

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements

December 31, 2019 and 2018

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Audited Financial Statements

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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, 2019 and 2018, 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

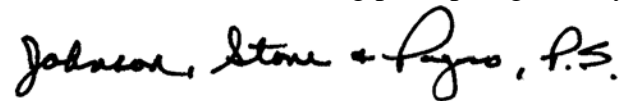
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2019 and 2018, 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.

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

JOHNSON, STONE & PAGANO, P.S.

June 1, 2020

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,265,168	\$ 1,382,920
Investments	5,830,679	4,187,075
Accounts receivable	74,305	76,044
Contributions receivable	37,372	388,258
Inventory	89,345	149,328
Prepaid expenses	<u>32,203</u>	<u>59,309</u>
Total Current Assets	7,329,072	6,242,934
PROPERTY AND EQUIPMENT, net	2,892,972	2,748,563
ENDOWMENT FUNDS		
Magill Spay/Neuter Endowment	181,582	769,332
Bender Educational Endowment	10,392	426,220
Walker Cat Spay/Neuter Endowment	184,591	159,759
Nielsen Operations Endowment	20,111	17,406
Milgard Veterinary Endowment	740,679	641,037
William J. Gazecki Maintenance Endowment	<u>1,726,402</u>	<u>1,494,151</u>
Total Endowment Funds	2,863,757	3,507,905
OTHER ASSETS		
Beneficial interest in perpetual trusts	7,848,288	6,122,342
Land held for sale	<u>1,459,837</u>	<u>1,459,837</u>
Total Other Assets	<u>9,308,125</u>	<u>7,582,179</u>
TOTAL ASSETS	<u><u>\$ 22,393,926</u></u>	<u><u>\$ 20,081,581</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 48,175	\$ 189,519
Accrued expenses	212,706	232,111
Deposits	10,000	10,000
Current portion of long-term liabilities	<u>771,000</u>	<u>16,000</u>
Total Current Liabilities	1,041,881	447,630
LONG-TERM LIABILITIES , net of issuance costs, net of current portion	<u>66,459</u>	<u>825,131</u>
Total Liabilities	1,108,340	1,272,761
NET ASSETS		
Without donor restrictions		
Unrestricted	9,779,231	7,542,606
Board-designated endowment		1,029,404
With donor restrictions	<u>11,506,355</u>	<u>10,236,810</u>
Total Net Assets	<u>21,285,586</u>	<u>18,808,820</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,393,926</u>	<u>\$ 20,081,581</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and other	\$ 1,306,548	\$ 1,857,513	\$ 3,164,061
Service fees	1,471,144		1,471,144
Adoption fees	670,585		670,585
Drop off fees	181,718		181,718
Sales of pet supplies	54,979		54,979
Net investment return	902,158	484,987	1,387,145
Change in value of trusts		1,725,946	1,725,946
Other income	19,045		19,045
Net assets released from restrictions	<u>2,798,901</u>	<u>(2,798,901)</u>	
Total Revenue and Support	7,405,078	1,269,545	8,674,623
FUNCTIONAL EXPENSES			
Program services	5,173,519		5,173,519
Supporting services			
Management and general services	408,896		408,896
Development and fundraising	615,442		615,442
	<u>1,024,338</u>		<u>1,024,338</u>
Total Functional Expenses	<u>6,197,857</u>		<u>6,197,857</u>
CHANGE IN NET ASSETS	1,207,221	1,269,545	2,476,766
Net Assets at Beginning of Year	<u>8,572,010</u>	<u>10,236,810</u>	<u>18,808,820</u>
NET ASSETS AT END OF YEAR	<u>\$ 9,779,231</u>	<u>\$ 11,506,355</u>	<u>\$ 21,285,586</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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 return	(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	5,028,444		5,028,444
Supporting services			
Management and general services	502,138		502,138
Development and fundraising	416,622		416,622
	<u>918,760</u>		<u>918,760</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 FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	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	\$ 1,436,273	\$ 800,123	\$ 83,766	\$ 2,320,162	\$ 282,933	\$ 195,815	\$ 478,748	\$ 2,798,910
Payroll taxes and benefits	541,612	272,248	19,288	833,148	38,745	42,464	81,209	914,357
Total Employment Expenses	1,977,885	1,072,371	103,054	3,153,310	321,678	238,279	559,957	3,713,267
Depreciation	99,992	66,279	4,752	171,023				171,023
Medical supplies		417,681	578	418,259				418,259
Uniform expense	1,393	604	51	2,048				2,048
Interest expense					34,341		34,341	34,341
Advertising and promotion			327	327		175,753	175,753	176,080
Community veterinary services	3,235	130,756	516,844	650,835				650,835
Utilities	57,246	32,960	3,469	93,675				93,675
Printing	75		20	95	15	20,087	20,102	20,197
Professional fees	9,909			9,909	31,947		31,947	41,856
Computer maintenance and repair	22,278	12,823	1,421	36,522	5,122	14,879	20,001	56,523
Office supplies	6,408	3,340	1,548	11,296	740	883	1,623	12,919
Postage	452	42	582	1,076	766	27,530	28,296	29,372
Insurance	23,930	13,778	1,450	39,158				39,158
Food and provisions	162,796	12,705	41,653	217,154				217,154
Special event						129,596	129,596	129,596
Education and training	5,097	5,513	1,687	12,297				12,297
Meetings	509	293	31	833	123	62	185	1,018
Household and institutional	63,431			63,431				63,431
Telephone	7,399	4,260	448	12,107	1,794	897	2,691	14,798
Deceased animal disposal	44,093			44,093				44,093
Repair and maintenance	17,754	10,411	785	28,950	3,138	1,569	4,707	33,657
Membership dues		3,142		3,142	524	2,815	3,339	6,481
Equipment lease	4,519	7,164	274	11,957	1,096	548	1,644	13,601
Building, property and parking	20,987	12,084	1,272	34,343	5,088	2,544	7,632	41,975
Vehicles	2,281		481	2,762				2,762
Safety	211			211				211
Bad debt and NSF expense					2,524		2,524	2,524
Pet store supplies	53,021			53,021				53,021
Taxes, licenses and fees	62,141	35,778	3,766	101,685				101,685
Total Operating Expenses	\$ 2,647,042	\$ 1,841,984	\$ 684,493	\$ 5,173,519	\$ 408,896	\$ 615,442	\$ 1,024,338	\$ 6,197,857

