

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements and
Supplementary Information

December 31, 2014 and 2013

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Audited Financial Statements and
Supplementary Information

December 31, 2014 and 2013

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Independent Auditor's Report

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, 2014 and 2013, 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.

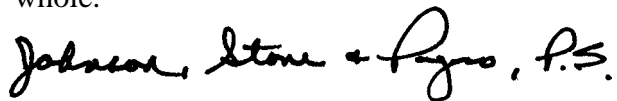
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, 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 22, 2015

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 796,261	\$ 822,806
Investments	4,650,866	4,500,295
Accounts receivable	36,081	44,275
Contributions receivable	216,424	122,215
Inventory	45,442	66,887
Prepaid expenses	<u>77,227</u>	<u>33,499</u>
Total Current Assets	5,822,301	5,589,977
PROPERTY AND EQUIPMENT, net	3,097,210	3,205,493
GAZECKI CHARITABLE REMAINDER TRUSTS	1,504,290	1,588,940
ENDOWMENT FUNDS		
Magil Spay/Neuter Endowment	809,312	790,202
Bender Educational Endowment	448,370	437,783
Walker Cat Spay/Neuter Endowment	168,061	164,093
Nielsen Operations Endowment	18,310	17,878
Milgard Veterinary Endowment	<u>674,350</u>	<u>658,427</u>
Total Endowment Funds	2,118,403	2,068,383
OTHER ASSETS		
Beneficial interest in perpetual trusts	1,178,219	1,232,751
Loan fees, net	<u>1,352</u>	<u>1,978</u>
Total Other Assets	<u>1,179,571</u>	<u>1,234,729</u>
TOTAL ASSETS	<u><u>\$ 13,721,775</u></u>	<u><u>\$ 13,687,522</u></u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 154,608	\$ 87,858
Accrued expenses	191,230	233,142
Deposits	5,855	5,855
Current portion of long-term liabilities	<u>39,333</u>	<u>38,253</u>
Total Current Liabilities	391,026	365,108
LONG-TERM LIABILITIES , net of current portion	<u>967,566</u>	<u>995,383</u>
Total Liabilities	1,358,592	1,360,491
NET ASSETS		
Unrestricted	9,165,960	8,977,682
Unrestricted - board designated endowment	1,390,148	1,340,128
Temporarily restricted	780,106	982,252
Permanently restricted	<u>1,026,969</u>	<u>1,026,969</u>
Total Net Assets	<u>12,363,183</u>	<u>12,327,031</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,721,775</u>	<u>\$ 13,687,522</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions and other	\$ 1,740,115	\$ 939,740		\$ 2,679,855
Service fees	1,176,532			1,176,532
Adoption fees	469,169			469,169
Drop off fees	277,344			277,344
Sales of pet supplies	38,469			38,469
Investment return	432,355			432,355
Change in value of trusts	162,444	(23,262)		139,182
Other income	3,461			3,461
Net assets released from restrictions	<u>1,118,624</u>	<u>(1,118,624)</u>		
Total Revenue and Support	5,418,513	(202,146)		5,216,367
FUNCTIONAL EXPENSES				
Program services	4,482,405			4,482,405
Supporting services				
Management and general services	368,366			368,366
Development and fundraising	<u>329,444</u>			<u>329,444</u>
	<u>697,810</u>			<u>697,810</u>
Total Functional Expenses	5,180,215			5,180,215
CHANGE IN NET ASSETS	238,298	(202,146)		36,152
Net Assets at Beginning of Year	<u>10,317,810</u>	<u>982,252</u>	\$ <u>1,026,969</u>	<u>12,327,031</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,556,108</u>	<u>\$ 780,106</u>	\$ <u>1,026,969</u>	<u>\$ 12,363,183</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions and other	\$ 1,773,953	\$ 990,301		\$ 2,764,254
Service fees	1,165,683			1,165,683
Adoption fees	458,495			458,495
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>		
Total Revenue and Support	5,682,803	(183,441)		5,499,362
FUNCTIONAL EXPENSES				
Program services	3,877,338			3,877,338
Supporting services				
Management and general services	492,746			492,746
Development and fundraising	320,108			320,108
	<u>812,854</u>			<u>812,854</u>
Total Functional Expenses	<u>4,690,192</u>			<u>4,690,192</u>
CHANGE IN NET ASSETS	992,611	(183,441)		809,170
Net Assets at Beginning of Year	<u>9,325,199</u>	<u>1,165,693</u>	<u>\$ 1,026,969</u>	<u>11,517,861</u>
NET ASSETS AT END OF YEAR	<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 CASH FLOWS

