

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Financial Statements

December 31, 2011 and 2010

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Financial Statements

December 31, 2011 and 2010

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Independent Auditor's Report

To the Board of Directors
Humane Society for Tacoma and Pierce County
Tacoma, Washington

We have audited the accompanying statement of financial position of The Humane Society for Tacoma and Pierce County (a nonprofit organization) as of December, 31 2011 and 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of The Humane Society for Tacoma and Pierce County management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 The Humane Society for Tacoma and Pierce County as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

JOHNSON, STONE & PAGANO, P.S.

August 22, 2012

FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 842,821	\$ 995,691
Investments	2,812,612	2,708,862
Accounts receivable	57,732	55,567
Inventory	63,462	14,800
Prepaid expenses	<u>102,862</u>	<u>61,812</u>
Total Current Assets	3,879,489	3,836,732
PROPERTY AND EQUIPMENT, net	3,173,547	3,067,118
GAZECKI CHARITABLE REMAINDER TRUSTS	1,424,859	1,533,789
ENDOWMENT FUNDS		
Magil Spay/Neuter Endowment	682,750	684,985
Bender Educational Endowment	378,252	379,492
Walker Cat Spay/Neuter Endowment	141,779	142,244
Nielsen Operations Endowment	15,447	15,499
Veterinary Endowment	<u>568,894</u>	<u>570,757</u>
Total Endowment Funds	1,787,122	1,792,977
OTHER ASSETS		
Beneficial interest in perpetual trusts	1,108,490	1,193,977
Loan fees, net	<u> </u>	<u>5,004</u>
Total Other Assets	<u>1,108,490</u>	<u>1,198,981</u>
TOTAL ASSETS	<u><u>\$ 11,373,507</u></u>	<u><u>\$ 11,429,597</u></u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 238,047	\$ 60,639
Accrued expenses	169,889	117,115
Deposits	10,444	7,367
Current portion of long-term liabilities	<u>41,206</u>	<u>131,000</u>
Total Current Liabilities	459,586	316,121
LONG-TERM LIABILITIES , net of current portion	848,307	862,574
Total Liabilities	1,307,893	1,178,695
NET ASSETS		
Unrestricted	7,351,072	7,701,934
Unrestricted - board designated endowment	1,058,867	1,064,722
Temporarily restricted	628,706	457,277
Permanently restricted	<u>1,026,969</u>	<u>1,026,969</u>
Total Net Assets	<u>10,065,614</u>	<u>10,250,902</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,373,507</u>	<u>\$ 11,429,597</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions and other	\$ 769,219	\$ 288,917		\$ 1,058,136
Service fees	1,429,204			1,429,204
Spay/neuter fees	211,088			211,088
Adoption fees	191,433			191,433
Drop off fees	296,777			296,777
Sales of pet supplies	75,160			75,160
Investment return	(8,070)			(8,070)
Change in value of trusts	194,717			194,717
Other income	10,679			10,679
Net assets released from restrictions	117,488	(117,488)		
Total Revenue and Support	3,287,695	171,429		3,459,124
FUNCTIONAL EXPENSES				
Program services				
Kennel, cattery and health care	2,037,182			2,037,182
Spay and neuter clinic	628,632			628,632
Humane and educational programs	205,556			205,556
	2,871,370			2,871,370
Supporting services				
Management and general services	469,183			469,183
Development and fund-raising	303,859			303,859
	773,042			773,042
Total Functional Expenses	3,644,412			3,644,412
CHANGE IN NET ASSETS	(356,717)	171,429		(185,288)
Net Assets at Beginning of Year	8,766,656	457,277	\$ 1,026,969	10,250,902
NET ASSETS AT END OF YEAR	\$ 8,409,939	\$ 628,706	\$ 1,026,969	\$ 10,065,614

