

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2011 AND 2010

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

September 27, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 AND 2010

	<u>2011</u>	<u>2010</u> <u>As Restated</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,669,042	\$ 563,428
Investments	3,046,891	2,784,056
Promises to give	550,826	336,502
Accounts receivable	28,830	26,763
Prepaid expenses and other assets	66,193	50,161
Inventory	173,087	125,562
Total Current Assets	<u>5,534,869</u>	<u>3,886,472</u>
Promises to Give, long-term	20,000	40,000
Endowment Investments	882,411	763,604
Property and Equipment, net	<u>786,096</u>	<u>799,106</u>
	<u>\$ 7,223,376</u>	<u>\$ 5,489,182</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 410,359	\$ 341,815
Unearned revenue	175,355	112,530
Current portion of capital lease obligations	-	657
Total Current Liabilities	<u>585,714</u>	<u>455,002</u>
Net Assets		
Unrestricted	4,658,529	3,091,624
Unrestricted - invested in property and equipment	<u>786,096</u>	<u>798,449</u>
Total Unrestricted Net Assets	5,444,625	3,890,073
Temporarily restricted	572,001	593,071
Permanently restricted	<u>621,036</u>	<u>551,036</u>
Total Net Assets	<u>6,637,662</u>	<u>5,034,180</u>
	<u>\$ 7,223,376</u>	<u>\$ 5,489,182</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2011 AND 2010

	2011				2010 - As Restated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue								
Public support								
Contributions	\$ 2,357,163	\$ 146,070	\$ 70,000	\$ 2,573,233	\$ 2,072,184	\$ 250,231	\$ -	\$ 2,322,415
Bequests	1,627,155	-	-	1,627,155	503,792	-	-	503,792
Special events, less direct cost of benefits provided to participants of \$113,085 and \$108,144	452,891	265,400	-	718,291	389,188	246,200	-	635,388
In-kind donations	112,308	-	-	112,308	105,633	-	-	105,633
Total Public Support	<u>4,549,517</u>	<u>411,470</u>	<u>70,000</u>	<u>5,030,987</u>	<u>3,070,797</u>	<u>496,431</u>	<u>-</u>	<u>3,567,228</u>
Revenue								
Adoption fees	436,190			436,190	381,348			381,348
Boarding	85,314			85,314	91,084			91,084
Other program service fees	465,663			465,663	388,834			388,834
Merchandise sales, net of cost of goods sold of \$32,748 and \$38,401	26,830			26,830	16,810			16,810
Total Revenue	<u>1,013,997</u>			<u>1,013,997</u>	<u>878,076</u>			<u>878,076</u>
Net Assets Released from Purpose Restrictions	501,508	(501,508)		-	496,711	(496,711)		-
Total Public Support and Revenue	<u>6,065,022</u>	<u>(90,038)</u>	<u>70,000</u>	<u>6,044,984</u>	<u>4,445,584</u>	<u>(280)</u>	<u>-</u>	<u>4,445,304</u>
Expenses								
Program services	3,814,668			3,814,668	4,009,775			4,009,775
Management and general	410,782			410,782	363,020			363,020
Fundraising	568,537			568,537	537,900			537,900
Total Expenses	<u>4,793,987</u>			<u>4,793,987</u>	<u>4,910,695</u>			<u>4,910,695</u>
Changes in Net Assets Before Gains and (Losses)	<u>1,271,035</u>	<u>(90,038)</u>	<u>70,000</u>	<u>1,250,997</u>	<u>(465,111)</u>	<u>(280)</u>	<u>-</u>	<u>(465,391)</u>
Gain on Sale of Property and Equipment	-			-	1,500			1,500
Investment Income, Gains and Losses, net	283,517	68,968		352,485	780,124	224,292		1,004,416
Total Gains and (Losses)	<u>283,517</u>	<u>68,968</u>		<u>352,485</u>	<u>781,624</u>	<u>224,292</u>		<u>1,005,916</u>
Total Changes in Net Assets	1,554,552	(21,070)	70,000	1,603,482	316,513	224,012	-	540,525
Net Assets - beginning of year	<u>3,890,073</u>	<u>593,071</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>
Net Assets - end of year	<u>\$ 5,444,625</u>	<u>\$ 572,001</u>	<u>\$ 621,036</u>	<u>\$ 6,637,662</u>	<u>\$ 3,890,073</u>	<u>\$ 593,071</u>	<u>\$ 551,036</u>	<u>\$ 5,034,180</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2011

