

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2010 AND 2009

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

September 28, 2010

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 as of March 31, 2010 and 2009, 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, 2010 and 2009, 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

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THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 560,962	\$ 1,020,783
Investments	2,784,056	2,040,281
Promises to give	336,502	82,065
Accounts receivable	26,763	55,084
Prepaid expenses and other assets	50,161	51,676
Inventory	128,028	139,212
	<u>3,886,472</u>	<u>3,389,101</u>
	Total Current Assets	
	3,886,472	3,389,101
Promises to give, long-term	40,000	60,000
Endowment investments	763,604	547,900
Property and equipment, net	799,106	862,447
	<u>\$ 5,489,182</u>	<u>\$ 4,859,448</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 341,815	\$ 327,096
Unearned revenue	112,530	34,190
Current portion of capital lease obligations	657	3,850
	<u>455,002</u>	<u>365,136</u>
	Total Current Liabilities	
	455,002	365,136
Capital Lease Obligations, less current portion above	-	657
	<u>455,002</u>	<u>365,793</u>
	Total Liabilities	
	455,002	365,793
Net Assets		
Unrestricted	3,315,916	2,715,620
Unrestricted - invested in property and equipment	798,449	857,940
	<u>4,114,365</u>	<u>3,573,560</u>
	Total Unrestricted Net Assets	
	4,114,365	3,573,560
Temporarily restricted	368,779	369,059
Permanently restricted	551,036	551,036
	<u>5,034,180</u>	<u>4,493,655</u>
	Total Net Assets	
	5,034,180	4,493,655
	<u>\$ 5,489,182</u>	<u>\$ 4,859,448</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue								
Public Support								
Contributions	\$ 2,072,184	\$ 250,231	\$ -	\$ 2,322,415	\$ 1,931,298	\$ 141,851	\$ 50	\$ 2,073,199
Bequests	503,792	-	-	503,792	568,536	-	400,000	968,536
Special events, less direct cost of benefits provided to participants of \$108,144 and \$142,362	389,188	246,200	-	635,388	430,718	309,397	-	740,115
In-kind donations	105,633	-	-	105,633	87,576	-	-	87,576
Total Public Support	<u>3,070,797</u>	<u>496,431</u>	<u>-</u>	<u>3,567,228</u>	<u>3,018,128</u>	<u>451,248</u>	<u>400,050</u>	<u>3,869,426</u>
Revenue								
Adoption fees	377,012			377,012	398,964			398,964
Boarding	91,084			91,084	64,729			64,729
Other program service fees	393,170			393,170	482,830			482,830
Merchandise sales, net of cost of goods sold of \$38,401 and \$44,565	16,810			16,810	9,484			9,484
Total Revenue	<u>878,076</u>			<u>878,076</u>	<u>956,007</u>			<u>956,007</u>
Net Assets Released from Purpose Restrictions	496,711	(496,711)	-	-	268,954	(268,954)	-	-
Total Public Support and Revenue	<u>4,445,584</u>	<u>(280)</u>	<u>-</u>	<u>4,445,304</u>	<u>4,243,089</u>	<u>182,294</u>	<u>400,050</u>	<u>4,825,433</u>
Expenses								
Program services	4,009,775			4,009,775	3,528,794			3,528,794
Management and general	363,020			363,020	405,649			405,649
Fundraising	537,900			537,900	503,802			503,802
Total Expenses	<u>4,910,695</u>			<u>4,910,695</u>	<u>4,438,245</u>			<u>4,438,245</u>
Changes in Net Assets Before Gains and (Losses)	<u>(465,111)</u>	<u>(280)</u>	<u>-</u>	<u>(465,391)</u>	<u>(195,156)</u>	<u>182,294</u>	<u>400,050</u>	<u>387,188</u>
Gain (Loss) on Sale of Property and Equipment	1,500			1,500	(2,250)			(2,250)
Investment Income, Gains, and Losses, net	1,004,416			1,004,416	(816,875)			(816,875)
Total Gains and (Losses)	<u>1,005,916</u>			<u>1,005,916</u>	<u>(819,125)</u>			<u>(819,125)</u>
Total Changes in Net Assets	540,805	(280)	-	540,525	(1,014,281)	182,294	400,050	(431,937)
Net Assets - beginning 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>
Net Assets - end of year	<u>\$ 4,114,365</u>	<u>\$ 368,779</u>	<u>\$ 551,036</u>	<u>\$ 5,034,180</u>	<u>\$ 3,573,560</u>	<u>\$ 369,059</u>	<u>\$ 551,036</u>	<u>\$ 4,493,655</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2010

