

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2012 AND 2011

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

September 25, 2012

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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,071,162	\$ 1,669,042
Investments	4,125,613	3,046,891
Promises to give	615,285	550,826
Accounts receivable	11,553	28,830
Prepaid expenses and other assets	88,965	66,193
Inventory	152,653	173,087
Total Current Assets	<u>6,065,231</u>	<u>5,534,869</u>
Promises to Give, long-term	-	20,000
Endowment Investments	900,017	882,411
Property and Equipment, net	<u>670,204</u>	<u>786,096</u>
	<u>\$ 7,635,452</u>	<u>\$ 7,223,376</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 303,214	\$ 410,359
Unearned revenue	152,568	175,355
Total Current Liabilities	<u>455,782</u>	<u>585,714</u>
Net Assets		
Unrestricted	5,137,502	4,658,529
Unrestricted - invested in property and equipment	670,204	786,096
Total Unrestricted Net Assets	<u>5,807,706</u>	<u>5,444,625</u>
Temporarily restricted	720,143	572,001
Permanently restricted	651,821	621,036
Total Net Assets	<u>7,179,670</u>	<u>6,637,662</u>
	<u>\$ 7,635,452</u>	<u>\$ 7,223,376</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
Public Support and Revenue								
Public support								
Contributions	\$ 2,452,776	\$ 287,539	\$ 30,785	\$ 2,771,100	\$ 2,357,163	\$ 146,070	\$ 70,000	\$ 2,573,233
Bequests	753,397	-	-	753,397	1,627,155	-	-	1,627,155
Special events, less direct cost of benefits provided to participants of \$124,638 and \$113,085	569,425	401,255	-	970,680	452,891	265,400	-	718,291
In-kind donations	146,752	-	-	146,752	112,308	-	-	112,308
Total Public Support	<u>3,922,350</u>	<u>688,794</u>	<u>30,785</u>	<u>4,641,929</u>	<u>4,549,517</u>	<u>411,470</u>	<u>70,000</u>	<u>5,030,987</u>
Revenue								
Adoption fees	631,782			631,782	436,190			436,190
Boarding	-			-	85,314			85,314
Other program service fees	386,995			386,995	465,663			465,663
Merchandise sales, net of cost of goods sold of \$64,248 and \$32,748	21,893			21,893	26,830			26,830
Total Revenue	<u>1,040,670</u>			<u>1,040,670</u>	<u>1,013,997</u>			<u>1,013,997</u>
Net Assets Released from Purpose Restrictions	<u>558,740</u>	<u>(558,740)</u>		<u>-</u>	<u>501,508</u>	<u>(501,508)</u>		<u>-</u>
Total Operating Public Support and Revenue	<u>5,521,760</u>	<u>130,054</u>	<u>30,785</u>	<u>5,682,599</u>	<u>6,065,022</u>	<u>(90,038)</u>	<u>70,000</u>	<u>6,044,984</u>
Expenses								
Program services	4,163,949			4,163,949	3,814,668			3,814,668
Management and general	383,784			383,784	410,782			410,782
Fundraising	640,081			640,081	568,537			568,537
Total Operating Expenses	<u>5,187,814</u>			<u>5,187,814</u>	<u>4,793,987</u>			<u>4,793,987</u>
Operating Change in Net Assets	<u>333,946</u>	<u>130,054</u>	<u>30,785</u>	<u>494,785</u>	<u>1,271,035</u>	<u>(90,038)</u>	<u>70,000</u>	<u>1,250,997</u>
NON-OPERATING:								
Investment income, gains and losses, net	105,142	18,088		123,230	283,517	68,968		352,485
Expansion project costs	(74,019)			(74,019)	-			-
Loss on sale of property and equipment	(1,988)			(1,988)	-			-
Non-Operating Change in Net Assets	<u>29,135</u>	<u>18,088</u>	<u>-</u>	<u>47,223</u>	<u>283,517</u>	<u>68,968</u>	<u>-</u>	<u>352,485</u>
Total Change in Net Assets	<u>363,081</u>	<u>148,142</u>	<u>30,785</u>	<u>542,008</u>	<u>1,554,552</u>	<u>(21,070)</u>	<u>70,000</u>	<u>1,603,482</u>
Net Assets - beginning 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>
Net Assets - end of year	<u>\$ 5,807,706</u>	<u>\$ 720,143</u>	<u>\$ 651,821</u>	<u>\$ 7,179,670</u>	<u>\$ 5,444,625</u>	<u>\$ 572,001</u>	<u>\$ 621,036</u>	<u>\$ 6,637,662</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2012

