

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2016 AND 2015



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION March 31, 2016 and 2015	4
STATEMENTS OF ACTIVITIES Years ended March 31, 2016 and 2015	5
STATEMENTS OF FUNCTIONAL EXPENSES Year ended March 31, 2016	6
Year ended March 31, 2015	7
STATEMENTS OF CASH FLOWS Years ended March 31, 2016 and 2015	8 - 9
NOTES TO FINANCIAL STATEMENTS	10 - 21

INDEPENDENT AUDITOR'S REPORT

September 20, 2016

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 2,264,374	\$ 1,347,422
Investments	7,054,409	7,093,044
Promises to give	603,573	420,772
Other receivables	96,454	88,705
Prepaid expenses and other assets	475,703	196,833
Inventory	<u>200,766</u>	<u>182,066</u>
Total Current Assets	10,695,279	9,328,842
Cash and Cash Equivalents, Capital Campaign	1,577,482	-
Investments, Capital Campaign	11,800,232	5,845,445
Promises to Give, Capital Campaign	6,260,641	5,638,592
Endowment Investments	1,002,442	1,088,435
Property and Equipment, net	<u>2,205,881</u>	<u>1,972,010</u>
	<u>\$33,541,957</u>	<u>\$23,873,324</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 456,416	\$ 822,757
Unearned revenue	<u>222,270</u>	<u>383,801</u>
Total Current Liabilities	<u>678,686</u>	<u>1,206,558</u>
Net Assets		
Unrestricted	7,962,806	6,623,873
Unrestricted - invested in property and equipment	<u>2,205,881</u>	<u>1,972,010</u>
Total Unrestricted Net Assets	10,168,687	8,595,883
Temporarily restricted	22,042,588	13,418,887
Permanently restricted	<u>651,996</u>	<u>651,996</u>
Total Net Assets	<u>32,863,271</u>	<u>22,666,766</u>
	<u>\$33,541,957</u>	<u>\$23,873,324</u>

See notes to financial statements.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
Public Support and Revenue								
Public Support								
Contributions	\$ 3,303,885	\$ 268,592	\$ -	\$ 3,572,477	\$ 2,837,768	\$ 243,784	\$ -	\$ 3,081,552
Bequests	1,157,948	303,138	-	1,461,086	687,819	291,435	-	979,254
Special events, less direct cost of benefits provided to participants of \$245,528 and \$249,837	1,176,500	-	-	1,176,500	818,412	568,950	-	1,387,362
In-kind donations	413,534	-	-	413,534	110,251	-	-	110,251
Total Public Support	<u>6,051,867</u>	<u>571,730</u>	<u>-</u>	<u>6,623,597</u>	<u>4,454,250</u>	<u>1,104,169</u>	<u>-</u>	<u>5,558,419</u>
Revenue								
Adoption fees	636,687			636,687	601,150			601,150
Other program service fees	458,235			458,235	596,866			596,866
Merchandise sales, net of cost of goods sold of \$51,022 and \$53,717	33,391			33,391	33,699			33,699
Total Revenue	<u>1,128,313</u>			<u>1,128,313</u>	<u>1,231,715</u>			<u>1,231,715</u>
Net Assets Released from Purpose Restrictions	<u>884,075</u>	<u>(884,075)</u>		<u>-</u>	<u>576,521</u>	<u>(576,521)</u>		<u>-</u>
Total Operating Public Support and Revenue	<u>8,064,255</u>	<u>(312,345)</u>	<u>-</u>	<u>7,751,910</u>	<u>6,262,486</u>	<u>527,648</u>	<u>-</u>	<u>6,790,134</u>
Expenses								
Program services	5,357,715			5,357,715	5,126,175			5,126,175
Management and general	558,602			558,602	515,454			515,454
Fundraising	786,898			786,898	696,421			696,421
Total Operating Expenses	<u>6,703,215</u>			<u>6,703,215</u>	<u>6,338,050</u>			<u>6,338,050</u>
Operating Change in Net Assets	<u>1,361,040</u>	<u>(312,345)</u>	<u>-</u>	<u>1,048,695</u>	<u>(75,564)</u>	<u>527,648</u>	<u>-</u>	<u>452,084</u>
NON-OPERATING:								
Investment income, gains and losses, net	(107,249)	(46,776)		(154,025)	297,362	67,429		364,791
Capital campaign contributions	-	9,634,409		9,634,409	-	4,610,167		4,610,167
Capital campaign costs	(332,574)			(332,574)	(272,209)			(272,209)
Net assets released - capital campaign	651,587	(651,587)		-	1,194,219	(1,194,219)		-
Non-Operating Change in Net Assets	<u>211,764</u>	<u>8,936,046</u>	<u>-</u>	<u>9,147,810</u>	<u>1,219,372</u>	<u>3,483,377</u>	<u>-</u>	<u>4,702,749</u>
Total Change in Net Assets	<u>1,572,804</u>	<u>8,623,701</u>	<u>-</u>	<u>10,196,505</u>	<u>1,143,808</u>	<u>4,011,025</u>	<u>-</u>	<u>5,154,833</u>
Net Assets - beginning of year	<u>8,595,883</u>	<u>13,418,887</u>	<u>651,996</u>	<u>22,666,766</u>	<u>7,452,075</u>	<u>9,407,862</u>	<u>651,996</u>	<u>17,511,933</u>
Net Assets - end of year	<u>\$10,168,687</u>	<u>\$22,042,588</u>	<u>\$ 651,996</u>	<u>\$32,863,271</u>	<u>\$ 8,595,883</u>	<u>\$13,418,887</u>	<u>\$ 651,996</u>	<u>\$22,666,766</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2016

