

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2015 AND 2014



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

September 17, 2015

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

We have audited the accompanying financial statements of The Humane Society for Seattle/King County, a nonprofit corporation, which comprise the statements of financial position as of March 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of The Humane Society for Seattle/King County as of March 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Jacobson Jarvis & Co, PLLC*

Jacobson Jarvis & Co, PLLC

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,347,422	\$ 2,478,935
Investments	7,093,044	5,203,718
Promises to give	420,772	469,718
Other receivables	88,705	65,969
Prepaid expenses and other assets	196,833	194,414
Inventory	182,066	183,042
	<u>9,328,842</u>	<u>8,595,796</u>
Investments, Capital Campaign	5,845,445	3,062,866
Promises to Give, Capital Campaign	5,638,592	4,388,277
Endowment Investments	1,088,435	1,059,480
Property and Equipment, net	<u>1,972,010</u>	<u>1,138,070</u>
	<u>\$23,873,324</u>	<u>\$18,244,489</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 822,757	\$ 498,100
Unearned revenue	<u>383,801</u>	<u>234,456</u>
	<u>1,206,558</u>	<u>732,556</u>
Net Assets		
Unrestricted	6,623,873	6,314,005
Unrestricted - invested in property and equipment	<u>1,972,010</u>	<u>1,138,070</u>
	8,595,883	7,452,075
Temporarily restricted	13,418,887	9,407,862
Permanently restricted	<u>651,996</u>	<u>651,996</u>
	<u>22,666,766</u>	<u>17,511,933</u>
	<u>\$23,873,324</u>	<u>\$18,244,489</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING:</b>								
Public Support and Revenue								
Public Support								
Contributions	\$ 2,837,768	\$ 243,784	\$ -	\$ 3,081,552	\$ 2,758,963	\$ 211,747	\$ -	\$ 2,970,710
Bequests	687,819	291,435	-	979,254	393,386	-	-	393,386
Special events, less direct cost of benefits provided to participants of \$249,837 and \$257,024	818,412	568,950	-	1,387,362	849,492	667,972	-	1,517,464
In-kind donations	110,251	-	-	110,251	97,571	-	-	97,571
Total Public Support	4,454,250	1,104,169	-	5,558,419	4,099,412	879,719	-	4,979,131
Revenue								
Adoption fees	601,150			601,150	643,960			643,960
Other program service fees	596,866			596,866	537,382			537,382
Merchandise sales, net of cost of goods sold of \$53,717 and \$50,245	33,699			33,699	28,435			28,435
Total Revenue	1,231,715			1,231,715	1,209,777			1,209,777
Net Assets Released from Purpose Restrictions	576,521	(576,521)		-	759,846	(759,846)		-
Total Operating Public Support and Revenue	6,262,486	527,648	-	6,790,134	6,069,035	119,873	-	6,188,908
Expenses								
Program services	5,126,175			5,126,175	4,893,029			4,893,029
Management and general	515,454			515,454	504,635			504,635
Fundraising	696,421			696,421	707,006			707,006
Total Operating Expenses	6,338,050			6,338,050	6,104,670			6,104,670
Operating Change in Net Assets	(75,564)	527,648	-	452,084	(35,635)	119,873	-	84,238
<b>NON-OPERATING:</b>								
Investment income, gains and losses, net	297,362	67,429		364,791	729,795	151,476		881,271
Capital campaign contributions	-	4,610,167		4,610,167	-	5,736,425		5,736,425
Capital campaign in-kind donations	-	-		-	-	33,720		33,720
Capital campaign costs	(272,209)			(272,209)	(357,136)			(357,136)
Net assets released - capital campaign	1,194,219	(1,194,219)		-	701,690	(701,690)		-
Non-Operating Change in Net Assets	1,219,372	3,483,377	-	4,702,749	1,074,349	5,219,931	-	6,294,280
Total Change in Net Assets	1,143,808	4,011,025	-	5,154,833	1,038,714	5,339,804	-	6,378,518
Net Assets - beginning of year	7,452,075	9,407,862	651,996	17,511,933	6,413,361	4,068,058	651,996	11,133,415
Net Assets - end of year	\$ 8,595,883	\$13,418,887	\$ 651,996	\$22,666,766	\$ 7,452,075	\$9,407,862	\$ 651,996	\$17,511,933