	PROGRAM SERVICES				SUPPORTING SERVICES			
	Adoption Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	Expansion Project	Total
Salaries	\$ 2,006,808	\$ 87,520	\$ 222,079	\$ 2,316,407	\$ 268,808	\$ 152,669	\$ -	\$ 2,737,884
Payroll taxes and benefits	489,720	14,552	30,866	535,138	46,975	17,368	-	599,481
Total Payroll Expenses	2,496,528	102,072	252,945	2,851,545	315,783	170,037	-	3,337,365
Food, supplies, and medicine	410,689	98,165	126,186	635,040	1,230	5,633	234	642,137
Printing	28,965	-	32,176	61,141	958	197,202	-	259,301
Depreciation	144,010	1,954	14,225	160,189	1,158	5,760	-	167,107
Repairs and maintenance	102,845	1,991	5,788	110,624	9,047	34,700	-	154,371
Professional fees	21,565	280	904	22,749	30,131	408	69,660	122,948
Utilities	77,659	974	21,872	100,505	1,571	1,874	-	103,950
Fundraising support	156	-	6	162	517	100,953	-	101,632
Postage	5,766	20	8,299	14,085	674	80,031	143	94,933
Investment and bank fees	28,777	1,297	12,518	42,592	17,830	7,813	-	68,235
Marketing and promotion	22,588	442	3,879	26,909	236	28,836	-	55,981
Travel and meetings	43,190	1,399	748	45,337	2,406	4,931	1,664	54,338
Insurance	27,582	264	1,961	29,807	317	181	-	30,305
Miscellaneous	23,865	534	2,524	26,923	1,049	700	-	28,672
Taxes and licenses	13,163	951	5,645	19,759	555	769	2,318	23,401
Telephone	14,927	89	1,566	16,582	322	253	-	17,157
Grants to others	-	-	-	-	-	-	-	-
Total Expenses	<u>\$ 3,462,275</u>	<u>\$ 210,432</u>	<u>\$ 491,242</u>	<u>\$ 4,163,949</u>	<u>\$ 383,784</u>	<u>\$ 640,081</u>	<u>\$ 74,019</u>	<u>\$ 5,261,833</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
Repairs and maintenance	70,854	845	676	3,997	76,372	7,602	17,470	101,444
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
Fundraising support	146	-	-	5	151	500	115,596	116,247
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
Taxes and licenses	9,338	1,304	578	7,629	18,849	230	782	19,861
Telephone	17,620	756	103	1,721	20,200	553	165	20,918
Grants to others	166	-	-	1	167	-	1	168
Total Expenses	<u>\$ 3,033,568</u>	<u>\$ 146,354</u>	<u>\$ 185,166</u>	<u>\$ 449,580</u>	<u>\$ 3,814,668</u>	<u>\$ 410,782</u>	<u>\$ 568,537</u>	<u>\$ 4,793,987</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Cash received from donors	\$ 4,492,737	\$ 4,810,983
Cash received from adoptions	631,782	436,190
Cash received from other program service fees	404,272	465,663
Cash received from boarders	-	79,652
Cash received from sale of merchandise	86,141	59,578
Cash received from interest	160,686	111,109
Cash paid to employees	(3,408,239)	(3,037,121)
Cash paid to vendors	(1,838,104)	(1,627,421)
Interest paid	-	(3)
Net Cash Provided by Operating Activities	<u>529,275</u>	<u>1,298,630</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(53,203)	(141,375)
Purchases of investments	(2,571,492)	(1,363,181)
Sales of investments	<u>1,466,755</u>	<u>1,242,197</u>
Net Cash Used by Investing Activities	<u>(1,157,940)</u>	<u>(262,359)</u>
Cash Flows From Financing Activities		
Repayments on capital lease obligations	-	(657)
Cash restricted to endowment	<u>30,785</u>	<u>70,000</u>
Net Cash Provided by Financing Activities	<u>30,785</u>	<u>69,343</u>
Change in Cash and Cash Equivalents	(597,880)	1,105,614
Cash and Cash Equivalents - beginning of year	<u>1,669,042</u>	<u>563,428</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,071,162</u>	<u>\$ 1,669,042</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Changes in Net Assets to Net Cash Flows From Operating Activities		
Changes in net assets	\$ 542,008	\$ 1,603,482
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	167,107	154,385
Donation of investments	(29,047)	(19,282)
Endowment contributions	(30,785)	(70,000)
Net loss (gain) on investments	37,456	(241,376)
Loss on disposal of property and equipment	1,988	-
(Increase) decrease in		
Promises to give	(44,459)	(194,324)
Accounts receivable	17,277	(2,067)
Prepaid expenses and other assets	(22,772)	(16,032)
Inventory	20,434	(47,525)
(Decrease) increase in		
Accounts payable and accrued expenses	(107,145)	68,544
Unearned revenue	<u>(22,787)</u>	<u>62,825</u>
Net Cash Provided by Operating Activities	<u>\$ 529,275</u>	<u>\$ 1,298,630</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