	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	\$ 1,801,637	\$ 85,646	\$ 66,533	\$ 202,132	\$ 2,155,948	\$ 250,028	\$ 125,029	\$ 2,531,005
Payroll taxes and benefits	372,067	26,052	13,292	37,691	449,102	38,720	22,528	510,350
Total Payroll Expenses	2,173,704	111,698	79,825	239,823	2,605,050	288,748	147,557	3,041,355
Food, supplies, and medicine	369,765	3,088	98,743	94,098	565,694	827	5,138	571,659
Printing	32,582	884	344	34,324	68,134	684	164,781	233,599
Depreciation	123,610	7,114	1,760	17,380	149,864	1,570	2,951	154,385
Fundraising support	146	-	-	5	151	500	115,596	116,247
Professional fees	14,011	1,390	380	1,858	17,639	81,653	7,308	106,600
Utilities	74,025	10,840	543	17,645	103,053	1,641	281	104,975
Repairs and maintenance	70,854	845	676	3,997	76,372	7,602	17,470	101,444
Postage	8,931	-	106	8,772	17,809	743	71,921	90,473
Investment and bank fees	18,367	6,079	120	13,415	37,981	23,495	6,550	68,026
Marketing and promotion	40,407	555	120	2,362	43,444	600	23,098	67,142
Travel and meetings	33,944	21	1,004	890	35,859	552	3,664	40,075
Insurance	27,413	1,505	443	2,605	31,966	503	260	32,729
Miscellaneous	18,685	275	421	3,055	22,436	881	1,014	24,331
Telephone	17,620	756	103	1,721	20,200	553	165	20,918
Taxes and licenses	9,338	1,304	578	7,629	18,849	230	782	19,861
Grants to others	166	-	-	1	167	-	1	168
Total Expenses	\$ 3,033,568	\$ 146,354	\$ 185,166	\$ 449,580	\$ 3,814,668	\$ 410,782	\$ 568,537	\$ 4,793,987

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	\$ 1,898,130	\$ 86,280	\$ 33,309	\$ 193,780	\$ 2,211,499	\$ 241,810	\$ 85,520	\$ 2,538,829
Payroll taxes and benefits	382,959	17,465	5,414	29,159	434,997	37,162	19,367	491,526
Total Payroll Expenses	2,281,089	103,745	38,723	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
Depreciation	88,308	2,307	8,009	10,863	109,487	4,376	34,893	148,756
Fundraising support	114,064	5,946	2,252	18,846	141,108	1,587	4,143	146,838
Professional fees	2,667	-	14	390	3,071	539	112,709	116,319
Utilities	65,290	641	1,371	3,715	71,017	43,543	1,339	115,899
Repairs and maintenance	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
Investment and bank fees	42,796	1,027	736	2,616	47,175	474	23,411	71,060
Marketing and promotion	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	918	-	4	14	936	10	2,405	3,351
Total Expenses	\$ 3,309,335	\$ 121,758	\$ 144,153	\$ 434,529	\$ 4,009,775	\$ 363,020	\$ 537,900	\$ 4,910,695

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from donors	\$ 4,810,983	\$ 3,400,857
Cash received from adoptions	436,190	381,348
Cash received from other program service fees	465,663	388,834
Cash received from boarders	79,652	89,111
Cash received from sale of merchandise	59,578	55,211
Cash received from interest	111,109	87,221
Cash paid to employees	(3,022,959)	(3,009,345)
Cash paid to vendors	(1,641,583)	(1,735,955)
Interest paid	<u>(3)</u>	<u>(110)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,298,630</u>	<u>(342,828)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(141,375)	(81,997)
Purchases of investments	(1,363,181)	(1,086,742)
Sales of investments	<u>1,242,197</u>	<u>1,057,243</u>
Net Cash Used by Investing Activities	<u>(262,359)</u>	<u>(111,496)</u>
<b>Cash Flows From Financing Activities</b>		
Repayments on capital lease obligations	(657)	(3,850)
Cash restricted to endowment	<u>70,000</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>69,343</u>	<u>(3,850)</u>
Change in Cash and Cash Equivalents	1,105,614	(458,174)
Cash and Cash Equivalents - beginning of year	<u>563,428</u>	<u>1,021,602</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,669,042</u>	<u>\$ 563,428</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Changes in Net Assets to Net Cash Flows From Operating Activities</b>		
Changes in net assets	\$ 1,603,482	\$ 540,525
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Depreciation	154,385	146,838
Donation of investments	(19,282)	(12,785)
Endowment contributions	(70,000)	-
Net gain on investments	(241,376)	(917,195)
Gain on disposal of property and equipment	-	(1,500)
(Increase) decrease in		
Promises to give	(194,324)	(234,437)
Prepaid expenses and other assets	(18,099)	29,836
Inventory	(47,525)	12,831
Increase in		
Accounts payable and accrued expenses	68,544	14,719
Unearned revenue	62,825	78,340
	<u>62,825</u>	<u>78,340</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,298,630</u>	<u>\$ (342,828)</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

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, 2011 and 2010, the placement rate was 94% and 92%, 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. This service is ending effective April 1, 2011.

