

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements and
Supplementary Information

December 31, 2017 and 2016 (Restated)

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 Humane Society for Tacoma and Pierce County (a nonprofit organization) (the "Humane Society"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 Humane Society for Tacoma and Pierce County as of December 31, 2017 and 2016, 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.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, adjustments were made to reclassify certain endowment fund activity and restate net asset classifications as of January 1, 2016, to correct the presentation and disclosure of net assets in accordance with donors' stipulations. Our opinion is not modified with respect to this matter.

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.

August 20, 2018

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016 (Restated)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,251,989	\$ 1,505,228
Investments	4,644,300	3,505,655
Accounts receivable	96,082	26,088
Contributions receivable	240,371	669,805
Inventory	77,328	56,429
Prepaid expenses	<u>68,614</u>	<u>65,714</u>
Total Current Assets	6,378,684	5,828,919
PROPERTY AND EQUIPMENT, net	2,714,673	2,724,283
ENDOWMENT FUNDS		
Magil Spay/Neuter Endowment	848,181	766,021
Bender Educational Endowment	469,904	424,387
Walker Cat Spay/Neuter Endowment	176,132	159,071
Nielsen Operations Endowment	19,190	17,331
Milgard Veterinary Endowment	706,737	638,278
William J. Gazecki Maintenance Endowment	<u>1,647,288</u>	<u>684,210</u>
Total Endowment Funds	3,867,432	2,689,298
OTHER ASSETS		
Beneficial interest in perpetual trusts	6,743,054	5,765,902
Land held for development	1,459,837	1,793,519
Real estate held for sale	<u> </u>	<u>590,600</u>
Total Other Assets	<u>8,202,891</u>	<u>8,150,021</u>
TOTAL ASSETS	<u>\$ 21,163,680</u>	<u>\$ 19,392,521</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, 2017 and 2016 (Restated)

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 138,975	\$ 213,921
Accrued expenses	229,835	203,250
Deposits	3,330	3,330
Current portion of long-term liabilities	<u>16,000</u>	<u>16,000</u>
Total Current Liabilities	388,140	436,501
LONG-TERM LIABILITIES , net of issuance costs, net of current portion	<u>827,679</u>	<u>1,181,099</u>
Total Liabilities	1,215,819	1,617,600
NET ASSETS		
Unrestricted	8,309,772	7,455,321
Unrestricted - board-designated endowment	1,134,608	1,024,675
Temporarily restricted	1,515,597	2,116,258
Permanently restricted	<u>8,987,884</u>	<u>7,178,667</u>
Total Net Assets	<u>19,947,861</u>	<u>17,774,921</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,163,680</u>	<u>\$ 19,392,521</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions and other	\$ 2,440,552	\$ 651,552		\$ 3,092,104
Service fees	1,063,274			1,063,274
Adoption fees	628,222			628,222
Drop off fees	211,002			211,002
Sales of pet supplies	87,995			87,995
Investment return	648,370	358,360		1,006,730
Change in value of trusts			\$ 977,152	977,152
Other income	293,944			293,944
Net assets released from restrictions	<u>778,508</u>	<u>(1,610,573)</u>	<u>832,065</u>	
Total Revenue and Support	<u>6,151,867</u>	<u>(600,661)</u>	<u>1,809,217</u>	<u>7,360,423</u>
FUNCTIONAL EXPENSES				
Program services	4,467,382			4,467,382
Supporting services				
Management and general services	432,388			432,388
Development and fundraising	<u>287,713</u>			<u>287,713</u>
	<u>720,101</u>			<u>720,101</u>
Total Functional Expenses	<u>5,187,483</u>			<u>5,187,483</u>
CHANGE IN NET ASSETS	964,384	(600,661)	1,809,217	2,172,940
Net Assets at Beginning of Year	<u>8,479,996</u>	<u>2,116,258</u>	<u>7,178,667</u>	<u>17,774,921</u>
NET ASSETS AT END OF YEAR	<u>\$ 9,444,380</u>	<u>\$ 1,515,597</u>	<u>\$ 8,987,884</u>	<u>\$ 19,947,861</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, 2016 (Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
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	264,533	80,232		344,765
Change in value of trusts			38,960	38,960
Other income	49,013			49,013
Net assets released from restrictions	1,609,953	(1,976,298)	366,345	
Total Revenue and Support	5,358,476	278,256	5,361,620	10,998,352
FUNCTIONAL EXPENSES				
Program services	4,225,726			4,225,726
Supporting services				
Management and general services	503,457			503,457
Development and fundraising	361,095			361,095
	864,552			864,552
Total Functional Expenses	5,090,278			5,090,278
CHANGE IN NET ASSETS	268,198	278,256	5,361,620	5,908,074
Net Assets at Beginning of Year as Previously Reported	9,253,734	1,586,144	1,026,969	11,866,847
EFFECTS OF RESTATEMENT OF NET ASSETS				
Net Assets at Beginning of Year as Restated	8,211,798	1,838,002	1,817,047	11,866,847
NET ASSETS AT END OF YEAR	\$ 8,479,996	\$ 2,116,258	\$ 7,178,667	\$ 17,774,921

