

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements

December 31, 2018 and 2017

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT 1-2

AUDITED FINANCIAL STATEMENTS

Statements of Financial Position..... 3-4

Statements of Activities 5-6

Statements of Functional Expenses..... 7-8

Statements of Cash Flows 9-10

Notes to Financial Statements 11-22



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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, 2018 and 2017, and the related statements of activities, functional expenses 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.

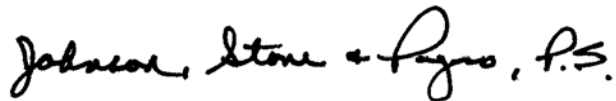
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1 to the financial statements, the Humane Society adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, as of and for the year ended December 31, 2018 and 2017. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Johnson, Stone & Pagano, P.S." The signature is written in a cursive, flowing style.

JOHNSON, STONE & PAGANO, P.S.

May 1, 2019

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,382,920	\$ 1,251,989
Investments	4,187,075	4,644,300
Accounts receivable	76,044	96,082
Contributions receivable	388,258	240,371
Inventory	149,328	77,328
Prepaid expenses	<u>59,309</u>	<u>68,614</u>
Total Current Assets	6,242,934	6,378,684
PROPERTY AND EQUIPMENT, net	2,748,563	2,714,673
ENDOWMENT FUNDS		
Magill Spay/Neuter Endowment	769,332	848,181
Bender Educational Endowment	426,220	469,904
Walker Cat Spay/Neuter Endowment	159,759	176,132
Nielsen Operations Endowment	17,406	19,190
Milgard Veterinary Endowment	641,037	706,737
William J. Gazecki Maintenance Endowment	<u>1,494,151</u>	<u>1,647,288</u>
Total Endowment Funds	3,507,905	3,867,432
OTHER ASSETS		
Beneficial interest in perpetual trusts	6,122,342	6,743,054
Land held for sale	<u>1,459,837</u>	<u>1,459,837</u>
Total Other Assets	<u>7,582,179</u>	<u>8,202,891</u>
TOTAL ASSETS	<u><u>\$ 20,081,581</u></u>	<u><u>\$ 21,163,680</u></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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 189,519	\$ 138,975
Accrued expenses	232,111	229,835
Deposits	10,000	3,330
Current portion of long-term liabilities	<u>16,000</u>	<u>16,000</u>
Total Current Liabilities	447,630	388,140
LONG-TERM LIABILITIES , net of issuance costs, net of current portion	<u>825,131</u>	<u>827,679</u>
Total Liabilities	1,272,761	1,215,819
NET ASSETS		
Without donor restrictions		
Unrestricted	7,542,606	8,309,772
Board-designated endowment	1,029,404	1,134,608
With donor restrictions	<u>10,236,810</u>	<u>10,503,481</u>
Total Net Assets	<u>18,808,820</u>	<u>19,947,861</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,081,581</u>	<u>\$ 21,163,680</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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and other	\$ 2,003,634	\$ 1,880,454	\$ 3,884,088
Service fees	1,148,673		1,148,673
Adoption fees	615,188		615,188
Drop off fees	163,040		163,040
Sales of pet supplies	50,323		50,323
Net investment loss	(278,079)	(169,505)	(447,584)
Change in value of trusts		(620,712)	(620,712)
Other income	15,147		15,147
Net assets released from restrictions	<u>1,356,908</u>	<u>(1,356,908)</u>	
Total Revenue and Support	5,074,834	(266,671)	4,808,163
FUNCTIONAL EXPENSES			
Program services	5,123,550		5,123,550
Supporting services			
Management and general services	385,896		385,896
