

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED MARCH 31, 2020 AND 2019



THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

September 15, 2020

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, 2020 and 2019, 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, 2020 and 2019, 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

YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 4,195,241	\$ 2,695,401
Investments	9,843,404	10,064,430
Promises to give	457,486	2,239,585
Other receivables	74,969	209,255
Prepaid expenses and other assets	250,456	263,537
Inventory	<u>145,247</u>	<u>226,731</u>
Total Current Assets	14,966,803	15,698,939
Promises to Give	-	37,758
Beneficial Interest in Trust	5,788,755	5,642,246
Endowment Investments	1,113,002	1,184,631
Property and Equipment, net	<u>26,379,749</u>	<u>27,014,100</u>
	<u>\$48,248,309</u>	<u>\$49,577,674</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 744,325	\$ 684,494
Unearned revenue	<u>236,818</u>	<u>300,120</u>
Total Current Liabilities	981,143	984,614
Revolving Credit Note	<u>2,200,000</u>	<u>2,200,000</u>
Total Liabilities	<u>3,181,143</u>	<u>3,184,614</u>
Net Assets		
Without donor restrictions	10,499,621	11,402,253
Without donor restrictions - property and equipment	<u>26,379,749</u>	<u>27,014,100</u>
Total Net Assets Without Donor Restrictions	36,879,370	38,416,353
With donor restrictions	<u>8,187,796</u>	<u>7,976,707</u>
Total Net Assets	<u>45,067,166</u>	<u>46,393,060</u>
	<u>\$48,248,309</u>	<u>\$49,577,674</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF ACTIVITIES

YEARS ENDED MARCH 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:						
Public Support and Revenue						
Public Support						
Contributions	\$ 3,460,089	\$ 1,380,086	\$ 4,840,175	\$ 2,868,597	\$ 1,403,695	\$ 4,272,292
Bequests	1,482,302	-	1,482,302	1,839,197	-	1,839,197
Special events	1,803,089	-	1,803,089	2,276,115	-	2,276,115
In-kind donations	129,446	-	129,446	129,646	-	129,646
Total Public Support	<u>6,874,926</u>	<u>1,380,086</u>	<u>8,255,012</u>	<u>7,113,555</u>	<u>1,403,695</u>	<u>8,517,250</u>
Revenue						
Adoption fees	653,537		653,537	822,741		822,741
Other program service fees	650,749		650,749	626,995		626,995
Merchandise sales	3,989		3,989	6,083		6,083
Total Revenue	<u>1,308,275</u>		<u>1,308,275</u>	<u>1,455,819</u>		<u>1,455,819</u>
Net Assets Released from Purpose Restrictions	<u>1,498,808</u>	<u>(1,498,808)</u>	<u>-</u>	<u>1,500,238</u>	<u>(1,500,238)</u>	<u>-</u>
Total Operating Public Support and Revenue	<u>9,682,009</u>	<u>(118,722)</u>	<u>9,563,287</u>	<u>10,069,612</u>	<u>(96,543)</u>	<u>9,973,069</u>
Expenses						
Program services	8,684,342		8,684,342	7,905,309		7,905,309
Management and general	761,724		761,724	656,068		656,068
Fundraising	1,334,318		1,334,318	1,199,906		1,199,906
Total Operating Expenses	<u>10,780,384</u>		<u>10,780,384</u>	<u>9,761,283</u>		<u>9,761,283</u>
Operating Change in Net Assets	<u>(1,098,375)</u>	<u>(118,722)</u>	<u>(1,217,097)</u>	<u>308,329</u>	<u>(96,543)</u>	<u>211,786</u>
NON-OPERATING:						
Investment income, gains and losses, net	(466,592)	(71,629)	(538,221)	359,411	34,395	393,806
Change in value of trust	-	401,439	401,439	-	424,470	424,470
Gain on sale and disposal of property and equipment	-	-	-	115,224	-	115,224
Capital campaign contributions	-	22,739	22,739	-	34,860	34,860
Capital campaign costs	5,246		5,246	(89,799)		(89,799)
Net assets released - capital campaign	22,738	(22,738)	-	252,258	(252,258)	-
Non-Operating Change in Net Assets	<u>(438,608)</u>	<u>329,811</u>	<u>(108,797)</u>	<u>637,094</u>	<u>241,467</u>	<u>878,561</u>
Total Change in Net Assets	<u>(1,536,983)</u>	<u>211,089</u>	<u>(1,325,894)</u>	<u>945,423</u>	<u>144,924</u>	<u>1,090,347</u>
Net Assets - beginning 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>
Net Assets - end of year	<u>\$ 36,879,370</u>	<u>\$ 8,187,796</u>	<u>\$ 45,067,166</u>	<u>\$ 38,416,353</u>	<u>\$ 7,976,707</u>	<u>\$ 46,393,060</u>

