

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2019 AND 2018



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

September 17, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 2,695,401	\$ 2,544,696
Investments	10,064,430	9,079,314
Promises to give	2,239,585	1,960,240
Other receivables	209,255	321,635
Prepaid expenses and other assets	263,537	213,362
Inventory	<u>226,731</u>	<u>95,887</u>
Total Current Assets	15,698,939	14,215,134
Cash and Cash Equivalents, Capital Campaign	-	217,398
Promises to Give, Capital Campaign	37,758	1,921,380
Beneficial Interest in Trust	5,642,246	5,497,598
Endowment Investments	1,184,631	1,150,236
Property and Equipment, net	<u>27,014,100</u>	<u>26,856,772</u>
	<u>\$ 49,577,674</u>	<u>\$ 49,858,518</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 684,494	\$ 1,104,500
Unearned revenue	<u>300,120</u>	<u>251,305</u>
Total Current Liabilities	984,614	1,355,805
Revolving Credit Note	<u>2,200,000</u>	<u>3,200,000</u>
Total Liabilities	<u>3,184,614</u>	<u>4,555,805</u>
Net Assets		
Without donor restrictions	11,402,253	10,614,158
Without donor restrictions - property and equipment	<u>27,014,100</u>	<u>26,856,772</u>
Total Net Assets Without Donor Restrictions	38,416,353	37,470,930
With donor restrictions	<u>7,976,707</u>	<u>7,831,783</u>
Total Net Assets	<u>46,393,060</u>	<u>45,302,713</u>
	<u>\$ 49,577,674</u>	<u>\$ 49,858,518</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:						
Public Support and Revenue						
Public Support						
Contributions	\$ 2,868,597	\$ 1,403,695	\$ 4,272,292	\$ 2,921,381	\$ 1,140,086	\$ 4,061,467
Bequests	1,839,197	-	1,839,197	2,023,131	-	2,023,131
Special events	2,276,115	-	2,276,115	2,333,884	-	2,333,884
In-kind donations	129,646	-	129,646	224,515	-	224,515
Total Public Support	<u>7,113,555</u>	<u>1,403,695</u>	<u>8,517,250</u>	<u>7,502,911</u>	<u>1,140,086</u>	<u>8,642,997</u>
Revenue						
Adoption fees	822,741		822,741	550,734		550,734
Other program service fees	626,995		626,995	299,137		299,137
Merchandise sales	6,083		6,083	33,234		33,234
Total Revenue	<u>1,455,819</u>		<u>1,455,819</u>	<u>883,105</u>		<u>883,105</u>
Net Assets Released from Purpose Restrictions	<u>1,500,238</u>	<u>(1,500,238)</u>	<u>-</u>	<u>16,369,642</u>	<u>(16,369,642)</u>	<u>-</u>
Total Operating Public Support and Revenue	<u>10,069,612</u>	<u>(96,543)</u>	<u>9,973,069</u>	<u>24,755,658</u>	<u>(15,229,556)</u>	<u>9,526,102</u>
Expenses						
Program services	7,905,309		7,905,309	6,454,498		6,454,498
Management and general	656,068		656,068	543,814		543,814
Fundraising	1,199,906		1,199,906	1,225,928		1,225,928
Total Operating Expenses	<u>9,761,283</u>		<u>9,761,283</u>	<u>8,224,240</u>		<u>8,224,240</u>
Operating Change in Net Assets	<u>308,329</u>	<u>(96,543)</u>	<u>211,786</u>	<u>16,531,418</u>	<u>(15,229,556)</u>	<u>1,301,862</u>
NON-OPERATING:						
Investment income, gains and losses, net	359,411	34,395	393,806	580,780	114,001	694,781
Change in value of trust	-	424,470	424,470	-	1,055,618	1,055,618
Gain on sale and disposal of property and equipment	115,224		115,224	3,100		3,100
Capital campaign contributions	-	34,860	34,860	-	1,155,135	1,155,135
Capital campaign costs	(89,799)		(89,799)	(165,983)		(165,983)
Net assets released - capital campaign	252,258	(252,258)	-	11,855,139	(11,855,139)	-
Non-Operating Change in Net Assets	<u>637,094</u>	<u>241,467</u>	<u>878,561</u>	<u>12,273,036</u>	<u>(9,530,385)</u>	<u>2,742,651</u>
Total Change in Net Assets	<u>945,423</u>	<u>144,924</u>	<u>1,090,347</u>	<u>28,804,454</u>	<u>(24,759,941)</u>	<u>4,044,513</u>
Net Assets - beginning of year	<u>37,470,930</u>	<u>7,831,783</u>	<u>45,302,713</u>	<u>8,666,476</u>	<u>32,591,724</u>	<u>41,258,200</u>
Net Assets - end of year	<u>\$ 38,416,353</u>	<u>\$ 7,976,707</u>	<u>\$ 46,393,060</u>	<u>\$ 37,470,930</u>	<u>\$ 7,831,783</u>	<u>\$ 45,302,713</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2019