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions and other	\$ 1,234,771	\$ 51,025		\$ 1,285,796
Service fees	1,515,406			1,515,406
Spay/neuter fees	230,184			230,184
Adoption fees	185,411			185,411
Drop off fees	270,551			270,551
Sales of pet supplies	87,814			87,814
Investment return	452,990			452,990
Change in value of trusts	177,350			177,350
Other income	8,228			8,228
Net assets released from restrictions	<u>54,620</u>	<u>(54,620)</u>		
Total Revenue and Support	4,217,325	(3,595)		4,213,730
FUNCTIONAL EXPENSES				
Program services				
Kennel, cattery and health care	1,806,867			1,806,867
Spay and neuter clinic	653,878			653,878
Humane and educational programs	<u>198,195</u>			<u>198,195</u>
	<u>2,658,940</u>			<u>2,658,940</u>
Supporting services				
Management and general services	372,675			372,675
Development and fund-raising	<u>290,712</u>			<u>290,712</u>
	<u>663,387</u>			<u>663,387</u>
Total Functional Expenses	<u>3,322,327</u>			<u>3,322,327</u>
CHANGE IN NET ASSETS	894,998	(3,595)		891,403
Reclassification of restrictions	(450,872)	450,872		
Net Assets at Beginning of Year	<u>8,322,530</u>	<u>10,000</u>	\$ <u>1,026,969</u>	<u>9,359,499</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,766,656</u>	<u>\$ 457,277</u>	\$ <u>1,026,969</u>	<u>\$ 10,250,902</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (185,288)	\$ 891,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	150,881	147,404
Gain on investments, property and trusts	(95,942)	(514,820)
Net change in operating assets and liabilities		
Increase in accounts receivable	(2,165)	(19,122)
Increase in inventory	(48,662)	(1,139)
(Increase) decrease in prepaid expenses	(41,050)	39
Increase in accounts payable	177,408	45,564
Increase (decrease) in accrued expenses	52,774	(33,681)
Increase (decrease) in deposits	3,077	(113)
Increase in deferred compensation	30,515	30,704
	<u>41,548</u>	<u>546,239</u>
Net Cash Provided by Operating Activities	41,548	546,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(252,305)	(66,840)
Purchase of investments	(1,246,248)	
Proceeds from sale of investments	<u>1,438,711</u>	
	(59,842)	(66,840)
Net Cash Used by Investing Activities	(59,842)	(66,840)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loan	(318,576)	(109,791)
Proceeds from debt	200,000	
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
	(134,576)	(125,791)
Net Cash Used by Financing Activities	(134,576)	(125,791)
NET INCREASE (DECREASE) IN CASH	(152,870)	353,608
Cash at Beginning of Year	<u>995,691</u>	<u>642,083</u>
CASH AT END OF YEAR	<u>\$ 842,821</u>	<u>\$ 995,691</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The mission of the Humane Society for Tacoma and Pierce County (the Humane Society) is to advance the welfare of animals and to promote positive relationships between animals and people. This mission is accomplished through a variety of programs.

Through the Adoption Program and the Senior Pet Adoption Program, all healthy, adoptable owner-released and stray animals are available for adoption by persons agreeing to provide appropriate care throughout the adopted animal's lifetime. Pet overpopulation is diminished under the Spay/Neuter Program. For animals deemed "unadoptable" by veterinary staff due to extreme aggressive behavior problems, illness or injury, the Humane Society performs humane euthanasia services that are in the best interest of the animal and the public. Performance of euthanasia services requires a specialized license which the Humane Society is required to renew annually.

Pets with a Purpose provide pet-assisted visitation and outreach services to the elderly and disabled. Positive relationships between people and animals are also fostered by the Development, Humane Education and Volunteer Programs.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The Humane Society is required to report information regarding its financial position and activities according to three classes of net assets based on the absence or existence and nature of donor-imposed restrictions as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Humane Society pursuant to those stipulations or that expire by the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Humane Society. Generally, the donors of such assets permit the Humane Society to use all or part of the income earned on the assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Humane Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Assets for which the Humane Society has credit risk consist of monies held by one financial institution in the form of money market and checking accounts in excess of Federal Deposit Insurance Corporation limitations. Management of the Humane Society does not anticipate any material adverse effect on its financial position as a result of the concentration of credit risk.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable primarily represents contracts with individual municipalities. Management has evaluated the accounts and believes they are all collectible; therefore, no allowance for uncollectible accounts has been provided.