	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	\$ 2,643,374	\$ 149,491	\$ 241,235	\$ 3,034,100	\$ 381,218	\$ 115,520	\$ 104,625	\$ 3,635,463
Payroll taxes and benefits	626,769	31,784	35,971	694,524	70,232	17,658	24,983	807,397
Total Payroll Expenses	3,270,143	181,275	277,206	3,728,624	451,450	133,178	129,608	4,442,860
Food, supplies, and medicine	510,596	76,002	160,227	746,825	1,506	3,354	2,203	753,888
Printing	36,942	276	7,736	44,954	1,234	230,030	6,001	282,219
Marketing and promotions	151,601	4,601	7,935	164,137	1,970	51,040	57,335	274,482
Repairs and maintenance	157,752	1,484	7,621	166,857	7,442	57,794	14,735	246,828
Fundraising support	-	-	-	-	610	175,508	25,897	202,015
Professional fees	21,195	858	1,002	23,055	24,371	24,978	91,816	164,220
Investment and bank fees	49,893	2,313	24,612	76,818	61,827	3,579	-	142,224
Depreciation	107,543	3,610	2,694	113,847	660	559	-	115,066
Utilities	93,648	857	18,776	113,281	1,457	92	-	114,830
Postage	4,888	43	463	5,394	631	83,074	1,371	90,470
Travel and meetings	55,819	586	1,671	58,076	1,781	7,458	1,726	69,041
Insurance	41,434	1,169	2,961	45,564	396	210	-	46,170
Miscellaneous	19,290	386	3,395	23,071	2,677	11,071	1,882	38,701
Taxes and licenses	19,158	1,336	7,060	27,554	190	4,939	-	32,683
Telephone	17,581	93	1,489	19,163	392	30	-	19,585
Grants to others	471	4	20	495	8	4	-	507
Total Expenses	\$ 4,557,954	\$ 274,893	\$ 524,868	\$ 5,357,715	\$ 558,602	\$ 786,898	\$ 332,574	\$ 7,035,789

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
Marketing and promotions	74,177	6,779	2,443	83,399	869	41,345	15,772	141,385
Repairs and maintenance	100,279	4,972	4,330	109,581	7,808	64,276	16,897	198,562
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
Investment and bank fees	36,175	1,130	19,273	56,578	45,748	10,705	-	113,031
Depreciation	108,352	5,954	2,376	116,682	585	617	-	117,884
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
Insurance	39,107	462	2,496	42,065	446	226	-	42,737
Miscellaneous	18,813	1,073	5,018	24,904	1,674	2,128	38,234	66,940
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