	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	\$ 1,728,254	\$ 86,280	\$ 203,185	\$ 193,780	\$ 2,211,499	\$ 241,810	\$ 85,520	\$ 2,538,829
Payroll taxes and benefits	<u>355,347</u>	<u>17,465</u>	<u>33,026</u>	<u>29,159</u>	<u>434,997</u>	<u>37,162</u>	<u>19,367</u>	<u>491,526</u>
Total Payroll Expenses	2,083,601	103,745	236,211	222,939	2,646,496	278,972	104,887	3,030,355
Food, supplies, and medicine	488,742	1,270	83,521	87,226	660,759	979	5,073	666,811
Printing	31,326	-	289	31,081	62,696	1,330	161,817	225,843
Repairs and maintenance	88,308	2,307	8,009	10,863	109,487	4,376	34,893	148,756
Depreciation	114,064	5,946	2,252	18,846	141,108	1,587	4,143	146,838
Fundraising support	2,667	-	14	390	3,071	539	112,709	116,319
Professional fees	65,290	641	1,371	3,715	71,017	43,543	1,339	115,899
Utilities	56,068	8,930	984	13,522	79,504	975	703	81,182
Postage	4,751	154	37	7,409	12,351	866	66,997	80,214
Marketing and promotion	42,796	1,027	736	2,616	47,175	474	23,411	71,060
Investment and bank fees	15,218	3,683	825	11,621	31,347	21,261	10,923	63,531
Travel and meetings	42,880	93	2,378	1,267	46,618	4,444	6,168	57,230
Insurance	29,242	3,019	1,576	4,025	37,862	1,091	470	39,423
Miscellaneous	18,706	74	1,646	9,843	30,269	1,405	812	32,486
Telephone	21,030	948	405	2,311	24,694	747	268	25,709
Taxes and licenses	6,240	(10,079)	1,383	6,841	4,385	421	882	5,688
Grants to others	<u>918</u>	<u>-</u>	<u>4</u>	<u>14</u>	<u>936</u>	<u>10</u>	<u>2,405</u>	<u>3,351</u>
Total Expenses	<u>\$ 3,111,847</u>	<u>\$ 121,758</u>	<u>\$ 341,641</u>	<u>\$ 434,529</u>	<u>\$ 4,009,775</u>	<u>\$ 363,020</u>	<u>\$ 537,900</u>	<u>\$ 4,910,695</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
Repairs and maintenance	70,967	4,235	1,528	9,437	86,167	5,346	13,996	105,509
Depreciation	102,239	3,475	1,809	17,349	124,872	1,554	3,044	129,470
Fundraising support	47	-	-	2	49	2	82,773	82,824
Professional fees	14,158	1,655	1,121	2,090	19,024	21,074	4,392	44,490
Utilities	60,196	9,175	1,266	16,458	87,095	1,740	1,269	90,104
Postage	8,573	158	370	3,868	12,969	964	55,109	69,042
Marketing and promotion	52,481	994	621	2,152	56,248	1,437	50,520	108,205
Investment and bank fees	14,040	1,805	1,598	10,718	28,161	18,414	27,805	74,380
Travel and meetings	37,147	47	688	2,463	40,345	2,536	5,053	47,934
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

