicated with C. Silcott, S. Fredinburg, M. Kruger; reviewed files; worked on Bowles property and lease, prepared termination letter for Bowles lease; prepared memo to F. Winocur and K. McGreevy.	4.50
3-Jan-09	Communicated with B. Pugh; prepared memo to F. Winocur and K. McGreevy; researched law of voidable preferences; worked on turnover of coloradohumane.org; reviewed documents regarding Clinic, lease; worked on pharmaceutical issues for Clinic and Shelter.	4.75
5-Jan-09	Communicated with L. Greenwald, D. and C. Helms, D. Geis, M. Smith, L. Richey and A. Gardenswartz; prepared request for temporary use permit; prepared letter to K. Anderson (Department of Agriculture); worked on cell phone issues; prepared and sent termination on Clinic lease; worked on Rocky Ford property issues; worked on accounting issues.	5.50

INVOICE

20-Jan-09

Client:

Colorado Humane Society & S.P.C.A., Inc.

Page 3.

Date:	Services:	Hours Billed:
6-Jan-09	Communicated with M. Ellsworth, L. Hart, AT&T, S. Wilson, K. Stickland, M. Flaherty, M. Kruger; prepared request for temporary use permit for Clinic; prepared assurances letter to K. Anderson (Department of Agriculture); worked on company health, workers compensation, and unemployment insurance issues.	5.00
7-Jan-09	Communicated with K. Stickland, S. Wilson, L. Richey, A. Gardenswartz, ; prepared inventory; prepared request for temporary use permit for the Clinic; worked on insurance issues; prepared assurances letter to K. Anderson (Department of Agriculture).	4.50
8-Jan-09	Communicated with D. Gies, L. Petri, J. Gee, M. Ellsworth, B. Pugh, M. Smith, L. Richey, A. Gardenswartz, ; worked on opening, staffing, and supplying Clinic; prepared assurances letter to K. Anderson (Department of Agriculture).	6.75
9-Jan-09	Communicated with P. Hall, M. Smith, F. Patton, worked on Rocky Ford property; prepared memo to F. Winocur and K. McGreevy.	2.00
10-Jan-09	Reviewed documents from municipalities in Southwest Metropolitan Denver area; prepared Request for Proposal; prepared Executive Summary of proposed rehabilitation.	3.00
11-Jan-09	Communicated with L. McElroy, B. Pugh; worked on Rocky Ford property; prepared letter to K. Anderson; prepared memo to F. Winocur and K. McGreevy; prepared Request for Proposal and Executive Summary.	4.50

INVOICE

20-Jan-09

Client:

Colorado Humane Society & S.P.C.A., Inc.

Page 4.

Date:	Services:	Hours Billed:
12-Jan-09	Communicated with B. Pugh, L. Richey, L. Taylor, G. Williams; researched public filings by the Colorado Humane Society; prepared assurances letter to K. Anderson (Department of Agriculture); worked on inventory of motor vehicles (cars, trucks, trailers) with Department of Motor Vehicles; prepared memo to F. Winocur and K. McGreevy.	5.00
13-Jan-09	Communicated with M. Flaherty, R. Wild, L. Richey, A. Gardenswartz, A. Lopkoff, Shelter and Clinic staff; prepared inventory for Report.	3.75
15-Jan-09	Communicated with M. Smith, K. Hill, J. Romero; attended meeting regarding present and potential future arrangements with Englewood, Littleton, Sheridan, Lone Tree, Centennial, Cherry Hills, Greenwood, and Arapahoe County; met with M. Smith; met with staff members at the Shelter; prepared proposed new caption and memo to F. Winocur, K. McGreevy, A. Gardenswartz, and L. Richey on separation and administrative consolidation of cases.	7.50
18-Jan-09	Prepared First Report.	3.00
19-Jan-09	Communicated with A. May, S. Wilson, S. McElroy, conference call with F. Winocur and K. McGreevy; worked on animal issues for Rocky Ford property; worked on title issues for Rocky Ford property; prepared Second Report.	7.00

INVOICE 20-Jan-09
Client: Colorado Humane Society & S.P.C.A., Inc.
Page 5.