Development and fundraising	<u>437,758</u>		<u>437,758</u>
	<u>823,654</u>		<u>823,654</u>
Total Functional Expenses	<u>5,947,204</u>		<u>5,947,204</u>
CHANGE IN NET ASSETS	(872,370)	(266,671)	(1,139,041)
Net Assets at Beginning of Year	<u>9,444,380</u>	<u>10,503,481</u>	<u>19,947,861</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,572,010</u>	<u>\$ 10,236,810</u>	<u>\$ 18,808,820</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, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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
Net 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>(778,508)</u>	
Total Revenue and Support	6,151,867	1,208,556	7,360,423
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	1,208,556	2,172,940
Net Assets at Beginning of Year	<u>8,479,996</u>	<u>9,294,925</u>	<u>17,774,921</u>
NET ASSETS AT END OF YEAR	<u>\$ 9,444,380</u>	<u>\$ 10,503,481</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 FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Sheltering and Adoptions Services	Medical Services	Community Awareness	Total Program Services	Management and General	Development and Fundraising	Total Supporting Services	Total Expenses
Salary and wages	\$ 1,456,507	\$ 545,077	\$ 171,090	\$ 2,172,674	\$ 190,946	\$ 221,597	\$ 412,543	\$ 2,585,217
Payroll taxes and benefits	<u>572,327</u>	<u>266,506</u>	<u>44,439</u>	<u>883,272</u>	<u>62,219</u>	<u>52,038</u>	<u>114,257</u>	<u>997,529</u>
Total Employment Expenses	2,028,834	811,583	215,529	3,055,946	253,165	273,635	526,800	3,582,746
Depreciation	108,564	34,119	6,204	148,887				148,887
Medical supplies		237,485		237,485				237,485
Uniform expense	3,367	1,371	1,923	6,661				6,661
Interest expense					26,402		26,402	26,402
Advertising and promotion	1,183	913	2,362	4,458		38,962	38,962	43,420
Community veterinary services		251,487	583,946	835,433				835,433
Charitable support					2,500		2,500	2,500
Utilities	70,816	22,256	4,047	97,119				97,119
Printing	14,720			14,720		26,961	26,961	41,681
Professional fees					54,659	2,005	56,664	56,664
Computer maintenance and repair	51,487	16,400	2,421	70,308	14,443	6,882	21,325	91,633
Office supplies	27,107	4,102	1,672	32,881	1,447	4,459	5,906	38,787
Postage	494	437	272	1,203	8	12,723	12,731	13,934
Insurance	25,349	7,967	1,449	34,765	3,505		3,505	38,270
Food and provisions	165,198		49,300	214,498				214,498
Special event						62,118	62,118	62,118
Education and training	32,649	8,879	2,599	44,127	3,725	1,795	5,520	49,647
Meetings	438	138	25	601	7,382	25	7,407	8,008
Household and institutional	48,497	15,242	2,771	66,510	9,699	2,771	12,470	78,980
Telephone	6,599	2,074	377	9,050	1,320	377	1,697	10,747
Deceased animal disposal	56,741			56,741				56,741
Repair and maintenance	61,309	15,564	1,353	78,226	4,757	3,207	7,964	86,190
Membership dues	375	235		610		1,374	1,374	1,984
Equipment lease	685	1,456	39	2,180	137	39	176	2,356
Building, property and parking	7,437	2,337	425	10,199	1,487	425	1,912	12,111
Vehicles	1,845		6,428	8,273				8,273
Bad debt and NSF expense					1,260		1,260	1,260
Pet store supplies	15,460			15,460				15,460
Taxes, licenses and fees	<u>56,298</u>	<u>17,694</u>	<u>3,217</u>	<u>77,209</u>				<u>77,209</u>
Total Operating Expenses	<u>\$ 2,785,452</u>	<u>\$ 1,451,739</u>	<u>\$ 886,359</u>	<u>\$ 5,123,550</u>	<u>\$ 385,896</u>	<u>\$ 437,758</u>	<u>\$ 823,654</u>	<u>\$ 5,947,204</u>