	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	\$ 3,691,827	\$ 287,150	\$ 281,883	\$ 4,260,860	\$ 501,729	\$ 171,032	\$ -	\$ 4,933,621
Payroll taxes and benefits	732,810	51,932	33,913	818,655	70,941	30,100	2,253	921,949
Total Payroll Expenses	4,424,637	339,082	315,796	5,079,515	572,670	201,132	2,253	5,855,570
Depreciation	787,460	27,189	104,729	919,378	28,564	20,236	-	968,178
Food, supplies, and medicine	618,645	145,148	68,794	832,587	1,037	4,128	3,882	841,634
Repairs, maintenance, and occupancy	269,474	4,628	10,491	284,593	11,312	86,296	338	382,539
Printing	42,543	270	10,947	53,760	1,942	318,973	720	375,395
Fundraising	191	1	545	737	4	353,867	938	355,546
Utilities	217,177	1,483	14,077	232,737	4,132	2,150	-	239,019
Marketing and promotions	108,416	698	2,324	111,438	2,346	80,877	(221)	194,440
Interest and bank fees	73,068	2,571	5,924	81,563	205	6,505	89,781	178,054
Travel and meetings	91,697	3,605	9,242	104,544	4,735	10,756	-	120,035
Postage	3,256	48	1,274	4,578	69	111,671	-	116,318
Insurance	79,027	930	5,854	85,811	1,288	585	-	87,684
Professional fees	30,120	862	1,348	32,330	22,871	1,415	5,784	62,400
Taxes and licenses	18,836	1,314	7,673	27,823	1,795	657	-	30,275
Telephone	22,676	154	1,907	24,737	508	55	-	25,300
Miscellaneous	70,265	775	(42,078)	28,962	2,585	600	(13,676)	18,471
Grants to others	210	1	5	216	5	3	-	224
Total Expenses	<u>\$ 6,857,698</u>	<u>\$ 528,759</u>	<u>\$ 518,852</u>	<u>\$ 7,905,309</u>	<u>\$ 656,068</u>	<u>\$ 1,199,906</u>	<u>\$ 89,799</u>	<u>\$ 9,851,082</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2018

	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	\$ 3,154,108	\$ 220,522	\$ 137,379	\$ 3,512,009	\$ 418,750	\$ 133,225	\$ 29,245	\$ 4,093,229
Payroll taxes and benefits	662,235	42,697	25,839	730,771	66,889	21,858	8,306	827,824
Total Payroll Expenses	3,816,343	263,219	163,218	4,242,780	485,639	155,083	37,551	4,921,053
Food, supplies, and medicine	598,659	115,590	128,505	842,754	1,789	2,372	(236)	846,679
Repairs, maintenance, and occupancy	468,829	5,665	10,765	485,259	12,006	77,928	20,000	595,193
Fundraising	343	3	72	418	7	386,930	15,355	402,710
Printing	46,265	333	2,566	49,164	886	319,780	8,373	378,203
Depreciation	275,265	7,714	10,721	293,700	4,699	7,399	-	305,798
Utilities	182,751	1,386	10,873	195,010	3,115	2,804	-	200,929
Marketing and promotions	49,373	329	2,622	52,324	875	56,273	33,426	142,898
Travel and meetings	111,610	2,392	1,586	115,588	2,028	7,256	763	125,635
Postage	5,084	117	142	5,343	96	101,207	16,043	122,689
Interest and bank fees	77,023	2,005	9,454	88,482	62	4,357	23,561	116,462
Professional fees	23,080	841	690	24,611	29,589	2,290	35,548	92,038
Insurance	70,915	783	5,171	76,869	652	684	-	78,205
Telephone	34,487	229	3,076	37,792	850	117	-	38,759
Taxes and licenses	12,567	507	3,484	16,558	210	659	-	17,427
Grants to others	3,053	2	6	3,061	7	7	-	3,075
Miscellaneous	(21,645)	180	(53,750)	(75,215)	1,304	100,782	(24,401)	2,470
Total Expenses	\$ 5,754,002	\$ 401,295	\$ 299,201	\$ 6,454,498	\$ 543,814	\$ 1,225,928	\$ 165,983	\$ 8,390,223

