

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2009 AND 2008

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

September 21, 2009

Board of Directors
The Humane Society for Seattle/King County
Bellevue, Washington

We have audited the accompanying statements of financial position of The Humane Society for Seattle/King County (a nonprofit corporation) as of March 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of The Humane Society for Seattle/King County. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society for Seattle/King County as of March 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Jacobson Jarvis & Co, PLLC

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2009 AND 2008

	<u>2009</u>	<u>Restated 2008</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,020,783	\$ 1,120,251
Investments	2,040,281	2,704,281
Promises to give (current)	82,065	261,151
Accounts receivable	55,084	8,256
Prepaid expenses and other assets	51,676	17,365
Inventory	139,212	117,003
	<u>3,389,101</u>	<u>4,228,307</u>
	Total Current Assets	
	3,389,101	4,228,307
Promises to give (long-term)	60,000	-
Endowment investments	547,900	168,456
Property and Equipment, net	862,447	917,245
	<u>\$ 4,859,448</u>	<u>\$ 5,314,008</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 327,096	\$ 273,785
Unearned revenue	34,190	106,425
Current portion of capital lease obligations	3,850	3,699
	<u>365,136</u>	<u>383,909</u>
	Total Current Liabilities	
	365,136	383,909
Capital Lease Obligations, less current portion above	657	4,507
	<u>365,793</u>	<u>388,416</u>
	Total Liabilities	
	365,793	388,416
Net Assets		
Unrestricted	2,715,620	3,678,802
Unrestricted - invested in property and equipment	857,940	909,039
	<u>3,573,560</u>	<u>4,587,841</u>
	Total Unrestricted Net Assets	
	3,573,560	4,587,841
Temporarily restricted	369,059	186,765
Permanently restricted	551,036	150,986
	<u>4,493,655</u>	<u>4,925,592</u>
	Total Net Assets	
	4,493,655	4,925,592
	<u>\$ 4,859,448</u>	<u>\$ 5,314,008</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2009 AND 2008

	2009				2008 - Restated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue								
Public Support								
Contributions	\$ 1,931,298	\$ 141,851	\$ 50	\$ 2,073,199	\$ 1,918,011	\$ 119,661	\$ 8,548	\$ 2,046,220
Bequests	568,536	-	400,000	968,536	565,345	-	-	565,345
Special events, less direct cost of benefits provided to participants of \$142,362 and \$131,144	430,718	309,397	-	740,115	451,483	290,112	-	741,595
In-kind donations	87,576	-	-	87,576	96,997	-	-	96,997
Total Public Support	<u>3,018,128</u>	<u>451,248</u>	<u>400,050</u>	<u>3,869,426</u>	<u>3,031,836</u>	<u>409,773</u>	<u>8,548</u>	<u>3,450,157</u>
Revenue								
Adoption fees	398,964			398,964	303,388			303,388
Boarding	64,729			64,729	169,941			169,941
Other program service fees	482,830			482,830	352,490			352,490
Merchandise sales, net of cost of goods sold of \$44,565 and \$25,670	9,484			9,484	19,822			19,822
Total Revenue	<u>956,007</u>			<u>956,007</u>	<u>845,641</u>			<u>845,641</u>
Net Assets Released from Purpose Restrictions	268,954	(268,954)		-	406,354	(406,354)		-
Total Public Support and Revenue	<u>4,243,089</u>	<u>182,294</u>	<u>400,050</u>	<u>4,825,433</u>	<u>4,283,831</u>	<u>3,419</u>	<u>8,548</u>	<u>4,295,798</u>
Expenses								
Program services	3,528,794			3,528,794	2,840,510			2,840,510
Management and general	405,649			405,649	397,223			397,223
Fundraising	503,802			503,802	492,577			492,577
Total Expenses	<u>4,438,245</u>			<u>4,438,245</u>	<u>3,730,310</u>			<u>3,730,310</u>
Changes in Net Assets Before Gains and (Losses)	<u>(195,156)</u>	<u>182,294</u>	<u>400,050</u>	<u>387,188</u>	<u>553,521</u>	<u>3,419</u>	<u>8,548</u>	<u>565,488</u>
Gain (Loss) on Sale of Property and Equipment	(2,250)			(2,250)	650			650
Investment Income, Gains, and Losses, net	(816,875)			(816,875)	(27,031)			(27,031)
Total Gains and (Losses)	<u>(819,125)</u>			<u>(819,125)</u>	<u>(26,381)</u>			<u>(26,381)</u>
Total Changes in Net Assets	<u>(1,014,281)</u>	<u>182,294</u>	<u>400,050</u>	<u>(431,937)</u>	<u>527,140</u>	<u>3,419</u>	<u>8,548</u>	<u>539,107</u>
Net Assets - beginning of year	<u>4,587,841</u>	<u>186,765</u>	<u>150,986</u>	<u>4,925,592</u>	<u>4,060,701</u>	<u>183,346</u>	<u>142,438</u>	<u>4,386,485</u>
Net Assets - end of year	<u>\$ 3,573,560</u>	<u>\$ 369,059</u>	<u>\$ 551,036</u>	<u>\$ 4,493,655</u>	<u>\$ 4,587,841</u>	<u>\$ 186,765</u>	<u>\$ 150,986</u>	<u>\$ 4,925,592</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2009

