

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2014 AND 2013



**THE HUMANE SOCIETY  
FOR SEATTLE/KING COUNTY**

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

September 18, 2014

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 2,478,935	\$ 1,250,451
Investments	5,203,718	4,441,700
Promises to give	469,718	794,122
Other receivables	65,969	26,029
Prepaid expenses and other assets	194,414	145,677
Inventory	<u>183,042</u>	<u>169,133</u>
Total Current Assets	8,595,796	6,827,112
Cash Equivalents, Expansion Project	3,062,866	1,010,567
Promises to Give, Expansion Project	4,388,277	2,382,927
Endowment Investments	1,059,480	931,699
Property and Equipment, net	<u>1,138,070</u>	<u>659,187</u>
	<u>\$18,244,489</u>	<u>\$11,811,492</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 498,100	\$ 422,067
Unearned revenue	<u>234,456</u>	<u>256,010</u>
Total Current Liabilities	<u>732,556</u>	<u>678,077</u>
Net Assets		
Unrestricted	6,314,005	5,754,174
Unrestricted - invested in property and equipment	<u>1,138,070</u>	<u>659,187</u>
Total Unrestricted Net Assets	7,452,075	6,413,361
Temporarily restricted	9,407,862	4,068,058
Permanently restricted	<u>651,996</u>	<u>651,996</u>
Total Net Assets	<u>17,511,933</u>	<u>11,133,415</u>
	<u>\$18,244,489</u>	<u>\$11,811,492</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING:</b>								
Public Support and Revenue								
Public Support								
Contributions	\$ 2,758,963	\$ 211,747	\$ -	\$ 2,970,710	\$ 2,582,261	\$ 212,598	\$ 175	\$ 2,795,034
Bequests	393,386	-	-	393,386	663,095	-	-	663,095
Special events, less direct cost of benefits provided to participants of \$257,024 and \$194,084	849,492	667,972	-	1,517,464	857,790	438,898	-	1,296,688
In-kind donations	97,571	-	-	97,571	123,576	-	-	123,576
Total Public Support	<u>4,099,412</u>	<u>879,719</u>	<u>-</u>	<u>4,979,131</u>	<u>4,226,722</u>	<u>651,496</u>	<u>175</u>	<u>4,878,393</u>
Revenue								
Adoption fees	643,960			643,960	646,855			646,855
Other program service fees	537,382			537,382	453,239			453,239
Merchandise sales, net of cost of goods sold of \$50,245 and \$57,730	28,435			28,435	27,553			27,553
Total Revenue	<u>1,209,777</u>			<u>1,209,777</u>	<u>1,127,647</u>			<u>1,127,647</u>
Net Assets Released from Purpose Restrictions	<u>759,846</u>	<u>(759,846)</u>		<u>-</u>	<u>585,850</u>	<u>(585,850)</u>		<u>-</u>
Total Operating Public Support and Revenue	<u>6,069,035</u>	<u>119,873</u>	<u>-</u>	<u>6,188,908</u>	<u>5,940,219</u>	<u>65,646</u>	<u>175</u>	<u>6,006,040</u>
Expenses								
Program services	4,893,029			4,893,029	4,501,472			4,501,472
Management and general	504,635			504,635	446,162			446,162
Fundraising	707,006			707,006	710,075			710,075
Total Operating Expenses	<u>6,104,670</u>			<u>6,104,670</u>	<u>5,657,709</u>			<u>5,657,709</u>
Operating Change in Net Assets	<u>(35,635)</u>	<u>119,873</u>	<u>-</u>	<u>84,238</u>	<u>282,510</u>	<u>65,646</u>	<u>175</u>	<u>348,331</u>
<b>NON-OPERATING:</b>								
Investment income, gains and losses, net	729,795	151,476		881,271	323,146	69,878		393,024
Expansion project contributions	-	5,736,425		5,736,425	-	3,388,350		3,388,350
Expansion project in-kind donations	-	33,720		33,720	-	33,720		33,720
Expansion project costs	(357,136)			(357,136)	(209,680)			(209,680)
Net assets released - expansion project	701,690	(701,690)		-	209,679	(209,679)		-
Non-Operating Change in Net Assets	<u>1,074,349</u>	<u>5,219,931</u>	<u>-</u>	<u>6,294,280</u>	<u>323,145</u>	<u>3,282,269</u>	<u>-</u>	<u>3,605,414</u>
Total Change in Net Assets	<u>1,038,714</u>	<u>5,339,804</u>	<u>-</u>	<u>6,378,518</u>	<u>605,655</u>	<u>3,347,915</u>	<u>175</u>	<u>3,953,745</u>
Net Assets - beginning of year	<u>6,413,361</u>	<u>4,068,058</u>	<u>651,996</u>	<u>11,133,415</u>	<u>5,807,706</u>	<u>720,143</u>	<u>651,821</u>	<u>7,179,670</u>
Net Assets - end of year	<u>\$ 7,452,075</u>	<u>\$9,407,862</u>	<u>\$ 651,996</u>	<u>\$17,511,933</u>	<u>\$ 6,413,361</u>	<u>\$4,068,058</u>	<u>\$ 651,996</u>	<u>\$11,133,415</u>

