

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements and
Supplementary Information

December 31, 2015 and 2014

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Audited Financial Statements and
Supplementary Information

December 31, 2015 and 2014

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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, 2015 and 2014, 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 Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Humane Society'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 Humane Society'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.

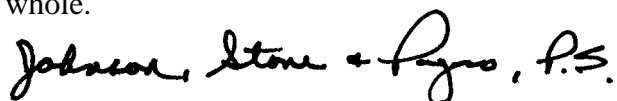
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, 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.

Report on Supplementary Information

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 29, 2016

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 960,395	\$ 796,261
Investments	3,888,371	4,650,866
Accounts receivable	29,172	36,081
Contributions receivable	187,604	216,424
Inventory	53,358	45,442
Prepaid expenses	<u>57,273</u>	<u>77,227</u>
Total Current Assets	5,176,173	5,822,301
PROPERTY AND EQUIPMENT, net	2,878,223	3,097,210
GAZECKI CHARITABLE REMAINDER TRUSTS	1,388,705	1,504,290
ENDOWMENT FUNDS		
Magil Spay/Neuter Endowment	749,907	809,312
Bender Educational Endowment	415,459	448,370
Walker Cat Spay/Neuter Endowment	155,725	168,061
Nielsen Operations Endowment	16,966	18,310
Milgard Veterinary Endowment	<u>624,851</u>	<u>674,350</u>
Total Endowment Funds	1,962,908	2,118,403
OTHER ASSETS		
Beneficial interest in perpetual trusts	1,049,532	1,178,219
Loan fees, net	726	1,352
Deposit on land held for development	49,452	
Real estate held for sale	<u>590,600</u>	
Total Other Assets	<u>1,690,310</u>	<u>1,179,571</u>
TOTAL ASSETS	<u>\$ 13,096,319</u>	<u>\$ 13,721,775</u>

The accompanying notes are an integral part of these financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 75,508	\$ 154,608
Accrued expenses	171,425	191,230
Deposits	3,605	5,855
Current portion of long-term liabilities	<u>40,346</u>	<u>39,333</u>
Total Current Liabilities	290,884	391,026
LONG-TERM LIABILITIES , net of current portion	<u>938,588</u>	<u>967,566</u>
Total Liabilities	1,229,472	1,358,592
NET ASSETS		
Unrestricted	8,019,081	9,165,960
Unrestricted - board designated endowment	1,234,653	1,390,148
Temporarily restricted	1,586,144	780,106
Permanently restricted	<u>1,026,969</u>	<u>1,026,969</u>
Total Net Assets	<u>11,866,847</u>	<u>12,363,183</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,096,319</u>	<u>\$ 13,721,775</u>

The accompanying notes are an integral part of these financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions and other	\$ 784,936	\$ 2,385,483		\$ 3,170,419
Service fees	1,217,664			1,217,664
Adoption fees	365,245			365,245
Drop off fees	242,722			242,722
Sales of pet supplies	37,145			37,145
Investment return	(221,285)			(221,285)
Change in value of trusts	279,954	(35,682)		244,272
Other income	11,434			11,434
Net assets released from restrictions	<u>1,543,763</u>	<u>(1,543,763)</u>		
Total Revenue and Support	4,261,578	806,038		5,067,616
FUNCTIONAL EXPENSES				
Program services	4,722,358			4,722,358
Supporting services				
Management and general services	474,076			474,076
Development and fundraising	<u>367,518</u>			<u>367,518</u>
	<u>841,594</u>			<u>841,594</u>
Total Functional Expenses	<u>5,563,952</u>			<u>5,563,952</u>
CHANGE IN NET ASSETS	(1,302,374)	806,038		(496,336)
Net Assets at Beginning of Year	<u>10,556,108</u>	<u>780,106</u>	\$ <u>1,026,969</u>	<u>12,363,183</u>
NET ASSETS AT END OF YEAR	<u>\$ 9,253,734</u>	<u>\$ 1,586,144</u>	<u>\$ 1,026,969</u>	<u>\$ 11,866,847</u>

The accompanying notes are an integral part of these financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	329,444			329,444
	<u>697,810</u>			<u>697,810</u>
Total Functional Expenses	<u>5,180,215</u>			<u>5,180,215</u>
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>

