

**HUMANE SOCIETY FOR TACOMA  
AND PIERCE COUNTY**

Audited Financial Statements and  
Supplementary Financial Information

December 31, 2013 and 2012

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

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Supplementary Financial Information

December 31, 2013 and 2012

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**AUDITED FINANCIAL STATEMENTS**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Humane Society for Tacoma and Pierce County (a nonprofit organization) (the “Humane Society”), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

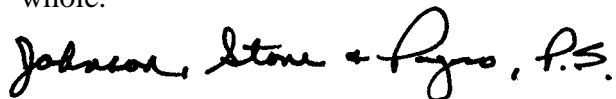
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society for Tacoma and Pierce County as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



**JOHNSON, STONE & PAGANO, P.S.**

June 23, 2014

AUDITED FINANCIAL STATEMENTS

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 822,806	\$ 901,428
Investments	4,500,295	3,342,884
Accounts receivable	44,275	54,779
Contributions receivable	122,215	615,899
Inventory	66,887	63,041
Prepaid expenses	33,499	21,710
<b>Total Current Assets</b>	<b>5,589,977</b>	<b>4,999,741</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>3,205,493</b>	<b>3,179,270</b>
<b>GAZECKI CHARITABLE REMAINDER TRUSTS</b>	<b>1,588,940</b>	<b>1,510,180</b>
<b>ENDOWMENT FUNDS</b>		
Magil Spay/Neuter Endowment	790,202	737,464
Bender Educational Endowment	437,783	408,565
Walker Cat Spay/Neuter Endowment	164,093	153,141
Nielsen Operations Endowment	17,878	16,685
Veterinary Endowment	658,427	614,484
<b>Total Endowment Funds</b>	<b>2,068,383</b>	<b>1,930,339</b>
<b>OTHER ASSETS</b>		
Beneficial interest in perpetual trusts	1,232,751	1,166,258
Loan fees, net	1,978	2,603
<b>Total Other Assets</b>	<b>1,234,729</b>	<b>1,168,861</b>
<b>TOTAL ASSETS</b>	<b>\$ <u>13,687,522</u></b>	<b>\$ <u>12,788,391</u></b>

See accompanying notes to financial statements.

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 87,858	\$ 51,860
Accrued expenses	233,142	153,615
Deposits	5,855	5,855
Current portion of long-term liabilities	<u>38,253</u>	<u>37,224</u>
<b>Total Current Liabilities</b>	365,108	248,554
<b>LONG-TERM LIABILITIES</b> , net of current portion	<u>995,383</u>	<u>1,021,976</u>
<b>Total Liabilities</b>	1,360,491	1,270,530
<b>NET ASSETS</b>		
Unrestricted	9,115,575	8,123,115
Unrestricted - board designated endowment	1,202,235	1,202,084
Temporarily restricted	982,252	1,165,693
Permanently restricted	<u>1,026,969</u>	<u>1,026,969</u>
<b>Total Net Assets</b>	<u>12,327,031</u>	<u>11,517,861</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,687,522</u>	<u>\$ 12,788,391</u>

See accompanying notes to financial statements.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## STATEMENTS OF ACTIVITIES

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Contributions and other	\$ 1,773,953	\$ 990,301		\$ 2,764,254
Service fees	1,275,654			1,275,654
Spay/neuter fees	199,678			199,678
Adoption fees	148,846			148,846
Drop off fees	314,094			314,094
Sales of pet supplies	60,689			60,689
Investment return	580,540			580,540
Change in value of trusts	124,145	21,107		145,252
Other income	10,355			10,355
Net assets released from restrictions	<u>1,194,849</u>	<u>(1,194,849)</u>		
<b>Total Revenue and Support</b>	<b>5,682,803</b>	<b>(183,441)</b>		<b>5,499,362</b>
<b>FUNCTIONAL EXPENSES</b>				
Program services	3,877,338			3,877,338
Supporting services				
Management and general services	492,746			492,746
Development and fund-raising	<u>320,108</u>			<u>320,108</u>
	<u>812,854</u>			<u>812,854</u>
<b>Total Functional Expenses</b>	<b>4,690,192</b>			<b>4,690,192</b>
<b>CHANGE IN NET ASSETS</b>	<b>992,611</b>	<b>(183,441)</b>		<b>809,170</b>
<b>Net Assets at Beginning of Year</b>	<u>9,325,199</u>	<u>1,165,693</u>	\$ <u>1,026,969</u>	<u>11,517,861</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 10,317,810</u>	<u>\$ 982,252</u>	\$ <u>1,026,969</u>	<u>\$ 12,327,031</u>

See accompanying notes to financial statements.