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2015

	PROGRAM SERVICES				SUPPORTING SERVICES			
	Adoption Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	Capital Campaign	Total
Salaries	\$ 2,409,426	\$ 237,323	\$ 266,004	\$ 2,912,753	\$ 366,435	\$ 116,712	\$ 112,509	\$ 3,508,409
Payroll taxes and benefits	570,267	48,460	32,534	651,261	58,656	18,653	14,815	743,385
Total Payroll Expenses	2,979,693	285,783	298,538	3,564,014	425,091	135,365	127,324	4,251,794
Food, supplies, and medicine	515,778	131,393	159,646	806,817	2,284	4,631	1,710	815,442
Printing	50,724	572	7,611	58,907	924	211,150	4,953	275,934
Repairs and maintenance	100,279	4,972	4,330	109,581	7,808	64,276	16,897	198,562
Marketing and promotions	74,177	6,779	2,443	83,399	869	41,345	15,772	141,385
Fundraising support	-	-	-	-	-	125,276	5,201	130,477
Professional fees	37,228	1,458	1,503	40,189	25,154	2,864	54,682	122,889
Depreciation	108,352	5,954	2,376	116,682	585	617	-	117,884
Investment and bank fees	36,175	1,130	19,273	56,578	45,748	10,705	-	113,031
Utilities	88,613	1,402	20,737	110,752	1,533	18	-	112,303
Postage	2,551	25	7,965	10,541	854	91,231	1,327	103,953
Travel and meetings	61,404	2,717	1,575	65,696	1,958	5,267	6,109	79,030
Miscellaneous	18,813	1,073	5,018	24,904	1,674	2,128	38,234	66,940
Insurance	39,107	462	2,496	42,065	446	226	-	42,737
Taxes and licenses	12,025	732	7,486	20,243	188	1,279	-	21,710
Telephone	13,633	119	1,138	14,890	319	33	-	15,242
Grants to others	872	12	33	917	19	10	-	946
Total Expenses	\$ 4,139,424	\$ 444,583	\$ 542,168	\$ 5,126,175	\$ 515,454	\$ 696,421	\$ 272,209	\$ 6,610,259

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2014

	PROGRAM SERVICES				SUPPORTING SERVICES			
	Adoption Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	Capital Campaign	Total
Salaries	\$ 2,254,221	\$ 226,185	\$ 249,943	\$ 2,730,349	\$ 363,422	\$ 110,335	\$ 54,224	\$ 3,258,330
Payroll taxes and benefits	540,767	41,344	29,292	611,403	53,388	20,763	6,393	691,947
Total Payroll Expenses	2,794,988	267,529	279,235	3,341,752	416,810	131,098	60,617	3,950,277
Food, supplies, and medicine	510,079	144,674	119,343	774,096	1,281	3,596	852	779,825
Printing	29,456	256	37,190	66,902	1,476	208,458	1,336	278,172
Repairs and maintenance	101,812	6,805	5,052	113,669	9,139	75,499	16,860	215,167
Marketing and promotions	81,146	33,771	5,651	120,568	1,282	51,475	50,000	223,325
Fundraising support	41	1	2	44	1,120	122,490	2,861	126,515
Professional fees	31,619	3,074	1,348	36,041	32,608	4,456	191,194	264,299
Depreciation	79,316	6,152	2,861	88,329	733	1,782	-	90,844
Investment and bank fees	39,159	5,051	10,662	54,872	32,922	8,209	-	96,003
Utilities	93,633	1,433	22,177	117,243	1,765	63	-	119,071
Postage	7,996	58	9,807	17,861	1,087	89,363	44	108,355
Travel and meetings	63,875	788	3,279	67,942	1,592	7,379	12,761	89,674
Miscellaneous	18,156	537	629	19,322	1,498	1,553	20,611	42,984
Insurance	31,084	1,054	2,215	34,353	392	199	-	34,944
Taxes and licenses	12,947	2,740	5,145	20,832	453	1,311	-	22,596
Telephone	15,622	206	1,228	17,056	446	58	-	17,560
Grants to others	1,971	20	156	2,147	31	17	-	2,195
Total Expenses	\$ 3,912,900	\$ 474,149	\$ 505,980	\$ 4,893,029	\$ 504,635	\$ 707,006	\$ 357,136	\$ 6,461,806



