

**HUMANE SOCIETY FOR TACOMA
AND PIERCE COUNTY**

Audited Financial Statements

December 31, 2021 and 2020

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

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Humane Society for Tacoma and Pierce County as of December 31, 2021 and 2020, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humane Society for Tacoma and Pierce County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Humane Society's ability to continue as a going concern for one year after the date that the financial statements are issued.

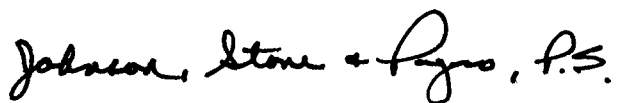
Auditor's Responsibilities for the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Humane Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



JOHNSON, STONE & PAGANO, P.S.

May 31, 2022

AUDITED FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,108,269	\$ 1,698,462
Investments	8,999,252	7,951,203
Accounts receivable	6,444	17,595
Contributions receivable	181,981	50,564
Inventory	64,256	76,428
Prepaid expenses	<u>31,261</u>	<u>27,825</u>
Total Current Assets	11,391,463	9,822,077
PROPERTY AND EQUIPMENT, net	2,670,127	2,780,540
ENDOWMENT FUNDS		
Magill Spay/Neuter Endowment	155,158	142,429
Bender Educational Endowment	8,960	8,224
Walker Cat Spay/Neuter Endowment	169,890	155,952
Nielsen Operations Endowment	19,441	17,846
Milgard Veterinary Endowment	774,242	710,722
William J. Gazecki Maintenance Endowment	<u>2,347,929</u>	<u>2,155,301</u>
Total Endowment Funds	3,475,620	3,190,474
OTHER ASSETS		
Beneficial interest in perpetual trusts	<u>9,412,199</u>	<u>8,619,446</u>
Total Other Assets	<u>9,412,199</u>	<u>8,619,446</u>
TOTAL ASSETS	<u>\$ 26,949,409</u>	<u>\$ 24,412,537</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 97,665	\$ 123,984
Accrued expenses	282,960	334,587
Deposits		10,000
Current portion of long-term liabilities	<u>16,000</u>	<u>16,000</u>
Total Current Liabilities	396,625	484,571
LONG-TERM LIABILITIES , net of current portion	<u>57,765</u>	<u>62,168</u>
Total Liabilities	454,390	546,739
NET ASSETS		
Without donor restrictions	13,069,878	11,352,337
With donor restrictions	<u>13,425,141</u>	<u>12,513,461</u>
Total Net Assets	<u>26,495,019</u>	<u>23,865,798</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,949,409</u>	<u>\$ 24,412,537</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and other	\$ 3,600,477	\$ 537,323	\$ 4,137,800
Service fees	1,799,008		1,799,008
Adoption fees	680,731		680,731
Drop off fees	145,447		145,447
Sales of pet supplies	101,485		101,485
Net investment return	876,340	452,028	1,328,368
Change in value of trusts		792,753	792,753
Other income	28,939		28,939
Net assets released from restrictions	870,424	(870,424)	
Total Revenue and Support	8,102,851	911,680	9,014,531
FUNCTIONAL EXPENSES			
Program services	5,250,059		5,250,059
Supporting services			
Management and general	384,060		384,060
Development and fundraising	751,191		751,191
	<u>1,135,251</u>		<u>1,135,251</u>
Total Functional Expenses	6,385,310		6,385,310
CHANGE IN NET ASSETS	1,717,541	911,680	2,629,221
Net Assets at Beginning of Year	<u>11,352,337</u>	<u>12,513,461</u>	<u>23,865,798</u>
NET ASSETS AT END OF YEAR	<u>\$ 13,069,878</u>	<u>\$ 13,425,141</u>	<u>\$ 26,495,019</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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	5,982,023		5,982,023
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 FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	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	\$ 1,462,628	\$ 970,023	\$ 213,265	\$ 2,645,916	\$ 305,325	\$ 343,995	\$ 649,320	\$ 3,295,236
Payroll taxes and benefits	588,477	371,349	79,615	1,039,441	43,159	100,632	143,791	1,183,232