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Adoption Services	Boarding Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,594,015	\$ 36,104	\$ 169,055	\$ 253,066	\$ 2,052,240	\$ 302,636	\$ 92,664	\$ 2,447,540
Payroll taxes and benefits	293,841	13,130	21,763	28,917	357,651	43,595	18,297	419,543
Total Payroll Expenses	1,887,856	49,234	190,818	281,983	2,409,891	346,231	110,961	2,867,083
Food, supplies, and medicine	347,229	6,215	73,518	85,140	512,102	1,322	6,767	520,191
Printing	21,563	-	42	23,146	44,751	988	140,520	186,259
Depreciation	102,239	3,475	1,809	17,349	124,872	1,554	3,044	129,470
Marketing and promotion	52,481	994	621	2,152	56,248	1,437	50,520	108,205
Repairs and maintenance	70,967	4,235	1,528	9,437	86,167	5,346	13,996	105,509
Utilities	60,196	9,175	1,266	16,458	87,095	1,740	1,269	90,104
Fundraising support	47	-	-	2	49	2	82,773	82,824
Investment and bank fees	14,040	1,805	1,598	10,718	28,161	18,414	27,805	74,380
Postage	8,573	158	370	3,868	12,969	964	55,109	69,042
Travel and meetings	37,147	47	688	2,463	40,345	2,536	5,053	47,934
Professional fees	14,158	1,655	1,121	2,090	19,024	21,074	4,392	44,490
Insurance	29,269	2,483	1,510	3,105	36,367	1,230	476	38,073
Miscellaneous	19,678	321	1,926	5,953	27,878	1,387	256	29,521
Telephone	18,973	867	299	1,982	22,121	890	228	23,239
Taxes and licenses	7,105	3,677	1,420	7,445	19,647	500	419	20,566
Grants to others	770	-	2	335	1,107	34	214	1,355
Total Expenses	\$ 2,692,291	\$ 84,341	\$ 278,536	\$ 473,626	\$ 3,528,794	\$ 405,649	\$ 503,802	\$ 4,438,245