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 6,111,259	\$ 5,896,296
Cash received from adoptions	636,687	601,150
Cash received from other program service fees	450,486	574,130
Cash received from sale of merchandise	84,413	87,416
Cash paid to employees	(4,466,984)	(4,189,750)
Cash paid to vendors	<u>(2,702,144)</u>	<u>(2,480,881)</u>
Net Cash Provided by Operating Activities	<u>113,717</u>	<u>488,361</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(647,459)	(643,657)
Purchases of investments	(13,849,295)	(15,767,982)
Sales of investments	<u>7,865,111</u>	<u>11,431,913</u>
Net Cash Used by Investing Activities	(6,631,643)	(4,979,726)
Cash Flows Provided by Financing Activities		
Proceeds from contributions restricted to capital campaign	<u>9,012,360</u>	<u>3,359,852</u>
Change in Cash and Cash Equivalents	2,494,434	(1,131,513)
Cash and Cash Equivalents - beginning of year	<u>1,347,422</u>	<u>2,478,935</u>
Cash and Cash Equivalents - end of year	<u>\$ 3,841,856</u>	<u>\$ 1,347,422</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Changes in Net Assets to Net Cash Flows from Operating Activities		
Changes in net assets	\$10,196,505	\$ 5,154,833
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	115,066	117,884
Capital campaign contributions	(9,634,409)	(4,610,167)
Reinvested dividends	(340,930)	(213,487)
Net loss (gain) on investments	494,955	(151,304)
(Increase) decrease in:		
Promises to give	(182,801)	48,946
Other receivables	(7,749)	(22,736)
Prepaid expenses and other assets	(278,870)	(2,419)
Inventory	(18,700)	976
(Decrease) increase in:		
Accounts payable and accrued expenses	(67,819)	16,490
Unearned revenue	<u>(161,531)</u>	<u>149,345</u>
Net Cash Provided by Operating Activities	<u>\$ 113,717</u>	<u>\$ 488,361</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

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, 2016 and 2015, the placement rate was 98.3% and 97.8%, respectively.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

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 2016/17. 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.

§ *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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

§ *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, Seattle Humane 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>2016</u>	<u>2015</u>
Capital campaign	\$ 20,685,946	\$ 11,703,124
Community outreach programs	352,872	485,959
Unappropriated endowment earnings	350,446	436,438
Lexus Fund - Medical care for dogs	515,589	521,415
Life-Saver rescue program	47,567	196,825
Various projects benefiting animals	87,120	69,461
Disaster preparedness	3,048	5,665
	<u>\$ 22,042,588</u>	<u>\$ 13,418,887</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.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 B)

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.

Investments

Investments are carried at fair value and consist of the following at March 31, 2016:

	Ordinary Funds	Capital Campaign Funds	Endowment Funds	Total
Cash held for investment	\$ 53,554	\$ 1,724,978	\$ 4,475	\$ 1,783,007
Equity securities	3,617,696	327,550	698,407	4,643,653
Corporate and government bonds	3,383,159	9,747,704	299,560	13,430,423
	<u>\$ 7,054,409</u>	<u>\$ 11,800,232</u>	<u>\$ 1,002,442</u>	<u>\$ 19,857,083</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	2,644,647	3,790,560	280,152	6,715,359
	<u>\$ 7,093,044</u>	<u>\$ 5,845,445</u>	<u>\$ 1,088,435</u>	<u>\$ 14,026,924</u>

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

	2016	2015
Interest and dividends	\$ 340,930	\$ 213,487
Realized and unrealized gains, net	(494,955)	151,304
	<u>\$ (154,025)</u>	<u>\$ 364,791</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. Bequests that are revocable have not been reflected in the financial statements. Once 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment consisted of the following at March 31:

	Estimated <u>Useful Lives</u>	<u>2016</u>	<u>2015</u>
Land		\$ 296,524	\$ 296,524
Construction in progress		1,579,248	1,260,234
Building	5 - 35 years	1,680,994	1,680,994
Equipment	5 - 10 years	<u>1,261,279</u>	<u>1,231,356</u>
		4,818,045	4,469,108
Less accumulated depreciation		<u>(2,612,164)</u>	<u>(2,497,098)</u>
		<u>\$ 2,205,881</u>	<u>\$ 1,972,010</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. Contributed services are recorded at rates that would have been paid for similar services if purchased. 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, 2016 and 2015, Seattle Humane received 204,933 and 212,450 volunteer hours, respectively.

