

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, 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

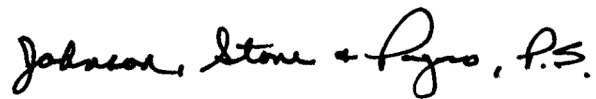
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2020 and 2019, 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, flowing script.

JOHNSON, STONE & PAGANO, P.S.

May 24, 2021

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,698,462	\$ 1,265,168
Investments	7,951,203	5,830,679
Accounts receivable	17,595	74,305
Contributions receivable	50,564	37,372
Inventory	76,428	89,345
Prepaid expenses	<u>27,825</u>	<u>32,203</u>
Total Current Assets	9,822,077	7,329,072
PROPERTY AND EQUIPMENT, net	2,780,540	2,892,972
ENDOWMENT FUNDS		
Magill Spay/Neuter Endowment	142,429	181,582
Bender Educational Endowment	8,224	10,392
Walker Cat Spay/Neuter Endowment	155,952	184,591
Nielsen Operations Endowment	17,846	20,111
Milgard Veterinary Endowment	710,722	740,679
William J. Gazecki Maintenance Endowment	<u>2,155,301</u>	<u>1,726,402</u>
Total Endowment Funds	3,190,474	2,863,757
OTHER ASSETS		
Beneficial interest in perpetual trusts	8,619,446	7,848,288
Land held for sale	<u> </u>	<u>1,459,837</u>
Total Other Assets	<u>8,619,446</u>	<u>9,308,125</u>
TOTAL ASSETS	<u>\$ 24,412,537</u>	<u>\$ 22,393,926</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 123,984	\$ 48,175
Accrued expenses	334,587	212,706
Deposits	10,000	10,000
Current portion of long-term liabilities	<u>16,000</u>	<u>771,000</u>
Total Current Liabilities	484,571	1,041,881
LONG-TERM LIABILITIES , net of current portion	<u>62,168</u>	<u>66,459</u>
Total Liabilities	546,739	1,108,340
NET ASSETS		
Without donor restrictions	11,352,337	9,779,231
With donor restrictions	<u>12,513,461</u>	<u>11,506,355</u>
Total Net Assets	<u>23,865,798</u>	<u>21,285,586</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,412,537</u>	<u>\$ 22,393,926</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and other	\$ 854,684	\$ 2,141,635	\$ 2,996,319
Service fees	1,562,451		1,562,451
Adoption fees	608,038		608,038
Drop off fees	119,546		119,546
Sales of pet supplies	79,817		79,817
Net investment return	772,786	484,419	1,257,205
Change in value of trusts		771,158	771,158
Contribution revenue - paycheck protection program	679,029		679,029
Other income	488,672		488,672
Net assets released from restrictions	<u>2,390,106</u>	<u>(2,390,106)</u>	
Total Revenue and Support	7,555,129	1,007,106	8,562,235
FUNCTIONAL EXPENSES			
Program services	4,867,838		4,867,838
Supporting services			
Management and general	419,509		419,509
Development and fundraising	694,676		694,676
	<u>1,114,185</u>		<u>1,114,185</u>
Total Functional Expenses	<u>5,982,023</u>		<u>5,982,023</u>
CHANGE IN NET ASSETS	1,573,106	1,007,106	2,580,212
Net Assets at Beginning of Year	<u>9,779,231</u>	<u>11,506,355</u>	<u>21,285,586</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,352,337</u>	<u>\$ 12,513,461</u>	<u>\$ 23,865,798</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, 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	<u>7,405,078</u>	<u>1,269,545</u>	<u>8,674,623</u>
FUNCTIONAL EXPENSES			
Program services	5,173,519		5,173,519
Supporting services			
Management and general	408,896		408,896
Development and fundraising	<u>615,442</u>		<u>615,442</u>
	<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	<u>1,207,221</u>	<u>1,269,545</u>	<u>2,476,766</u>
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 FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services			Total Program Services	Management and General	Development and Fundraising	Total Supporting Services	Total Expenses
	Sheltering and Adoptions Services	Medical Services	Community Awareness					
Salary and wages	\$ 1,470,541	\$ 937,700	\$ 110,540	\$ 2,518,781	\$ 305,668	\$ 281,193	\$ 586,861	\$ 3,105,642
Payroll taxes and benefits	607,517	342,612	33,444	983,573	63,140	68,995	132,135	1,115,708
Total Employment Expenses	2,078,058	1,280,312	143,984	3,502,354	368,808	350,188	718,996	4,221,350
Depreciation	119,269	52,619	14,031	185,919				185,919
Medical supplies		330,154	524	330,678				330,678
Uniform expense	4,678	815	2	5,495				5,495
Interest expense					6,306		6,306	6,306
Advertising and promotion	200			200		213,095	213,095	213,295
Community veterinary services	1,200	40,717	91,509	133,426				133,426
Utilities	64,351	28,390	7,571	100,312				100,312
Printing	42		18	60		25,567	25,567	25,627
Professional fees	3,979	1,755	468	6,202	27,554	351	27,905	34,107
Computer maintenance and repair	29,808	12,356	3,322	45,486	5,730	16,748	22,478	67,964
Office supplies	4,929	1,672	531	7,132	429	286	715	7,847
Postage	440	140	258	838	1,051	9,853	10,904	11,742
Insurance	24,166	10,661	2,843	37,670				37,670
Food and provisions	80,461	19,676	49,337	149,474				149,474
Special event						73,411	73,411	73,411
Education and training	4,658	2,631	525	7,814				7,814
Meetings	361	159	42	562	74	110	184	746
Household and institutional	32,638	2,654		35,292				35,292
Telephone	11,104	4,899	1,306	17,309	2,286	980	3,266	20,575
Deceased animal disposal	52,184			52,184				52,184
Repair and maintenance	24,506	11,059	1,639	37,204	1,722		1,722	38,926
Membership dues	250	3,191	50	3,491	640	2,048	2,688	6,179
Equipment lease	5,374	9,461	632	15,467	1,107	474	1,581	17,048
Building, property and parking	17,739	7,826	2,087	27,652	3,652	1,565	5,217	32,869
Vehicles	5,547		608	6,155				6,155
Safety	2,317	56	20	2,393				2,393
Bad debt and NSF expense					150		150	150
Pet store supplies	40,055			40,055				40,055
Taxes, licenses and fees	75,066	33,117	8,831	117,014				117,014
Total Operating Expenses	\$ 2,683,380	\$ 1,854,320	\$ 330,138	\$ 4,867,838	\$ 419,509	\$ 694,676	\$ 1,114,185	\$ 5,982,023