See notes to financial statements.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2020

	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	\$ 4,063,500	\$ 354,543	\$ 307,493	\$ 4,725,536	\$ 522,019	\$ 209,751	\$ -	\$ 5,457,306
Payroll taxes and benefits	799,373	59,382	38,936	897,691	81,419	28,779	-	1,007,889
Total Payroll Expenses	4,862,873	413,925	346,429	5,623,227	603,438	238,530	-	6,465,195
Food, supplies, and medicine	599,728	148,736	280,275	1,028,739	1,016	2,991	-	1,032,746
Depreciation	819,505	28,692	109,001	957,198	30,556	22,253	-	1,010,007
Repairs, maintenance, and occupancy	301,600	9,899	11,017	322,516	25,959	76,104	-	424,579
Fundraising	-	-	1,530	1,530	-	411,810	-	413,340
Printing	22,061	184	21,888	44,133	497	358,363	-	402,993
Utilities	215,464	1,345	17,898	234,707	4,641	3,648	-	242,996
Postage	2,056	67	2,550	4,673	121	139,211	-	144,005
Interest and bank fees	78,245	1,520	13,305	93,070	16,104	25,522	-	134,696
Marketing and promotions	75,865	383	1,885	78,133	1,860	37,044	269	117,306
Travel and meetings	90,358	4,458	5,252	100,068	5,454	11,762	-	117,284
Professional fees	35,478	861	1,502	37,841	67,356	4,305	-	109,502
Insurance	87,816	798	6,551	95,165	1,315	604	-	97,084
Taxes and licenses	14,671	1,278	8,759	24,708	(238)	1,330	-	25,800
Miscellaneous	17,551	758	1,952	20,261	3,719	749	(5,515)	19,214
Telephone	16,913	110	1,350	18,373	(74)	92	-	18,391
Grants to others	-	-	-	-	-	-	-	-
Total Expenses	<u>\$ 7,240,184</u>	<u>\$ 613,014</u>	<u>\$ 831,144</u>	<u>\$ 8,684,342</u>	<u>\$ 761,724</u>	<u>\$ 1,334,318</u>	<u>\$ (5,246)</u>	<u>\$10,775,138</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
Food, supplies, and medicine	618,645	145,148	68,794	832,587	1,037	4,128	3,882	841,634
Depreciation	787,460	27,189	104,729	919,378	28,564	20,236	-	968,178
Repairs, maintenance, and occupancy	269,474	4,628	10,491	284,593	11,312	86,296	338	382,539
Fundraising	191	1	545	737	4	353,867	938	355,546
Printing	42,543	270	10,947	53,760	1,942	318,973	720	375,395
Utilities	217,177	1,483	14,077	232,737	4,132	2,150	-	239,019
Postage	3,256	48	1,274	4,578	69	111,671	-	116,318
Interest and bank fees	73,068	2,571	5,924	81,563	205	6,505	89,781	178,054
Marketing and promotions	108,416	698	2,324	111,438	2,346	80,877	(221)	194,440
Travel and meetings	91,697	3,605	9,242	104,544	4,735	10,756	-	120,035
Professional fees	30,120	862	1,348	32,330	22,871	1,415	5,784	62,400
Insurance	79,027	930	5,854	85,811	1,288	585	-	87,684
Taxes and licenses	18,836	1,314	7,673	27,823	1,795	657	-	30,275
Miscellaneous	70,265	775	(42,078)	28,962	2,585	600	(13,676)	18,471
Telephone	22,676	154	1,907	24,737	508	55	-	25,300
Grants to others	210	1	5	216	5	3	-	224
Total Expenses	\$ 6,857,698	\$ 528,759	\$ 518,852	\$ 7,905,309	\$ 656,068	\$ 1,199,906	\$ 89,799	\$ 9,851,082