**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions and other	\$ 1,657,520	\$ 749,356		\$ 2,406,876
Service fees	1,393,721			1,393,721
Spay/neuter fees	214,717			214,717
Adoption fees	175,469			175,469
Drop off fees	324,174			324,174
Sales of pet supplies	65,465			65,465
Investment return	499,984			499,984
Change in value of trusts	118,654	24,436		143,090
Other income	5,873			5,873
Net assets released from restrictions	<u>236,805</u>	<u>(236,805)</u>		
<b>Total Revenue and Support</b>	4,692,382	536,987		5,229,369
<b>FUNCTIONAL EXPENSES</b>				
Program services	3,148,238			3,148,238
Supporting services				
Management and general services	355,449			355,449
Development and fund-raising	273,435			273,435
	<u>628,884</u>			<u>628,884</u>
<b>Total Functional Expenses</b>	<u>3,777,122</u>			<u>3,777,122</u>
<b>CHANGE IN NET ASSETS</b>	915,260	536,987		1,452,247
<b>Net Assets at Beginning of Year</b>	<u>8,409,939</u>	<u>628,706</u>	\$ <u>1,026,969</u>	<u>10,065,614</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 9,325,199</u>	<u>\$ 1,165,693</u>	\$ <u>1,026,969</u>	<u>\$ 11,517,861</u>

See accompanying notes to financial statements.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 809,170	\$ 1,452,247
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	182,407	166,693
Gain on investments, property and trusts	(640,709)	(642,578)
Net change in operating assets and liabilities		
Decrease in accounts receivable	10,504	2,953
(Increase) decrease in contributions receivable	493,684	(615,899)
(Increase) decrease in inventory	(3,846)	421
(Increase) decrease in prepaid expenses	(11,789)	81,152
Increase (decrease) in accounts payable	35,998	(186,187)
Increase (decrease) in accrued expenses	79,527	(16,274)
Decrease in deposits		(4,589)
Increase in deferred compensation	<u>11,660</u>	<u>10,975</u>
<b>Net Cash Provided by Operating Activities</b>	966,606	248,914
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(208,005)	(171,894)
Purchase of investments	(4,371,064)	(2,689,222)
Proceeds from sale of investments	<u>3,571,065</u>	<u>2,515,222</u>
<b>Net Cash Used by Investing Activities</b>	(1,008,004)	(345,894)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of loan fees		(3,125)
Payments on bank loan	(21,224)	(25,288)
Proceeds from debt		200,000
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u>(37,224)</u>	<u>155,587</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(78,622)	58,607
<b>Cash at Beginning of Year</b>	<u>901,428</u>	<u>842,821</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 822,806</u>	<u>\$ 901,428</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 44,423</u>	<u>\$ 38,501</u>

See accompanying notes to financial statements.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

### **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, 2013 and 2012

### 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, 2013 and 2012 was \$181,782 and \$166,171 respectively.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

#### ***Accounting for Long-lived Assets***

The Humane Society makes a determination as circumstances indicate necessary as to whether the value of long-lived assets, including assets to be disposed of, have been impaired. The determination is based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors. In management's opinion there were no impairment adjustments for the years ended December 31, 2013 and 2012, respectively.

#### ***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. In 2012, an additional \$3,125 in loan fees was recognized due to the refinancing of the debt. Amortization expense related to these fees was \$625 and \$522 for the years ended December 31, 2013 and 2012, respectively.

#### ***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 \$17,693 and \$25,149 during the years ended December 31, 2013 and 2012, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 76,000 hours of volunteer services were received during the years ended December 31, 2013 and 2012, respectively, but were not recognized in the accompanying financial statements because the criteria for recognition have not been satisfied.