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	Expansion Project	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
Professional fees	31,619	3,074	1,348	36,041	32,608	4,456	191,194	264,299
Marketing and promotion	81,146	33,771	5,651	120,568	1,282	51,475	50,000	223,325
Repairs and maintenance	101,812	6,805	5,052	113,669	9,139	75,499	16,860	215,167
Fundraising support	41	1	2	44	1,120	122,490	2,861	126,515
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
Investment and bank fees	39,159	5,051	10,662	54,872	32,922	8,209	-	96,003
Depreciation	79,316	6,152	2,861	88,329	733	1,782	-	90,844
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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2013

	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	\$ 2,062,795	\$ 214,089	\$ 231,532	\$ 2,508,416	\$ 326,524	\$ 126,504	\$ 74,365	\$ 3,035,809
Payroll taxes and benefits	486,994	24,629	28,414	540,037	51,944	26,552	9,692	628,225
Total Payroll Expenses	2,549,789	238,718	259,946	3,048,453	378,468	153,056	84,057	3,664,034
Food, supplies, and medicine	437,716	145,769	136,645	720,130	2,494	5,643	189	728,456
Printing	28,719	1,664	29,422	59,805	279	215,453	3,473	279,010
Professional fees	47,131	1,011	1,904	50,046	31,082	807	106,612	188,547
Marketing and promotion	67,734	3,286	1,537	72,557	959	42,934	429	116,879
Repairs and maintenance	96,164	13,151	5,024	114,339	7,696	57,650	9,494	189,179
Fundraising support	-	-	-	-	-	139,889	985	140,874
Utilities	96,206	891	6,706	103,803	1,391	35	-	105,229
Postage	5,119	28	4,974	10,121	586	76,171	26	86,904
Investment and bank fees	34,621	1,322	10,217	46,160	16,113	7,103	-	69,376
Depreciation	114,548	2,687	4,200	121,435	989	2,025	-	124,449
Travel and meetings	62,862	1,904	1,669	66,435	3,017	5,983	4,415	79,850
Miscellaneous	16,858	562	2,166	19,586	1,539	700	-	21,825
Insurance	27,477	272	2,030	29,779	336	184	-	30,299
Taxes and licenses	14,328	1,053	6,042	21,423	861	2,373	-	24,657
Telephone	15,405	89	1,251	16,745	341	62	-	17,148
Grants to others	636	-	19	655	11	7	-	673
Total Expenses	\$ 3,615,313	\$ 412,407	\$ 473,752	\$ 4,501,472	\$ 446,162	\$ 710,075	\$ 209,680	\$ 5,867,389



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 5,441,434	\$ 4,873,331
Cash received from adoptions	643,960	646,855
Cash received from other program service fees	497,442	438,763
Cash received from sale of merchandise	78,680	85,283
Cash received from interest	10,238	81,021
Cash paid to employees	(3,942,744)	(3,652,552)
Cash paid to vendors	<u>(2,599,299)</u>	<u>(2,139,245)</u>
Net Cash Provided by Operating Activities	<u>129,711</u>	<u>333,456</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(561,237)	(113,432)
Purchases of investments	(6,061,771)	(1,089,160)
Sales of investments	<u>6,043,005</u>	<u>1,053,394</u>
Net Cash Used by Investing Activities	<u>(580,003)</u>	<u>(149,198)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted to expansion project	3,731,075	1,005,423
Proceeds from contributions restricted to endowment	<u>-</u>	<u>175</u>
Net Cash Provided by Financing Activities	<u>3,731,075</u>	<u>1,005,598</u>
Change in Cash and Cash Equivalents	3,280,783	1,189,856
Cash and Cash Equivalents - beginning of year	<u>2,261,018</u>	<u>1,071,162</u>
Cash and Cash Equivalents - end of year	<u>\$ 5,541,801</u>	<u>\$ 2,261,018</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Changes in Net Assets to Net Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 6,378,518	\$ 3,953,745
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	90,844	124,449
Expansion project contributions	(5,736,425)	(3,388,350)
Endowment contributions	-	(175)
Net gain on investments	(871,033)	(312,003)
Decrease (increase) in:		
Promises to give	324,404	(178,837)
Other receivables	(39,940)	(14,476)
Prepaid expenses and other assets	(48,737)	(56,712)
Inventory	(13,909)	(16,480)
Increase (decrease) in:		
Accounts payable and accrued expenses	67,543	118,853
Unearned revenue	(21,554)	103,442
Net Cash Provided by Operating Activities	<u>\$ 129,711</u>	<u>\$ 333,456</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

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, 2014 and 2013, the placement rate was 97.9% and 97.1%, respectively.