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2008

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Adoption Services	Boarding Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,228,545	\$ 66,549	\$ 113,258	\$ 191,195	\$ 1,599,547	\$ 277,761	\$ 108,068	\$ 1,985,376
Payroll taxes and benefits	236,520	8,590	19,555	24,948	289,613	35,575	26,076	351,264
Total Payroll Expenses	1,465,065	75,139	132,813	216,143	1,889,160	313,336	134,144	2,336,640
Food, supplies, and medicine	182,677	14,012	36,001	98,130	330,820	3,397	19,817	354,034
Printing	24,795	-	1,240	16,157	42,192	905	52,354	95,451
Depreciation	46,717	2,787	2,790	41,291	93,585	900	2,935	97,420
Marketing and promotion	49,576	984	562	6,358	57,480	345	11,616	69,441
Repairs and maintenance	106,331	3,087	3,004	9,843	122,265	7,171	16,838	146,274
Utilities	58,808	8,745	1,369	14,270	83,192	2,193	1,453	86,838
Fundraising support	12,548	-	-	-	12,548	-	174,074	186,622
Investment and bank fees	11,683	4,514	1,561	7,138	24,896	22,433	8,916	56,245
Postage	4,804	32	184	5,691	10,711	883	56,768	68,362
Travel and meetings	22,037	120	1,544	5,650	29,351	2,084	3,266	34,701
Professional fees	25,561	2,543	1,192	3,380	32,676	39,584	6,645	78,905
Insurance	33,796	1,947	1,754	1,048	38,545	1,688	626	40,859
Miscellaneous	17,272	660	1,422	7,356	26,710	1,265	1,393	29,368
Telephone	16,791	814	255	2,177	20,037	733	241	21,011
Taxes and licenses	5,012	13,673	1,881	5,648	26,214	305	640	27,159
Grants to others	27	-	-	101	128	1	851	980
Total Expenses	\$ 2,083,500	\$ 129,057	\$ 187,572	\$ 440,381	\$ 2,840,510	\$ 397,223	\$ 492,577	\$ 3,730,310

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Cash received from donors	\$ 3,404,365	\$ 3,250,343
Cash received from adoptions	398,964	303,388
Cash received from other program service fees	482,830	352,490
Cash received from boarders	10,403	167,057
Cash received from sale of merchandise	54,049	45,492
Cash received from interest	119,661	242,536
Cash paid to employees	(2,809,968)	(2,319,824)
Cash paid to vendors	(1,593,563)	(1,381,475)
Interest paid	<u>(261)</u>	<u>(406)</u>
Net Cash Provided by Operating Activities	<u>66,480</u>	<u>659,601</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(76,922)	(325,193)
Proceeds from sale of property and equipment	-	650
Purchases of investments	(1,229,998)	(871,437)
Sales of investments	<u>744,621</u>	<u>986,735</u>
Net Cash Used by Investing Activities	<u>(562,299)</u>	<u>(209,245)</u>
Cash Flows From Financing Activities		
Repayments on capital lease obligations	(3,699)	(3,554)
Cash restricted to endowment	<u>400,050</u>	<u>8,548</u>
Net Cash Provided by Financing Activities	<u>396,351</u>	<u>4,994</u>
Change in Cash and Cash Equivalents	(99,468)	455,350
Cash and Cash Equivalents - beginning of year	<u>1,120,251</u>	<u>664,901</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,020,783</u>	<u>\$ 1,120,251</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2009 AND 2008

	<u>2009</u>	Restated <u>2008</u>
Reconciliation of Changes in Net Assets to Net Cash Flows From Operating Activities		
Changes in net assets	\$ (431,937)	\$ 539,107
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	129,470	97,420
Donation of investments	(166,648)	(140,202)
Endowment contributions	(400,050)	(8,548)
Net loss on investments	936,536	269,567
Loss (gain) on disposal of property and equipment	2,250	(650)
Decrease (increase) in		
Bequests receivable	119,086	(66,151)
Prepaid expenses and other assets	(81,139)	(1,046)
Inventory	(22,164)	(23,911)
Increase (decrease) in		
Accounts payable and accrued expenses	53,311	13,075
Unearned revenue	<u>(72,235)</u>	<u>(19,060)</u>
Net Cash Provided by Operating Activities	<u>\$ 66,480</u>	<u>\$ 659,601</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Humane Society for Seattle/King County (the Seattle Humane Society) is an independent, not-for-profit, community-supported organization. First opening its doors in 1897, the Seattle Humane Society is not a chapter or affiliate of any national animal organization. The Seattle Humane Society's mission is to provide the resources and support necessary to build lifelong relationships between people and their pets.

Major programs and services offered to the community include the following:

Adoption Services: The Seattle Humane Society accepts cats and dogs from the public and transfers from municipal shelters, as well as a variety of small animals, including rabbits, other rodents, and birds, and keeps them available for adoption providing medical care and training as needed. Adoptable companion animals are provided to the general public for a fee and provided to senior citizens and disabled individuals at discounted fees or at no charge. The Seattle Humane Society neither euthanizes animals for lack of space nor places time limits on animals available for adoption, as long as they remain healthy. For the years ended March 31, 2009 and 2008, the placement rate was 88.6% and 85.9%, respectively.