## **HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 and 2012

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

##### ***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 Humane Society's management evaluates tax positions taken by the Humane Society and recognizes a tax liability (or asset) if the Humane Society has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. The Humane Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Humane Society's management believes it is no longer subject to income tax examinations for the years prior to 2010.

##### ***Advertising***

The costs of advertising are expensed as incurred. Advertising expense was \$175,060 and \$18,218 for the years ended December 31, 2013 and 2012, respectively, of which \$1,500 and \$4,500 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 June 23, 2014, the date the statements were available to be issued.

##### ***Reclassifications***

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

## HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

#### NOTE 2 - INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Investments	\$ 4,500,295	\$ 3,342,884
Magill Endowment	790,202	737,464
Bender Endowment	437,783	408,565
Walker Endowment	164,093	153,141
Neilsen Endowment	17,878	16,685
Milgard Veterinary Endowment	<u>658,427</u>	<u>614,484</u>
	<u>\$ 6,568,678</u>	<u>\$ 5,273,223</u>

Investment return is summarized as follows at December 31:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 139,261	\$ 137,780
Net realized and unrealized gain	<u>441,279</u>	<u>362,204</u>
	<u>\$ 580,540</u>	<u>\$ 499,984</u>

#### NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2013 and 2012, 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, 2013			
Investments			
Certificates of deposit	\$ 139,028	\$ 139,028	
Money market	55,968	55,968	
Mutual funds	4,044,151	4,044,151	
Bond funds	2,282,681	2,282,681	
Cash value of life insurance policy	<u>46,850</u>	<u>                    </u>	\$ <u>46,850</u>
Total Investments	6,568,678	6,521,828	46,850
Gazecki Charitable Remainder Trusts	1,588,940		1,588,940
Beneficial interest in perpetual trusts	<u>1,232,751</u>	<u>                    </u>	<u>1,232,751</u>
	<u>\$ 9,390,369</u>	<u>\$ 6,521,828</u>	<u>\$ 2,868,541</u>

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

**NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

	<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, 2012			
Investments			
Certificates of deposit	\$ 135,281	\$ 135,281	
Money market	175,031	175,031	
Mutual funds	3,109,262	3,109,262	
Bond funds	1,807,999	1,807,999	
Cash value of life insurance policy	<u>45,650</u>		\$ <u>45,650</u>
Total Investments	5,273,223	5,227,573	45,650
Gazecki Charitable Remainder Trusts	1,510,180		1,510,180
Beneficial interest in perpetual trusts	<u>1,166,258</u>		<u>1,166,258</u>
	<u>\$ 7,949,661</u>	<u>\$ 5,227,573</u>	<u>\$ 2,722,088</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

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

	<u>2013</u>	<u>2012</u>
Building and improvements	\$ 4,557,960	\$ 4,447,491
Vehicles	139,747	112,038
Plant and office equipment	959,695	889,868
Land	<u>164,322</u>	<u>164,322</u>
	<u>5,821,724</u>	<u>5,613,719</u>
Less accumulated depreciation	<u>2,616,231</u>	<u>2,434,449</u>
	<u>\$ 3,205,493</u>	<u>\$ 3,179,270</u>



## HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

#### 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 \$1,588,940 at December 31, 2013. The benefits intended to create a 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, 2013, 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	\$ 1,124,690
To create the William J. Gazecki Maintenance Endowment Fund	<u>464,250</u>
	<u>\$ 1,588,940</u>

#### NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2013</u>	<u>2012</u>
Restricted for specific programs	\$ 48,362	\$ 106,652
William J. Gazecki Maintenance Endowment Fund	464,250	443,142
Time restricted contributions receivable	122,215	615,899
Milgard Community Pet Care	<u>347,425</u>	<u>          </u>
	<u>\$ 982,252</u>	<u>\$ 1,165,693</u>