The accompanying notes are an integral part of these financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (496,336)	\$ 36,152
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	178,431	183,787
Write off remodel design costs	55,897	
Noncash donation of real estate held for sale	(590,600)	
(Gain) loss on investments, property and trusts	578,721	(61,409)
Donated securities	(16,459)	(18,520)
Net change in operating assets and liabilities		
Decrease in accounts receivable	6,909	8,194
(Increase) decrease in contributions receivable	28,820	(94,209)
(Increase) decrease in inventory	(7,916)	21,445
(Increase) decrease in prepaid expenses	19,954	(43,728)
Increase (decrease) in accounts payable	(79,100)	66,750
Decrease in accrued expenses	(19,805)	(41,912)
Increase in deferred compensation	11,368	11,516
Decrease in deposits	(2,250)	
	<u>(332,366)</u>	<u>68,066</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(14,715)	(74,878)
Deposit on land held for development	(49,452)	
Purchase of investments	(3,012,511)	(3,452,997)
Proceeds from sale of investments	<u>3,612,511</u>	<u>3,471,517</u>
	535,833	(56,358)
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loan	(23,333)	(22,253)
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
	(39,333)	(38,253)
Net Cash Used by Financing Activities		
NET INCREASE (DECREASE) IN CASH	164,134	(26,545)
Cash at Beginning of Year	<u>796,261</u>	<u>822,806</u>
CASH AT END OF YEAR	<u>\$ 960,395</u>	<u>\$ 796,261</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 42,287</u>	<u>\$ 43,389</u>

The accompanying notes are an integral part of these financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 promote positive relationships between animals and people. This mission is accomplished through a variety of programs.

As an open admission shelter, all pets from the seven jurisdictions served under sheltering contracts are accepted, either as strays or owner-surrendered. Healthy and medically treatable, animals are made available for adoption if they are not claimed by an owner. All pets are vaccinated and spayed or neutered prior to adoption. For animals deemed "unadoptable" by veterinary staff due to extreme aggressive behavior problems, untreatable medical conditions or severe injury, the Humane Society performs humane euthanasia services 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.

Community outreach programs include Pets with a Purpose, where shelter pets visit assisted living facilities; Pets for Life, providing resources for the underserved community; the Community Pet Food Bank and Senior Pet Pantry that includes home delivery; Cinderella Fund subsidizing spay/neuter for community pets; and the Veterinary Care Fund for low income pet owners. The Community Cat Program provides trap, neuter and release for un-owned, outdoor cats, who are vaccinated, altered and ear tipped prior to be returned to their outdoor homes. A Barn Cat & Backyard Buddy Program helps relocated outdoor cats that need new homes.

Active volunteer and fostering programs engage community members to assist with animal care and operations.

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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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.

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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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, 2015 and 2014 was \$177,805 and \$183,161, respectively.

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, 2015 and 2014, 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, 2015 and 2014, respectively.

Real Estate Held for Sale

During 2015, the Humane Society received the contribution of a condominium valued at \$590,600. The condominium will be held for sale, with the proceeds restricted for an endowment to support the maintenance of the Humane Society's building.

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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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 \$81,139 and \$10,295 during the years ended December 31, 2015 and 2014, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 75,700 and 78,000 hours of volunteer services were received during the years ended December 31, 2015 and 2014, 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 Human Society's management believes it is no longer subject to income tax examinations for the years prior to 2012.

Advertising

The costs of advertising are expensed as incurred. Advertising expense was \$10,896 and \$7,066 for the years ended December 31, 2015 and 2014, respectively, of which \$44 and \$2,150 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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 29, 2016, 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>2015</u>	<u>2014</u>
Investments	\$ 3,888,371	\$ 4,650,866
Magill Spay/Neuter Endowment	749,907	809,312
Bender Educational Endowment	415,459	448,370
Walker Spay/Neuter Endowment	155,725	168,061
Neilsen Operations Endowment	16,966	18,310
Milgard Veterinary Endowment	<u>624,851</u>	<u>674,350</u>
	<u>\$ 5,851,279</u>	<u>\$ 6,769,269</u>