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 9,600,638	\$ 9,006,500
Cash received from adoptions	653,537	822,741
Cash received from other program service fees	785,035	739,375
Cash received from sale of merchandise	3,989	6,083
Cash received from sale of property	-	306,001
Cash paid to employees	(6,423,490)	(5,766,590)
Cash paid to vendors	(2,993,960)	(2,957,803)
Cash paid for interest	<u>(63,839)</u>	<u>(89,783)</u>
Net Cash Provided by Operating Activities	<u>1,561,910</u>	<u>2,066,524</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(375,656)	(1,856,390)
Purchases of investments	(3,571,047)	(2,931,469)
Sales of investments	<u>3,325,481</u>	<u>2,305,764</u>
Net Cash Used by Investing Activities	<u>(621,222)</u>	<u>(2,482,095)</u>
Cash Flows from Financing Activities		
Payments on revolving credit note	-	(1,000,000)
Proceeds from contributions restricted to capital campaign	<u>559,152</u>	<u>1,348,878</u>
Net Cash Provided by Financing Activities	<u>559,152</u>	<u>348,878</u>
Change in Cash and Cash Equivalents	1,499,840	(66,693)
Cash and Cash Equivalents - beginning of year	<u>2,695,401</u>	<u>2,762,094</u>
Cash and Cash Equivalents - end of year	<u>\$ 4,195,241</u>	<u>\$ 2,695,401</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Changes in Net Assets to Net Cash Flows from Operating Activities		
Changes in net assets	\$ (1,325,894)	\$ 1,090,347
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,010,007	968,178
Beneficial interest in trust	(146,509)	(144,648)
Capital campaign contributions	(22,739)	(34,860)
Reinvested dividends	(298,286)	(254,128)
Net gain on investments	836,507	(139,678)
Net gain on sale and disposal of property and equipment	-	190,777
Change in:		
Promises to give	1,283,444	290,259
Other receivables	134,286	112,380
Prepaid expenses and other assets	13,081	(50,175)
Inventory	81,484	(130,844)
Accounts payable and accrued expenses	59,831	120,101
Unearned revenue	<u>(63,302)</u>	<u>48,815</u>
Net Cash Provided by Operating Activities	<u>\$ 1,561,910</u>	<u>\$ 2,066,524</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

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 lives and completing families.

With the opening of its new facility in August 2017, Seattle Humane built a first for our region – an adoption center, primary care teaching hospital, and animal shelter under one roof. 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. To address these concerns, our Seattle Humane facility now incorporates the best practices for animal health, welfare, and high-volume medical care and adoptions. Seattle Humane's "live-save rate" is among the best in the nation, and the caring staff has found homes for nearly 20,000 animals since the opening of the new shelter in 2017. For the year ended March 31, 2020, Seattle Humane was able to touch the lives of over 13,000 animals through transfers, veterinary care, adoptions, and community programs.

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 partner 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.

For the year ended March 31, 2020, Seattle Humane placed 5,689 animals in adoptive homes. The majority of adoptions take place at the physical shelter, with some taking place through the MaxMobile Mobile Adoption and Education vehicle. Seattle Humane's adoption team not only provides a positive, customer-centric experience to each person who comes through our doors, but knows each animal in Seattle Humane's care, which allows them to help match potential adopters to the perfect pet.