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Cash received from donors	\$ 3,435,731	\$ 3,404,365
Cash received from adoptions	377,012	398,964
Cash received from other program service fees	393,170	482,830
Cash received from boarders	89,111	10,403
Cash received from sale of merchandise	55,211	54,049
Cash received from interest	87,221	119,661
Cash paid to employees	(3,009,345)	(2,809,968)
Cash paid to vendors	(1,737,602)	(1,593,563)
Interest paid	<u>(110)</u>	<u>(261)</u>
Net Cash (Used) Provided by Operating Activities	<u>(309,601)</u>	<u>66,480</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(81,997)	(76,922)
Purchases of investments	(1,086,742)	(1,229,998)
Sales of investments	<u>1,022,369</u>	<u>744,621</u>
Net Cash Used by Investing Activities	<u>(146,370)</u>	<u>(562,299)</u>
Cash Flows From Financing Activities		
Repayments on capital lease obligations	(3,850)	(3,699)
Cash restricted to endowment	<u>-</u>	<u>400,050</u>
Net Cash (Used) Provided by Financing Activities	<u>(3,850)</u>	<u>396,351</u>
Change in Cash and Cash Equivalents	(459,821)	(99,468)
Cash and Cash Equivalents - beginning of year	<u>1,020,783</u>	<u>1,120,251</u>
Cash and Cash Equivalents - end of year	<u>\$ 560,962</u>	<u>\$ 1,020,783</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Changes in Net Assets to Net Cash Flows From Operating Activities		
Changes in net assets	\$ 540,525	\$ (431,937)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities		
Depreciation	146,838	129,470
Donation of investments	(12,785)	(166,648)
Endowment contributions	-	(400,050)
Net (gain) loss on investments	(882,321)	936,536
(Gain) loss on disposal of property and equipment	(1,500)	2,250
(Increase) decrease in		
Promises to give	(234,437)	119,086
Prepaid expenses and other assets	29,836	(81,139)
Inventory	11,184	(22,164)
Increase (decrease) in		
Accounts payable and accrued expenses	14,719	53,311
Unearned revenue	78,340	(72,235)
Net Cash (Used) Provided by Operating Activities	<u>\$ (309,601)</u>	<u>\$ 66,480</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

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 bring people and pets together for lifelong relationships.

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, 2010 and 2009, the placement rate was 92% and 88.6%, 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, the Seattle Humane Society offers 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.

§ *Pet Project:* The Seattle Humane Society provides pet food, litter, grooming services, and veterinary care to pets of low-income individuals disabled by AIDS.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- § *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

In accordance with financial accounting standards, 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>2010</u>	<u>2009</u>
Lexus Fund - Medical care for dogs	\$ 255,240	\$ 274,500
Disaster preparedness	27,474	43,078
Mobile adoptions/education	-	33,622
Behavior program	39,080	-
Various projects benefiting animals	46,985	17,859
	<u>\$ 368,779</u>	<u>\$ 369,059</u>

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fair value and consist of the following at March 31,

	<u>2010</u>	<u>2009</u>
Cash held for investment	\$ 21,451	\$ 6,277
Equity securities	1,434,251	1,122,795
Corporate and government bonds	1,201,508	749,489
Annuities	126,846	161,720
	<u>\$2,784,056</u>	<u>\$2,040,281</u>

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

	<u>2010</u>	<u>2009</u>
Cash held for investment	\$ 5,522	\$ 5,346
Equity securities	425,422	324,227
Corporate and government bonds	332,660	218,327
	<u>\$ 763,604</u>	<u>\$ 547,900</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 are stated at estimated net realizable value and included in promises to give.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2010</u>	<u>2009</u>
Land		\$ 296,524	\$ 296,524
Building	5 - 35 years	1,557,277	1,547,490
Equipment	5 - 10 years	<u>828,722</u>	<u>809,761</u>
		2,682,523	2,653,775
Less accumulated depreciation		<u>(1,883,417)</u>	<u>(1,791,328)</u>
		<u>\$ 799,106</u>	<u>\$ 862,447</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, 2010 and 2009, the Seattle Humane Society received approximately 168,321 and 111,823 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, 2010 and 2009, in-kind goods and services of \$105,633 and \$87,576, respectively, were used for program services.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$71,060 and \$108,205 for the years ended March 31, 2010 and 2009, 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.