Date:	Services:	Hours Billed:
20-Jan-09	Communicated with R. Wild, L. Richey, A. Gardenswartz; worked on health insurance issues; worked on inventory for Second Report; prepared Second Report; met with R. Warren; prepared Notice of Slight Delay.	8.00
	Total hours worked	<hr/> 111.50
	Hourly rate	<hr/> 250.00
	Subtotal	<hr/> 27,875.00
	Reduction for Cap	<hr/> (12,875.00)
		<hr/> 15,000.00
	Less retainage	<hr/> (3,000.00)
		<hr/> 12,000.00
	Plus retainage from December, 2008	1,662.50
	Expenses from following page	<hr/> 7,461.10
	This Invoice (please pay).	<hr/> 21,123.60

Exhibit 3

Colorado Humane Society & S.P.C.A., Inc.
Income Statement
For the Seven Months Ending January 20, 2009

	Current Month	Year to Date
Revenues		
Adoption Fee	6,810.00	22,256.00
Board Fee	6.00	30.00
Reclaim Fee	412.00	916.00
Surrender Fee	506.00	931.00
Contributions/Donations	8,211.06	16,296.81
Dog Spay	65.00	65.00
Cat Spay	75.00	75.00
Dog Neuter	(130.00)	(130.00)
Cat Neuter	150.00	150.00
Micro Chip	80.00	80.00
E-Collar	45.00	45.00
Housing Income_City Englewood	-	3,869.00
Housing Income_City Littleton	1,160.00	3,480.00
Miscellaneous Income	74.16	24,308.10
Total Revenues	17,464.22	72,371.91
Cost of Sales		
Total Cost of Sales	-	-
Gross Profit	17,464.22	72,371.91
Expenses		
Auto Expenses	100.65	130.65
Clinic Expense	-	18.00
Clinic-Medicine	651.46	651.46
Clinic-Vets	500.00	500.00
Dues & Memberships	-	35.00
Office Expense	-	537.06
Supplies Expense	138.93	138.93
Shelter Expenses	(66.02)	310.28
Shelter-Medicine	-	201.00

Expenses (cont.)

Health Insurance	(161.34)	334.18
Postage	42.00	42.00
Professional Fees	-	10,320.00
Claims-Shelter/Clinic	3,443.12	3,443.12
Claims-Shelter/Clinic-Medicine	1,465.00	1,465.00
Claims-Wages	523.57	523.57
Claims-Workers Comp Ins.	4,942.00	4,942.00
Salary & Wage Expense	9,193.74	17,837.29
FICA Expense	570.02	1,093.62
Medicare Expense	133.31	258.63
SUTA Tax Expense	424.74	705.01
FUTA Tax Expense	73.56	131.95
Total Expenses	21,974.74	43,618.75
Net Income	(4,510.52)	28,753.16

Unaudited-For Management Purpose Only

Exhibit 2

Colorado Humane Society and S.P.C.A., Inc
Balance Sheet
January 20, 2009

ASSETS

Current Assets

Bank of Denver Checking	40,260.44	
Petty Cash (Clinic)	25.00	
Petty Cash (Shelter)	25.00	
Total Current Assets		40,310.44

Current Assets - Book Values, Unconfirmed

Wells Fargo Payroll Account	24,130.77	
Wells Fargo Operating Acct	(4,859.61)	
Wells Fargo Tax 8008573	(27,035.33)	
Wells Fargo So.Co Division	10,111.65	
US Bank Res Grant Acct	757.31	
CoBiz Animal Medical Acct	50.00	
CoBiz Operating Acct	(7,857.80)	
Cash on Han-Admin	135.00	
Cash on Hand-Shelter	140.00	
Cash on Hand-Other	(1,690.00)	
Total Current Assets - Book Values, Unconfirmed		(6,118.01)

Accounts Receivables

Advances_Adducci, Laura	458.19	
Advances_Fredenburg, Susan	875.39	
Advances_Davis, Shelby	150.07	
Advances_McCalaster, Malissa	211.41	
Advances_Silcott, Christy	1,058.69	
Advances_Wells, Kristin	665.32	
Total Accounts Receivables		3,419.07