For the years ended March 31, 2016 and 2015, in-kind donations included donated administrative rental space of \$319,024 and \$33,720, respectively.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Total fundraising expenses were \$945,658 and \$816,444 for the years ended March 31, 2016 and 2015, respectively.

Advertising

Seattle Humane expenses the production costs of advertising as incurred. Advertising expense was \$217,147 and \$125,613 for the years ended March 31, 2016 and 2015, respectively, and is included in marketing and promotions expense.

Federal income taxes

The Internal Revenue Service has recognized The Humane Society for Seattle/King County as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

NOTE B - 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, 2016				
Equity securities	\$ 4,643,653	\$ -	\$ -	\$ 4,643,653
Corporate and government bonds	13,430,423	-	-	13,430,423
	<u>\$ 18,074,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,074,076</u>
As of March 31, 2015				
Equity securities	\$ 3,733,375	\$ -	\$ -	\$ 3,733,375
Corporate and government bonds	6,715,359	-	-	6,715,359
	<u>\$ 10,448,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,448,734</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, 2016 AND 2015

NOTE C - PROMISES TO GIVE

Pledges and bequests receivable at March 31, 2016 are as follows:

Receivable in less than one year	\$ 3,091,355
Receivable in one to five years	<u>4,026,723</u>
	7,118,078
Less: allowance for doubtful accounts	(70,145)
Less: present value discount	<u>(183,719)</u>
	<u>\$ 6,864,214</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 1.78%.

In early 2016, Seattle Humane received a conditional promise to give in the form of a \$1 million challenge grant to be used for the capital campaign. During the year ended March 31, 2016, \$517,375 was raised from other sources and recognized. The remaining \$482,625 will be recognized when the condition on which it depends (the raising of the matching funds) is substantially met.

At March 31, 2016, Seattle Humane also had a \$500,000 promise to give conditional upon both receipt of building permits and the start of construction on the new structure. The pledge will be recognized when the conditions are substantially met.

Subsequent to year-end, the conditions on both pledges have been met.

NOTE D - REVOLVING CREDIT NOTES

In March 2016, Seattle Humane entered into two revolving credit notes for construction costs and cash flow needs during construction. Notes are collateralized by Seattle Humane's investment accounts and subject to compliance with certain financial covenants. There was no balance outstanding on either note at March 31, 2016. Terms of the notes are as follows:

Reducing revolving credit note with a principal amount up to \$10,000,000, maturing in March 2022 and bearing interest at the prime rate. Seattle Humane may convert up to \$5,000,000 of this note into a term loan maturing in March 2027.

Revolving credit note with a principal amount up to \$1,000,000, maturing in March 2017 and bearing interest at the prime rate. Interest accrued is payable on a monthly basis.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE E - RELATED PARTIES

During the years ended March 31, 2016 and 2015, 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 - 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, Seattle Humane 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 Seattle Humane 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, 2016 AND 2015

NOTE F - 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, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
General Endowment	\$ -	\$ 35,406	\$ 59,140	\$ 94,546
James A. Gilruth Endowment for the preservation and maintenance of dogs and cats	-	286,205	400,000	686,205
Leah Buhner Veterinary Care Endowment	-	10,762	91,896	102,658
Sammie's Fund Endowment	-	18,073	100,960	119,033
Total endowment funds	<u>\$ -</u>	<u>\$ 350,446</u>	<u>\$ 651,996</u>	<u>\$ 1,002,442</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE F - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowments, beginning of year	\$ -	\$ 436,439	\$ 651,996	\$ 1,088,435
Investment return:				
Investment income	-	21,465	-	21,465
Net losses	-	(68,241)	-	(68,241)
Total investment return	-	(46,776)	-	(46,776)
Contributions, net			-	-
Appropriated for expenditure	-	(39,217)	-	(39,217)
Endowments, end of year	<u>\$ -</u>	<u>\$ 350,446</u>	<u>\$ 651,996</u>	<u>\$ 1,002,442</u>

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>

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>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2016 through September 20, 2016, 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, 2016, including the estimates inherent in the processing of financial statements.