Investment return is summarized as follows at December 31:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 119,215	\$ 161,246
Net realized and unrealized gain (loss)	<u>(340,500)</u>	<u>271,109</u>
	<u>\$ (221,285)</u>	<u>\$ 432,355</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2015 and 2014, 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, 2015			
Investments			
Certificates of deposit	\$ 1,443	\$ 1,443	
Money market	241,721	241,721	
Mutual funds	3,873,180	3,873,180	
Bond funds	1,686,614	1,686,614	
Cash value of life insurance policy	<u>48,321</u>	<u> </u>	\$ <u>48,321</u>
Total Investments	5,851,279	5,802,958	48,321
Gazecki Charitable Remainder Trusts	1,388,705		1,388,705
Beneficial interest in perpetual trusts	<u>1,049,532</u>	<u> </u>	<u>1,049,532</u>
	\$ <u>8,289,516</u>	\$ <u>5,802,958</u>	\$ <u>2,486,558</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, 2015 and 2014

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 4,549,206	\$ 4,590,388
Vehicles	169,260	169,260
Plant and office equipment	972,631	972,631
Land	<u>164,322</u>	<u>164,322</u>
	5,855,419	5,896,601
Less accumulated depreciation	<u>2,977,196</u>	<u>2,799,391</u>
	<u>\$ 2,878,223</u>	<u>\$ 3,097,210</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 \$1,388,705 at December 31, 2015. 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 1.8%.

As of December 31, 2015, the remainder amount received at the end of the term is to be used as follows:

	<u>2015</u>	<u>2014</u>
To reimburse the Humane Society capital campaign in order to retire debt incurred for construction of the building	\$ 983,400	\$ 1,063,303
To create the William J. Gazecki Maintenance Endowment Fund	<u>405,305</u>	<u>440,987</u>
	<u>\$ 1,388,705</u>	<u>\$ 1,504,290</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2015</u>	<u>2014</u>
Restricted for specific programs		\$ 52,500
William J. Gazecki Maintenance Endowment Fund	\$ 405,305	440,987
Time restricted contributions receivable	187,604	216,424
Milgard Community Pet Care	319,274	63,806
Real estate held for sale	590,600	
Restricted for specific uses	<u>83,361</u>	<u>6,389</u>
	<u>\$ 1,586,144</u>	<u>\$ 780,106</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.

The following is a schedule of endowments at December 31:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015			
Magill Spay/Neuter Endowment	\$ 649,707	\$ 100,200	\$ 749,907
Bender Educational Endowment	409,673	5,786	415,459
Walker Cat Spay/Neuter Endowment	46,011	109,714	155,725
Neilsen Operations Endowment	4,411	12,555	16,966
Milgard Veterinary Endowment	<u>124,851</u>	<u>500,000</u>	<u>624,851</u>
	<u>\$ 1,234,653</u>	<u>\$ 728,255</u>	<u>\$ 1,962,908</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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - ENDOWMENTS (Continued)

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.

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2015	\$ 1,390,148	\$ 728,255	\$ 2,118,403
Investment return			
Investment income	32,206		32,206
Net depreciation realized and unrealized	<u>(78,993)</u>	<u> </u>	<u>(78,993)</u>
Total Investment Return	(46,787)		(46,787)
Appropriation of endowment			
Expenses	(12,158)		(12,158)
Distribution	<u>(96,550)</u>	<u> </u>	<u>(96,550)</u>
Total Appropriation of Endowment	<u>(108,708)</u>	<u> </u>	<u>(108,708)</u>
Endowment Net Assets - December 31, 2015	\$ <u>1,234,653</u>	\$ <u>728,255</u>	\$ <u>1,962,908</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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>

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, 2015 and 2014, respectively.

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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - ENDOWMENTS (Continued)

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 \$1,049,532 and \$1,178,219 at December 31, 2015 and 2014, 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.

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>2015</u>	<u>2014</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.	\$ 878,494	\$ 901,827

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

2016	\$ 24,346
2017	<u>854,148</u>
Total	<u>\$ 878,494</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 \$100,440 and \$105,072 at December 31, 2015 and 2014, respectively, has been recorded using a discount rate of 6.5%.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 \$169,141 and \$153,790 for the years ended December 31, 2015 and 2014, 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 \$63,094 and \$59,576 for the years ended December 31, 2015 and 2014, respectively.