ASSETS (cont.)**Accounts Receivables - Book Values, Unconfirmed**

A/R-Amy Collier	255.00
A/R-Arapahoe County	8,250.00
A/R-City of Englewood	6,600.00
A/R-City of Glendale	300.00
A/R-City of Littleton	3,480.00
A/R-City & County Contracts	20,000.00
A/R-Discover CC	20.00

Total Accounts Receivables - Book Values, Unconfirmed**38,905.00****Property and Equipment - Book Values, Unconfirmed**

Furniture and Fixtures	1,250.00
Office Equipment	11,758.16
Automobiles	127,711.39
Auto-Animal Transport Van	10,625.00
Auto-Aco Truck Toppers	6,930.00
Auto-Aco Vehicle-Co Springs	13,679.50
Kennel Equipment	47,864.54
Dryers fro Shelter	2,349.22
Anesthesia Equipment (S&N)	4,457.25
Autoclaves	2,500.00
Diagnostic Equipment	125.34
Infusion Pumps	2,375.12
Surgery Equipment	9,640.58
Surgery Table & Lights	2,618.00
Surgery Spay & Neuter Equipmen	653.00
A/D- Furnitue & Fixtures	(1,250.00)
A/D-Office Equipment	(8,188.75)
A/D- Automobiles	(94,062.80)
A/D-Kennels	(23,357.30)
A/D-Anesthesia Equipment	(3,542.90)
A/D-Autoclaves	(2,500.00)
A/D-Diagnostic Equipment	(125.34)
A/D-Infusion Pumps	(1,137.57)
A/D-Surgery Equipment	(4,444.84)
A/D-Surgery Table & Lights	(2,618.00)

Total Property and Equipment - Book Val**103,309.60**

ASSETS (cont.)

Other Assets - Book Values, Unconfirmed

Prepaid Expenses	0.07	
Rent Deposit Lakewood	500.00	
Liberty Funds	720.55	
Rent Deposit Colo Springs	618.00	
Emp Adv-Arms, Stephanie	540.00	
Emp Adv-Beachem, Michael	542.54	
Emp Adv-Comley, Jeremy	245.00	
Emp Adv-Fredinburg, Susan	266.28	
Emp Adv-Gardner, Stephanie	1,060.00	
Emp Adv-Griffin, Rhonda	1,080.00	
Emp Adv-Johnson, Neil	20.00	
Emp Adv-Luchenbill, Brooks	17.00	
Emp Adv-Neller, Richard	180.00	
Emp Adv-Riggenbach, Lara	6,523.59	
Emp Adv-Warren, Mary	742.88	
Undeposited Funds	540.00	
Total Other Assets - Book Values, Unconfirmed		13,595.91
Total Assets (Confirmed and Unconfirmed)		193,422.01

LIABILITIES AND CAPITAL

Current Liabilities

A/P-Waverton Group	1,662.50	
Federal W/H Payable	579.73	
FICA W/H Payable	1,113.15	
MC Payable	347.66	
SUTA Payable	705.01	
FUTA Payable	131.95	
Total Current Liabilities		4,540.00

Current Liabilities - Book Values, Unconfirmed

A/P-A Gift Basket	75.00
A/P-Adams Mark Hotel	22,703.47
A/P-Animal Emergency Care	1,905.83
A/P-Antech	1,900.08
A/P-Barlow	1,490.00
A/P-Beacon Printing	982.00
A/P-Central Vet. Emergency	1,165.45
A/P-Cheyenne Mnt Hospital	2,578.77
A/P-Classic Party Rental	9.28
A/P-Colo Badge & Trophy	93.15
A/P-CSU	283.00
A/P-Custom Dental Inc.	95.00
A/P-Davis & Co.	450.00
A/P-Florial Expressions & Good	152.99
A/P-Freeman	3,762.00
A/P-Ivins Design Group	1,800.00
A/P-MCI	6.85
A/P-MWI Veterinary Supplies	4,132.16
A/P-Pfizer Animal Health	2,629.07
A/P-Public Safety Warehouse	1,746.00
A/P-Public Service of CO	176.93
A/P-SAFECO	27,061.87
A/P-Safeguard	420.84
A/P-Signs Now	399.68
A/P-United Screening Services	140.00
A/P-Other	(6,633.00)
A/P-Foster Care Deposits	(839.25)
A/P-Defd Inc Co Spring License	21,996.71
A/P-Payroll Liabilities	18,060.75

LIABILITIES AND CAPITAL (cont.)