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,172,940	\$ 5,908,074
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	156,385	172,296
Write off remodel design costs		14,715
Beneficial interest contribution permanently restricted		(4,677,410)
Endowment contribution	(832,065)	(278,905)
Gain on investments	(848,346)	(353,426)
Gain on sale of land held for development	(252,960)	
Loss on sale of real estate held for sale	34,297	
Increase in value of trusts	(977,152)	(38,960)
Donated securities	(4,711)	(76,540)
Debt issuance costs	1,524	726
Net change in operating assets and liabilities	<u>298,336</u>	<u>(309,451)</u>
Net Cash Provided (Used) by Operating Activities	(251,752)	361,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(146,775)	(33,071)
Purchase of land held for development		(1,744,067)
Proceeds from sale of land held for development	592,457	
Proceeds from real estate held for sale	550,488	
Distributions received from trust		1,082,362
Purchase of investments	(1,574,681)	(5,244,126)
Proceeds from sale of investments	<u>943,024</u>	<u>5,915,666</u>
Net Cash Provided (Used) by Investing Activities	364,513	(23,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	(350,000)	1,101,444
Payments on bank loan		(878,494)
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>(366,000)</u>	<u>206,950</u>
NET INCREASE (DECREASE) IN CASH	(253,239)	544,833
Cash at Beginning of Year	<u>1,505,228</u>	<u>960,395</u>
CASH AT END OF YEAR	<u>\$ 1,251,989</u>	<u>\$ 1,505,228</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable	\$ (69,994)	\$ 3,084
Contributions receivable	429,434	(482,201)
Inventory	(20,899)	(3,071)
Prepaid expenses	(2,900)	(8,441)
Increase (decrease) in liabilities		
Accounts payable	(74,946)	138,413
Accrued expenses	26,585	31,825
Deferred compensation	11,056	11,215
Deposits		<u>(275)</u>
Net Change in Operating Assets and Liabilities	\$ <u>298,336</u>	\$ <u>(309,451)</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>27,311</u>	\$ <u>65,813</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, 2017 and 2016 (Restated)

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

Description of Operations

The mission of 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 awareness 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 being 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, 2017 and 2016 (Restated)

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 represent 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 net realizable value and primarily includes pet supplies for resale.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

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, 2017 and 2016 was \$156,385 and \$172,296, 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, 2017 and 2016, respectively.

Real Estate Held for Sale

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. During 2017, the condominium was sold and the Humane Society received net proceeds of \$550,488 which became part of the William J. Gazecki Maintenance Endowment (see Note 8).

Land Held for Development

The Humane Society had land held for development intended for the development of its future campus. During 2017, a portion of the land deemed not necessary for the future campus was sold for \$592,457 with a resulting gain of \$252,960. The cost of the land totaled \$1,459,837 and \$1,793,519 as of December 31, 2017 and 2016, respectively.

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 \$1,524 and \$726 as of December 31, 2017 and 2016, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

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 \$66,722 and \$70,127 during the years ended December 31, 2017 and 2016, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 118,103 and 83,574 hours of volunteer services were received during the years ended December 31, 2017 and 2016, 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 \$5,162 and \$3,066 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 (Restated)

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.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect the Humane Society's financial statements.