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. For the years ended March 31, 2012 and 2011, the placement rate was 96.5% and 94%, respectively.

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

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- § *Pet Project:* The Seattle Humane Society provides pet food, litter, grooming services, and facilitates veterinary care to pets of low-income individuals disabled by AIDS.
- § *Adventure Camp for Kids:* The Seattle Humane Society offers summer sessions for school age children to have fun while learning about animals.
- § *Humane Teen Club:* The Humane Teen Club (HTC) provides volunteer opportunities for young people and exposes them to the benefits of animal companionship. This program is for 13-15 year olds, the HTC focuses on the importance of animal companionship and welfare.
- § *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>2012</u>	<u>2011</u>
Lexus Fund - Medical care for dogs	\$ 233,967	\$ 243,078
Unappropriated endowment earnings	249,687	263,942
Disaster preparedness	14,313	19,362
Sammie's Fund - Care for older animals	192,775	-
Various projects benefiting animals	29,401	45,619
	<u>\$ 720,143</u>	<u>\$ 572,001</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, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Non-operating activities

Seattle Humane Society's non-operating activities include investment activities, expansion project efforts, and other non-operating gains or losses. The expansion project is in the strategic planning phase to expand services and programs for our community. Key goals of the expansion are to increase the capacity of public low-income spay/neuter programs, enhance medical services for shelter animals, and expand community education programs.

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.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

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

	<u>2012</u>	<u>2011</u>
Cash held for investment	\$ 17,272	\$ 32,290
Equity securities	2,976,990	1,968,281
Corporate and government bonds	1,076,262	955,013
Annuities	<u>55,089</u>	<u>91,307</u>
	<u>\$ 4,125,613</u>	<u>\$ 3,046,891</u>

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

	<u>2012</u>	<u>2011</u>
Cash held for investment	\$ 4,518	\$ 23,830
Equity securities	622,150	508,573
Corporate and government bonds	<u>273,349</u>	<u>350,008</u>
	<u>\$ 900,017</u>	<u>\$ 882,411</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 160,686	\$ 111,109
Realized and unrealized gains (losses), net	<u>(37,456)</u>	<u>241,376</u>
	<u>\$ 123,230</u>	<u>\$ 352,485</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.

Bequests 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, 2012 AND 2011

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>2012</u>	<u>2011</u>
Land		\$ 296,524	\$ 296,524
Building	5 – 35 years	1,680,994	1,648,144
Equipment	5 – 10 years	<u>856,731</u>	<u>879,229</u>
		2,834,249	2,823,897
Less accumulated depreciation		<u>(2,164,045)</u>	<u>(2,037,801)</u>
		<u>\$ 670,204</u>	<u>\$ 786,096</u>

Unearned revenue

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

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.