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 36,152	\$ 809,170
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	183,787	182,407
Gain on investments, property and trusts	(61,409)	(640,709)
Donated securities	(18,520)	
Net change in operating assets and liabilities		
Decrease in accounts receivable	8,194	10,504
(Increase) decrease in contributions receivable	(94,209)	493,684
(Increase) decrease in inventory	21,445	(3,846)
Increase in prepaid expenses	(43,728)	(11,789)
Increase in accounts payable	66,750	35,998
Increase (decrease) in accrued expenses	(41,912)	79,527
Increase in deferred compensation	11,516	11,660
	<u>68,066</u>	<u>966,606</u>
Net Cash Provided by Operating Activities	68,066	966,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(74,878)	(208,005)
Purchase of investments	(3,452,997)	(4,371,064)
Proceeds from sale of investments	<u>3,471,517</u>	<u>3,571,065</u>
	<u>(56,358)</u>	<u>(1,008,004)</u>
Net Cash Used by Investing Activities	(56,358)	(1,008,004)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loan	(22,253)	(21,224)
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
	<u>(38,253)</u>	<u>(37,224)</u>
Net Cash Used by Financing Activities	(38,253)	(37,224)
NET DECREASE IN CASH	(26,545)	(78,622)
Cash at Beginning of Year	<u>822,806</u>	<u>901,428</u>
CASH AT END OF YEAR	<u>\$ 796,261</u>	<u>\$ 822,806</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 43,389</u>	<u>\$ 44,423</u>

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013 was \$183,161 and \$181,782 respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013, respectively.

Loan Fees

The Humane Society amortizes costs associated with the financing of its building over the life of the loans using the effective interest method. Amortization expense related to these fees was \$626 and \$625 for the years ended December 31, 2014 and 2013, 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 \$10,295 and \$17,693 during the years ended December 31, 2014 and 2013, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 78,000 and 76,000 hours of volunteer services were received during the years ended December 31, 2014 and 2013, 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, 2014 and 2013

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 2011.

Advertising

The costs of advertising are expensed as incurred. Advertising expense was \$7,066 and \$175,060 for the years ended December 31, 2014 and 2013, respectively, of which \$2,150 and \$1,500 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.

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.

Subsequent Events

The Humane Society evaluated for subsequent events through June 22, 2015, the date the statements were available to be issued.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 2 - INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Investments	\$ 4,650,866	\$ 4,500,295
Magill Endowment	809,312	790,202
Bender Endowment	448,370	437,783
Walker Endowment	168,061	164,093
Neilsen Endowment	18,310	17,878
Milgard Veterinary Endowment	<u>674,350</u>	<u>658,427</u>
	<u>\$ 6,769,269</u>	<u>\$ 6,568,678</u>

