

**HUMANE SOCIETY FOR TACOMA  
AND PIERCE COUNTY**

Audited Financial Statements and  
Supplementary Information

December 31, 2016 and 2015

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

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## Independent Auditor's Report

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, 2016 and 2015, 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.

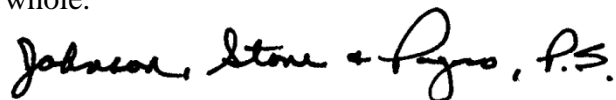
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2016 and 2015, 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.**

July 24, 2017

AUDITED FINANCIAL STATEMENTS

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,505,228	\$ 960,395
Investments	3,505,655	3,888,371
Accounts receivable	26,088	29,172
Contributions receivable	669,805	187,604
Inventory	56,429	53,358
Prepaid expenses	<u>65,714</u>	<u>57,273</u>
<b>Total Current Assets</b>	5,828,919	5,176,173
<b>PROPERTY AND EQUIPMENT, net</b>	2,724,283	2,878,223
<b>GAZECKI CHARITABLE REMAINDER TRUSTS</b>		1,388,705
<b>ENDOWMENT FUNDS</b>		
Magil Spay/Neuter Endowment	766,021	749,907
Bender Educational Endowment	424,387	415,459
Walker Cat Spay/Neuter Endowment	159,071	155,725
Nielsen Operations Endowment	17,331	16,966
Milgard Veterinary Endowment	638,278	624,851
William J. Gazecki Maintenance Endowment	<u>684,210</u>	<u>624,851</u>
<b>Total Endowment Funds</b>	2,689,298	1,962,908
<b>OTHER ASSETS</b>		
Beneficial interest in perpetual trusts	5,765,902	1,049,532
Land held for development	1,793,519	49,452
Real estate held for sale	<u>590,600</u>	<u>590,600</u>
<b>Total Other Assets</b>	<u>8,150,021</u>	<u>1,689,584</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,392,521</u>	<u>\$ 13,095,593</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 213,921	\$ 75,508
Accrued expenses	203,250	171,425
Deposits	3,330	3,605
Current portion of long-term liabilities	<u>16,000</u>	<u>40,346</u>
<b>Total Current Liabilities</b>	436,501	290,884
<b>LONG-TERM LIABILITIES</b> , net of issuance costs, net of current portion	<u>1,181,099</u>	<u>937,862</u>
<b>Total Liabilities</b>	1,617,600	1,228,746
<b>NET ASSETS</b>		
Unrestricted	8,245,099	8,019,081
Unrestricted - board designated endowment	1,276,833	1,234,653
Temporarily restricted	1,864,400	1,586,144
Permanently restricted	<u>6,388,589</u>	<u>1,026,969</u>
<b>Total Net Assets</b>	<u>17,774,921</u>	<u>11,866,847</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 19,392,521</u>	<u>\$ 13,095,593</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions and other	\$ 1,553,761	\$ 2,174,322	\$ 4,956,315	\$ 8,684,398
Service fees	1,133,779			1,133,779
Adoption fees	478,935			478,935
Drop off fees	211,899			211,899
Sales of pet supplies	56,603			56,603
Investment return	344,765			344,765
Change in value of trusts	38,960			38,960
Other income	49,013			49,013
Net assets released from restrictions	<u>1,490,761</u>	<u>(1,896,066)</u>	<u>405,305</u>	
<b>Total Revenue and Support</b>	5,358,476	278,256	5,361,620	10,998,352
<b>FUNCTIONAL EXPENSES</b>				
Program services	4,225,726			4,225,726
Supporting services				
Management and general services	503,457			503,457
Development and fundraising	<u>361,095</u>			<u>361,095</u>
	<u>864,552</u>			<u>864,552</u>
<b>Total Functional Expenses</b>	<u>5,090,278</u>			<u>5,090,278</u>
<b>CHANGE IN NET ASSETS</b>	268,198	278,256	5,361,620	5,908,074
<b>Net Assets at Beginning of Year</b>	<u>9,253,734</u>	<u>1,586,144</u>	<u>1,026,969</u>	<u>11,866,847</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 9,521,932</u>	<u>\$ 1,864,400</u>	<u>\$ 6,388,589</u>	<u>\$ 17,774,921</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
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>		
<b>Total Revenue and Support</b>	<b>4,261,578</b>	<b>806,038</b>		<b>5,067,616</b>
<b>FUNCTIONAL EXPENSES</b>				
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>
<b>Total Functional Expenses</b>	<b><u>5,563,952</u></b>			<b><u>5,563,952</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,302,374)</b>	<b>806,038</b>		<b>(496,336)</b>
<b>Net Assets at Beginning of Year</b>	<u>10,556,108</u>	<u>780,106</u>	<u>\$ 1,026,969</u>	<u>12,363,183</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 9,253,734</u></b>	<b><u>\$ 1,586,144</u></b>	<b><u>\$ 1,026,969</u></b>	<b><u>\$ 11,866,847</u></b>