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, 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	\$ 1,392,378	\$ 524,922	\$ 167,425	\$ 2,084,725	\$ 298,440	\$ 202,052	\$ 500,492	\$ 2,585,217
Payroll taxes and benefits	567,108	264,866	44,141	876,115	70,967	50,447	121,414	997,529
Total Employment Expenses	1,959,486	789,788	211,566	2,960,840	369,407	252,499	621,906	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	56,298	17,694	3,217	77,209				77,209
Total Operating Expenses	<u>\$ 2,716,104</u>	<u>\$ 1,429,944</u>	<u>\$ 882,396</u>	<u>\$ 5,028,444</u>	<u>\$ 502,138</u>	<u>\$ 416,622</u>	<u>\$ 918,760</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 CASH FLOWS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,476,766	\$ (1,139,041)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	171,023	148,887
(Gain) loss on investments and endowments	(1,253,933)	574,936
Gain on sale of vehicle		(5,000)
(Increase) decrease in value of trusts	(1,725,946)	620,712
Donated securities	(14,024)	(5,085)
Debt issuance costs	508	1,524
Net change in operating assets and liabilities	<u>290,785</u>	<u>(119,126)</u>
Net Cash Provided (Used) by Operating Activities	(54,821)	77,807
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(315,432)	(182,777)
Proceeds from sale of vehicle		5,000
Purchase of investments	(1,047,858)	(123,464)
Proceeds from sale of investments	<u>1,316,359</u>	<u>370,365</u>
Net Cash Provided (Used) by Investing Activities	(46,931)	69,124
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
Net Cash Used by Financing Activities	<u>(16,000)</u>	<u>(16,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(117,752)	130,931
Cash and Cash Equivalents at Beginning of Year	<u>1,382,920</u>	<u>1,251,989</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,265,168</u>	<u>\$ 1,382,920</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable	\$ 1,739	\$ 20,038
Contributions receivable	350,886	(147,887)
Inventory	59,983	(72,000)
Prepaid expenses	27,106	9,305
Increase (decrease) in liabilities		
Accounts payable	(141,344)	50,544
Accrued expenses	(19,405)	2,276
Deferred compensation	11,820	11,928
Deposits		<u>6,670</u>
Net Change in Operating Assets and Liabilities	<u>\$ 290,785</u>	<u>\$ (119,126)</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 33,833</u>	<u>\$ 25,467</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, 2019 and 2018

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; 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 are to be maintained in perpetuity 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, 2019 and 2018

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, 2019 and 2018

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

Property and Equipment (Continued)

Depreciation expense for the years ended December 31, 2019 and 2018 was \$171,023 and \$148,887, 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, 2019 and 2018, respectively.