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

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2017

	Sheltering and Adoptions Services	Spay/Neuter Services	Medical Services	Community Awareness	Total Program Services	Management and General	Development and Fundraising	Total Supporting Services	Total Expenses
Salary and wages	\$ 1,143,101	\$ 80,568	\$ 514,186	\$ 166,701	\$ 1,904,556	\$ 253,764	\$ 134,745	\$ 388,509	\$ 2,293,065
Payroll taxes and benefits	499,185	51,193	213,768	57,220	821,366	55,849	25,187	81,036	902,402
Total Employment Expenses	1,642,286	131,761	727,954	223,921	2,725,922	309,613	159,932	469,545	3,195,467
Depreciation	96,300	13,169	30,454	16,462	156,385				156,385
Medical supplies	4,071	37,084	219,378		260,533				260,533
Uniform expense	2,379		969	1,359	4,707				4,707
Interest expense						27,856		27,856	27,856
Advertising and promotion	381	165	165	905	1,616		12,811	12,811	14,427
Community veterinary services	3,762	38,723	40,956	470,835	554,276				554,276
Charitable support						3,693		3,693	3,693
Utilities	62,495	8,546	19,763	10,683	101,487				101,487
Printing	3,363	141	325	176	4,005	106	42,916	43,022	47,027
Professional fees			365		365	52,762	8,812	61,574	61,939
Computer maintenance and repair	13,983	2,659	5,108	2,628	24,378	6,556	18,563	25,119	49,497
Office supplies	26,985	1,783	5,968	7,406	42,142	21,158	1,289	22,447	64,589
Postage	588	408	196	33	1,225	1,098	11,631	12,729	13,954
Insurance	22,419	982	2,036	3,846	29,283	608	328	936	30,219
Food and provisions	179,039		8,500	26,118	213,657				213,657
Special event							26,729	26,729	26,729
Education and training	4,183		1,315	250	5,748	1,295	2,970	4,265	10,013
Meetings	1,035				1,035	3,260		3,260	4,295
Household and institutional	65,358	744	11,340	2,397	79,839	1,148	103	1,251	81,090
Telephone	7,949	1,763	1,532	858	12,102	1,462	911	2,373	14,475
Deceased animal disposal	39,890				39,890				39,890
Repair and maintenance	28,871	3,948	9,130	4,935	46,884				46,884
Membership dues			838		838	944	640	1,584	2,422
Equipment lease	648	89	205	133	1,075		78	78	1,153
Building, property and parking	11,856	1,621	3,749	2,027	19,253				19,253
Vehicles	2,815	4,388		6,583	13,786				13,786
Bad debt and NSF expense						829		829	829
Pet store supplies	39,325				39,325				39,325
Taxes, licenses and fees	53,959	7,379	17,064	9,224	87,626				87,626
Total Operating Expenses	\$ 2,313,940	\$ 255,353	\$ 1,107,310	\$ 790,779	\$ 4,467,382	\$ 432,388	\$ 287,713	\$ 720,101	\$ 5,187,483

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,139,041)	\$ 2,172,940
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	148,887	156,385
Endowment contribution		(832,065)
(Gain) loss on investments and endowments	574,936	(848,346)
Gain on sale of land		(252,960)
Gain on sale of vehicle	(5,000)	
Loss on sale of real estate		34,297
(Increase) decrease in value of trusts	620,712	(977,152)
Donated securities	(5,085)	(4,711)
Debt issuance costs	1,524	1,524
Net change in operating assets and liabilities	<u>(119,126)</u>	<u>298,336</u>
Net Cash Provided (Used) by Operating Activities	77,807	(251,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(182,777)	(146,775)
Proceeds from sale of land		592,457
Proceeds from sale of vehicle	5,000	
Proceeds from sale of real estate		550,488
Purchase of investments	(123,464)	(1,574,681)
Proceeds from sale of investments	<u>370,365</u>	<u>943,024</u>
Net Cash Provided by Investing Activities	69,124	364,513
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net		(350,000)
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
Net Cash Used by Financing Activities	<u>(16,000)</u>	<u>(366,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	130,931	(253,239)
Cash and Cash Equivalents at Beginning of Year	<u>1,251,989</u>	<u>1,505,228</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,382,920</u>	<u>\$ 1,251,989</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable	\$ 20,038	\$ (69,994)
Contributions receivable	(147,887)	429,434
Inventory	(72,000)	(20,899)
Prepaid expenses	9,305	(2,900)
Increase (decrease) in liabilities		
Accounts payable	50,544	(74,946)
Accrued expenses	2,276	26,585
Deferred compensation	11,928	11,056
Deposits	<u>6,670</u>	
Net Change in Operating Assets and Liabilities	<u>\$ (119,126)</u>	<u>\$ 298,336</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 25,467</u>	<u>\$ 27,311</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, 2018 and 2017

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 seven jurisdictions served under sheltering contracts are accepted, either as strays or owner-surrendered. When space allows, pets may be transferred from other shelters or rescues to the Humane Society's facility. Healthy and medically treatable animals are made available for adoption if they are not claimed by an owner. All pets are 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 for Life, providing resources for the underserved community; the Community Pet Food Pantry; 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 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 two classes of net assets based on the absence or existence and nature of donor-imposed restrictions as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - 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 and 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, 2018 and 2017

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.

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

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

Property and Equipment (Continued)

Depreciation expense for the years ended December 31, 2018 and 2017 was \$148,887 and \$156,385, 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, 2018 and 2017, 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 7).

Land Held for Sale

The Humane Society owns land originally 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. During 2018, management changed its plans regarding the location of its future campus and initiated plans to sell the remaining portion of the land. The historical cost of the land held for sale totaled \$1,459,837 as of December 31, 2018 and 2017.

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 for December 31, 2018 and 2017.

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, 2018 and 2017

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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, the restricted net assets are reclassified to net assets without donor restrictions.