Boarding Services: The Seattle Humane Society offers animal boarding (dogs only) and bathing services to pet owners in the community on a fee for service basis.

Spay and Neuter Clinic: The Seattle Humane Society operates a spay/neuter clinic for low-income pet owners and offers microchipping services. Spay or neuter surgery is performed on every dog or cat prior to adoption.

Education Programs and Other Services: The Seattle Humane Society is the cornerstone of nurturing successful relationships between people and pets. Workshops focus on strengthening companionship, such as Introducing Babies and Pets, or animal behavior topics. The Seattle Humane Society's dog training classes enhance companionship by not only training animals to better dispositions but also improving their socialization skills. Other programs and services include:

§ *Community Outreach Programs:* The Seattle Humane Society provides a variety of services and programs for the community.

§ *Pet Loss Support Group:* Because the death of your animal friend can be one of the most difficult experiences you face, we offer a free Pet Loss Support Group with trained facilitators.

§ *Pet Food Bank:* The Seattle Humane Society provides pet food to pets of low-income senior citizens.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- § *Pet Project:* The Seattle Humane Society provides pet food, litter, grooming services, and veterinary care to pets of low-income individuals disabled by AIDS.
- § *Adventure Camp for Kids:* The Seattle Humane Society offers summer sessions for school age children to have fun while learning about animals.
- § *Humane Teen Club:* The Humane Teen Club (HTC) provides volunteer opportunities for young people and exposes them to the benefits of animal companionship. This program is for 13-15 year olds, the HTC focuses on the importance of animal companionship and welfare.
- § *Theme Birthday Parties:* Children can have a special animal theme birthday celebration at the Seattle Humane Society and learn about pets while having fun.
- § *Visiting Pets Program:* Seattle Humane Society volunteers, with their dogs, cats and even birds and a bunny, visit facilities for seniors, adults and children with disabilities, and people recovering from chemical dependency. This program enriches the physical and psychological well-being of the people we visit and promotes the human-animal bond.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of the Seattle Humane Society are classified as follows:

Unrestricted net assets are available without restriction for support of the Seattle Humane Society's mission.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are as follows:

	<u>2009</u>	<u>2008</u>
Lexus Fund - Medical care for dogs	\$ 274,500	\$ -
Disaster preparedness	43,078	49,756
Mobile adoptions/education	33,622	82,608
Behavior program	-	28,822
Various projects benefiting animals	17,859	25,579
	<u>\$ 369,059</u>	<u>\$ 186,765</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used as specified by the donors.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts. The Seattle Humane Society maintains cash deposits in bank accounts which exceed federally insured limits. The Seattle Humane Society has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Investments

Investments are carried at market value and consist of the following at March 31,

	<u>2009</u>	<u>2008</u>
Cash held for investment	\$ 6,277	\$ 22,102
Equity securities	1,122,795	1,697,059
Corporate and government bonds	749,489	985,120
Annuities	161,720	-
	<u>\$2,040,281</u>	<u>\$2,704,281</u>

Endowment investments are carried at market value and consist of the following at March 31,

	<u>2009</u>	<u>2008</u>
Cash held for investment	\$ 5,346	\$ -
Equity securities	324,227	96,499
Corporate and government bonds	218,327	71,957
	<u>\$ 547,900</u>	<u>\$ 168,456</u>

Bequest receivable

The Seattle Humane Society has been named as beneficiary in certain bequests. At such time as the Seattle Humane Society is notified by the Executor as to the amount of the bequest to be received, bequest revenue and related receivable are recorded. Bequests receivable is stated at estimated net realizable value.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventory

Inventory is stated at the lower of cost or market under the first-in, first-out method of accounting and consists of merchandise, medical supplies, pet food, and supplies.