Land Held for Sale

The Humane Society owns land originally intended for the development of its future campus. 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, 2019 and 2018. Subsequent to December 31, 2019, the Humane Society sold the land (see Note 14).

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 for the years ended December 31, 2019 and 2018, was \$508 and \$1,524, respectively.

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 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

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 \$145,895 and \$103,721 during the years ended December 31, 2019 and 2018, 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 \$176,080 and \$12,978 for the years ended December 31, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of providing the Humane Society's program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services on the basis of benefits received.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Subsequent Events

The Humane Society evaluated for subsequent events through June 1, 2020, the date the statements were available to be issued.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 508,230	\$ 135,211
Investments	5,830,679	4,187,075
Accounts receivable	74,305	76,044
Endowment spending rate distributions and appropriations	<u>157,923</u>	<u>141,152</u>
Total Financial Assets Available	\$ <u>6,571,137</u>	\$ <u>4,539,482</u>

The endowment funds consist of donor-restricted endowments and funds designated by the Humane Society Board of Directors (the "Board") as endowments. The endowment funds are subject to an annual spending rate of up to 5% as described in Note 7. During 2019, the Board undesignated all endowment funds not donor-restricted (see Note 7). Income from donor-restricted endowments is for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

NOTE 3 - INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Investments	\$ 5,830,679	\$ 4,187,075
Magill Spay/Neuter Endowment	181,582	769,332
Bender Educational Endowment	10,392	426,220
Walker Cat Spay/Neuter Endowment	184,591	159,759
Neilsen Operations Endowment	20,111	17,406
Milgard Veterinary Endowment	740,679	641,037
William J. Gazecki Maintenance Endowment	<u>1,726,402</u>	<u>1,494,151</u>
	\$ <u>8,694,436</u>	\$ <u>7,694,980</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income, net of expenses	\$ 133,212	\$ 127,352
Net realized and unrealized gains (losses), net	<u>1,253,933</u>	<u>(574,936)</u>
	\$ <u>1,387,145</u>	\$ <u>(447,584)</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2019 and 2018, 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, 2019			
Money market	\$ 397,159	\$ 397,159	
Equities	944,050	944,050	
Mutual funds	4,698,160	4,698,160	
Bond funds	<u>2,655,067</u>	<u>2,655,067</u>	
Total Investments	8,694,436	8,694,436	
Beneficial interest in perpetual trusts	<u>7,848,288</u>	_____	\$ <u>7,848,288</u>
	<u>\$ 16,542,724</u>	<u>\$ 8,694,436</u>	<u>\$ 7,848,288</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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 4,232,304	\$ 4,039,154
Vehicles	94,584	186,009
Plant and office equipment	1,808,041	1,798,516
Land	<u>164,322</u>	<u>164,322</u>
	6,299,251	6,188,001
Less accumulated depreciation	<u>3,406,279</u>	<u>3,439,438</u>
	<u>\$ 2,892,972</u>	<u>\$ 2,748,563</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>2019</u>	<u>2018</u>
Time restricted contributions receivable	\$ 37,372	\$ 388,258
Restricted for specific uses	756,938	1,247,709
Subject to endowment spending policy and appropriation	<u>618,927</u>	<u>255,795</u>
	<u>\$ 1,413,237</u>	<u>\$ 1,891,762</u>

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

	<u>2019</u>	<u>2018</u>
Endowment funds (see Note 7)	\$ 2,244,830	\$ 2,222,706
Lindberg Trust	238,834	213,424
Mattison Trust	915,748	806,734
Helen Mull Foundation Trust	<u>6,693,706</u>	<u>5,102,184</u>
	<u>\$ 10,093,118</u>	<u>\$ 8,345,048</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 7 - ENDOWMENTS

The Humane Society's endowment consists of various funds established for a variety of purposes. Its endowment included both donor-restricted endowment funds and funds designated by the Board 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 to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. During 2019, the Board undesignated all endowment funds not donor-restricted. As such, all undesignated funds were transferred to investments.