Current Liabilities - Book Values, Unconfirmed (cont.)

A/P-Spay & Neuter Deposits	400.00	
Total Current Liabilities - Book Values, Unconfirmed		109,144.63

Payroll Liabilities - Book Values, Unconfirmed

401 K Withholding	(5,857.45)	
Co State Inc Tax Withholding	283.26	
Emp Dental Insurance W/H	(7,231.83)	
Emp Medical Insurance W/H	24,229.38	
Employee Liens & Garnishments	1,105.67	
Federal Income Tax W/H	(1,995.39)	
FICA Tax Withholding	(2,623.36)	
Former Employees Cobra	2,231.06	
Medical Tax Withholding	256.94	
Payroll Liabilities-Other	34,331.62	
Payroll Liabilities - Book Values, Unconfirmed		44,729.90

Filed Claims

Filed_Monument Pharmacy	1,465.00	
Filed_Pinnacol Assurance	4,942.00	
Filed_Shannon, Meghan Dr.	3,443.12	
Filed_Wandersee_Aaron	115.50	
Filed_Wells, Kristin	397.10	
Filed_Wells,Int/Penalties	10.97	
Total Filed Claims		10,373.69

Total Liabilities **168,788.22**

Capital

Opening Bal Equity	1,554.38	
Retained Earnings	(5,673.75)	
Net Income	28,753.16	
Total Capital		24,633.79

Total Liabilities & Capital **193,422.01**

Exhibit 1

**COLORADO HUMANE SOCIETY
& SPCA, INC.**

FINANCIAL STATEMENTS

* * * * *

JUNE 30, 2006

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 8

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Colorado Humane Society & SPCA, Inc.
Denver, Colorado

We have audited the accompanying statement of financial position of Colorado Humane Society & SPCA, Inc. (a nonprofit corporation) as of June 30, 2006 and the related statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Humane Society & SPCA, Inc. as of June 30, 2006 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Davis & Co., CPAs, P.C.
Certified Public Accountants

Highlands Ranch, Colorado
September 15, 2006

COLORADO HUMANE SOCIETY & SPCA, INC.

Statement of Financial Position

June 30, 2006

ASSETS

Current assets

Cash and cash equivalents	\$156,580
Accounts receivable	23,155
Prepaid expenses	<u>20,716</u>
	200,451

Property and equipment, at cost

Land & buildings – idle	390,000
Equipment and furnishings	93,458
Program vehicles	<u>89,434</u>
	572,892
Less: accumulated depreciation	<u>(132,376)</u>
	<u>440,516</u>

\$640,967

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 49,078
Accrued payroll expenses	<u>60,122</u>
	109,200

Net assets

Unrestricted	141,767
Permanently restricted	<u>390,000</u>
	<u>531,767</u>
	<u>\$640,967</u>

The accompanying notes are a part of this statement.

COLORADO HUMANE SOCIETY & SPCA, INC.

Statement of Activity

For the Year Ended June 30, 2006

SUPPORT AND REVENUE

Government service contracts	\$ 304,723
Client paid fees and reimbursements	407,592
Individuals, trusts & bequests	933,364
Foundations and corporations	41,264
Donated land & buildings – idle	390,000
Events (net of direct donor benefits of \$37,271)	29,559
Loss on sale of assets	(4,695)
Interest and other	<u>5,368</u>

Total public support and revenue 2,107,175

FUNCTIONAL EXPENSES

Program services	1,417,968
Supporting services	
General & administrative	114,251
Resource Development	<u>137,870</u>
Total expenses	<u>1,670,089</u>

Change in net assets 437,086

Net assets, beginning of year 94,681

Net assets, end of year \$531,767

The accompanying notes are a part of this statement.