Subsequent Events

The Humane Society evaluated for subsequent events through August 20, 2018, 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>2017</u>	<u>2016</u>
Investments	\$ 4,644,300	\$ 3,505,655
Magill Spay/Neuter Endowment	848,181	766,021
Bender Educational Endowment	469,904	424,387
Walker Spay/Neuter Endowment	176,132	159,071
Neilsen Operations Endowment	19,190	17,331
Milgard Veterinary Endowment	706,737	638,278
William J. Gazecki Maintenance Endowment	<u>1,647,288</u>	<u>684,210</u>
	<u>\$ 8,511,732</u>	<u>\$ 6,194,953</u>

Investment return is summarized as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 50,899	\$ 42,841
Net realized and unrealized gains, net	<u>955,831</u>	<u>301,924</u>
	<u>\$ 1,006,730</u>	<u>\$ 344,765</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2017 and 2016, 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, 2017			
Investments			
Certificates of deposit	\$ 1,443	\$ 1,443	
Money market	161,666	161,666	
Mutual funds	5,770,463	5,770,463	
Bond funds	<u>2,578,160</u>	<u>2,578,160</u>	
Total Investments	8,511,732	8,511,732	
Beneficial interest in perpetual trusts	<u>6,743,054</u>	_____	\$ <u>6,743,054</u>
	\$ <u>15,254,786</u>	\$ <u>8,511,732</u>	\$ <u>6,743,054</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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 4,663,455	\$ 4,534,490
Vehicles	169,260	169,260
Plant and office equipment	1,023,512	1,005,702
Land	<u>164,322</u>	<u>164,322</u>
	6,020,549	5,873,774
Less accumulated depreciation	<u>3,305,876</u>	<u>3,149,491</u>
	<u>\$ 2,714,673</u>	<u>\$ 2,724,283</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 trusts. The trust's terms ended during 2016 and funds in the amount of \$1,540,487 were distributed to the Humane Society. In accordance with the terms of the trust, \$684,210 established the William J. Gazecki Maintenance Endowment (see Note 8), and \$856,277 was used to retire debt on the building.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Time restricted contributions receivable	\$ 240,371	\$ 669,805
Milgard Community Pet Care	520,146	541,611
Real estate held for sale		590,600
Restricted for specific uses	267,086	62,384
Subject to endowment spending policy and appropriation	<u>487,994</u>	<u>251,858</u>
	<u>\$ 1,515,597</u>	<u>\$ 2,116,258</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Endowment Funds (see Note 8 for detail)	\$ 2,244,830	\$ 1,412,765
Lindberg Trust	244,093	231,476
Mattison Trust	925,093	857,016
Helen Mull Foundation	<u>5,573,868</u>	<u>4,677,410</u>
	<u>\$ 8,987,884</u>	<u>\$ 7,178,667</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.

The following is a schedule of endowments at December 31:

	Unrestricted Board <u>Designated</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
December 31, 2017				
Magill Spay/Neuter Endowment	\$ 674,920	\$ 73,061	\$ 100,200	\$ 848,181
Bender Educational Endowment	459,688	4,130	6,086	469,904
Walker Cat Spay/Neuter Endowment		66,418	109,714	176,132
Neilsen Operations Endowment		6,635	12,555	19,190
Milgard Veterinary Endowment		206,737	500,000	706,737
William J. Gazecki Maintenance Endowment		<u>131,013</u>	<u>1,516,275</u>	<u>1,647,288</u>
	<u>\$ 1,134,608</u>	<u>\$ 487,994</u>	<u>\$ 2,244,830</u>	<u>\$ 3,867,432</u>
December 31, 2016				
Magill Spay/Neuter Endowment	\$ 609,543	\$ 56,278	\$ 100,200	\$ 766,021
Bender Educational Endowment	415,132	3,169	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>684,210</u>	<u>684,210</u>
	<u>\$ 1,024,675</u>	<u>\$ 251,858</u>	<u>\$ 1,412,765</u>	<u>\$ 2,689,298</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 8 - 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, 2017 and 2016 are as follows:

	Unrestricted Board <u>Designated</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
Endowment net assets - January 1, 2017	\$ 1,024,675	\$ 251,858	\$ 1,412,765	\$ 2,689,298
Investment return				
Investment income	4,462	14,728		19,190
Net appreciation realized and unrealized	<u>104,105</u>	<u>343,633</u>		<u>447,738</u>
Total Investment Return	108,567	358,361		466,928
Contributions			<u>832,065</u>	<u>832,065</u>
Appropriation of endowment				
Expenses	(18,882)			(18,882)
Distribution	(101,977)			(101,977)
Appropriations from temporarily restricted net assets	<u>122,225</u>	<u>(122,225)</u>		
Total Appropriation of Endowment	<u>1,366</u>	<u>(122,225)</u>		<u>(120,859)</u>
Endowment Net Assets - December 31, 2017	\$ <u>1,134,608</u>	\$ <u>487,994</u>	\$ <u>2,244,830</u>	\$ <u>3,867,432</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 8 - ENDOWMENTS (Continued)

	Unrestricted Board <u>Designated</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
Endowment net assets - January 1, 2016	\$ 1,003,413	\$ 230,940	\$ 728,555	\$ 1,962,908
Investment return				
Investment income	7,322	8,099		15,421
Net appreciation realized and unrealized	<u>65,206</u>	<u>72,133</u>	_____	<u>137,339</u>
Total Investment Return	72,528	80,232		152,760
Contributions	_____	_____	<u>684,210</u>	<u>684,210</u>
Appropriation of endowment				
Expenses	(11,618)			(11,618)
Distribution	(98,962)			(98,962)
Appropriations from temporarily restricted net assets	<u>59,314</u>	<u>(59,314)</u>	_____	_____
Total Appropriation of Endowment	<u>(51,266)</u>	<u>(59,314)</u>	_____	<u>(110,580)</u>
Endowment Net Assets - December 31, 2016	\$ <u>1,024,675</u>	\$ <u>251,858</u>	\$ <u>1,412,765</u>	\$ <u>2,689,298</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, 2017 and 2016, 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% 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, 2017 and 2016 (Restated)

NOTE 8 - 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 9 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Humane Society is the beneficiary of three perpetual trusts, with beneficial interests totaling \$6,743,054 and \$5,765,902 at December 31, 2017 and 2016, 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 \$5,573,868 and \$4,677,410 as of December 31, 2017 and 2016.

NOTE 10 - LONG-TERM LIABILITIES

Details of long-term liabilities at December 31, 2017 and 2016 are described below:

	<u>2017</u>	<u>2016</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.	\$ <u>755,000</u>	\$ <u>1,105,000</u>
Total Long-term Liabilities	755,000	1,105,000
Less unamortized debt issuance costs	<u>2,032</u>	<u>3,556</u>
Long-Term Liabilities, Net of Unamortized Debt Issuance Costs	\$ <u>752,968</u>	\$ <u>1,101,444</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 10 - LONG-TERM LIABILITIES (Continued)

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 \$90,711 and \$95,655 at December 31, 2017 and 2016, respectively, has been recorded using a discount rate of 6.53%.

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 \$165,416 and \$156,594 for the years ended December 31, 2017 and 2016, 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 \$58,426 and \$53,352 for the years ended December 31, 2017 and 2016, 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 73% 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 and is currently in negotiations for a new contract. The Humane Society's other employees are not represented by a union.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

During the 2017 audit, management determined that net asset classifications needed to be restated to properly present and disclose the full value of the Lindberg and Mattison trusts as permanently restricted. The financial statements had previously reported the original trust value as permanently restricted and appreciation in the value of the trusts as unrestricted. Net assets as of January 1, 2016 have been restated by \$790,078. Additionally, the accumulated earnings on endowment funds with a specific purpose designation have been reclassified from unrestricted as previously reported to temporarily restricted. The purpose restricted earnings reclassified as of January 1, 2016 totaled \$251,858. Accordingly, the effect of the correction to net assets is as follows:

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016 (Restated)

NOTE 13 - PRIOR PERIOD ADJUSTMENT (Continued)