Property and equipment

Land, building and equipment are stated at cost. Long-lived asset purchases that exceed \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment consisted of the following at March 31,

	Estimated <u>Useful Lives</u>	<u>2009</u>	<u>2008</u>
Land		\$ 296,524	\$ 296,524
Building	5 - 35 years	1,547,490	1,509,897
Equipment	5 - 10 years	<u>809,761</u>	<u>812,913</u>
		2,653,775	2,619,334
Less accumulated depreciation		<u>(1,791,328)</u>	<u>(1,702,089)</u>
		<u>\$ 862,447</u>	<u>\$ 917,245</u>

Unearned revenue

Unearned revenue represents fees received in advance of events and will be recognized when the related event occurs.

In-kind donations

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise, which the Seattle Humane Society would otherwise need to purchase. However, many individuals volunteer their time and perform a variety of tasks, such as assisting with adoptions, foster parenting, special events, and dog behavior and socialization. During the years ended March 31, 2009 and 2008, the Seattle Humane Society received approximately 111,823 and 104,770 volunteer hours, respectively.

Contributed goods and services are recorded at rates that would have been paid for similar goods and services if purchased and are included in contributions. For the years ended March 31, 2009 and 2008, in-kind goods and services of \$87,576 and \$96,997, respectively, were used for program services.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted support

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Advertising

The Seattle Humane Society expenses the production costs of advertising as incurred. Advertising expense was \$108,205 and \$69,441 for the years ended March 31, 2009 and 2008, respectively, and is included in marketing and promotion expense.

Federal income taxes

The Internal Revenue Service has recognized The Humane Society for Seattle/King County as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. However, income from the Seattle Humane Society's boarding services is subject to taxation as unrelated business income.

The Seattle Humane Society has elected to defer the provisions of FIN 48, Accounting for Income Taxes, under the provisions of FSP FIN 48-3. The Seattle Humane Society uses a FAS 5, Loss Contingencies, approach for evaluating uncertain tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law and new authoritative rulings.

Reclassifications

Certain accounts in the March 31, 2008 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended March 31, 2008.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE B - PROMISES TO GIVE

Unconditional promises to give are \$142,065 as of March 31, 2009. Promises to give of \$60,000 are considered long term, with \$20,000 payments due in years ending March 31, 2011, 2012, and 2013. Discounts on long-term promises to give are considered immaterial and uncollectible promises are expected to be insignificant

NOTE C - ENDOWMENT

The Humane Society for Seattle/King County's endowment consists of three individual donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors for the Seattle Humane Society has interpreted the Uniform Management of Institutional Funds Act (UMIFA) 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 Seattle Humane Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$34,357 as of March 31, 2009. These deficiencies resulted from unfavorable market fluctuations during the fiscal year.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE C - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Seattle 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 organization must hold in perpetuity or for a donor-specified period(s).

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 exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

The Seattle Humane Society expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Seattle 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 organization 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.

Spending Policy

The Seattle Humane Society has a policy of reviewing the needs each year and appropriating for distribution accordingly, not to exceed in any given year, the surplus accrued in the fund or 7% of the overall balance of the fund, whichever is less.

Endowment net assets by fund type as of March 31, 2009:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ 8,327	\$ -	\$ 59,140	\$ 67,467
James A. Gilruth Endowment	22,894	-	400,000	422,894
Leah Buhner Veterinary Care Endowment	(34,357)	-	91,896	57,539
Total endowment funds	<u>\$ (3,136)</u>	<u>\$ -</u>	<u>\$ 551,036</u>	<u>\$ 547,900</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE C - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2009:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ 17,469	\$ -	\$ 150,986	\$ 168,455
Investment return:				
Investment income	-	4,989	-	4,989
Net gains and (losses)	(20,523)	-	-	(20,523)
Total investment return	(20,523)	4,989	-	(15,534)
Contributions, net			400,050	400,050
Expenditures	(82)	(4,989)	-	(5,071)
Endowments, end of year	<u>\$ (3,136)</u>	<u>\$ -</u>	<u>\$ 551,036</u>	<u>\$ 547,900</u>