Investment return is summarized as follows at December 31:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 161,246	\$ 139,261
Net realized and unrealized gain	<u>271,109</u>	<u>441,279</u>
	<u>\$ 432,355</u>	<u>\$ 580,540</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2014 and 2013, 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, 2014			
Investments			
Certificates of deposit	\$ 1,443	\$ 1,443	
Money market	68,783	68,783	
Mutual funds	4,408,183	4,408,183	
Bond funds	2,242,560	2,242,560	
Cash value of life insurance policy	<u>48,300</u>	<u> </u>	\$ <u>48,300</u>
Total Investments	6,769,269	6,720,969	48,300
Gazecki Charitable Remainder Trusts	1,504,290		1,504,290
Beneficial interest in perpetual trusts	<u>1,178,219</u>	<u> </u>	<u>1,178,219</u>
	<u>\$ 9,451,778</u>	<u>\$ 6,720,969</u>	<u>\$ 2,730,809</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 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>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>1,232,751</u>
	\$ <u>9,390,369</u>	\$ <u>6,521,828</u>	\$ <u>2,868,541</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 4,590,388	\$ 4,557,960
Vehicles	169,260	139,747
Plant and office equipment	972,631	959,695
Land	<u>164,322</u>	<u>164,322</u>
	5,896,601	5,821,724
Less accumulated depreciation	<u>2,799,391</u>	<u>2,616,231</u>
	\$ <u>3,097,210</u>	\$ <u>3,205,493</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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 \$1,504,290 at December 31, 2014. 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 1.7%.

As of December 31, 2014, 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	\$ 1,063,303
To create the William J. Gazecki Maintenance Endowment Fund	<u>440,987</u>
	<u>\$ 1,504,290</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2014</u>	<u>2013</u>
Restricted for specific programs	\$ 52,500	\$ 48,362
William J. Gazecki Maintenance Endowment Fund	440,987	464,250
Time restricted contributions receivable	216,424	122,215
Milgard Community Pet Care	63,806	347,425
Community Cat Program	<u>6,389</u>	<u> </u>
	<u>\$ 780,106</u>	<u>\$ 982,252</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, 2014 and 2013

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, 2014			
Magill Spay/Neuter Endowment	\$ 709,112	\$ 100,200	\$ 809,312
Bender Educational Endowment	442,584	5,786	448,370
Walker Cat Spay/Neuter Endowment	58,347	109,714	168,061
Neilsen Operations Endowment	5,755	12,555	18,310
Milgard Veterinary Endowment	<u>174,350</u>	<u>500,000</u>	<u>674,350</u>
	<u>\$ 1,390,148</u>	<u>\$ 728,255</u>	<u>\$ 2,118,403</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>

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, 2014 and 2013

NOTE 7 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2014	\$ 1,340,128	\$ 728,255	\$ 2,068,383
Investment return			
Investment income	23,081		23,081
Net appreciation realized and unrealized	<u>130,897</u>	<u> </u>	<u>130,897</u>
Total Investment Return	153,978		153,978
Appropriation of endowment			
Expenses	(12,438)		(12,438)
Distribution	<u>(91,520)</u>	<u> </u>	<u>(91,520)</u>
Total Appropriation of Endowment	<u>(103,958)</u>	<u> </u>	<u>(103,958)</u>
Endowment Net Assets - December 31, 2014	\$ <u>1,390,148</u>	\$ <u>728,255</u>	\$ <u>2,118,403</u>

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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013, 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 \$1,178,219 and \$1,232,751 at December 31, 2014 and 2013, 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, 2014 and 2013

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>2014</u>	<u>2013</u>
Note payable in monthly payments of \$5,468 including accrued interest at 4.68%, due April 1, 2017. Collateralized by a deed of trust.	\$ 901,827	\$ 924,080

Future payments to be made on long-term debt based on interest rates and terms in effect at December 31, 2014 are as follows:

2015	\$ 23,333
2016	24,346
2017	<u>854,148</u>
Total	\$ <u>901,827</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 \$105,072 at December 31, 2014, 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 \$153,790 and \$147,221 for the years ended December 31, 2014 and 2013, 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 \$59,576 and \$52,117 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013

NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

All hourly employees (representing approximately 60% of the Humane Society's employees) are covered under a labor agreement which expired in 2014. The Humane Society renegotiated the contract with the union in 2015 which is effective to December 31, 2017. The Humane Society's other employees are not represented by a union.