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 9,006,500	\$ 7,453,141
Cash received from adoptions	822,741	550,734
Cash received from other program service fees	739,375	148,784
Cash received from sale of merchandise	6,083	52,859
Cash received from sale of property	306,001	-
Cash paid to employees	(5,766,590)	(4,847,244)
Cash paid to vendors	(2,957,803)	(3,102,648)
Cash paid for interest	<u>(89,783)</u>	<u>(23,561)</u>
Net Cash Provided by Operating Activities	<u>2,066,524</u>	<u>232,065</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,856,390)	(13,787,309)
Purchases of investments	(2,931,469)	(4,272,905)
Sales of investments	<u>2,305,764</u>	<u>3,559,278</u>
Net Cash Used by Investing Activities	<u>(2,482,095)</u>	<u>(14,500,936)</u>
Cash Flows from Financing Activities		
Payments on revolving credit note	(1,000,000)	-
Proceeds from revolving credit note	-	3,200,000
Proceeds from contributions restricted to capital campaign	<u>1,348,878</u>	<u>3,456,035</u>
Net Cash Provided by Financing Activities	<u>348,878</u>	<u>6,656,035</u>
Change in Cash and Cash Equivalents	(66,693)	(7,612,836)
Cash and Cash Equivalents - beginning of year	<u>2,762,094</u>	<u>10,374,930</u>
Cash and Cash Equivalents - end of year	<u>\$ 2,695,401</u>	<u>\$ 2,762,094</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Changes in Net Assets to Net Cash Flows from Operating Activities		
Changes in net assets	\$ 1,090,347	\$ 4,044,513
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	968,178	305,798
Beneficial interest in trust	(144,648)	(820,188)
Capital campaign contributions	(34,860)	(1,155,135)
Reinvested dividends	(254,128)	(217,861)
Net gain on investments	(139,678)	(476,920)
Net gain (loss) on sale and disposal of property and equipment	190,777	(3,100)
Decrease (increase) in:		
Promises to give	290,259	(1,458,334)
Other receivables	112,380	(150,353)
Prepaid expenses and other assets	(50,175)	3,459
Inventory	(130,844)	48,839
Increase in:		
Accounts payable and accrued expenses	120,101	55,467
Unearned revenue	48,815	55,880
Net Cash Provided by Operating Activities	<u>\$ 2,066,524</u>	<u>\$ 232,065</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

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 built a first for our region – an adoption center, primary care teaching hospital, and animal shelter under one roof. Seattle Humane broke ground in mid-2016 and opened doors to the public in August 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, over five thousand adoptable 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, our previous shelter was unable to meet the needs of the community. Seattle Humane worked 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 replaced Seattle Humane's old facilities on its current site in Bellevue. It is a practical place constructed with durable materials and spaces that work for both the animals and the people who care for them. This is 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, 2019 and 2018, the placement rate was 98.8% and 98.7%, respectively.

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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 61 students cycling through in fiscal year 2018/19. 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 and those undergoing treatment for cancer.

§ *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, 2019 AND 2018

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.

Adoption of new accounting pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Seattle Humane has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which decreased net assets without donor restrictions and increased net assets with donor restrictions by \$15,041,134 as of April 1, 2017, resulting from the elimination of the option to release restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset prior to the asset being placed into service.

Basis of presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated certain net assets without restrictions as an operating reserve.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions are subject to expenditure for specific purposes as follows as of March 31:

	<u>2019</u>	<u>2018</u>
Beneficial interest in trust	\$ 5,642,246	\$ 5,497,598
Endowment	651,996	651,996
Lexus Fund - Medical care for dogs	659,085	568,478
Unappropriated endowment earnings	532,635	498,240
Community outreach programs	209,261	253,712
Capital campaign	-	217,398
Various projects benefiting animals	187,693	95,550
Life-Saver rescue program	93,791	47,113
Disaster preparedness	-	1,698
	<u>\$ 7,976,707</u>	<u>\$ 7,831,783</u>

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

Gifts of equipment are reported as net assets without donor restriction 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.