COLORADO HUMANE SOCIETY & SPCA, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2006

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Resource Development</u>	<u>Total Expenses</u>
Personnel expenses	\$ 731,142	\$ 73,984	\$ 65,282	\$ 870,408
Shelter & clinic expenses	256,346	--	--	256,346
Contract & professional	142,186	13,048	34,961	190,195
Occupancy costs	74,303	7,518	6,636	88,457
Business insurance	64,052	6,481	5,720	76,253
Travel and meetings	42,372	4,287	3,785	50,444
Telecommunications	37,805	3,825	3,376	45,006
Print, postage & promotion	10,323	1,044	14,521	25,888
Outreach & awards	19,267	--	--	19,267
Office supplies & expenses	11,940	1,208	1,067	14,215
Depreciation	<u>28,232</u>	<u>2,856</u>	<u>2,522</u>	<u>33,610</u>
 Total expenses	 <u>\$1,417,968</u>	 <u>\$114,251</u>	 <u>\$137,870</u>	 <u>\$1,670,089</u>

The accompanying notes are a part of this statement.

COLORADO HUMANE SOCIETY & SPCA, INC.
Statement of Cash Flows
For the Year Ended June 30, 2006

CASH FLOW FROM OPERATING ACTIVITIES:

Change in net assets	\$437,086
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	33,610
Loss on sales of assets	4,695
Donated land & buildings – idle	(390,000)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	4,662
Increase in prepaid expenses	(12,091)
Decrease in accounts payable	(10,212)
Increase in accrued payroll expenses	<u>8,063</u>
Net cash provided by operating activities	75,813

Cash Flow from investing activities:

Cash from sales of assets	46,143
Fixed asset purchases	<u>(10,065)</u>
	36,078

INCREASE IN CASH AND CASH EQUIVALENTS	111,891
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>44,689</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$156,580</u>

Supplemental disclosure of cash flow information:

Non-cash operating activity:	
Donated land & buildings - idle	<u>\$390,000</u>
Interest received – cash basis	<u>\$721</u>

The accompanying notes are a part of this statement.

COLORADO HUMANE SOCIETY & SPCA, INC.

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies

Significant accounting policies are as follows:

a. Organization

The Colorado Humane Society & SPCA, Inc. (the "Society") was incorporated under the laws of the State of Colorado on August 6, 1881, making it the oldest not-for-profit in Colorado. The Society's mission is to prevent cruelty to and the exploitation of animals within the State of Colorado. Program services of the Society include assisting other municipalities, agencies and persons in the enforcement of laws and regulations pertaining to the prevention of cruelty and suffering to, and exploitation of animals; promoting education of the general public in humane lifestyles through the dissemination of literature and the use of media; and advocating for the humane treatment of animals.

The Society operates open door no-kill shelter in Englewood, Colorado, a spay/neuter clinic and administrative offices in Lakewood, Colorado and conducts mobile outreach within a three-county area to promote animal adoptions. The Society's 96% adoption rate has been recognized as one of the highest in the United States.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

The Society follows the provisions of Financial Accounting Standards (SFAS) No. 117 "*Financial Statements of Not-for-Profit Organizations*". Under SFAS No. 117, the Society is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Unrestricted - Resources not subject to donor-imposed restrictions.

Temporarily restricted - Resources subject to donor restrictions that will be satisfied either by actions of the Society or the passage of time. There were no such items on hand at June 30, 2006.

Permanently restricted - Resources that will be held in perpetuity in accordance with donor-imposed restrictions.

c. Cash and cash equivalents

For purposes of the statement of cash flows, the Society considers all unrestricted demand and time deposits to be cash equivalents. All account balances at June 30, 2006 were guaranteed by the FDIC.

(Continued)

COLORADO HUMANE SOCIETY & SPCA, INC.

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

d. Accounts receivable

Receivables consist primarily of program fees and reimbursements of expenses to be received from various municipalities and are recorded at their face values. Based on historical experience, management expects the balance as of June 30, 2006 to be fully collectible.

e. Property and equipment

The Society capitalizes all purchases of equipment, furnishings, and vehicles that are in excess of \$500. The annual provision for depreciation is calculated using the straight-line method and asset lives of 5 years. Depreciation expense for the current year ended June 30, 2006 was \$33,610. When items are disposed of, the cost basis and related accumulated depreciation are eliminated from the accounts and the gain or loss, if any, is included in the results of operations.

f. Revenue recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted either for future periods or for specific purposes by the donor are reported as temporarily restricted support that increases that net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donor-imposed restriction is satisfied in the same accounting period that the revenue is received, the Society reports the revenue as "unrestricted." All such items received during the current year ended June 30, 2006 were also spent during the year.