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 5,896,296	\$ 5,441,434
Cash received from adoptions	601,150	643,960
Cash received from other program service fees	574,130	497,442
Cash received from sale of merchandise	87,416	78,680
Cash paid to employees	(4,189,750)	(3,942,744)
Cash paid to vendors	<u>(2,480,881)</u>	<u>(2,599,299)</u>
Net Cash Provided by Operating Activities	<u>488,361</u>	<u>119,473</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(643,657)	(561,237)
Purchases of investments	(15,767,982)	(8,103,832)
Sales of investments	<u>11,431,913</u>	<u>6,043,005</u>
Net Cash Used by Investing Activities	<u>(4,979,726)</u>	<u>(2,622,064)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted to capital campaign	<u>3,359,852</u>	<u>3,731,075</u>
Net Cash Provided by Financing Activities	<u>3,359,852</u>	<u>3,731,075</u>
Change in Cash and Cash Equivalents	(1,131,513)	1,228,484
Cash and Cash Equivalents - beginning of year	<u>2,478,935</u>	<u>1,250,451</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,347,422</u>	<u>\$ 2,478,935</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Reconciliation of Changes in Net Assets to Net Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 5,154,833	\$ 6,378,518
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	117,884	90,844
Capital campaign contributions	(4,610,167)	(5,736,425)
Reinvested dividends	(213,487)	(106,145)
Net gain on investments	(151,304)	(775,126)
Decrease (increase) in:		
Promises to give	48,946	324,404
Other receivables	(22,736)	(39,940)
Prepaid expenses and other assets	(2,419)	(48,737)
Inventory	976	(13,909)
Increase (decrease) in:		
Accounts payable and accrued expenses	16,490	67,543
Unearned revenue	<u>149,345</u>	<u>(21,554)</u>
Net Cash Provided by Operating Activities	<u>\$ 488,361</u>	<u>\$ 119,473</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Humane Society for Seattle/King County (Seattle Humane) is an independent, not-for-profit, community-supported organization. First opening its doors in 1897, Seattle Humane is not a chapter or affiliate of any national animal organization. Seattle Humane's mission is to proudly promote the human-animal bond by saving and serving pets in need.

Capital Campaign

Seattle Humane is building a first for our region – an adoption center, primary care teaching hospital, and animal shelter under one roof. Scheduled to break ground in early 2016 and open doors to the public in mid-2017, Seattle Humane is on track to truly change the face of animal welfare in the State of Washington. Despite the best efforts of Seattle Humane and many other rescue groups in the region, thousands of pets are euthanized in Washington every year. Age, medical condition, or a behavioral issue could be the difference between life and death for a pet who could be adopted by a loving family if given more time and special attention. At the same time, pet overpopulation is a pervasive problem as many choose not to – or cannot afford to – have their pet spayed or neutered. Still more animals are sadly surrendered at shelters by their owners who lack the funds to buy pet food or pay for medical care. Many shelters are short on space and other resources needed to handle the demands placed on them by these challenges. While Seattle Humane's "live-save rate" is among the best in the nation, it too is limited in its ability to meet the needs of the community due to an aging facility and a demand for veterinary care that outstrips capacity. Seattle Humane is working with Animal Arts Design and other nationally recognized experts to ensure the new facility incorporates the best practices for animal health, welfare, and high-volume medical care and adoptions. The 57,000-square-foot adoption center, primary care teaching hospital, and animal shelter will replace Seattle Humane's facilities on its current site in Bellevue. It will be a practical place constructed with durable materials and spaces that work for both the animals and the people who care for them. This will also be a place of happiness and health, without the stigma that has plagued animal shelters in the past.

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

**Adoption Services:** Seattle Humane accepts cats and dogs from the public and transfers from municipal shelters, as well as a variety of small animals, including rabbits, hamsters, and rodents, 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. Seattle Humane neither euthanizes animals for lack of space nor places time limits on animals available for adoption. For the years ended March 31, 2015 and 2014, the placement rate was 97.8% and 97.9%, respectively.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Spay and Neuter Clinic:** Seattle Humane 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:** Seattle Humane 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. Seattle Humane's dog training classes enhance companionship by not only training animals for better dispositions, but also improving their socialization skills. Other programs and services include:

§ *Veterinary Student Training Programs:* Seattle Humane and Washington State University's College of Veterinary Medicine have formed a formal Strategic Alliance for on-site training of fourth-year veterinary students. Formal two-week elective rotations began in May 2013. The alliance between our two leading organizations is already having dramatic results. Veterinary students are currently doing rotations at Seattle Humane, with 75 students expected to cycle through in fiscal year 2015/16. Many of these students, after working at Seattle Humane, will make careers out of shelter medicine or volunteer for their local shelter.