Adoptable companion animals are provided to the general public for a fee and provided to income-qualified 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, 2020 and 2019, the placement rate was 98.9% and 98.8%, respectively.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foster Care: Seattle Humane's Foster Care program serves a wide variety of animals including kittens, puppies, cats, dogs, rabbits, guinea pigs, and other small critters. In 2018, Seattle Humane added a foster-to-adopt program component, and it has proven to be highly successful in helping some of the longer length of stay pets with medical or behavioral needs find loving homes. For the year ended March 31, 2020, the Foster Care program served 4,397 animals.

Lifesaver Transfer: Seattle Humane's Lifesaver Transfer program brings in approximately 65% of the shelter's animal population annually. Staff and volunteers coordinate lifesaving transfers nationwide, and shelter pets are picked up from local shelters, rescues, and airports for intake. In states of emergency and natural disasters, Seattle Humane transfers in animals from affected locations to ensure source shelters have space to house strays and other animals affected. Seattle Humane currently transfers animals in from 115 high-need shelters in Washington, California, Texas, Oregon, Arizona, Hawaii, Tennessee, Arkansas, Oklahoma, Georgia, Florida, and Louisiana. During the year ended March 31, 2020, a total of 3,766 cats and dogs were transferred in to Seattle Humane.

Veterinary Medicine: Seattle Humane's Veterinary Medicine program provides services to every animal that comes through the shelter. From initial intake checks and administering vaccinations, to providing surgeries and dental extractions, the Veterinary Medicine program has developed processes for decreasing an animal's length of stay in the shelter, freeing up more space to accommodate animals from other shelters needing our support, and ultimately saving more lives. Spay or neuter surgery is performed on every dog or cat prior to adoption.

In addition to care of shelter pets, Seattle Humane also provides low-cost spay/neuter services, vaccinations, microchipping, and emergency operations for income-qualified pet owners to help keep pets in their homes.

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 (WSU) 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 partnership between our two leading organizations is already having dramatic results.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Veterinary students are currently doing rotations at Seattle Humane, with 61 students cycling through during the year ended March 31, 2020. Many of these students, after working at Seattle Humane, will make careers out of shelter medicine or volunteer for their local shelters.

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.

- *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.

Community Outreach Programs: In addition to providing shelter and care for homeless animals, Seattle Humane also seeks to serve the community. Seattle Humane offers a variety of services for low-income families who, without help, may have to make the heartbreaking choice between caring for themselves or their pets. Through various community programs, Seattle Humane strives to help people maintain safe, caring homes for their pets, and to reduce pet surrender by providing alternatives for pet owners.

- *Mobile Wellness Clinic:* The Mobile Wellness Clinic provides routine veterinary care, including physical exams, vaccinations, dewormers, flea medications, microchips, nail trims, referrals, and vouchers for spay and neuter services. To remove barriers to access for those who need services, Seattle Humane transports volunteer veterinarians and all necessary supplies on our MaxMobile, a 38-foot, branded vehicle also used for mobile adoptions and education outreach. Seattle Humane partners with neighborhood food banks to provide services in areas that are easily accessible to those who need them. During the year ended March 31, 2020, 54 pets received care through the Mobile Wellness Clinic.
- *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.
- *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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Pet Food Bank:* The Pet Food Bank collects and distributes pet food donations to low-income pet owners experiencing hardship. The program feeds more than 2,300 pets every month and distributes over 200,000 pounds of pet food annually. Essential supplies such as beds, toys, leashes and collars are also provided to clients who are unable to afford them. To ensure families always have access to pet food and supplies, Seattle Humane distributes resources to partner shelters, food banks, senior centers, and directly to homebound pet owners throughout King County.
- *Pet Project:* Pet Project is Seattle Humane's most targeted community service program and the only program of its kind in Washington State. Developed in 1989, Pet Project offers free veterinary care, reduced adoption fees, pet food, and supplies to low-income pet owners affected by HIV/AIDS and cancer. In many cases, Seattle Humane has seen pet-owners living with chronic or terminal illness forfeit food for themselves to feed their pets, or make the heartbreaking decision to surrender or abandon their pets. By providing pet care expenses for this low-income constituency, they save what few resources they have for self-care. Many Pet Project clients have been with the program for 10, 20 and even 30 years, and would not be able to have a pet without this program. For the year ending March 31, 2020, Seattle Humane's Pet Project served over 140 clients and over 200 pets.