Donated Goods

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 totaling \$103,721 and \$66,722 during the years ended December 31, 2018 and 2017, respectively.

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 \$12,978 and \$5,162 for the years ended December 31, 2018 and 2017, 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.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update requires the presentation of expenses by nature and by function, changes to the presentation of net asset classifications, disclosure of information about liquidity and availability of financial resources, changes to the presentation of endowment and investment gains and losses and disclosure of underwater endowments. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

Subsequent Events

The Humane Society evaluated for subsequent events through May 1, 2019, the date the statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor restrictions or designations limiting their use, within one year of the balance sheet date, comprise the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 135,211	\$ 464,756
Investments	4,187,075	4,644,300
Accounts receivable	76,044	96,082
Endowment spending rate distributions and appropriations	<u>141,152</u>	<u>120,365</u>
Total Financial Assets Available	\$ <u>4,539,482</u>	\$ <u>5,325,503</u>

The endowment funds consist of donor-restricted endowments and funds designated by the board as endowments (see Note 7). Income from donor-restricted endowments is for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

The endowment funds are subject to an annual spending rate of up to 5% as described in Note 7. Although the Humane Society does not intend to spend from the board-designated endowment (other than amounts appropriated as part of our Board's annual budget approval and appropriation), these amounts, totaling \$1,029,404 and \$1,134,608 at December 31, 2018 and 2017, respectively, could be made available if necessary by an action of the Board.

NOTE 3 - INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Investments	\$ 4,187,075	\$ 4,644,300
Magill Spay/Neuter Endowment	769,332	848,181
Bender Educational Endowment	426,220	469,904
Walker Cat Spay/Neuter Endowment	159,759	176,132
Neilsen Operations Endowment	17,406	19,190
Milgard Veterinary Endowment	641,037	706,737
William J. Gazecki Maintenance Endowment	<u>1,494,151</u>	<u>1,647,288</u>
	\$ <u>7,694,980</u>	\$ <u>8,511,732</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 3 - INVESTMENTS (Continued)

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income, net of expenses	\$ 127,352	\$ 50,899
Net realized and unrealized gains (losses), net	<u>(1,195,648)</u>	<u>955,831</u>
	<u>\$ (1,068,296)</u>	<u>\$ 1,006,730</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2018 and 2017, are as follows:

		<u>Fair Value Measurements</u>	
	<u>Fair Value</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, 2018			
Money market	\$ 502,860	\$ 502,860	
Equities	774,559	774,559	
Mutual funds	4,373,978	4,373,978	
Bond funds	<u>2,043,583</u>	<u>2,043,583</u>	
Total Investments	7,694,980	7,694,980	
Beneficial interest in perpetual trusts	<u>6,122,342</u>	_____	\$ <u>6,122,342</u>
	<u>\$ 13,817,322</u>	<u>\$ 7,694,980</u>	<u>\$ 6,122,342</u>
Fair Value Measurements at			
December 31, 2017			
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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 4,039,154	\$ 4,663,455
Vehicles	186,009	169,260
Plant and office equipment	1,798,516	1,023,512
Land	<u>164,322</u>	<u>164,322</u>
	6,188,001	6,020,549
Less accumulated depreciation	<u>3,439,438</u>	<u>3,305,876</u>
	<u>\$ 2,748,563</u>	<u>\$ 2,714,673</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets subject to donor-imposed stipulations regarding purpose or time are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Time restricted contributions receivable	\$ 388,258	\$ 240,371
Restricted for specific uses	1,247,709	787,232
Subject to endowment spending policy and appropriation	<u>255,795</u>	<u>487,994</u>
	<u>\$ 1,891,762</u>	<u>\$ 1,515,597</u>

Net assets subject to donor-imposed stipulations that they be maintained for perpetual duration are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Endowment funds (see Note 7 for detail)	\$ 2,222,706	\$ 2,244,830
Lindberg Trust	213,424	244,093
Mattison Trust	806,734	925,093
Helen Mull Foundation Trust	<u>5,102,184</u>	<u>5,573,868</u>
	<u>\$ 8,345,048</u>	<u>\$ 8,987,884</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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:

	Without Donor Restrictions - Board- designated	<u>With Donor Restrictions</u>		
		For Time or Purpose	For Perpetual Duration	<u>Total</u>
December 31, 2018				
Magill Spay/Neuter Endowment	\$ 612,178	\$ 56,954	\$ 100,200	\$ 769,332
Bender Educational Endowment	417,226	2,908	6,086	426,220
Walker Cat Spay/Neuter Endowment		50,045	109,714	159,759
Neilsen Operations Endowment		4,851	12,555	17,406
Milgard Veterinary Endowment		141,037	500,000	641,037
William J. Gazecki Maintenance Endowment			<u>1,494,151</u>	<u>1,494,151</u>
	<u>\$ 1,029,404</u>	<u>\$ 255,795</u>	<u>\$ 2,222,706</u>	<u>\$ 3,507,905</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>

Interpretation of Relevant Law Applicable to Donor Restricted Funds

Donor-restricted funds are classified as net assets with donor restrictions and are subject to the Washington State Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - ENDOWMENTS (Continued)

Interpretation of Relevant Law Applicable to Donor Restricted Funds (Continued)

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 net assets of perpetual duration (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the 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 endowment fund that is not classified as net assets of perpetual duration would be considered restricted for time or purpose 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, 2018 and 2017 are as follows:

	Without Donor Restrictions - Board- designated	<u>With Donor Restrictions</u>		
		<u>For Time or Purpose</u>	<u>For Perpetual Duration</u>	<u>Total</u>
Endowment Net Assets at Beginning of Year 2018	\$ 1,134,608	\$ 487,994	\$ 2,244,830	\$ 3,867,432
Net investment loss	(69,657)	(147,381)	(22,124)	(239,162)
Appropriation of endowment Distribution	<u>(35,547)</u>	<u>(84,818)</u>	<u> </u>	<u>(120,365)</u>
Endowment Net Assets at End of Year 2018	\$ <u>1,029,404</u>	\$ <u>255,795</u>	\$ <u>2,222,706</u>	\$ <u>3,507,905</u>
Endowment Net Assets at Beginning of Year 2017	\$ 1,024,675	\$ 251,858	\$ 1,412,765	\$ 2,689,298
Net investment return	89,685	358,361		448,046
Contributions	<u> </u>	<u> </u>	<u>832,065</u>	<u>832,065</u>
Appropriation of endowment Distribution	(101,977)			(101,977)
Reclassification from time or purpose donor restrictions	<u>122,225</u>	<u>(122,225)</u>	<u> </u>	<u> </u>
Total Appropriation of Endowment	<u>20,248</u>	<u>(122,225)</u>	<u> </u>	<u>(101,977)</u>
Endowment Net Assets at End of Year 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, 2018 and 2017

NOTE 7 - ENDOWMENTS (Continued)

Funds with Deficiencies (Underwater Endowments)

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. During 2018, the William J. Gazecki Maintenance Endowment's corpus of \$832,065 experienced a decline in value of \$22,124 due to a decrease in market conditions in the fourth quarter of 2018. The fair value as of December 31, 2018 totaled \$809,941. There were no such amounts to report for the year ended December 31, 2017.

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.

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 three perpetual trusts, with beneficial interests totaling \$6,122,342 and \$6,743,054 at December 31, 2018 and 2017, 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

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 \$5,102,184 and \$5,573,868 as of December 31, 2018 and 2017.

NOTE 9 - LONG-TERM LIABILITIES

Details of long-term liabilities at December 31, 2018 and 2017 are described below:

	<u>2018</u>	<u>2017</u>
Revolving line of credit in monthly interest-only payments of \$2,045 at 3.25% through April 2019, extended with maturity in October 2020, requiring interest-only payments of \$3,146 at 5%. Principal due at maturity. The note is collateralized by a deed of trust.	\$ <u>755,000</u>	\$ <u>755,000</u>
Total Long-term Liabilities	755,000	755,000
Less unamortized debt issuance costs	<u>508</u>	<u>2,032</u>
Long-term Liabilities, net of unamortized debt issuance costs	\$ <u>754,492</u>	\$ <u>752,968</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 remaining balance totaling \$86,639 and \$90,711 at December 31, 2018 and 2017, respectively, has been recorded using a discount rate of 6.53%.

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 \$167,971 and \$165,416 for the years ended December 31, 2018 and 2017, 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 \$39,173 and \$58,426 for the years ended December 31, 2018 and 2017, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

Most hourly employees (representing approximately 77% of the Humane Society's employees) are covered under a labor agreement. The Humane Society negotiated a contract with the union in 2018, which is effective to December 31, 2020. The Humane Society's other employees are not represented by a union.

NOTE 12 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include building costs, which are allocated on a square footage basis, as well as salary and wages, payroll taxes and benefits, professional services, office expenses, information technology, interest, insurance and other, which are allocated on the basis of estimates of time and effort.