Government service contracts and client paid fees and reimbursements meet the definition of "exchange transactions" in *SFAS #116, "Accounting for Contributions Received and Contributions Made."* Accordingly, they are recorded as income in the period that the underlying services are performed.

g. Donated assets, supplies, services and use of space

In-kind donations of non-cash assets are recorded at their fair value in the period received. See Note 3 regarding a bequest of restricted land & buildings received during the current year. Although significant and relied upon in carrying out the Society's mission, donated services, animal food and supplies are not recorded herein due to the lack of time and resources it would take to appropriately track, value and record them.

(Continued)

COLORADO HUMANE SOCIETY & SPCA, INC.

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

h. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

i. Accrued vacation payable

As required by generally accepted accounting principles, the Society accrues compensated absences such as vacation when earned.

j. Functional expenses

Expenses directly identified with a functional area are charged to such area. If an expense affects more than one area, it is allocated by the time expended or another reasonable basis.

k. Tax status

The Society is exempted from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Income from activities not directly related to its tax exempt purpose is subject to taxation as unrelated business income. There were no items of unrelated business income for the year ended June 30, 2006.

Note 2: Termination of Government Contract

On July 22, 2005, The City of Colorado Springs terminated its contract with the Society for animal control and shelter services. The contract was to run through December 31, 2005. The contract settlement with the Society included a payment of \$175,000 and the forfeiture by the city of its claims to any of the licensing fees earned by the Society during the contract.

Certain program vehicles used in Colorado Springs with a net book value of \$50,838 were sold for \$46,143, resulting in a loss of \$4,695 which is included in the statement of activity.

Note 3: Permanently Restricted Net Assets

On December 8, 2005 the Society received a bequest of land and buildings in Rocky Ford, Colorado with a value of \$390,000. The agreement underlying the bequest requires that the property be used in perpetuity as a reserve for abused and abandoned animals. The Society is studying the feasibility of using the property, currently an idle asset, as both a reserve and future shelter/clinic location. Should the restriction be violated, the ownership of the property will revert back to the estate of the donor.

September 15, 2006

To the Board of Directors of
Colorado Humane Society

In planning and performing our audit of the financial statements of Colorado Humane Society (CHS) for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

~~However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated September 15, 2006 on the financial statements of the Colorado Humane Society.~~

Comments and recommendations:

Functional expense allocation policies should be formalized and committed to writing.

Currently, CHS allocates expenses based on an the aggregated distribution of all salaries and wages. However, there is no written policy which specifies how this should be done or what criteria should be used to ensure consistency from year to year. We believe the existing procedures should be formalized and committed to writing. In addition, the executive director and other administrative personnel might want to select several sample periods of time during the year to track and classify their time by overall type of work (program support, development, or general and administrative) since salaries are the largest category of expense.

CHS should finalize and formally adopt a conflict of interest policy for board members and employees.

Although we noted no conflict of interest issues with board members or employees, we believe this issue is becoming more important each year as highlighted by the fact that the IRS now asks in the Form 990 whether or not the organization has a written conflict of interest policy. You might also want to consider adding a policy on this subject to the current employee manual handbook given to employees.

(Continued)

September 15, 2006

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Bank reconciliations should periodically be cleared of old outstanding uncleared items. We noted that certain automated bank reconciliations contained old outstanding and uncleared items, typically transfers and or voided/reclassified checks and deposits. Accordingly, for certain accounts we had to rely on manually prepared reconciliations. If these items are properly removed in a more timely manner, the system can be relied upon to provide accurate reconciliations at a very low cost of time and effort to CHS. Based upon your request, some guidance was provided to help the applicable employee understand how to properly correct these items in the system.

* * * * *

This report is intended solely for the information and use of Colorado Humane Society's board of directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Davis & Co., CPAs, P.C.
Certified Public Accountants