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.

NOTE B - PROMISES TO GIVE

Unconditional promises to give are \$376,502 as of March 31, 2010. Promises to give of \$40,000 are considered long term, with \$20,000 payments due in years ending March 31, 2012 and 2013. Discounts on long-term promises to give are considered immaterial and uncollectible promises are expected to be insignificant.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

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. Under U.S. generally accepted accounting principles, the net assets of endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as in effect in the State of Washington and as interpreted by the Board of Directors, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable.

Accordingly, 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 UPMIFA, 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 UPMIFA 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 \$11,724 and \$34,357 as of March 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE C - ENDOWMENT (Continued)

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.

Investment earnings from the Seattle Humane Society's endowment funds are classified as temporarily restricted net assets to be used for certain purposes or time periods, as stipulated by the donors.

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 Seattle 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.

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, 2010:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 27,945	\$ 59,140	\$ 87,085
James A. Gilruth Endowment	-	196,347	400,000	596,347
Leah Buhner Veterinary Care Endowment	(11,724)	-	91,896	80,172
Total endowment funds	<u>\$ (11,724)</u>	<u>\$ 224,292</u>	<u>\$ 551,036</u>	<u>\$ 763,604</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE C - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2010:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ (3,136)	\$ -	\$ 551,036	\$ 547,900
Investment return:				
Investment income	-	20,985	-	20,985
Net gains and (losses)	(8,588)	203,307	-	194,719
Total investment return	<u>(8,588)</u>	<u>224,292</u>	-	<u>215,704</u>
Endowments, end of year	<u>\$ (11,724)</u>	<u>\$ 224,292</u>	<u>\$ 551,036</u>	<u>\$ 763,604</u>

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	<u>(34,357)</u>	-	<u>91,896</u>	<u>57,539</u>
Total endowment funds	<u>\$ (3,136)</u>	<u>\$ -</u>	<u>\$ 551,036</u>	<u>\$ 547,900</u>

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	<u>(20,523)</u>	<u>4,989</u>	-	<u>(15,534)</u>
Contributions, net			400,050	400,050
Expenditures/Appropriations	<u>(82)</u>	<u>(4,989)</u>	-	<u>(5,071)</u>
Endowments, end of year	<u>\$ (3,136)</u>	<u>\$ -</u>	<u>\$ 551,036</u>	<u>\$ 547,900</u>

NOTE D - FAIR VALUE MEASUREMENTS

In accordance with Financial Accounting Standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial Accounting Standards 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

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.

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.

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.

Assets and liabilities carried at fair value on a recurring basis (at least annually) using Level 1 inputs include investments in equity securities, corporate and government bonds, and annuities as of March 31, 2010. The Seattle Humane Society had no items carried at fair value on a recurring basis using Level 2 or Level 3 inputs as of March 31, 2010.

NOTE E - COMMITMENT

The Seattle Humane Society leases certain equipment with a total recorded cost of \$18,725 and accumulated amortization of \$18,065 as of March 31, 2010 under a non-cancelable capital lease. Total monthly payments are \$330 including interest of 4% per annum. Scheduled lease payments for the year ending March 31, 2011 total \$657 and \$3 for interest.

NOTE F - RELATED PARTIES

During the years ended March 31, 2010 and 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 years ending March 31, 2010 and 2009, expenses totaling \$130,164 and \$131,584 were incurred and \$2,152 and \$28,227 was owing at year end, respectively. 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2010 AND 2009

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2010 through September 28, 2010 which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at March 31, 2010, including the estimates inherent in the processing of financial statements.