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

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.

NOTE 12 - SUBSEQUENT EVENTS

At December 31, 2015 the Humane Society had a deposit and preacquisition costs totaling \$49,452 toward the purchase of land intended for the development of its future campus. In April 2016, the acquisition was completed for \$1.7 million, which included financing \$1,105,000 with a line of credit. Interest on this line is due monthly at a fixed rate of 3.25%, with the principal due on April 15, 2019, the note's maturity date.

SUPPLEMENTARY INFORMATION

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2015 with Comparative Totals for 2014

	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 2014
Salary and wages	\$ 862,542	\$ 258,763	\$ 448,522	\$ 34,502	\$ 120,756	\$ 1,725,085	\$ 178,245	\$ 171,255	\$ 349,500	\$ 2,074,585	\$ 1,956,817
Payroll taxes and benefits	403,250	120,975	209,690	16,130	56,455	806,500	66,990	64,363	131,353	937,853	806,627
Total Employment Expenses	1,265,792	379,738	658,212	50,632	177,211	2,531,585	245,235	235,618	480,853	3,012,438	2,763,444
Depreciation and amortization	123,432	2,703	21,052		23,346	170,533	4,787	3,111	7,898	178,431	183,787
Medical supplies	2,145	20,640	227,031			249,816				249,816	250,352
Interest expense							42,193		42,193	42,193	43,300
Advertising and promotion	1,266	374	374	350	70	2,434	70	8,392	8,462	10,896	7,066
Community veterinary services		263,960	648,363			912,323				912,323	967,052
Charitable support							2,600		2,600	2,600	2,110
Utilities	66,681	1,460	11,373		12,612	92,126	2,248	1,681	3,929	96,055	99,918
Printing	4,973			7,157		12,130	6,789	21,500	28,289	40,419	46,928
Professional fees	50		155			205	118,211	35,265	153,476	153,681	37,836
Computer maintenance and repair	8,412	1,280	1,280		240	11,212	2,413	6,723	9,136	20,348	21,483
Office supplies	95,789	2,297	3,471	1,820	946	104,323	7,117	6,904	14,021	118,344	64,226
Postage	219	972	71		37	1,299	1,659	14,901	16,560	17,859	19,931
Insurance	16,937	188	1,468	3,171	4,503	26,267	290	217	507	26,774	25,947
Food and provisions	177,107		8,267	130,067		315,441				315,441	194,802
Education and training	10,150		2,902		293	13,345	6,046	328	6,374	19,719	17,136
Meetings					163	163	3,002	147	3,149	3,312	15,207
Household and institutional	66,155	1,176	8,168		1,725	77,224	1,435	1,943	3,378	80,602	64,572
Telephone	9,553	3,594	3,594		674	17,415	2,246	3,069	5,315	22,730	25,828
Deceased animal disposal	35,873					35,873				35,873	34,061
Office expense	15,089	1,655	2,717	377	3,552	23,390	5,809	23,609	29,418	52,808	61,702
Repair and maintenance	25,148	459	4,385		3,961	33,953	9,724	528	10,252	44,205	63,385
Membership dues			80			80	5,112	499	5,611	5,691	5,524
Equipment lease							1,159		1,159	1,159	1,502
Building, property and parking	6,664	146	1,137		1,260	9,207	225	168	393	9,600	10,137
Vehicles	8,921			912		9,833	97	251	348	10,181	11,693
Computer supplies	8,208	2,484	2,715		466	13,873	4,527	2,018	6,545	20,418	49,990
Bad debt and NSF expense							113		113	113	489
Collars and leashes	3,265					3,265				3,265	3,517
Pet store supplies					19,870	19,870				19,870	33,267
Taxes, licenses and fees	25,325	703	4,221		4,924	35,173	969	646	1,615	36,788	54,023
Total Operating Expenses	<u>\$ 1,977,154</u>	<u>\$ 683,829</u>	<u>\$ 1,611,036</u>	<u>\$ 194,486</u>	<u>\$ 255,853</u>	<u>\$ 4,722,358</u>	<u>\$ 474,076</u>	<u>\$ 367,518</u>	<u>\$ 841,594</u>	<u>\$ 5,563,952</u>	<u>\$ 5,180,215</u>