Total Employment Expenses	2,051,105	1,341,372	292,880	3,685,357	348,484	444,627	793,111	4,478,468
Depreciation	127,940	54,278	19,385	201,603				201,603
Medical supplies		339,172	83,051	422,223				422,223
Uniform expense	4,066	3,552	2	7,620				7,620
Advertising and promotion	256			256		235,998	235,998	236,254
Community veterinary services	1,500	41,457	5,252	48,209				48,209
Utilities	63,759	27,050	9,661	100,470				100,470
Printing	55		20	75		25,321	25,321	25,396
Professional fees	4,243	1,588	567	6,398	20,934	567	21,501	27,899
Computer maintenance and repair	27,296	10,856	3,877	42,029	2,428	20,469	22,897	64,926
Office supplies	6,944	2,430	1,349	10,723	679	1,116	1,795	12,518
Postage	423	98	64	585	841	10,922	11,763	12,348
Insurance	25,729	10,915	3,898	40,542				40,542
Food and provisions	157,527	23,027	57,226	237,780				237,780
Special event						4,615	4,615	4,615
Education and training	12,930	5,386	1,905	20,221	196		196	20,417
Meetings	215	90	33	338	52	33	85	423
Household and institutional	59,511	11,020		70,531				70,531
Telephone	11,228	4,566	1,631	17,425	2,609	1,630	4,239	21,664
Deceased animal disposal	65,723			65,723				65,723
Repair and maintenance	21,679	9,650	1,650	32,979	624		624	33,603
Membership dues		5,131	108	5,239	1,137	1,970	3,107	8,346
Equipment lease	5,546	8,881	840	15,267	1,344	840	2,184	17,451
Building, property and parking	19,522	8,282	2,958	30,762	4,732	2,958	7,690	38,452
Vehicles	2,236		245	2,481		107	107	2,588
Safety	1,819	1,257	246	3,322		18	18	3,340
Pet store supplies	49,595			49,595				49,595
Taxes, licenses and fees	84,402	35,298	12,606	132,306				132,306
Total Operating Expenses	<u>\$ 2,805,249</u>	<u>\$ 1,945,356</u>	<u>\$ 499,454</u>	<u>\$ 5,250,059</u>	<u>\$ 384,060</u>	<u>\$ 751,191</u>	<u>\$ 1,135,251</u>	<u>\$ 6,385,310</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, 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 CASH FLOWS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,629,221	\$ 2,580,212
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	201,603	185,919
Gain on investments and endowments	(1,171,604)	(1,159,746)
Gain on sale of land		(480,328)
Increase in value of trusts	(792,753)	(771,158)
Donated securities	(6,132)	(9,105)
Net change in operating assets and liabilities	<u>(187,879)</u>	<u>270,212</u>
Net Cash Provided by Operating Activities	672,456	616,006
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(91,190)	(73,487)
Proceeds from sale of land		1,940,165
Purchase of investments	(1,353,704)	(3,238,828)
Proceeds from sale of investments	<u>1,198,245</u>	<u>1,960,438</u>
Net Cash Provided (Used) by Investing Activities	(246,649)	588,288
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>(16,000)</u>	<u>(771,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	409,807	433,294
Cash and Cash Equivalents at Beginning of Year	<u>1,698,462</u>	<u>1,265,168</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,108,269</u>	<u>\$ 1,698,462</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable	\$ 11,151	\$ 56,710
Contributions receivable	(131,417)	(13,192)
Inventory	12,172	12,917
Prepaid expenses	(3,436)	4,378
Increase (decrease) in liabilities		
Accounts payable	(26,319)	75,809
Accrued expenses	(51,627)	121,881
Deferred compensation	11,597	11,709
Deposits	<u>(10,000)</u>	<u> </u>
Net Change in Operating Assets and Liabilities	<u>\$ (187,879)</u>	<u>\$ 270,212</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$</u>	<u>\$ 7,983</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, 2021 and 2020

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. A Barn Cat Program helps relocated outdoor cats that need new homes.