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 C)

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 HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019:

	Ordinary <u>Funds</u>	Endowment <u>Funds</u>	<u>Total</u>
Cash held for investment	\$ 1,438,054	\$ 28,544	\$ 1,466,598
Equity securities	4,778,098	826,820	5,604,918
Corporate and government bonds	<u>3,848,278</u>	<u>329,267</u>	<u>4,177,545</u>
	<u>\$ 10,064,430</u>	<u>\$ 1,184,631</u>	<u>\$ 11,249,061</u>

Investments are carried at fair value and consist of the following at March 31, 2018:

	Ordinary <u>Funds</u>	Endowment <u>Funds</u>	<u>Total</u>
Cash held for investment	\$ 641,402	\$ 4,494	\$ 645,896
Equity securities	4,557,143	819,036	5,376,179
Corporate and government bonds	<u>3,880,769</u>	<u>326,706</u>	<u>4,207,475</u>
	<u>\$ 9,079,314</u>	<u>\$ 1,150,236</u>	<u>\$ 10,229,550</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, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bequests receivable

Seattle Humane has been named as beneficiary in certain bequests. At such time as Seattle Humane is notified by the Executor as to the amount of the bequest to be received, bequest revenue and related receivable are recorded. Bequests receivable are stated at estimated net realizable value and included in promises to give.

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>2019</u>	<u>2018</u>
Land		\$ 296,524	\$ 296,524
Building	5 – 35 years	26,587,345	25,674,415
Equipment	5 – 20 years	<u>1,967,073</u>	<u>1,754,497</u>
		28,850,942	27,725,436
Less accumulated depreciation		<u>(1,836,842)</u>	<u>(868,664)</u>
		<u>\$ 27,014,100</u>	<u>\$ 26,856,772</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 that 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, 2019 and 2018, Seattle Humane received 170,658 (unaudited) and 158,601 (unaudited) volunteer hours, respectively.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended March 31, 2019 and 2018, in-kind donations included donated goods of \$129,646 and \$76,637 respectively. In addition, for the year ended March 31, 2018, in-kind donations included donated space of \$147,878.

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. Expenses that can be identified with a specific program are applied directly according to their natural expense classification. Non-specific program costs have been allocated among the programs and supporting services benefited based on the best fitting allocation method such as percentage of full-time equivalent hours, square footage of space or volunteer hours associated with the program or service.

Advertising

Seattle Humane expenses the production costs of advertising as incurred. Advertising expense was \$194,440 and \$142,898, respectively, for the years ended March 31, 2019 and 2018, and is included in marketing and promotions expense.

Non-operating activities

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

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.

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.

Reclassification

Certain accounts in the 2018 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, 2018.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE B - LIQUIDITY

As part of Seattle Humane's liquidity management, it has structured its financial assets to be available as general expenditures, liabilities and other obligations come due.

Seattle Humane financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Total financial assets	\$ 16,431,060
Less: Restrictions on the use of financial assets	
Endowment investments	(1,184,631)
Long-term pledges receivable	(37,758)
Purpose restricted net assets	(1,149,831)
Restricted by loan covenant	<u>(2,200,000)</u>
Financial Assets Available for Operations Within One Year	<u>\$ 11,858,840</u>

At March 31, 2019, Seattle Humane has \$11,858,840 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of above listed assets. The promises to give and other receivables are subject to implied time restrictions but are expected to be collected within one year.

NOTE C - 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, 2019				
Equity securities	\$ 5,604,918	\$ -	\$ -	\$ 5,604,918
Corporate and government bonds	<u>4,177,545</u>	<u>-</u>	<u>-</u>	<u>4,177,545</u>
	9,782,463	-	-	9,782,463
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>5,642,246</u>	<u>5,642,246</u>
Total Assets Shown at Fair Value	<u>\$ 9,782,463</u>	<u>\$ -</u>	<u>\$ 5,642,246</u>	<u>\$ 15,424,709</u>
As of March 31, 2018				
Equity securities	\$ 5,376,181	\$ -	\$ -	\$ 5,376,181
Corporate and government bonds	<u>4,207,475</u>	<u>-</u>	<u>-</u>	<u>4,207,475</u>
	9,583,656	-	-	9,583,656
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>5,497,598</u>	<u>5,497,598</u>
Total Assets Shown at Fair Value	<u>\$ 9,583,656</u>	<u>\$ -</u>	<u>\$ 5,497,598</u>	<u>\$ 15,081,254</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Beneficial Interest in Trust	Beneficial Interest in Trust
Fair Value as of April 1, 2017	\$ 4,677,410
Additions	-
Total gains included in change in net assets	820,188
Fair Value as of March 31, 2018	5,497,598
Additions	-
Total gains included in change in net assets	144,647
Fair Value as of March 31, 2019	\$ 5,642,246