Endowment net assets by fund type as of March 31, 2008

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ 29,199	\$ -	\$ 59,139	\$ 88,338
Leah Buhner Veterinary Care Endowment	(11,730)	-	91,847	80,117
Total endowment funds	<u>\$ 17,469</u>	<u>\$ -</u>	<u>\$ 150,986</u>	<u>\$ 168,455</u>

Change in endowment net asset for the year ended March 31, 2008:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ 30,675	\$ -	\$ 142,438	\$ 173,113
Investment return:				
Investment income	4,125	3,662	-	7,787
Net gains and (losses)	(8,555)	(3,455)	-	(12,010)
Total investment return	(4,430)	207	-	(4,223)
Contributions, net			8,548	8,548
Expenditures	(8,776)	(207)	-	(8,983)
Endowments, end of year	<u>\$ 17,469</u>	<u>\$ -</u>	<u>\$ 150,986</u>	<u>\$ 168,455</u>

NOTE D - RECENT CHANGES IN ACCOUNTING PRONOUNCEMENTS

FASB Staff Position 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" provides guidance on the net asset classifi-

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE D - RECENT CHANGES IN ACCOUNTING PRONOUNCEMENTS

cation of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Under FSP FAS 117-1, organizations subject to UPMIFA shall classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization. In initially applying this guidance to donor-restricted endowment funds in existence when UPMIFA is first effective, an organization shall report any resulting net asset reclassifications in a separate line item within the organization's statement of activities for that period.

In June 2009, Washington State enacted UPMIFA effective as of July 1, 2009. Thus, during the year ended March 31, 2010, the Seattle Humane Society may be required to reclassify certain net asset amounts related to the endowment fund from unrestricted to temporarily restricted. Management believes that the amount of any such reclassification will be insignificant to the financial statements.

NOTE E - FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standard (SFAS) 157, a three-tiered hierarchy of input levels is used for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities. The Seattle Humane Society's Level 1 assets and liabilities include accounts receivable, equity securities, corporate and government bonds and account payable.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets. The Seattle Humane Society has no Level 2 assets or liabilities.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation.

These methodologies may result in a significant portion of the fair value being derived from unobservable data. At March 31, 2009, annuities were the only asset or liability valued using significant unobservable inputs. Fair value of the annuities is determined by calculating the present value of the future distributions expected to be received using discount rates between 1.3% and 2.3%.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

NOTE F - COMMITMENT

The Seattle Humane Society leases certain equipment with a total recorded cost of \$18,724 and accumulated amortization of \$14,980 as of March 31, 2009 under a non-cancelable capital lease. Total monthly payments are \$330 including interest of 4% per annum. Scheduled lease payments are as follows:

<u>Years ending March 31,</u>	
2010	\$ 3,960
2011	<u>660</u>
	4,620
Less amounts for interest	<u>(113)</u>
	4,507
Less current portion	<u>(3,850)</u>
	<u>\$ 657</u>

NOTE G - RELATED PARTY

During the year ended March 31, 2009, the Seattle Humane Society hired the company owned by the Board Chair to provide printing services. Under the terms of the contract, fees were charged at reduced rates. For the year ending March 31, 2009, expenses totaling \$131,584 were incurred and \$28,227 was owing at year end. Several board members are employed by companies that provided goods and services to the Seattle Humane Society during the course of the year. Any fees charged for goods and services provided by these companies were negotiated without the involvement of the board member and the board member did not directly benefit.

NOTE H - RESTATEMENT OF FINANCIAL STATEMENTS

Certain errors resulting in an understatement of bequests and bequests receivable were discovered during the current year. In 2009, it was noted that the Seattle Humane Society had been notified of certain bequests and had information sufficient to value the bequests as of March 31, 2008. Accordingly, certain adjustments were made to the previously reported balances to correct this error as of March 31, 2008. The following represents amounts that were restated as of March 31, 2008.

	Previously <u>Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Promises to give	\$ 175,000	\$ 86,151	\$ 261,151
Unrestricted Net Assets - end of year	\$4,501,690	\$ 86,151	\$4,587,841
Bequests	\$ 479,194	\$ 86,151	\$ 565,345
Change in Unrestricted Net Assets	\$ 440,989	\$ 86,151	\$ 527,140