SUPPLEMENTARY INFORMATION

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2014 with Comparative Totals for 2013

	Sheltering and Adoptions Services	Spay/Neuter Services	Medical Services	Community Awareness	Volunteers	Total Program Services	Management & General	Development and Fundraising	Total Supporting Services	Total Expenses	Total 2013
Salary and wages	\$ 813,578	\$ 244,074	\$ 423,061	\$ 32,543	\$ 113,901	\$ 1,627,157	\$ 168,127	\$ 161,533	\$ 329,660	\$ 1,956,817	\$ 1,712,204
Payroll taxes and benefits	346,827	104,048	180,350	13,873	48,556	693,654	57,616	55,357	112,973	806,627	754,786
Total Employment Expenses	1,160,405	348,122	603,411	46,416	162,457	2,320,811	225,743	216,890	442,633	2,763,444	2,466,990
Depreciation and amortization	126,281	2,827	22,023		24,422	175,553	4,979	3,255	8,234	183,787	182,407
Medical supplies	4,470	392	245,490			250,352				250,352	208,520
Interest expense	30,233	828	4,556		5,798	41,415	1,131	754	1,885	43,300	44,337
Advertising and promotion	1,291	422	422	427	79	2,641	308	4,117	4,425	7,066	175,060
Community veterinary services		325,943	641,109			967,052				967,052	715,508
Charitable support							2,110		2,110	2,110	15,282
Utilities	69,363	1,519	11,830		13,119	95,831	2,338	1,749	4,087	99,918	102,339
Printing	5,774			8,309		14,083	7,883	24,962	32,845	46,928	51,156
Professional fees	1,497	61	330	1,688	138	3,714	31,685	2,437	34,122	37,836	61,683
Computer maintenance and repair	8,642	946	946		177	10,711	2,985	7,787	10,772	21,483	51,625
Office supplies	23,931	1,974	2,054	13,981	1,065	43,005	7,640	13,581	21,221	64,226	55,042
Postage	499	1,076	15		31	1,621	1,577	16,733	18,310	19,931	17,026
Insurance	16,355	183	1,423	3,152	4,343	25,456	281	210	491	25,947	24,634
Food and provisions	182,690		11,027			193,717	1,085		1,085	194,802	91,100
Education and training	10,139		1,385			11,524	5,334	278	5,612	17,136	10,499
Meetings	597				1,183	1,780	12,826	601	13,427	15,207	24,684
Household and institutional	53,873	992	5,404		1,455	61,724	1,210	1,638	2,848	64,572	61,640
Telephone	10,393	3,910	3,910		783	18,996	3,396	3,436	6,832	25,828	32,654
Deceased animal disposal	34,061					34,061				34,061	33,219
Office expense	12,418	2,241	3,003		1,547	19,209	19,190	23,303	42,493	61,702	39,583
Repair and maintenance	35,258	744	7,553	52	5,883	49,490	13,062	833	13,895	63,385	77,499
Membership dues	66		395			461	4,698	365	5,063	5,524	6,575
Equipment lease							1,502		1,502	1,502	2,085
Building, property and parking	6,772	148	1,155		1,281	9,356	610	171	781	10,137	15,556
Vehicles	7,591		1,158	451	252	9,452	2,241		2,241	11,693	8,133
Computer supplies	17,430	6,640	6,640		1,245	31,955	12,640	5,395	18,035	49,990	23,635
Bad debt and NSF expense							489		489	489	1,236
Collars and leashes	3,517					3,517				3,517	7,287
Pet store supplies					33,267	33,267				33,267	29,503
Taxes, licenses and fees	37,189	1,033	6,198		7,231	51,651	1,423	949	2,372	54,023	53,695
Total Operating Expenses	\$ 1,860,735	\$ 700,001	\$ 1,581,437	\$ 74,476	\$ 265,756	\$ 4,482,405	\$ 368,366	\$ 329,444	\$ 697,810	\$ 5,180,215	\$ 4,690,192