	<u>2016 as Previously Stated</u>	<u>Adjustments</u>	<u>2016 as Restated</u>
Net Assets			
Unrestricted	\$ 8,245,099	\$ (789,778)	\$ 7,455,321
Unrestricted - board designated	1,276,833	(252,158)	1,024,675
Temporarily restricted	1,864,400	251,858	2,116,258
Permanently restricted	<u>6,388,589</u>	<u>790,078</u>	<u>7,178,667</u>
Total Net Assets	\$ <u>17,774,921</u>	\$ <u> </u>	\$ <u>17,774,921</u>

SUPPLEMENTARY INFORMATION

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2017 with Comparative Totals for 2016

	Sheltering and Adoptions Services	Spay/Neuter Services	Medical Services	Community Awareness	Total Program Services	Management & General	Development and Fundraising	Total Supporting Services	Total Expenses	Total 2016
Salary and wages	\$ 1,143,101	\$ 80,568	\$ 514,186	\$ 166,701	\$ 1,904,556	\$ 253,764	\$ 134,745	\$ 388,509	\$ 2,293,065	\$ 2,018,922
Payroll taxes and benefits	499,185	51,193	213,768	57,220	821,366	55,849	25,187	81,036	902,402	846,605
Total Employment Expenses	1,642,286	131,761	727,954	223,921	2,725,922	309,613	159,932	469,545	3,195,467	2,865,527
Depreciation	96,300	13,169	30,454	16,462	156,385			156,385	156,385	172,296
Medical supplies	4,071	37,084	219,378		260,533			260,533	260,533	268,593
Interest expense						27,856		27,856	27,856	67,107
Advertising and promotion	381	165	165	905	1,616		22,641	22,641	24,257	3,066
Community veterinary services	3,762	38,723	40,956	470,835	554,276			554,276	554,276	544,166
Charitable support						3,693		3,693	3,693	3,075
Utilities	62,495	8,546	19,763	10,683	101,487			101,487	101,487	95,144
Printing	3,363	141	325	176	4,005	106	46,534	46,640	50,645	50,661
Professional fees			365		365	52,762	8,812	61,574	61,939	122,196
Computer maintenance and repair	13,263	1,814	4,194	2,428	21,699	1,286	14,635	15,921	37,620	14,817
Office supplies	13,964	1,350	1,393	4,269	20,976	1,161	917	2,078	23,054	102,390
Postage	588	408	196	33	1,225	1,098	11,826	12,924	14,149	13,622
Insurance	22,419	982	2,036	3,846	29,283	608	519	1,127	30,410	27,249
Food and provisions	179,039		8,500	26,118	213,657			213,657	213,657	279,665
Education and training	4,183		1,315	250	5,748	1,295	3,038	4,333	10,081	7,955
Meetings	1,035				1,035	3,260		3,260	4,295	41
Household and institutional	65,358	744	11,340	2,397	79,839	1,148	666	1,814	81,653	84,888
Telephone	7,949	1,763	1,532	858	12,102	1,462	1,347	2,809	14,911	14,547
Deceased animal disposal	39,890				39,890			39,890	39,890	38,565
Office expense	15,400	433	5,544	4,496	25,873	19,997	11,443	31,440	57,313	78,295
Repair and maintenance	28,871	3,948	9,130	4,935	46,884			46,884	46,884	68,293
Membership dues			838		838	944	640	1,584	2,422	2,920
Equipment lease	648	89	205	133	1,075		78	78	1,153	1,150
Building, property and parking	11,856	1,621	3,749	2,027	19,253			19,253	19,253	24,574
Vehicles	2,815	4,388		6,583	13,786			13,786	13,786	10,755
Computer supplies	720	845	914	200	2,679	5,270	4,685	9,955	12,634	14,241
Bad debt and NSF expense						829		829	829	706
Collars and leashes	2,309				2,309			2,309	2,309	2,565
Pet store supplies				37,016	37,016			37,016	37,016	40,635
Taxes, licenses and fees	53,959	7,379	17,064	9,224	87,626			87,626	87,626	70,574
Total Operating Expenses	\$ 2,276,924	\$ 255,353	\$ 1,107,310	\$ 827,795	\$ 4,467,382	\$ 432,388	\$ 287,713	\$ 720,101	\$ 5,187,483	\$ 5,090,278