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 D - BENEFICIAL INTEREST IN TRUST

Seattle Humane has a 20 percent beneficial interest in an irrevocable trust called the Helen Mull Foundation, held by an independent trustee. During 2016, Seattle Humane was notified of Helen Mull's death, at which time Seattle Humane's interest in the trust became irrevocable. Under the terms of the agreement, the beneficiaries are to receive distributions totaling one percent of net fair market value of the Foundation's assets, valued annually on the first business day of each calendar year, over the remaining term of the trust. Seattle Humane will receive 1/5th of the remaining trust balance at the end of the designated term. The total present value of future benefits to be received is estimated to be \$5,642,246 based on the 137 year remaining life of the gift and a discount rate of 5 percent. The distributions to Seattle Humane during the years ended March 31, 2019 and 2018 were \$279,823 and \$235,430, respectively.

NOTE E - PROMISES TO GIVE

Pledges and bequests receivable at March 31, 2019 are as follows:

Receivable in less than one year	\$ 2,239,585
Receivable in one to five years	47,387
	2,286,972
Less: allowance for doubtful accounts	(6,232)
Less: present value discount	(3,397)
	\$ 2,277,343

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE E - PROMISES TO GIVE (Continued)

Receivables due in more than one year are recorded at the present value of estimated future cash flows using a discount rate of 2.41%.

One donor represented 39% of total promises to give as of March 31, 2019.

NOTE F - REVOLVING CREDIT NOTE

In March 2016, Seattle Humane entered into a revolving credit note for construction costs. The note is collateralized by Seattle Humane's investment accounts and subject to compliance with certain financial covenants. There was a balance outstanding of \$2,200,000 at March 31, 2019. Terms of the note are as follows: revolving credit note with a principal amount up to \$10,000,000, maturing in March 2022 and bearing interest at the prime rate or at 75 basis points above the LIBOR rate. Seattle Humane may convert up to \$5,000,000 of this note into a term loan maturing in March 2027.

NOTE G - 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 net assets with donor restriction as (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

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE G - ENDOWMENT (Continued)

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).

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 net assets with donor restriction 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, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds			
General Endowment	\$ -	\$ 111,613	\$ 111,613
James A. Gilruth Jr., and Nettie Jim Leeper Gilruth Memorial Endowment Fund	-	811,329	811,329
Leah Buhner Veterinary Care Endowment	-	121,168	121,168
Sammie's Fund Endowment	-	140,521	140,521
Total endowment funds	<u>\$ -</u>	<u>\$ 1,184,631</u>	<u>\$ 1,184,631</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE G - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowments, beginning of year	\$ -	\$ 1,150,236	\$ 1,150,236
Investment return:			
Investment income	-	60,511	60,511
Net losses	-	(26,116)	(26,116)
Total investment return	-	34,395	34,395
Contributions, net	-	-	-
Appropriated for expenditure	-	-	-
Endowments, end of year	<u>\$ -</u>	<u>\$ 1,184,631</u>	<u>\$ 1,184,631</u>

Endowment net assets by fund type as of March 31, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds			
General Endowment	\$ -	\$ 108,360	108,360
James A. Gilruth Jr., and Nettie Jim Leeper Gilruth			
Memorial Endowment Fund	-	787,686	787,686
Leah Buhner Veterinary Care Endowment	-	117,765	117,765
Sammie's Fund Endowment	-	136,425	136,425
Total endowment funds	<u>\$ -</u>	<u>\$ 1,150,236</u>	<u>\$ 1,150,236</u>

Change in endowment net assets for the year ended March 31, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowments, beginning of year	\$ -	\$ 1,078,745	\$ 1,078,745
Investment return:			
Investment income	-	24,364	24,364
Net gains	-	89,637	89,637
Total investment return	-	114,001	114,001
Contributions, net	-	-	-
Appropriated for expenditure	-	(42,510)	(42,510)
Endowments, end of year	<u>\$ -</u>	<u>\$ 1,150,236</u>	<u>\$ 1,150,236</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

NOTE H - RELATED PARTIES

During the years ended March 31, 2019 and 2018, 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 I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2019 through September 17, 2019, 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, 2019, including the estimates inherent in the processing of financial statements.