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,908,074	\$ (496,336)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	172,296	177,805
Write off remodel design costs	14,715	55,897
Noncash donation of real estate held for sale		(590,600)
Beneficial interest contribution permanently restricted	(4,677,410)	
Endowment contribution	(278,905)	
(Gain) loss on investments	(353,426)	578,721
Increase in value of trusts	(38,960)	
Donated securities	(76,540)	(16,459)
Debt issuance costs	726	626
Net change in operating assets and liabilities	<u>(309,451)</u>	<u>(42,020)</u>
<b>Net Cash Provided (Used) by Operating         Activities</b>	361,119	(332,366)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(33,071)	(14,715)
Purchase of land held for development	(1,744,067)	(49,452)
Distributions received from trust	1,082,362	
Purchase of investments	(5,244,126)	(3,012,511)
Proceeds from sale of investments	<u>5,915,666</u>	<u>3,612,511</u>
<b>Net Cash Provided (Used) by Investing         Activities</b>	(23,236)	535,833
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	1,101,444	
Payments on bank loan	(878,494)	(23,333)
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
<b>Net Cash Provided (Used) by Financing         Activities</b>	206,950	(39,333)
<b>NET INCREASE IN CASH</b>	544,833	164,134
<b>Cash at Beginning of Year</b>	<u>960,395</u>	<u>796,261</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,505,228</u>	<u>\$ 960,395</u>

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

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
(Increase) decrease in assets		
Accounts receivable	\$ 3,084	\$ 6,909
Contributions receivable	(482,201)	28,820
Inventory	(3,071)	(7,916)
Prepaid expenses	(8,441)	19,954
Increase (decrease) in liabilities		
Accounts payable	138,413	(79,100)
Accrued expenses	31,825	(19,805)
Deferred compensation	11,215	11,368
Deposits	<u>(275)</u>	<u>(2,250)</u>
<b>Net Change in Operating Assets and Liabilities</b>	<b><u>\$ (309,451)</u></b>	<b><u>\$ (42,020)</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 65,813</u>	<u>\$ 42,287</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, 2016 and 2015

#### **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, 2016 and 2015

### **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, 2016 and 2015

### 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, 2016 and 2015 was \$172,296 and \$177,805, 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, 2016 and 2015, respectively.

#### *Real Estate Held for Sale*

During 2015, the Humane Society received the contribution of a condominium valued at \$590,600. The condominium was held for sale, with the proceeds restricted for an endowment to support the maintenance of the Humane Society's building. Subsequent to December 31, 2016, the condominium was sold for \$600,000.

#### *Land Held for Development*

At December 31, 2016, the Humane Society had land held for development totaling \$1,793,519, intended for the development of its future campus.

#### *Amortization of Debt Issuance Costs*

The Humane Society expenses costs associated with the financing of its building and land over the life of the loans using the effective interest method. Interest expense related to these fees was \$1,742 and \$626 for the years ended December 31, 2016 and 2015, respectively.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

#### ***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 \$70,127 and \$81,139 during the years ended December 31, 2016 and 2015, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 83,574 and 75,700 hours of volunteer services were received during the years ended December 31, 2016 and 2015, 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.

#### ***Advertising***

The costs of advertising are expensed as incurred. Advertising expense was \$3,066 and \$10,896 for the years ended December 31, 2016 and 2015, 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.