**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, 2011 AND 2010

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.
- § *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>2011</u>	<u>2010</u>
Lexus Fund - Medical care for dogs	\$ 243,078	\$ 255,240
Unappropriated endowment earnings	263,942	224,292
Disaster preparedness	19,362	27,474
Behavior program	-	39,080
Various projects benefiting animals	<u>45,619</u>	<u>46,985</u>
	<u>\$ 572,001</u>	<u>\$ 593,071</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.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value and consist of the following at March 31:

	<u>2011</u>	<u>2010</u>
Cash held for investment	\$ 32,290	\$ 21,451
Equity securities	1,968,281	1,434,251
Corporate and government bonds	955,013	1,201,508
Annuities	<u>91,307</u>	<u>126,846</u>
	<u>\$ 3,046,891</u>	<u>\$ 2,784,056</u>

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

	<u>2011</u>	<u>2010</u>
Cash held for investment	\$ 23,830	\$ 5,522
Equity securities	508,573	425,422
Corporate and government bonds	<u>350,008</u>	<u>332,660</u>
	<u>\$ 882,411</u>	<u>\$ 763,604</u>

Return on investments consist of the following for the years ended March 31:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 111,109	\$ 87,221
Realized and Unrealized Gains, net	<u>241,376</u>	<u>917,195</u>
	<u>\$ 352,485</u>	<u>\$ 1,004,416</u>

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.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

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>2011</u>	<u>2010</u>
Land		\$ 296,524	\$ 296,524
Building	5 – 35 years	1,648,144	1,557,277
Equipment	5 – 10 years	<u>879,229</u>	<u>828,722</u>
		2,823,897	2,682,523
Less accumulated depreciation		<u>(2,037,801)</u>	<u>(1,883,417)</u>
		<u>\$ 786,096</u>	<u>\$ 799,106</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, 2011 and 2010, the Seattle Humane Society received approximately 182,477 and 168,321 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, 2011 and 2010, in-kind goods and services of \$112,308 and \$105,633, 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.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$67,142 and \$71,060 for the years ended March 31, 2011 and 2010, 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.

Reclassifications

Certain accounts in the March 31, 2010 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, 2011.

NOTE B - PROMISES TO GIVE

Unconditional promises to give are \$570,826 as of March 31, 2011. Promises to give of \$20,000 are considered long term, due in the year ending March 31, 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, 2011 AND 2010

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 \$2,567 and \$11,724 as of March 31, 2011 and 2010, 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, 2011 AND 2010

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, 2011:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 34,405	\$ 129,140	\$ 163,545
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	229,537	400,000	629,537
Leah Buhner Veterinary Care Endowment	<u>(2,567)</u>	<u>-</u>	<u>91,896</u>	<u>89,329</u>
Total endowment funds	<u>\$ (2,567)</u>	<u>\$ 263,942</u>	<u>\$ 621,036</u>	<u>\$ 882,411</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

NOTE C - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2011:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ (11,724)	\$ 224,292	\$ 551,036	\$ 763,604
Investment return:				
Investment income	2,129	21,385	-	23,514
Net gains and (losses)	<u>7,207</u>	<u>47,583</u>	-	<u>54,790</u>
Total investment return	<u>9,336</u>	<u>68,968</u>	-	<u>78,304</u>
Contributions, net			70,000	70,000
Expenditures	<u>(179)</u>	<u>(29,318)</u>	-	<u>(29,497)</u>
Endowments, end of year	<u>\$ (2,567)</u>	<u>\$ 263,942</u>	<u>\$ 621,036</u>	<u>\$ 882,411</u>

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 for the preservation and maintenance of dogs and cats	-	196,347	400,000	596,347
Leah Buhner Veterinary Care Endowment	<u>(11,724)</u>	-	<u>91,896</u>	<u>80,172</u>
Total endowment funds	<u>\$ (11,724)</u>	<u>\$ 224,292</u>	<u>\$ 551,036</u>	<u>\$ 763,604</u>

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)	<u>(8,588)</u>	<u>203,307</u>	-	<u>194,719</u>
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>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2011 AND 2010

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. 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, and corporate and government bonds as of March 31, 2011.

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities, and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. Annuities are valued on a nonrecurring basis using present value of future distributions expected to be received using discount rates between 1.3% and 2.3%, which is also a level 3 input. The Seattle Humane Society also uses fair value concepts to test various long lived assets for impairment.

NOTE E - RELATED PARTIES

During the years ended March 31, 2011 and 2010, 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, 2011 and 2010, expenses totaling \$98,412 and \$130,164 were incurred and \$190 and \$2,152 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, 2011 AND 2010

NOTE F - RECLASSIFICATION OF PRIOR YEAR AMOUNTS

During the current year, it was discovered that the unappropriated amounts of endowment earnings were inadvertently excluded from total temporarily restricted net assets. Accordingly, certain amounts as shown on the March 31, 2010 financial statements have been reclassified to correct this error. Reclassifications were as follows:

	<u>Previously Reported</u>	<u>Reclass- ification</u>	<u>As Restated</u>
Unrestricted Investment Income, Gains and Losses, net	\$ 1,004,416	\$ (224,292)	\$ 780,124
Temporarily restricted Investment Income, Gains and Losses, net	\$ -	\$ 224,292	\$ 224,292
Unrestricted Net Assets - end of year	\$ 4,114,365	\$ (224,292)	\$ 3,890,073
Temporarily Restricted Net Assets - end of year	\$ 368,779	\$ 224,292	\$ 593,071

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2011 through September 27, 2011, 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, 2011, including the estimates inherent in the processing of financial statements.