Adoption of new accounting pronouncements

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. Seattle Humane has implemented Topic 606 and considered the need for adjustment to the presentation in these financial statements. Analysis of various provisions of this standard resulted in no significant changes in the way Seattle Humane recognizes revenue and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Seattle Humane has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Analysis of various provisions of this standard resulted in no significant changes in the way Seattle Humane recognizes contributions, and therefore no changes to the previously issued audited financial statements were required.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Net assets with donor restrictions are as follows at March 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purposes:		
Lexus Fund - Medical care for dogs	\$ 735,949	\$ 659,085
Community outreach programs	107,269	209,261
Various projects benefiting animals	260,882	187,693
Life-Saver rescue program	181,939	93,791
	<u>1,286,039</u>	<u>1,149,830</u>
Subject to investment and appropriation:		
Endowment	1,113,002	1,184,631
Beneficial interest in trust	5,788,755	5,642,246
	<u>6,901,757</u>	<u>6,826,877</u>
Total net assets with donor restrictions	<u>\$ 8,187,796</u>	<u>\$ 7,976,707</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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal income taxes

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

Cash and cash equivalents

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

Fair value measurements (See Note D)

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied.

The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are carried at fair value and consist of the following at March 31, 2020:

	Ordinary <u>Funds</u>	Endowment <u>Funds</u>	<u>Total</u>
Cash held for investment	\$ 733,719	\$ 60,275	\$ 793,994
Equity securities	4,449,464	606,549	5,056,013
Corporate and government bonds	4,660,221	446,178	5,106,399
	<u>\$ 9,843,404</u>	<u>\$ 1,113,002</u>	<u>\$ 10,956,406</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>

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. Pledges and bequests receivable at March 31, 2020 are all considered fully collectible within one year. One donor represented 66% of total promises to give as of March 31, 2020.

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>2020</u>	<u>2019</u>
Land		\$ 296,524	\$ 296,524
Building	5 – 35 years	26,809,616	26,587,345
Equipment	5 – 20 years	<u>1,999,060</u>	<u>1,967,073</u>
		29,105,200	28,850,942
Less accumulated depreciation		<u>(2,725,451)</u>	<u>(1,836,842)</u>
		<u>\$ 26,379,749</u>	<u>\$ 27,014,100</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and revenue recognition

Seattle Humane recognizes revenue from adoption and training services when the services are provided. Merchandise sales are recognized at the time of purchase. All goods and services are transferred at a point in time.

Seattle Humane recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Seattle Humane recognizes ticket sales for special events for which payment is received in advance as deferred revenue. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. Consequently, as of March 31, 2020, conditional contributions and grants for which no amounts had been received in advance totaling \$200,000 have not been recognized in the accompanying financial statements.

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, 2020 and 2019, Seattle Humane received 165,454 (unaudited) and 170,658 (unaudited) volunteer hours, respectively.

For the years ended March 31, 2020 and 2019, in-kind donations included donated goods of \$129,446 and \$129,646 respectively.