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

#### *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 July 24, 2017, 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>2016</u>	<u>2015</u>
Investments	\$ 3,505,655	\$ 3,888,371
Magill Spay/Neuter Endowment	766,021	749,907
Bender Educational Endowment	424,387	415,459
Walker Spay/Neuter Endowment	159,071	155,725
Neilsen Operations Endowment	17,331	16,966
Milgard Veterinary Endowment	638,278	624,851
William J. Gazecki Maintenance Endowment	<u>684,210</u>	<u>                    </u>
	<u>\$ 6,194,953</u>	<u>\$ 5,851,279</u>

Investment return is summarized as follows at December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 42,841	\$ 119,215
Net realized and unrealized gain (loss)	<u>301,924</u>	<u>(340,500)</u>
	<u>\$ 344,765</u>	<u>\$ (221,285)</u>



# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

### NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2016 and 2015, 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, 2016			
Investments			
Certificates of deposit	\$ 1,443	\$ 1,443	
Money market	281,671	281,671	
Mutual funds	3,990,060	3,990,060	
Bond funds	1,869,241	1,869,241	
Cash value of life insurance policy	<u>52,538</u>		\$ <u>52,538</u>
Total Investments	6,194,953	6,142,415	52,538
Beneficial interest in perpetual trusts	<u>5,765,902</u>		<u>5,765,902</u>
	\$ <u>11,960,855</u>	\$ <u>6,142,415</u>	\$ <u>5,818,440</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>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>1,049,532</u>
	\$ <u>8,289,516</u>	\$ <u>5,802,958</u>	\$ <u>2,486,558</u>

# HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

### NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 4,534,490	\$ 4,549,206
Vehicles	169,260	169,260
Plant and office equipment	1,005,702	972,631
Land	<u>164,322</u>	<u>164,322</u>
	5,873,774	5,855,419
Less accumulated depreciation	<u>3,149,491</u>	<u>2,977,196</u>
	<u>\$ 2,724,283</u>	<u>\$ 2,878,223</u>

### NOTE 5 - GAZECKI CHARITABLE REMAINDER TRUSTS

The Humane Society was a beneficiary of two irrevocable charitable remainder unitrusts contributed by William Gazecki, a former board member. Trust assets were held by an independent trustee. Under the terms of the split-interest agreements, the donor was to receive distributions over the term of the trust. The present value of future benefits to be received was estimated to be \$1,388,705 at December 31, 2015. Included in this amount was \$405,305 intended to create a maintenance endowment fund which was classified as temporarily restricted. The value of estimated future cash flows was discounted based upon the donor's life expectancy and a discount rate of 1.8%. The trust terms ended during 2016 and the funds were distributed to the Humane Society.

A summary of the trust activity during 2016 by the Humane Society is as follows:

Discounted value of trusts at December 31, 2015	\$ 1,388,705
Elimination of discount	131,904
Increase in value of the trust	<u>19,878</u>
Total funds received	<u>\$ 1,540,487</u>
Use of funds received	
Retirement of debt on the building	\$ 856,277
Creation of the William J. Gazecki Maintenance Endowment Fund	<u>684,210</u>
	<u>\$ 1,540,487</u>

## HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

#### NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Time restricted contributions receivable	\$ 669,805	\$ 187,604
Milgard Community Pet Care	541,611	319,274
Real estate held for sale	590,600	590,600
Restricted for specific uses	62,384	83,361
William J. Gazecki Maintenance Endowment Fund	<u>                    </u>	<u>405,305</u>
	<u>\$ 1,864,400</u>	<u>\$ 1,586,144</u>

#### NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Endowment Funds (see Note 8 for detail)	\$ 1,412,765	\$ 728,555
Lindberg Trust	153,937	153,937
Mattison Trust	144,477	144,477
Helen Mull Foundation	<u>4,677,410</u>	<u>                    </u>
	<u>\$ 6,388,589</u>	<u>\$ 1,026,969</u>