WSU is in the top tier of veterinary medicine programs nationwide. It graduates over 100 students each year, and is a leader in discovering new ways to improve the lives of both people and animals. Innovative education programs in professionalism, ethics, leadership and medical communications prepare entry-level veterinarians who are best able to serve society.

§ *Community Outreach Programs:* Seattle Humane 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, Seattle Humane offers a free Pet Loss Support Group with trained facilitators.

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

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

§ *Adventure Camp for Kids:* Seattle Humane offers summer sessions for school-age children to have fun while learning about animals.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

§ *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 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 Seattle Humane are classified as follows:

Unrestricted net assets are available without restriction for support of Seattle Humane'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 available as follows:

	<u>2015</u>	<u>2014</u>
Capital campaign	\$ 11,703,124	\$ 8,287,176
Community outreach programs	485,959	-
Unappropriated endowment earnings	436,438	407,484
Lexus Fund - Medical care for dogs	521,415	238,763
Life-Saver rescue program	196,825	339,050
Various projects benefiting animals	69,461	26,579
Disaster preparedness	5,665	10,052
Public spay/neuter surgeries expansion	-	98,758
	<u>\$ 13,418,887</u>	<u>\$ 9,407,862</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.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-operating activities

Seattle Humane's non-operating activities include a major capital campaign, investment activities and other non-operating gains or losses.

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. Seattle Humane maintains cash deposits in bank accounts which exceed federally insured limits. Seattle Humane has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements (See Note D)

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value and consist of the following at March 31, 2015:

	Ordinary Funds	Capital Campaign Funds	Endowment Funds	Total
Cash held for investment	\$ 1,517,840	\$ 2,050,150	\$ 10,200	\$ 3,578,190
Equity securities	2,930,557	4,735	798,083	3,733,375
Corporate and government bonds	<u>2,644,647</u>	<u>3,790,560</u>	<u>280,152</u>	<u>6,715,359</u>
	<u>\$ 7,093,044</u>	<u>\$ 5,845,445</u>	<u>\$ 1,088,435</u>	<u>\$ 14,026,924</u>

Investments are carried at fair value and consist of the following at March 31, 2014:

	Ordinary Funds	Capital Campaign Funds	Endowment Funds	Total
Cash held for investment	\$ 98,742	\$ 3,062,866	\$ 20,541	\$ 3,182,149
Equity securities	3,591,658	-	775,399	4,367,057
Corporate and government bonds	<u>1,513,318</u>	<u>-</u>	<u>263,540</u>	<u>1,776,858</u>
	<u>\$ 5,203,718</u>	<u>\$ 3,062,866</u>	<u>\$ 1,059,480</u>	<u>\$ 9,326,064</u>

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

	2015	2014
Interest and dividends	\$ 213,487	\$ 106,145
Realized and unrealized gains, net	<u>151,304</u>	<u>775,126</u>
	<u>\$ 364,791</u>	<u>\$ 881,271</u>

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.

Bequests receivable

Seattle Humane has been named as beneficiary in certain bequests. At such time as Seattle Humane 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables are stated at net realizable value.

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>2015</u>	<u>2014</u>
Land		\$ 296,524	\$ 296,524
Construction in progress		1,260,234	344,554
Building	5 - 35 years	1,680,994	1,680,994
Equipment	5 - 10 years	<u>1,231,356</u>	<u>1,195,212</u>
		4,469,108	3,517,284
Less accumulated depreciation		<u>(2,497,098)</u>	<u>(2,379,214)</u>
		<u>\$ 1,972,010</u>	<u>\$ 1,138,070</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 Seattle Humane 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, 2015 and 2014, Seattle Humane received 212,450 and 207,533 volunteer hours, respectively.

Contributed services are recorded at rates that would have been paid for similar services if purchased. For the year ended March 31, 2014, in-kind services was comprised of donated administrative rental space of \$33,720.



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

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

Seattle Humane expenses the production costs of advertising as incurred. Advertising expense was \$125,613 and \$173,325 for the years ended March 31, 2015 and 2014, respectively, and is included in marketing and promotion expense.

Reclassification

Certain amounts in the March 31, 2014 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, 2014.