#### NOTE 7 - 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, 2013 and 2012

### NOTE 7 - ENDOWMENTS (Continued)

The following is a schedule of endowments at December 31:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2013			
Magill Spay/Neuter Endowment	\$ 690,002	\$ 100,200	\$ 790,202
Bender Educational Endowment	431,997	5,786	437,783
Walker Cat Spay/Neuter Endowment	54,379	109,714	164,093
Neilsen Operations Endowment	5,323	12,555	17,878
Milgard Veterinary Endowment	<u>158,427</u>	<u>500,000</u>	<u>658,427</u>
	<u>\$ 1,340,128</u>	<u>\$ 728,255</u>	<u>\$ 2,068,383</u>
December 31, 2012			
Magill Spay/Neuter Endowment	\$ 637,264	\$ 100,200	\$ 737,464
Bender Educational Endowment	402,779	5,786	408,565
Walker Cat Spay/Neuter Endowment	43,427	109,714	153,141
Neilsen Operations Endowment	4,130	12,555	16,685
Milgard Veterinary Endowment	<u>114,484</u>	<u>500,000</u>	<u>614,484</u>
	<u>\$ 1,202,084</u>	<u>\$ 728,255</u>	<u>\$ 1,930,339</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, 2013 and 2012

**NOTE 7 - ENDOWMENTS** (Continued)

Changes in endowment net assets for the year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2013	\$ 1,202,084	\$ 728,255	\$ 1,930,339
Investment return:			
Investment income	38,741		38,741
Net appreciation realized and unrealized	<u>195,831</u>	<u>          </u>	<u>195,831</u>
Total Investment Return	234,572		234,572
Appropriation of endowment			
Expenses	(11,618)		(11,618)
Distribution	<u>(84,910)</u>	<u>          </u>	<u>(84,910)</u>
Total Appropriation of Endowment	<u>(96,528)</u>	<u>          </u>	<u>(96,528)</u>
Endowment Net Assets - December 31, 2013	\$ <u>1,340,128</u>	\$ <u>728,255</u>	\$ <u>2,068,383</u>

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2012	\$ 1,058,867	\$ 728,555	\$ 1,787,122
Investment return:			
Investment income	55,947		55,947
Net appreciation realized and unrealized	<u>174,329</u>	<u>          </u>	<u>174,329</u>
Total Investment Return	230,276		230,276
Appropriation of endowment			
Expenses	(11,059)		(11,059)
Distributions	<u>(76,000)</u>	<u>          </u>	<u>(76,000)</u>
Total Appropriation of Endowment	<u>(87,059)</u>	<u>          </u>	<u>(87,059)</u>
Endowment Net Assets - December 31, 2012	\$ <u>1,202,084</u>	\$ <u>728,255</u>	\$ <u>1,930,339</u>

## **HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 and 2012

#### **NOTE 7 - 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 for the years ended December 31, 2013 and 2012, respectively. 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 8 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The Humane Society is the beneficiary of two perpetual trusts, with beneficial interests totaling \$1,232,751 and \$1,166,258 at December 31, 2013 and 2012, respectively. 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.

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.

## HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

#### NOTE 9 - 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>2013</u>	<u>2012</u>
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 at 4.68%, due April 1, 2017. Collateralized by a deed of trust.	\$ 924,080	\$ 945,304

Future payments to be made on long-term debt based on interest rates and terms in effect at December 31, 2013 are as follows:

2014	\$ 22,253
2015	23,333
2016	24,346
2017	<u>854,148</u>
Total	\$ <u>924,080</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 \$109,556 at December 31, 2013, has been recorded using a discount rate of 6.5%.

#### NOTE 10 - 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 were \$147,221 and \$134,650 for the years ended December 31, 2013 and 2012, 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 were \$52,117 and \$44,965 for the years ended December 31, 2013 and 2012, respectively.

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

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 and 2012

**NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR**

All hourly employees (representing approximately 56% 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.