**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 for better dispositions but also improving their socialization skills. Other programs and services include:

§ *Veterinary Student Training Programs:* The Seattle Humane Society and WSU's College of Veterinary Medicine have formed a formal Strategic Alliance for on-site student 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 the Seattle Humane Society with 75 students expected to cycle through in fiscal year 2014/15. Many of these students, after working at the Seattle Humane Society, 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- § *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 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:* The 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 available as follows:

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>2014</u>	<u>2013</u>
Expansion project	\$ 8,287,176	\$ 3,217,535
Unappropriated endowment earnings	407,484	279,703
Life-Saver rescue program	339,050	-
Lexus Fund - Medical care for dogs	238,763	237,147
Public spay/neuter surgeries expansion	98,758	228,367
Sammie's Fund - Care for older animals	-	76,034
Various projects benefiting animals	26,579	17,710
Disaster preparedness	10,052	11,562
	<u>\$ 9,407,862</u>	<u>\$ 4,068,058</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.

Non-operating activities

The Seattle Humane Society's non-operating activities include investment activities, expansion project efforts, and other non-operating gains or losses. 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 (See Note E)

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments

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

	<u>2014</u>	<u>2013</u>
Cash held for investment	\$ 98,742	\$ 46,434
Equity securities	3,591,658	3,247,566
Corporate and government bonds	1,513,318	1,129,522
Annuities	-	18,178
	<u>\$ 5,203,718</u>	<u>\$ 4,441,700</u>

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

	<u>2014</u>	<u>2013</u>
Cash held for investment	\$ 20,541	\$ 3,496
Equity securities	775,399	638,353
Corporate and government bonds	263,540	289,850
	<u>\$ 1,059,480</u>	<u>\$ 931,699</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 106,145	\$ 81,021
Realized and unrealized gains, net	775,126	312,003
	<u>\$ 881,271</u>	<u>\$ 393,024</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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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>2014</u>	<u>2013</u>
Land		\$ 296,524	\$ 296,524
Construction in progress		344,554	-
Building	5 – 35 years	1,680,994	1,680,994
Equipment	5 – 10 years	1,195,212	970,040
		<u>3,517,284</u>	<u>2,947,558</u>
Less accumulated depreciation		<u>(2,379,214)</u>	<u>(2,288,371)</u>
		<u>\$ 1,138,070</u>	<u>\$ 659,187</u>

Unearned revenue

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

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013, the Seattle Humane Society received 207,533 and 198,499 volunteer hours, respectively.

Contributed services are recorded at rates that would have been paid for similar services if purchased. For each of the years ended March 31, 2014 and 2013, in-kind services was comprised of donated administrative rental space of \$33,720.

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 \$173,325 and \$116,451 for the years ended March 31, 2014 and 2013, respectively, and is included in marketing and promotion expense.



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

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

NOTE B - PROMISES TO GIVE

Pledges and bequests receivable at March 31, 2014 are as follows:

Receivable in less than one year	\$ 1,754,160
Receivable in one to five years	<u>3,159,607</u>
	4,913,767
Less: allowance for doubtful accounts	(20,611)
Less: present value discount	<u>(35,161)</u>
	<u>\$ 4,857,995</u>

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 0.36%.

At March 31, 2014, 31% of promises to give are due from one donor. At March 31, 2013, 25% of promises to give are due from one foundation.

NOTE C - RELATED PARTIES

During the years ended March 31, 2014 and 2013, no board members directly profited from any company doing business with the Seattle Humane Society. 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

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

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE D - ENDOWMENT (Continued)

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, 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	<u>\$ -</u>	<u>\$ 279,703</u>	<u>\$ 651,996</u>	<u>\$ 931,699</u>
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, 2014 AND 2013

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of March 31, 2013:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 29,069	\$ 59,140	\$ 88,209
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	236,151	400,000	636,151
Leah Buhner Veterinary Care Endowment	-	4,548	91,896	96,444
Sammie's Fund Endowment	-	9,935	100,960	110,895
Total endowment funds	<u>\$ -</u>	<u>\$ 279,703</u>	<u>\$ 651,996</u>	<u>\$ 931,699</u>

Change in endowment net assets for the year ended March 31, 2013:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	<u>\$ (1,491)</u>	<u>\$ 249,687</u>	<u>\$ 651,821</u>	<u>\$ 900,017</u>
Investment return:				
Investment income	-	19,072	-	19,072
Net gains	1,491	45,662	-	47,153
Total investment return	1,491	64,734	-	66,225
Contributions, net			175	175
Appropriated for expenditure	-	(34,718)	-	(34,718)
Endowments, end of year	<u>\$ -</u>	<u>\$ 279,703</u>	<u>\$ 651,996</u>	<u>\$ 931,699</u>

NOTE E - 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)	<u>Total</u>
As of March 31, 2014				
Equity securities	\$ 4,367,057	\$ -	\$ -	\$ 4,367,057
Corporate and government bonds	1,776,858	-	-	1,776,858
	<u>\$ 6,143,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,143,915</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2014 AND 2013

NOTE E - FAIR VALUE MEASUREMENTS (Continued)

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, 2013				
Equity securities	\$ 3,885,919	\$ -	\$ -	\$ 3,885,919
Corporate and government bonds	<u>1,419,372</u>	<u>-</u>	<u>-</u>	<u>1,419,372</u>
	<u>\$ 5,305,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,305,291</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 F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2014 through September 18, 2014, 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, 2014, including the estimates inherent in the processing of financial statements.