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 \$117,306 and \$194,440, respectively, for the years ended March 31, 2020 and 2019, and is included in marketing and promotions expense.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-operating activities

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

Use of estimates

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

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 strives to have cash on hand to provide one year's coverage of general expenditures. Seattle Humane's financial assets available within one year of the statement of financial position date for general expenditures as of March 31 are as follows:

	<u>2020</u>	<u>2019</u>
Total financial assets	\$ 15,684,102	\$ 16,431,060
Less: Restrictions on the use of financial assets		
Endowment investments	(1,113,002)	(1,184,631)
Long-term pledges receivable	-	(37,758)
Purpose restricted net assets	(1,286,040)	(1,149,831)
Restricted by loan covenant	<u>(2,200,000)</u>	<u>(2,200,000)</u>
Financial Assets Available for Operations Within One Year	<u>\$ 11,085,060</u>	<u>\$ 11,858,840</u>

NOTE C - 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 \$5,788,755 based on the 136 year remaining life of the gift and a discount rate of 5 percent. The distributions to Seattle Humane during the years ended March 31, 2020 and 2019 were \$254,930 and \$279,822, respectively.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE D - FAIR VALUE MEASUREMENTS

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

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of March 31, 2020				
Equity securities	\$ 5,056,013	\$ -	\$ -	\$ 5,056,013
Corporate and government bonds	5,106,399	-	-	5,106,399
	10,162,412	-	-	10,162,412
Beneficial interest in trust	-	-	5,788,755	5,788,755
Total Assets Shown at Fair Value	<u>\$ 10,162,412</u>	<u>\$ -</u>	<u>\$ 5,788,755</u>	<u>\$ 15,951,167</u>
As of March 31, 2019				
Equity securities	\$ 5,604,918	\$ -	\$ -	\$ 5,604,918
Corporate and government bonds	4,177,545	-	-	4,177,545
	9,782,463	-	-	9,782,463
Beneficial interest in trust	-	-	5,642,246	5,642,246
Total Assets Shown at Fair Value	<u>\$ 9,782,463</u>	<u>\$ -</u>	<u>\$ 5,642,246</u>	<u>\$ 15,424,709</u>

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, 2018	\$ 5,497,598
Distribution	(279,822)
Total gains included in change in net assets	424,470
Fair Value as of March 31, 2019	5,642,246
Distribution	(254,930)
Total gains included in change in net assets	401,439
Fair Value as of March 31, 2020	<u>\$ 5,788,755</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, 2020 AND 2019

NOTE E - 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, 2020. 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 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 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, 2020 AND 2019

NOTE F - 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, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds			
General Endowment	\$ -	\$ 104,874	\$ 104,874
James A. Gilruth Jr., and Nettie Jim Leeper Gilruth Memorial Endowment Fund	-	762,287	762,287
Leah Buhner Veterinary Care Endowment	-	113,804	113,804
Sammie's Fund Endowment	-	132,037	132,037
Total endowment funds	<u>\$ -</u>	<u>\$ 1,113,002</u>	<u>\$ 1,113,002</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE F - ENDOWMENT (Continued)

Change in endowment net assets for the year ended March 31, 2020:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowments, beginning of year	\$ -	\$ 1,184,631	\$ 1,184,631
Investment return:			
Investment income	-	27,092	27,092
Net losses	-	(98,721)	(98,721)
Total investment return	-	(71,629)	(71,629)
Contributions, net	-	-	-
Appropriated for expenditure	-	-	-
Endowments, end of year	<u>\$ -</u>	<u>\$ 1,113,002</u>	<u>\$ 1,113,002</u>

Endowment net assets by fund type as of March 31, 2019:

	Without Donor <u>Restriction</u>	With Donor <u>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>

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

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowments, beginning of year	\$ -	\$ 1,150,236	\$ 1,150,236
Investment return:			
Investment income	-	60,511	60,511
Net gains	-	(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>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

NOTE G - RELATED PARTIES

During the years ended March 31, 2020 and 2019, 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 H - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to March 31, 2020 through September 15, 2020, 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, 2020, including the estimates inherent in the processing of financial statements.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020 the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice.

Management continues to evaluate the financial impact of the COVID-19 pandemic and has concluded that while it is likely that the virus will have a negative effect on Seattle Humane's financial position, change in net assets, and cash flows, the specific impact is not readily determinable as of the date of these financial statements. In addition, Seattle Humane has obtained a \$1,055,497 Paycheck Protection Program loan as part of its emergency response plan. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.