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.

Active volunteer and fostering programs engage community members to assist with animal care, operations, and community awareness programs.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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, 2021 and 2020

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, 2021 and 2020 was \$201,603 and \$185,919, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2021 and 2020, 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.

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 \$63,779 and \$102,144 during the years ended December 31, 2021 and 2020, 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 \$236,254 and \$213,295 for the years ended December 31, 2021 and 2020, respectively.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosures at the date of these financial statements. Actual results could differ from those estimates.

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The purpose of the new standard is to increase the transparency and comparability in financial reporting by requiring lessees to report an asset and a corresponding liability on the statement of financial position for most leases. Lessor accounting for leases was substantially unchanged. The ASU's requirements are broadly applicable and will be effective for years beginning after December 15, 2021 and will require a modified retrospective application approach for existing leases whereby the effects of implementing the new standard will be applied to the earliest period presented. Management is currently evaluating how the new requirements will affect Humane Society's financial statements.

Subsequent Events

The Humane Society evaluated for subsequent events and transactions for potential recognition and disclosure through May 31, 2022, the date the financial 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,752,928	\$ 941,524
Investments	8,999,252	7,951,203
Accounts receivable	6,444	17,595
Endowment spending rate distributions and appropriations	<u>166,882</u>	<u>166,882</u>
Total Financial Assets Available	\$ <u>10,925,506</u>	\$ <u>9,077,204</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

The endowment funds consist of donor-restricted endowments at December 31, 2021 and 2020. 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.

NOTE 3 - INVESTMENTS

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

	<u>2021</u>	<u>2020</u>
Investments	\$ 8,999,252	\$ 7,951,203
Magill Spay/Neuter Endowment	155,158	142,429
Bender Educational Endowment	8,960	8,224
Walker Cat Spay/Neuter Endowment	169,890	155,952
Neilsen Operations Endowment	19,441	17,846
Milgard Veterinary Endowment	774,242	710,722
William J. Gazecki Maintenance Endowment	<u>2,347,929</u>	<u>2,155,301</u>
	<u>\$ 12,474,872</u>	<u>\$ 11,141,677</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividend income, net of expenses	\$ 156,764	\$ 97,459
Net realized and unrealized gains, net	<u>1,171,604</u>	<u>1,159,746</u>
	<u>\$ 1,328,368</u>	<u>\$ 1,257,205</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2021 and 2020, are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Fair Value Measurements at December 31, 2021			
Money market	\$ 585,542	\$ 585,542	
Equities	2,183,814	2,183,814	
Mutual funds	5,943,495	5,943,495	
Bond funds	<u>3,762,021</u>	<u>3,762,021</u>	
Total Investments	12,474,872	12,474,872	
Beneficial interest in perpetual trusts	<u>9,412,199</u>		\$ <u>9,412,199</u>
	\$ <u>21,887,071</u>	\$ <u>12,474,872</u>	\$ <u>9,412,199</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	
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>

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 4,253,972	\$ 4,253,972
Vehicles	94,584	94,584
Plant and office equipment	1,951,049	1,859,860
Land	<u>164,322</u>	<u>164,322</u>
	6,463,927	6,372,738
Less accumulated depreciation	<u>3,793,800</u>	<u>3,592,198</u>
	\$ <u>2,670,127</u>	\$ <u>2,780,540</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Time restricted contributions receivable	\$ 181,981	\$ 50,564
Restricted for specific uses	355,341	652,977
Subject to endowment spending policy and appropriation	<u>1,230,790</u>	<u>945,644</u>
	<u>\$ 1,768,112</u>	<u>\$ 1,649,185</u>