Investments

Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Fair Value Measurements

The Humane Society applies authoritative guidance related to fair value measurements that defines fair value, provides a framework to measure the fair value of assets and liabilities, and requires certain disclosures about those measurements. The guidance establishes a hierarchy to prioritize the inputs that underlie a fair value measurement and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, The Humane Society is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Inventory

Inventory is stated at the lower of cost or market and primarily includes pet supplies for resale.

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the estimated fair value at the date of the gift. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gains and losses from disposition of property and equipment are recognized in the year of disposition. The estimated useful lives are summarized as follows:

	<u>Years</u>
Buildings and improvements	25 - 40
Vehicles	5
Plant and office equipment	5 - 7

Depreciation expense for the years ended December 31, 2011 and 2010 was \$145,877 and \$141,946, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Fees

The Humane Society amortizes initial costs associated with the financing of its building over the life of the loans using the effective interest method. Loan fees from inception were \$55,955 and were fully amortized as of December 31, 2011.

Deposits

A fee is collected for each adopted puppy which is refundable upon completion of a puppy training class. Forfeited fees are recognized as revenue when the training is not completed and the forfeitures become known.

Contributions

The Humane Society records contributions, including unconditional promises to give, in the period made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of Donor-Restricted Contributions

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Goods and Services

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Humane Society received donated goods and services totaling \$19,592 and \$22,404 in 2011 and 2010, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 95,000 and 75,000 hours of volunteer services were received during the years ended December 31, 2011 and 2010, respectively, but were not recognized in the accompanying financial statements because the criteria for recognition have not been satisfied.

Income Tax

The Humane Society is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The Humane Society's legal name is the Tacoma-Pierce County Humane Society and Society for the Prevention of Cruelty to Animals. The information returns of the Humane Society for tax years ended December 31, 2010, 2009 and 2008 remain subject to potential examination.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The costs of advertising are expensed as incurred. Advertising expense is \$7,422 and \$11,823 for 2011 and 2010, respectively, of which \$4,000 and \$9,000 of advertising expense was from gifts in kind of donated services, respectively.

Functional Allocation of Expenses

The costs of providing the Humane Society's program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services on the basis of benefits received.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

The Humane Society evaluated for subsequent events through August 22, 2012, the date the statements were available to be issued.

NOTE 2 - INVESTMENTS

Investments are classified on the statement of financial position as follows at December 31:

	<u>2011</u>	<u>2010</u>
Investments	\$ 2,812,612	\$ 2,708,862
Magill endowment	682,750	684,985
Bender endowment	378,252	379,492
Walker endowment	141,779	142,244
Neilsen endowment	15,447	15,499
Milgard Veterinary endowment	<u>568,894</u>	<u>570,757</u>
	<u>\$ 4,599,734</u>	<u>\$ 4,501,839</u>

Investment return is summarized as follows at December 31:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 65,881	\$ 84,656
Net realized and unrealized gain (loss)	<u>(73,951)</u>	<u>368,334</u>
	<u>\$ (8,070)</u>	<u>\$ 452,990</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2011 and 2010, are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Fair Value Measurements at December 31, 2011			
Investments			
Certificates of deposit	\$ 456,096	\$ 456,096	
Mutual funds	2,728,623	2,728,623	
Bond funds	1,370,365	1,370,365	
Cash value of life insurance policy	<u>44,650</u>	<u> </u>	\$ <u>44,650</u>
Total Investments	4,599,734	4,555,084	44,650
Gazecki Charitable Remainder Trusts	1,424,859		1,424,859
Beneficial interest in perpetual trusts	<u>1,108,490</u>	<u> </u>	<u>1,108,490</u>
	\$ <u>7,133,083</u>	\$ <u>4,555,084</u>	\$ <u>2,577,999</u>
Fair Value Measurements at December 31, 2010			
Investments			
Certificates of deposit	\$ 305,110	\$ 305,110	
Mutual funds	2,323,186	2,323,186	
Bond funds	1,817,433	1,817,433	
Equities	12,310	12,310	
Cash value of life insurance policy	<u>43,800</u>	<u> </u>	\$ <u>43,800</u>
Total Investments	4,501,839	4,458,039	43,800
Gazecki Charitable Remainder Trusts	1,533,789		1,533,789
Beneficial interest in perpetual trusts	<u>1,193,977</u>	<u> </u>	<u>1,193,977</u>
	\$ <u>7,229,605</u>	\$ <u>4,458,039</u>	\$ <u>2,771,566</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of the following:

	<u>2011</u>	<u>2010</u>
Building and improvements	\$ 4,457,927	\$ 4,223,660
Vehicles	112,038	109,677
Plant and office equipment	707,538	691,859
Land	<u>164,322</u>	<u>164,322</u>
	5,441,825	5,189,518
Less accumulated depreciation	<u>2,268,278</u>	<u>2,122,400</u>
	<u>\$ 3,173,547</u>	<u>\$ 3,067,118</u>

NOTE 5 - GAZECKI CHARITABLE REMAINDER TRUSTS

The Humane Society is a beneficiary of two irrevocable charitable remainder unitrusts contributed by William Gazecki, a former board member. Trust assets are held by an independent trustee. Under the terms of the split-interest agreements, the donor is to receive distributions over the term of the trust. The present value of future benefits to be received is estimated to be \$1,424,859 at December 31, 2011. The benefits intended to create the maintenance endowment fund have been reclassified as temporarily restricted. The present value of estimated future cash flows is based upon the donor's life expectancy and a discount rate of 3%.

As of December 31, 2011, the remainder amount received at the end of the term is to be used as follows:

To reimburse the Humane Society capital campaign in order to retire debt incurred for construction of the building	\$ 1,006,153
To create the William J. Gazecki Maintenance Endowment Fund	<u>418,706</u>
	<u>\$ 1,424,859</u>

NOTE 6 - ENDOWMENTS

The Humane Society's endowment consists of various funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Humane Society Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 6 - ENDOWMENTS (Continued)

The following is a schedule of endowments at December 31, 2011:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Magill Spay/Neuter Endowment	\$ 582,550	\$ 100,200	\$ 682,750
Bender Educational Endowment	372,466	5,786	378,252
Walker Cat Spay/Neuter Endowment	32,065	109,714	141,779
Neilsen Operations Endowment	2,892	12,555	15,447
Milgard Veterinary Endowment	<u>68,894</u>	<u>500,000</u>	<u>568,894</u>
	<u>\$ 1,058,867</u>	<u>\$ 728,255</u>	<u>\$ 1,787,122</u>

The following is a schedule of endowments at December 31, 2010:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Magill Spay/Neuter Endowment	\$ 584,785	\$ 100,200	\$ 684,985
Bender Educational Endowment	373,406	6,086	379,492
Walker Cat Spay/Neuter Endowment	32,530	109,714	142,244
Neilsen Operations Endowment	2,944	12,555	15,499
Milgard Veterinary Endowment	<u>70,757</u>	<u>500,000</u>	<u>570,757</u>
	<u>\$ 1,064,422</u>	<u>\$ 728,555</u>	<u>\$ 1,792,977</u>

Interpretation of Relevant Law Applicable to Temporarily or Permanently Restricted Funds
 Donor-restricted funds are classified as permanently restricted net assets and are subject to the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Humane Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the restricted endowment fund that is not classified in the permanently restricted funds would be considered temporarily restricted until those amounts are appropriated for expenditure by the Humane Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 6 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2011	\$ 1,064,422	\$ 728,555	\$ 1,792,977
Investment return:			
Investment income	24,720		24,720
Net depreciation realized and unrealized	<u>(19,974)</u>	<u> </u>	<u>(19,974)</u>
Total Investment Return	4,746		4,746
Appropriation of endowment Expenses	<u>(10,301)</u>	<u>(300)</u>	<u>(10,601)</u>
Endowment Net Assets - December 31, 2011	\$ <u>1,058,867</u>	\$ <u>728,255</u>	\$ <u>1,787,122</u>