SUPPLEMENTARY FINANCIAL INFORMATION

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

**SCHEDULE OF FUNCTIONAL EXPENSES**

For the Year Ending December 31, 2013 with Comparative Totals for 2012

	Sheltering and Adoptions Services	Spay/Neuter Services	Medical Services	Community Awareness	Volunteers	Total Program Services	Management & General	Fundraising	Total Supporting Services	Total Expenses	Total 2012
Salary and wages	\$ 711,876	\$ 213,563	\$ 370,176	\$ 28,475	\$ 99,663	\$ 1,423,753	\$ 147,110	\$ 141,341	\$ 288,451	\$ 1,712,204	\$ 1,559,782
Payroll taxes and benefits	324,537	97,361	168,759	12,981	45,435	649,073	53,914	51,799	105,713	754,786	700,967
<b>Total Employment Expenses</b>	<b>1,036,413</b>	<b>310,924</b>	<b>538,935</b>	<b>41,456</b>	<b>145,098</b>	<b>2,072,826</b>	<b>201,024</b>	<b>193,140</b>	<b>394,164</b>	<b>2,466,990</b>	<b>2,260,749</b>
Depreciation and amortization	126,072	2,760	21,502		24,019	174,353	4,876	3,178	8,054	182,407	166,693
Medical supplies	13	714	207,793			208,520				208,520	190,022
Interest expense	30,957	848	4,665		5,937	42,407	1,158	772	1,930	44,337	38,501
Advertising and promotion	23,848	6,573	6,573	5,000	1,232	43,226	112,172	19,662	131,834	175,060	18,218
Community veterinary services	141	310,564	404,803			715,508				715,508	351,567
Charitable support							15,282		15,282	15,282	10,000
Utilities	71,043	1,556	12,117		13,437	98,153	2,395	1,791	4,186	102,339	105,374
Printing	6,294			9,058		15,352	8,593	27,211	35,804	51,156	41,479
Professional fees	9,329	583	623	15,894	1,194	27,623	27,622	6,438	34,060	61,683	39,691
Computer maintenance and repair	19,863	4,561	4,561		855	29,840	9,202	12,583	21,785	51,625	48,936
Office supplies	16,279	1,015	1,495	93	3,609	22,491	11,645	20,906	32,551	55,042	58,636
Postage	616	1,457	217		69	2,359	1,608	13,059	14,667	17,026	15,455
Insurance	15,603	176	1,372	2,878	4,131	24,160	271	203	474	24,634	22,155
Food and provisions	86,942		4,158			91,100				91,100	35,303
Education and training	1,544		1,782		1,435	4,761	5,693	45	5,738	10,499	6,374
Meetings					679	679	23,895	110	24,005	24,684	11,128
Household and institutional	46,006	434	2,008		636	49,084	11,839	717	12,556	61,640	63,691
Telephone	11,772	4,465	4,440		1,082	21,759	7,188	3,707	10,895	32,654	20,960
Deceased animal disposal	33,219					33,219				33,219	32,776
Office expense	4,256	1,684	1,565	80	2,655	10,240	16,996	12,347	29,343	39,583	25,633
Repair and maintenance	51,027	1,209	8,847		9,559	70,642	5,501	1,356	6,857	77,499	85,582
Membership dues			947		60	1,007	5,843	(275)	5,568	6,575	8,829
Equipment lease			324			324	1,761		1,761	2,085	1,892
Building, property and parking	10,785	236	1,839		2,043	14,903	381	272	653	15,556	8,800
Vehicles	3,028	126	12			3,166	4,967		4,967	8,133	7,813
Computer supplies	6,278	2,391	2,391		448	11,508	10,184	1,943	12,127	23,635	3,105
Bad debt and NSF expense							1,236		1,236	1,236	23,193
Collars and leashes	7,287					7,287				7,287	3,927
Pet store supplies					29,503	29,503				29,503	45,038
Taxes, licenses and fees	36,963	1,027	6,161		7,187	51,338	1,414	943	2,357	53,695	25,602
<b>Total Operating Expenses</b>	<b>\$ 1,655,578</b>	<b>\$ 653,303</b>	<b>\$ 1,239,130</b>	<b>\$ 74,459</b>	<b>\$ 254,868</b>	<b>\$ 3,877,338</b>	<b>\$ 492,746</b>	<b>\$ 320,108</b>	<b>\$ 812,854</b>	<b>\$ 4,690,192</b>	<b>\$ 3,777,122</b>