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

	<u>2021</u>	<u>2020</u>
Endowment funds (see Note 7)	\$ 2,244,830	\$ 2,244,830
Lindberg Trust	255,272	242,687
Mattison Trust	1,049,653	967,132
Helen Mull Foundation Trust	<u>8,107,274</u>	<u>7,409,627</u>
	<u>11,657,029</u>	<u>10,864,276</u>
Total Net Assets with Donor Restrictions	<u>\$ 13,425,141</u>	<u>\$ 12,513,461</u>

NOTE 7 - ENDOWMENTS

The Humane Society's endowment consists of various funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 7 - ENDOWMENTS (Continued)

The following is a schedule of endowments at December 31:

	<u>With Donor Restrictions</u>		
	<u>For Time or Purpose</u>	<u>For Perpetual Duration</u>	<u>Total</u>
<u>December 31, 2021</u>			
Magill Spay/Neuter Endowment	\$ 54,958	\$ 100,200	\$ 155,158
Bender Educational Endowment	2,874	6,086	8,960
Walker Cat Spay/Neuter Endowment	60,176	109,714	169,890
Neilsen Operations Endowment	6,886	12,555	19,441
Milgard Veterinary Endowment	274,242	500,000	774,242
William J. Gazecki Maintenance Endowment	<u>831,654</u>	<u>1,516,275</u>	<u>2,347,929</u>
	<u>\$ 1,230,790</u>	<u>\$ 2,244,830</u>	<u>\$ 3,475,620</u>
<u>December 31, 2020</u>			
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>

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, 2021 and 2020

NOTE 7 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2021 and 2020 are as follows:

	Without Donor Restrictions Board- Designated	<u>With Donor Restrictions</u>		
		For Time or Purpose	For Perpetual Duration	<u>Total</u>
Endowment Net Assets at Beginning of Year 2021		\$ 945,644	\$ 2,244,830	\$ 3,190,474
Net investment return		452,028		452,028
Appropriation of endowment distribution	_____	<u>(166,882)</u>	_____	<u>(166,882)</u>
Endowment Net Assets at End of Year 2021	\$ _____	\$ <u>1,230,790</u>	\$ <u>2,244,830</u>	\$ <u>3,475,620</u>
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	_____	<u>(157,702)</u>	_____	<u>(157,702)</u>
Endowment Net Assets at End of Year 2020	\$ _____	\$ <u>945,644</u>	\$ <u>2,244,830</u>	\$ <u>3,190,474</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, 2021 and 2020, 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, 2021 and 2020

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 \$1,304,925 and \$1,209,819 at December 31, 2021 and 2020, 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 \$8,107,274 and \$7,409,627 as of December 31, 2021 and 2020, respectively.

NOTE 9 - LONG-TERM LIABILITIES

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 \$73,765 and \$78,168 at December 31, 2021 and 2020, respectively, has been recorded using a discount rate of 6.53%.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 \$214,361 and \$202,852 for the years ended December 31, 2021 and 2020, 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 \$126,266 and \$102,422 for the years ended December 31, 2021 and 2020, respectively.

NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

Most hourly employees (representing approximately 82% of the Humane Society's employees) are covered under a labor agreement. In 2020, the Humane 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 the operating lease are generally removed or replaced by other leased assets. Rent expense has totaled \$7,356 for each of the years ended December 31, 2021 and 2020. Minimum future rental payments associated with this noncancelable operating lease are as follows:

For the year ending December 31, 2022	\$ 7,356
2023	<u>7,356</u>
Total Future Minimum Lease Payments	\$ <u>14,712</u>

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 14 - RISKS AND UNCERTAINTIES

As of December 31, 2021, 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.

During the year ended December 31, 2020, The Humane Society received a conditional contribution as part of the Paycheck Protection Program totaling \$679,029. All conditions were met by the Humane Society during 2020. As such, the Humane Society recorded the full amount as contribution revenue in the 2020 statement of activities.