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2010	\$ 874,048	\$ 728,555	\$ 1,602,603
Investment return:			
Investment income	31,970		31,970
Net appreciation realized and unrealized	<u>162,489</u>	<u> </u>	<u>162,489</u>
Total Investment Return	194,459		194,459
Appropriation of endowment Expenses	<u>(4,085)</u>	<u> </u>	<u>(4,085)</u>
Endowment Net Assets - December 31, 2010	\$ <u>1,064,422</u>	\$ <u>728,555</u>	\$ <u>1,792,977</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 6 - ENDOWMENTS (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Humane Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported. There were no such amounts to report in 2011 and 2010. With the current economic conditions, it is possible that such deficiencies may occur in the future.

Return Objectives and Risk Parameters

The Humane Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Humane Society must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that are to be compared regularly to the performance of equity and fixed income market indices, while assuming a moderate level of investment risk. The Humane Society expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objective

To satisfy its long-term rate-of-return objectives, the Humane Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Humane Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Beneficial interest in perpetual trusts at December 31 totaled:

	<u>2011</u>	<u>2010</u>
Beneficial interest in perpetual trusts	\$ <u>1,108,490</u>	\$ <u>1,193,977</u>

The Humane Society is the beneficiary of two perpetual trusts. The assets are held by an independent trustee. The Humane Society was given an irrevocable right to receive the income from the trust assets in perpetuity for support of general operations. The beneficial interests were recorded at the fair value of the assets in the underlying trusts, and are adjusted annually for changes in fair market value.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

The Humane Society is also the beneficiary of an irrevocable trust in which the Humane Society receives 20% of the income on an annual basis. The beneficial interest in the trust was originally recorded at the fair value of the assets in the underlying trust, and is adjusted annually for changes in the fair market value of the Humane Society's interest in the trust.

NOTE 8 - LONG-TERM LIABILITIES

Long-term liabilities at December 31 consist of a note payable to a bank. Details for this liability are described below:

	<u>2011</u>	<u>2010</u>
Note payable to bank, monthly installments of \$14,173, including interest accrued at the variable rate of the 10-year Constant Maturity T Bill, plus 2.85% (6.31% at December 31, 2011), collateralized by deed of trust, and extended through March 2012.	\$ 770,592	\$ 889,169

In April 2012, the Humane Society refinanced the outstanding loan balance plus an additional \$200,000 for a total note of \$958,575. The new note is payable in monthly payments of \$5,468 including accrued interest @ 4.68%, due April 1, 2017. For disclosure purposes the current portion of the bank debt has been reported as \$25,206, calculated using the new loan's repayment terms.

Future payments to be made on long-term debt based on interest rates and terms in effect at December 31, 2011 are as follows:

2012	\$ 25,206
2013	21,842
2014	22,886
2015	23,930
2016	25,011
Thereafter	<u>651,717</u>
Total	\$ <u>770,592</u>

Deferred Compensation Agreement

The Humane Society has a deferred compensation agreement with a former employee to provide retirement benefits in the amount of \$16,000 per year for her lifetime. The estimated net present value of the payments totaling \$118,921 at December 31, 2011, has been recorded using a discount rate of 6.5%.

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NOTE 9 - PENSION PLANS

The Humane Society is a contributing employer to the Western Conference of Teamsters Pension Trust Fund for the hours worked by eligible union employees. Contributions to this plan are \$138,170 and \$176,465 for the years ended December 31, 2011 and 2010, respectively.

Employees who have reached their second employment anniversary and worked more than 300 service hours in a calendar year and who are not covered under a collective bargaining agreement are eligible to participate in a simplified employee pension plan that was adopted in 1996. Contributions to this plan are \$46,551 and \$48,900 for the years ended December 31, 2011 and 2010, respectively.

The Humane Society also offers a tax-sheltered annuity plan to its employees. All employees may make voluntary contributions to this plan.

NOTE 10 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

All hourly employees (representing approximately 90% of the Humane Society's employees) are covered under a labor agreement. The contract with the union was renegotiated in 2008 and expires in 2014. The Humane Society's other employees are not represented by a union.