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, 2019

	Program Services			Total	Management	Development	Total	Total
	Sheltering and	Medical	Community	Program	and	and	Supporting	Total
	Adoptions	Services	Awareness	Services	General	Fundraising	Services	Expenses
	Services							
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 CASH FLOWS

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,580,212	\$ 2,476,766
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	185,919	171,023
Gain on investments and endowments	(1,159,746)	(1,253,933)
Gain on sale of land	(480,328)	
Increase in value of trusts	(771,158)	(1,725,946)
Donated securities	(9,105)	(14,024)
Debt issuance costs		508
Net change in operating assets and liabilities	<u>270,212</u>	<u>290,785</u>
Net Cash Provided (Used) by Operating Activities	616,006	(54,821)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(73,487)	(315,432)
Proceeds from sale of land	1,940,165	
Purchase of investments	(3,238,828)	(1,047,858)
Proceeds from sale of investments	<u>1,960,438</u>	<u>1,316,359</u>
Net Cash Provided (Used) by Investing Activities	588,288	(46,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(755,000)	
Deferred compensation payments	<u>(16,000)</u>	<u>(16,000)</u>
Net Cash Used by Financing Activities	<u>(771,000)</u>	<u>(16,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	433,294	(117,752)
Cash and Cash Equivalents at Beginning of Year	<u>1,265,168</u>	<u>1,382,920</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,698,462</u>	<u>\$ 1,265,168</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable	\$ 56,710	\$ 1,739
Contributions receivable	(13,192)	350,886
Inventory	12,917	59,983
Prepaid expenses	4,378	27,106
Increase (decrease) in liabilities		
Accounts payable	75,809	(141,344)
Accrued expenses	121,881	(19,405)
Deferred compensation	<u>11,709</u>	<u>11,820</u>
Net Change in Operating Assets and Liabilities	<u>\$ 270,212</u>	<u>\$ 290,785</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 6,306</u>	<u>\$ 33,833</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, 2020 and 2019

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.

Community awareness programs include Pets for Life, providing resources for the underserved community; the Community Pet Food Pantry; and spay and neuter assistance for low income pet owners. 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.

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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

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

Depreciation expense for the years ended December 31, 2020 and 2019 was \$185,919 and \$171,023, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

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, 2020 and 2019, respectively.

Amortization of Debt Issuance Costs

The Humane Society expenses associated with the financing of its building and land over the life of the loans used the effective interest method. Interest expense related to these fees for the year ended December 31, 2019 was \$508. Capitalized debt issuance costs were fully amortized at the end of 2019, as such there were no costs amortized to interest expense during the year ended December 31, 2020.