#### NOTE 8 - 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, 2016 and 2015

### NOTE 8 - 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, 2016			
Magill Spay/Neuter Endowment	\$ 665,821	\$ 100,200	\$ 766,021
Bender Educational Endowment	418,301	6,086	424,387
Walker Cat Spay/Neuter Endowment	49,357	109,714	159,071
Neilsen Operations Endowment	4,776	12,555	17,331
Milgard Veterinary Endowment	138,278	500,000	638,278
William J. Gazecki Maintenance Endowment	<u>                    </u>	<u>684,210</u>	<u>684,210</u>
	<u>\$ 1,276,533</u>	<u>\$ 1,412,765</u>	<u>\$ 2,689,298</u>
December 31, 2015			
Magill Spay/Neuter Endowment	\$ 649,707	\$ 100,200	\$ 749,907
Bender Educational Endowment	409,373	6,086	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>\$ 1,234,353</u>	<u>\$ 728,555</u>	<u>\$ 1,962,908</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, 2016 and 2015

#### NOTE 8 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - January 1, 2016	\$ 1,234,353	\$ 728,555	\$ 1,962,908
Investment return			
Investment income	15,421		15,421
Net appreciation realized and unrealized	<u>137,339</u>	<u>          </u>	<u>137,339</u>
Total Investment Return	152,760		152,760
Contribution	<u>          </u>	<u>684,210</u>	<u>684,210</u>
Appropriation of endowment			
Expenses	(11,618)		(11,618)
Distribution	<u>(98,962)</u>	<u>          </u>	<u>(98,962)</u>
Total Appropriation of Endowment	<u>(110,580)</u>	<u>          </u>	<u>(110,580)</u>
Endowment Net Assets - December 31, 2016	\$ <u>1,276,533</u>	\$ <u>1,412,765</u>	\$ <u>2,689,298</u>
Endowment net assets - January 1, 2015	\$ 1,389,848	\$ 728,555	\$ 2,118,403
Investment return (loss)			
Investment income	32,206		32,206
Net depreciation realized and unrealized	<u>(78,993)</u>	<u>          </u>	<u>(78,993)</u>
Total Investment Loss	(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>1,234,353</u>	\$ <u>728,555</u>	\$ <u>1,962,908</u>

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

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2016 and 2015

#### **NOTE 8 - 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, 2016 and 2015, 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.

##### ***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 9 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The Humane Society is the beneficiary of three perpetual trusts, with beneficial interests totaling \$5,765,902 and \$1,049,532 at December 31, 2016 and 2015, respectively. The assets are held by independent trustees. 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 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 value of the Humane Society's interest in the trust.

The Humane Society was the beneficiary of a perpetual trust from the Helen Mull Foundation. During 2016, the Humane Society was informed the Foundation beneficiaries are now fixed for a 150 year term, therefore the Humane Society recognized a perpetual interest in the Foundation in the amount of \$4,677,410 as of December 31, 2016.

## HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

#### NOTE 10 - LONG-TERM LIABILITIES

Details of long-term liabilities at December 31, 2016 and 2015 are described below:

	<u>2016</u>	<u>2015</u>
The Humane Society has a secured financing agreement with a bank to provide a revolving line of credit in monthly interest-only payments of \$3,092, interest at 3.25%, principal matures April 15, 2019. The note is collateralized by a deed of trust.	\$ 1,105,000	
Note payable in monthly payments of \$5,468, including accrued interest at 4.68%, due April 1, 2017. Collateralized by a deed of trust.	<u>                    </u>	\$ <u>878,494</u>
Total Long-term Liabilities	1,105,000	878,494
Less unamortized debt issuance costs	<u>3,556</u>	<u>726</u>
Long-Term Liabilities, Net of Unamortized Debt Issuance Costs	1,101,444	877,768
Less current portion due within one year and classified as a current liability	<u>                    </u>	<u>24,346</u>
	\$ <u><u>1,101,444</u></u>	\$ <u><u>853,422</u></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 \$95,655 and \$100,440 at December 31, 2016 and 2015, respectively, has been recorded using a discount rate of 6.5%.

#### NOTE 11 - 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 \$156,594 and \$169,141 for the years ended December 31, 2016 and 2015, respectively.

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

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2016 and 2015

#### **NOTE 11 - PENSION PLANS (Continued)**

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 \$53,352 and \$63,094 for the years ended December 31, 2016 and 2015, respectively.