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, 2012 and 2011, the Seattle Humane Society received approximately 189,877 and 182,477 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, 2012 and 2011, in-kind goods and services of \$146,752 and \$112,308, respectively, were used for program services.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted support

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

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

Functional allocation of expenses

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

Advertising

The Seattle Humane Society expenses the production costs of advertising as incurred. Advertising expense was \$55,981 and \$67,142 for the years ended March 31, 2012 and 2011, respectively, and is included in marketing and promotion expense.

Reclassifications

Certain accounts in the March 31, 2011 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 \$615,285 as of March 31, 2012. There are no long term promises to give at this time. Discounts on long-term promises to give are considered immaterial and uncollectible promises are expected to be insignificant.

NOTE C - RELATED PARTIES

During the year ended March 31, 2012 no board members directly profited from any company doing business with the Seattle Humane Society. During the year ended March 31, 2011 the Seattle Humane Society hired the company owned by the Board Chair to provide printing services.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE C - RELATED PARTIES (Continued)

Under the terms of the contract, fees were charged at reduced rates. For the year ending March 31, 2011 expenses totaling \$98,412 were incurred and \$190 was owing at year end. Several board members are employed by companies that provided goods and/or services to the Seattle Humane Society during the course of the year. Any fees charged for goods and services provided by these companies were negotiated without the involvement of the board member and the board member did not directly benefit.

NOTE D - ENDOWMENT

The Humane Society for Seattle/King County'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, 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

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE D - ENDOWMENT (Continued)

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 \$1,491 and \$2,567 as of March 31, 2012 and 2011, 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.

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% 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of March 31, 2012:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 26,178	\$ 59,140	\$ 85,318
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	216,343	400,000	616,343
Leah Buhner Veterinary Care Endowment	(1,491)	-	91,896	90,405
Sammie's Fund Endowment	-	7,166	100,785	107,951
Total endowment funds	<u>\$ (1,491)</u>	<u>\$ 249,687</u>	<u>\$ 651,821</u>	<u>\$ 900,017</u>

Change in endowment net assets for the year ended March 31, 2012:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ (2,567)	\$ 263,942	\$ 621,036	\$ 882,411
Investment return:				
Investment income	2,203	24,607	-	26,810
Net gains and (losses)	(1,083)	(6,519)	-	(7,602)
Total investment return	1,120	18,088	-	19,208
Contributions, net			30,785	30,785
Expenditures	(44)	(32,343)	-	(32,387)
Endowments, end of year	<u>\$ (1,491)</u>	<u>\$ 249,687</u>	<u>\$ 651,821</u>	<u>\$ 900,017</u>

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	(2,567)	-	91,896	89,329
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, 2012 AND 2011

NOTE D - 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)	7,207	47,583	-	54,790
Total investment return	9,336	68,968	-	78,304
Contributions, net			70,000	70,000
Expenditures	(179)	(29,318)	-	(29,497)
Endowments, end of year	<u>\$ (2,567)</u>	<u>\$ 263,942</u>	<u>\$ 621,036</u>	<u>\$ 882,411</u>

NOTE E - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) as of March 31, 2012 and 2011 are as follows:

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
As of March 31, 2012				
Equity securities	\$ 3,599,140	\$ -	\$ -	\$ 3,599,140
Corporate and government bonds	1,349,611	-	-	1,349,611
	<u>\$ 4,948,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,948,751</u>
	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
As of March 31, 2011				
Equity securities	\$ 2,476,854	\$ -	\$ -	\$ 2,476,854
Corporate and government bonds	1,305,021	-	-	1,305,021
	<u>\$ 3,781,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,781,875</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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2012 AND 2011

NOTE E - FAIR VALUE MEASUREMENTS (Continued)

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 F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2012 through September 25, 2012, 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, 2012, including the estimates inherent in the processing of financial statements.