The following is a schedule of endowments at December 31:

	Without Donor Restrictions - Board- designated	<u>With Donor Restrictions</u>		
		<u>For Time or Purpose</u>	<u>For Perpetual Duration</u>	<u>Total</u>
December 31, 2019				
Magill Spay/Neuter Endowment		\$ 81,382	\$ 100,200	\$ 181,582
Bender Educational Endowment		4,306	6,086	10,392
Walker Cat Spay/Neuter Endowment		74,877	109,714	184,591
Neilsen Operations Endowment		7,556	12,555	20,111
Milgard Veterinary Endowment		240,679	500,000	740,679
William J. Gazecki Maintenance Endowment		<u>210,127</u>	<u>1,516,275</u>	<u>1,726,402</u>
		<u>\$ 618,927</u>	<u>\$ 2,244,830</u>	<u>\$ 2,863,757</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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 7 - ENDOWMENTS (Continued)

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 Board 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, 2019 and 2018 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 2019	\$ 1,029,404	\$ 255,795	\$ 2,222,706	\$ 3,507,905
Net investment return	131,832	462,863	22,124	616,819
Appropriation of endowment distribution	(41,421)	(99,731)		(141,152)
Distribution to investments	<u>(1,119,815)</u>	_____	_____	<u>(1,119,815)</u>
Endowment Net Assets at end of Year 2019	\$ _____	\$ <u>618,927</u>	\$ <u>2,244,830</u>	\$ <u>2,863,757</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>(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>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 operations portion of 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. During 2019, the corpus experienced an increase in value due to an increase in market conditions. The fair value as of December 31, 2019 and 2018 totaled \$932,421 and \$809,941, 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. 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 two perpetual trusts, with beneficial interests totaling \$1,154,582 and \$1,020,158 at December 31, 2019 and 2018, 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

The Humane Society was the beneficiary of a perpetual trust from the Helen Mull Foundation. Previously, the Humane Society was informed that 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 \$6,693,706 and \$5,102,184 as of December 31, 2019 and 2018.

NOTE 9 - LONG-TERM LIABILITIES

Details of long-term liabilities at December 31, 2019 and 2018 are described below:

	<u>2019</u>	<u>2018</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 \$3,251 at 5%. Principal due at maturity. The note is collateralized by a deed of trust. The note was paid off in February 2020 (see Note 14).	\$ <u>755,000</u>	\$ <u>755,000</u>
Total Long-term Liabilities	755,000	755,000
Less unamortized debt issuance costs	<u> </u>	<u> 508</u>
Long-term Liabilities, net of unamortized debt issuance costs	755,000	754,492
Less current portion due within one year classified as a Current liability	<u>755,000</u>	<u> </u>
Long-term Liabilities, Less Current Portion and Net of Debt Issuance Cost	\$ <u> </u>	\$ <u>754,492</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 \$82,459 and \$86,639 at December 31, 2019 and 2018, 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 \$169,847 and \$167,971 for the years ended December 31, 2019 and 2018, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 10 - 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 \$31,239 and \$39,173 for the years ended December 31, 2019 and 2018, respectively.

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.

NOTE 13 - OPERATING LEASE

The Humane Society has an operating lease for certain equipment. The operating lease provides for renewal options for periods from one to five years at fair rental value at the time of renewal. In the normal course of business, assets under operating lease are generally removed or replaced by other leased assets. Minimum future rental payments associated with this noncancelable operating leases is as follows:

For the year ending December 31, 2020	\$ 7,356
2021	7,356
2022	7,356
2023	<u>7,356</u>
Total Future Minimum Lease Payments	\$ <u>29,424</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 14 - SUBSEQUENT EVENTS

The Humane Society decided in 2018 to sell a portion or all of its land originally intended for the development of its future campus. On February 18, 2020, the Humane Society sold this land for \$2,100,000. As a result of the sale, a portion of the proceeds were used to pay off their \$755,000 revolving line of credit.

The Humane Society has been negatively affected by the effects of the world-wide COVID-19 pandemic. The Humane Society is closely monitoring its operations, liquidity, capital and financial resources and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of these financial statements, the full impact to the Humane Society's financial position or operation is not known.

In April 2020, the Humane Society received loan proceeds in the amount of \$679,029 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Humane Society intends to use the proceeds for purposes consistent with the PPP. While the Humane Society currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Humane Society to be ineligible for forgiveness of the loan, in whole or in part.