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

#### **NOTE 12 - 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. The Humane Society negotiated a 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 13 - SUBSEQUENT EVENTS**

At December 31, 2016, the Humane Society had land held for development totaling \$1,788,381 intended for the development of its future campus. In March 2017, a portion of the land held for development was sold for \$600,000.



SUPPLEMENTARY INFORMATION

**HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY**

**SCHEDULE OF FUNCTIONAL EXPENSES**

For the Year Ending December 31, 2016 with Comparative Totals for 2015

	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 2015
Salary and wages	\$ 839,399	\$ 251,820	\$ 436,488	\$ 33,576	\$ 117,516	\$ 1,678,799	\$ 173,463	\$ 166,660	\$ 340,123	\$ 2,018,922	\$ 2,074,585
Payroll taxes and benefits	364,016	109,205	189,288	14,561	50,962	728,032	60,472	58,101	118,573	846,605	937,853
<b>Total Employment Expenses</b>	<b>1,203,415</b>	<b>361,025</b>	<b>625,776</b>	<b>48,137</b>	<b>168,478</b>	<b>2,406,831</b>	<b>233,935</b>	<b>224,761</b>	<b>458,696</b>	<b>2,865,527</b>	<b>3,012,438</b>
Depreciation	119,607	2,619	20,400		22,622	165,248	4,033	3,015	7,048	172,296	177,805
Medical supplies	3,617	31,664	233,238	74		268,593				268,593	249,816
Interest expense							67,107		67,107	67,107	42,819
Advertising and promotion								3,066	3,066	3,066	10,896
Community veterinary services		82,004	39,627	422,535		544,166				544,166	912,323
Charitable support							3,075		3,075	3,075	2,600
Utilities	63,871	1,398	10,894		12,081	88,244	5,290	1,610	6,900	95,144	96,055
Printing	6,233			8,970		15,203	8,510	26,948	35,458	50,661	40,419
Professional fees			155			155	78,726	43,315	122,041	122,196	153,681
Computer maintenance and repair	5,967	451	451		85	6,954	2,208	5,655	7,863	14,817	20,348
Office supplies	82,936	2,309	2,728	1,743	956	90,672	2,895	8,823	11,718	102,390	118,344
Postage	443	513	50		47	1,053	1,165	11,404	12,569	13,622	17,859
Insurance	17,243	193	1,500	3,215	4,579	26,730	297	222	519	27,249	26,774
Food and provisions	80,927		10,017	188,721		279,665				279,665	315,441
Education and training	5,246		140		370	5,756	1,804	395	2,199	7,955	19,719
Meetings							41		41	41	3,312
Household and institutional	68,176	1,157	10,538		1,696	81,567	1,411	1,910	3,321	84,888	80,602
Telephone	7,188	2,030	2,030		381	11,629	1,269	1,649	2,918	14,547	22,730
Deceased animal disposal	38,565					38,565				38,565	35,873
Office expense	6,998	1,442	4,872	153	6,264	19,729	34,053	24,513	58,566	78,295	52,808
Repair and maintenance	30,274	622	6,432		4,365	41,693	26,018	582	26,600	68,293	44,205
Membership dues			950			950	1,440	530	1,970	2,920	5,691
Equipment lease							1,150		1,150	1,150	1,159
Building, property and parking	6,886	151	1,174		1,302	9,513	14,887	174	15,061	24,574	9,600
Vehicles	10,410			248		10,658	32	65	97	10,755	10,181
Computer supplies	4,545	1,732	5,150		325	11,752	1,082	1,407	2,489	14,241	20,418
Bad debt and NSF expense							706		706	706	113
Collars and leashes	2,565					2,565				2,565	3,265
Pet store supplies					40,635	40,635				40,635	19,870
Taxes, licenses and fees	41,184	1,144	6,864		8,008	57,200	12,323	1,051	13,374	70,574	36,788
<b>Total Operating Expenses</b>	<b>\$ 1,806,296</b>	<b>\$ 490,454</b>	<b>\$ 982,986</b>	<b>\$ 673,796</b>	<b>\$ 272,194</b>	<b>\$ 4,225,726</b>	<b>\$ 503,457</b>	<b>\$ 361,095</b>	<b>\$ 864,552</b>	<b>\$ 5,090,278</b>	<b>\$ 5,563,952</b>