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.

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 \$102,144 and \$145,895 during the years ended December 31, 2020 and 2019, 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

Advertising

The costs of advertising are expensed as incurred. Advertising expense was \$213,095 and \$176,080 for the years ended December 31, 2020 and 2019, 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.

Subsequent Events

The Humane Society evaluated for subsequent events through May 24, 2021, 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 941,524	\$ 508,230
Investments	7,951,203	5,830,679
Accounts receivable	17,595	74,305
Endowment spending rate distributions and appropriations	<u>166,882</u>	<u>157,923</u>
Total Financial Assets Available	\$ <u>9,077,204</u>	\$ <u>6,571,137</u>

The endowment funds consist of donor-restricted endowments at December 31, 2020 and 2019. Certain board-designated endowment funds were undesignated by the Board of Directors and transferred to Investments during 2019. The endowment funds are subject to an annual spending rate of up to 5% as described in Note 7. Income from donor-restricted endowments is for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 3 - INVESTMENTS

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

	<u>2020</u>	<u>2019</u>
Investments	\$ 7,951,203	\$ 5,830,679
Magill Spay/Neuter Endowment	142,429	181,582
Bender Educational Endowment	8,224	10,392
Walker Cat Spay/Neuter Endowment	155,952	184,591
Neilsen Operations Endowment	17,846	20,111
Milgard Veterinary Endowment	710,722	740,679
William J. Gazecki Maintenance Endowment	<u>2,155,301</u>	<u>1,726,402</u>
	<u>\$ 11,141,677</u>	<u>\$ 8,694,436</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividend income, net of expenses	\$ 97,459	\$ 133,212
Net realized and unrealized gains, net	<u>1,159,746</u>	<u>1,253,933</u>
	<u>\$ 1,257,205</u>	<u>\$ 1,387,145</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2020 and 2019, are as follows:

		Fair Value Measurements	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Fair Value</u>		
Fair Value Measurements at December 31, 2020			
Money market	\$ 538,391	\$ 538,391	
Equities	1,778,135	1,778,135	
Mutual funds	5,179,492	5,179,492	
Bond funds	<u>3,645,659</u>	<u>3,645,659</u>	
Total Investments	11,141,677	11,141,677	

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurements	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Fair Value</u>		
Beneficial interest in perpetual trusts	\$ <u>8,619,446</u>	_____	\$ <u>8,619,446</u>
	\$ <u>19,761,123</u>	\$ <u>11,141,677</u>	\$ <u>8,619,446</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>

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 4,253,972	\$ 4,232,304
Vehicles	94,584	94,584
Plant and office equipment	1,859,860	1,808,041
Land	<u>164,322</u>	<u>164,322</u>
	6,372,738	6,299,251
Less accumulated depreciation	<u>3,592,198</u>	<u>3,406,279</u>
	\$ <u>2,780,540</u>	\$ <u>2,892,972</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

Land Held for Sale

On February 18, 2020, the Humane Society sold land held for sale that had an original cost of \$1,459,837. Proceeds from the sale were \$1,940,165, resulting in a net gain on the sale of \$480,328, which is recorded in other income in the Humane Society's 2020 statement of activities. As a result of the sale, a portion of the proceeds was used to pay off the \$755,000 balance on the revolving line of credit liability.

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>2020</u>	<u>2019</u>
Time restricted contributions receivable	\$ 50,564	\$ 37,372
Restricted for specific uses	652,977	756,938
Subject to endowment spending policy and appropriation	<u>945,644</u>	<u>618,927</u>
	<u>\$ 1,649,185</u>	<u>\$ 1,413,237</u>

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

	<u>2020</u>	<u>2019</u>
Endowment funds (see Note 7)	\$ 2,244,830	\$ 2,244,830
Lindberg Trust	242,687	238,834
Mattison Trust	967,132	915,748
Helen Mull Foundation Trust	<u>7,409,627</u>	<u>6,693,706</u>
	<u>\$ 10,864,276</u>	<u>\$ 10,093,118</u>

NOTE 7 - ENDOWMENTS

The Humane Society's endowment consists of various funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. During 2019, the Board of Directors undesignated certain quasi-endowment funds and transferred the funds to investments.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 7 - ENDOWMENTS (Continued)

The following is a schedule of endowments at December 31:

	With Donor Restrictions		
	For Time or Purpose	For Perpetual Duration	Total
December 31, 2020			
Magill Spay/Neuter Endowment	\$ 42,229	\$ 100,200	\$ 142,429
Bender Educational Endowment	2,138	6,086	8,224
Walker Cat Spay/Neuter Endowment	46,238	109,714	155,952
Neilsen Operations Endowment	5,291	12,555	17,846
Milgard Veterinary Endowment	210,722	500,000	710,722
William J. Gazecki Maintenance Endowment	<u>639,026</u>	<u>1,516,275</u>	<u>2,155,301</u>
	<u>\$ 945,644</u>	<u>\$ 2,244,830</u>	<u>\$ 3,190,474</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>

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 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.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 7 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2020 and 2019 are as follows:

	Without Donor Restrictions Board- Designated	With Donor Restrictions		
		For Time or Purpose	For Perpetual Duration	Total
Endowment Net Assets at Beginning of Year 2020		\$ 618,927	\$ 2,244,830	\$ 2,863,757
Net investment return		484,419		484,419
Appropriation of endowment distribution		(157,702)		(157,702)
Endowment Net Assets at End of Year 2020	\$ _____	\$ <u>945,644</u>	\$ <u>2,244,830</u>	\$ <u>3,190,474</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	(1,119,815)			(1,119,815)
Endowment Net Assets at End of Year 2019	\$ _____	\$ <u>618,927</u>	\$ <u>2,244,830</u>	\$ <u>2,863,757</u>

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. At December 31, 2020 and 2019, there were no endowment funds whose fair value was below the original corpus provided by the donor.

Spending Policy

The Humane Society has adopted a spending policy by which, at the discretion of the Board of Directors, the Board of Directors may annually distribute from the Endowment Fund up to 5% of the Endowment Fund's total market value at the end of the previous fiscal year, subject to certain limitations described in the policy. It is expected that over time, the total real return (i.e. total investment return, net of inflation) from investments will exceed the distribution rate, thus providing real growth of endowment assets.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 7 - ENDOWMENTS (Continued)

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 \$1,209,819 and \$1,154,582 at December 31, 2020 and 2019, 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 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 \$7,409,627 and \$6,693,706 as of December 31, 2020 and 2019, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 9 - LONG-TERM LIABILITIES

Details of long-term liabilities at December 31, 2020 and 2019 are described below:

	<u>2020</u>	<u>2019</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 5.00%. Principal due at maturity. The note is collateralized by a deed of trust. The note was paid in full in February 2020.		\$ <u>755,000</u>
Total Long-term Notes Payable		755,000
Less current portion due within one year classified as a current liability	<u> </u>	<u>755,000</u>
Long-term Notes Payable, Less Current Portion	\$ <u> </u>	\$ <u> </u>

Deferred Compensation Agreement

The Humane Society has a deferred compensation agreement with a former employee to provide retirement benefits in the amount of \$16,000 per year for her lifetime. The estimated net present value of the remaining balance totaling \$78,168 and \$82,459 at December 31, 2020 and 2019, 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 \$202,852 and \$169,847 for the years ended December 31, 2020 and 2019, 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 \$102,422 and \$31,239 for the years ended December 31, 2020 and 2019, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

Most hourly employees (representing approximately 72% 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. In 2020, the Human Society renegotiated the contract with the union, which is effective to December 31, 2023. 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, 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 lease is as follows:

For the year ending December 31, 2021	\$ 7,356
2022	7,356
2023	<u>7,356</u>
Total Future Minimum Lease Payments	\$ <u>22,068</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 14 - RISKS AND UNCERTAINTIES

On April 11, 2020, the Humane Society received a conditional contribution in the amount of approximately \$679,029 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the COVID-19 Aid, Relief and Economic Security Act ("CARES Act"), provides for relief funds to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses. Under the provisions of the CARES Act and the provisions of accounting principles generally accepted in the United States of America, the relief funds are earned once the organization meets the conditions outlined by the CARES Act by using the contribution proceeds for eligible purposes, including payroll, benefits, rent and utilities during the covered period as stipulated by the PPP agreement. The Humane Society was required to maintain or return their payroll and staffing levels during the covered period as an additional condition. The conditions outlined by the CARES Act were met during the year ended December 31, 2020. As such, the Humane Society has recorded the funds as contribution revenue in the accompanying statements of activities.

As of December 31, 2020, the world was in the midst of the COVID-19 pandemic. Significant uncertainty remains regarding the wide ranging effects of the pandemic subsequent to year-end. 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 issuance of these financial statements, the full impact of the pandemic to the Humane Society's financial position or operations is not known.