NOTE B - PROMISES TO GIVE

Pledges and bequests receivable at March 31, 2015 are as follows:

Receivable in less than one year	\$ 2,861,055
Receivable in one to five years	<u>3,444,536</u>
	6,305,591
Less: allowance for doubtful accounts	(58,848)
Less: present value discount	<u>(187,379)</u>
	<u>\$ 6,059,364</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE B - PROMISES TO GIVE (Continued)

Pledges receivable for capital purposes are included in long-term promises to give on the statements of financial position as the assets are considered for long-term use. Receivables due in more than one year are recorded at the present value of estimated future cash flows using a discount rate of 1.94%.

NOTE C - ENDOWMENT

Seattle Humane's endowment consists of four 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, Seattle Humane 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

Return Objectives and Risk Parameters

Seattle Humane 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).

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE C - ENDOWMENT (Continued)

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to meet or outperform, net of fee, the total return of a predetermined blended benchmark weighted in proportion to their strategic asset allocation mixes for all rolling three-year and five-year periods. Investment earnings from Seattle Humane'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, Seattle Humane 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). Seattle Humane 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

Distribution from the endowment funds will occur on an annual basis. The distribution amount is determined by calculating the moving average of the beginning-period market values of the endowment over the past 20 quarters, times 3.5%. This annual income distribution may be drawn from ordinary earned income, as well as appreciation, earned and unearned. If an annual distribution would result in an invasion of the original contributed principal, the annual distribution shall be reduced so as not to use principal.

Endowment net assets by fund type as of March 31, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 43,485	\$ 59,140	\$ 102,625
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	345,095	400,000	745,095
Leah Buhner Veterinary Care Endowment	-	19,613	91,896	111,509
Sammie's Fund Endowment	-	28,246	100,960	129,206
Total endowment funds	<u>\$ -</u>	<u>\$ 436,439</u>	<u>\$ 651,996</u>	<u>\$ 1,088,435</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE C - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ -	\$ 407,484	\$ 651,996	\$ 1,059,480
Investment return:				
Investment income	-	28,000	-	28,000
Net gains	-	39,429	-	39,429
Total investment return	-	67,429	-	67,429
Contributions, net			-	-
Appropriated for expenditure	-	(38,474)	-	(38,474)
Endowments, end of year	<u>\$ -</u>	<u>\$ 436,439</u>	<u>\$ 651,996</u>	<u>\$ 1,088,435</u>

Endowment net assets by fund type as of March 31, 2014:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 40,816	\$ 59,140	\$ 99,956
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	325,201	400,000	725,201
Leah Buhner Veterinary Care Endowment	-	16,783	91,896	108,679
Sammie's Fund Endowment	-	24,684	100,960	125,644
Total endowment funds	<u>\$ -</u>	<u>\$ 407,484</u>	<u>\$ 651,996</u>	<u>\$ 1,059,480</u>

Change in endowment net assets for the year ended March 31, 2014:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ -	\$ 279,703	\$ 651,996	\$ 931,699
Investment return:				
Investment income	-	19,135	-	19,135
Net gains	-	131,155	-	131,155
Total investment return	-	150,290	-	150,290
Contributions, net			-	-
Appropriated for expenditure	-	(22,509)	-	(22,509)
Endowments, end of year	<u>\$ -</u>	<u>\$ 407,484</u>	<u>\$ 651,996</u>	<u>\$ 1,059,480</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2015 AND 2014

NOTE D - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) are as follows:

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of March 31, 2015				
Equity securities	\$ 3,733,375	\$ -	\$ -	\$ 3,733,375
Corporate and government bonds	<u>6,715,359</u>	<u>-</u>	<u>-</u>	<u>6,715,359</u>
	<u>\$ 10,448,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,448,734</u>
As of March 31, 2014				
Equity securities	\$ 4,367,057	\$ -	\$ -	\$ 4,367,057
Corporate and government bonds	<u>1,776,858</u>	<u>-</u>	<u>-</u>	<u>1,776,858</u>
	<u>\$ 6,143,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,143,915</u>

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.

NOTE E - RELATED PARTIES

During the years ended March 31, 2015 and 2014, no board members directly profited from any company doing business with Seattle Humane. Several board members are employed by companies that provided goods and/or services to Seattle Humane 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 F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2015 through September 17, 2015, 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, 2015, including the estimates inherent in the processing of financial statements.