

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023



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**THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
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YEAR ENDED MARCH 31, 2023**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Humane Society for Seattle/King County
Bellevue, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Humane Society for Seattle/King County (the Organization) which comprise the statements of financial position as of March 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Humane Society for Seattle/King County as of March 31, 2023, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Humane Society for Seattle/King County and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 2023 audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023 the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Humane Society for Seattle/King County's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Humane Society for Seattle/King County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Humane Society for Seattle/King County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Bellevue, Washington
November 2, 2023

**THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2023**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 716,016
Investments	13,255,156
Promises to Give	273,000
Other Receivables	863,410
Prepaid Expenses and Other Assets	351,178
Inventory	42,788
Total Current Assets	15,501,548

BENEFICIAL INTEREST IN TRUST

6,322,756

ENDOWMENT INVESTMENTS

1,460,241

PROPERTY AND EQUIPMENT, NET

23,670,612

FINANCING RIGHT-Of-USE ASSETS

31,853

Total Assets

\$ 46,987,010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	\$ 914,552
Financing Lease Obligation, Current Portion	7,160
Unearned Revenue	16,375
Revolving Credit Note	2,050,000
Total Current Liabilities	2,988,087

NONCURRENT LIABILITIES

Financing Lease Obligation, Net of Current Portion	25,157
Total Long-Term Liabilities	25,157

Total Liabilities

3,013,244

NET ASSETS

Without Donor Restrictions:

Undesignated	11,526,450
Property and Equipment	23,670,612
Total Without Donor Restrictions	35,197,062

With Donor Restrictions

8,776,704

Total Net Assets

43,973,766

Total Liabilities and Net Assets

\$ 46,987,010

See accompanying Notes to Financial Statements.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
Public Support and Revenues:			
Public Support:			
Contributions	\$ 5,019,742	\$ 376,621	\$ 5,396,363
Bequests	2,149,406	-	2,149,406
Special Events	2,527,139	-	2,527,139
Contributed Non-Financial Assets	208,981	-	208,981
Total Public Support	9,905,268	376,621	10,281,889
Revenues:			
Adoption Fees	1,122,555	-	1,122,555
Other Program Service Fees	793,118	-	793,118
Merchandise Sales	41,443	-	41,443
Total Revenues	1,957,116	-	1,957,116
Net Assets Released from Restrictions	891,676	(891,676)	-
Total Public Support and Revenues	12,754,060	(515,055)	12,239,005
Expenses:			
Program Services	11,549,458	-	11,549,458
Management and General	2,270,223	-	2,270,223
Fundraising	2,031,486	-	2,031,486
Total Expenses	15,851,167	-	15,851,167
CHANGE IN NET ASSETS FROM OPERATIONS	(3,097,107)	(515,055)	(3,612,162)
NONOPERATING ACTIVITIES			
Investment Income, Gains, and Losses, Net	(787,345)	(93,514)	(880,859)
Change in Value of Beneficial Interest In Trust	-	(1,307,571)	(1,307,571)
Total Nonoperating Activities	(787,345)	(1,401,085)	(2,188,430)
CHANGE IN NET ASSETS	(3,884,452)	(1,916,140)	(5,800,592)
Net Assets - Beginning of Year, as Previously Stated	39,081,514	10,692,844	49,774,358
NET ASSETS - END OF YEAR	\$ 35,197,062	\$ 8,776,704	\$ 43,973,766

See accompanying Notes to Financial Statements.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2023

	Program Services			Supporting Services			Total Expenses
	Adoption Services	Veterinarian Clinic Services	Education Programs and Other Services	Total Program Services	Management and General	Fundraising	
Salaries	\$ 3,493,363	\$ 2,346,652	\$ 916,961	\$ 6,756,976	\$ 1,269,191	\$ 560,767	\$ 8,586,934
Payroll Taxes and Benefits	756,320	426,764	175,951	1,359,035	220,740	110,713	1,690,488
Food, Supplies, and Medicine	311,459	562,632	450,829	1,324,920	15,595	6,348	1,346,863
Depreciation	650,852	183,816	57,743	892,411	102,969	15,971	1,011,351
Repairs, Maintenance, and Occupancy	155,176	84,381	21,623	261,180	70,048	25,614	356,842
Special Events	-	-	-	-	-	593,277	593,277
Printing	2,283	841	978	4,102	795	358,235	363,132
Utilities	170,518	28,429	11,935	210,882	46,973	1,323	259,178
Professional Fees	22,821	10,880	4,438	38,139	91,689	8,929	138,757
Interest and Bank Fees	100,269	20,474	12,227	132,970	75,423	65,221	273,614
Marketing and Promotions	50,834	28,045	14,533	93,412	18,389	36,065	147,866
Postage	27	56	7	90	454	108,652	109,196
Insurance	77,071	20,654	9,603	107,328	5,255	1,290	113,873
Information Technology	118,477	65,199	31,294	214,970	110,501	122,293	447,764
Travel and Meetings	36,631	13,362	13,339	63,332	22,316	9,911	95,559
Miscellaneous	10,911	14,571	2,717	28,199	212,687	2,483	243,369
Taxes and Licenses	22,496	12,345	5,342	40,183	2,310	125	42,618
Telephone	9,832	7,382	4,115	21,329	4,888	4,269	30,486
Total Expenses by Function	\$ 5,989,340	\$ 3,826,483	\$ 1,733,635	\$ 11,549,458	\$ 2,270,223	\$ 2,031,486	\$ 15,851,167

See accompanying Notes to Financial Statements.

**THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (5,800,592)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided Used by Operating Activities:	
Depreciation	1,011,351
Change in Beneficial Interest In Trust	1,307,571
Realized and Unrealized Loss on Investments	880,859
Changes in Operating Assets and Liabilities:	
Promises to Give	349,962
Other Receivables	(31,564)
Prepaid Expenses and Other Assets	24,794
Inventory	(96,127)
Accounts Payable and Accrued Expenses	(79,430)
Unearned Revenue	(409,046)
Net Cash Used by Operating Activities	<u><u>\$ (2,842,222)</u></u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	\$ (40,779)
Purchases of Investments	(1,024,287)
Proceeds from Maturity/Sales of Investments	<u>1,820,565</u>
Net Cash Provided by Investing Activities	755,499
 CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Long-Term Debt	(150,000)
Financing Right-of-Use Assets	(31,853)
Financing Lease Obligations	<u>(32,317)</u>
Net Cash Used by Financing Activities	(214,170)
 CHANGE IN CASH AND CASH EQUIVALENTS	(2,300,893)
Cash and Cash Equivalents - Beginning of Year	<u>3,016,909</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 716,016</u></u>

See accompanying Notes to Financial Statements.

**THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Humane Society for Seattle/King County (the Organization), is a private, independent, nonprofit, community-supported organization. Founded in 1897, the Organization proudly promotes the human- animal bond by saving and serving pets in need. The shelter is not a chapter or affiliate of any national animal organization.

The Organization focuses on best practices for animal health, welfare, veterinary care, adoptions and support for pet owners to keep pets out of the shelter altogether.

With the opening of its new facility in August 2017, the Organization built a first for our region – an adoption center, primary care teaching hospital, and animal shelter under one roof. The organization is now one of the region's leaders in animal adoption, education, and welfare. The Organization is more than a shelter - it is a community resource center, providing adoption services, a pet food bank and support for pet owners, low-cost spay/neuter surgeries and wellness exams, humane education for all ages and more.

As a managed-intake shelter that cares for pets with treatable medical or behavioral issues, there are no limits placed on the pets in the Organization's care for space and time. Pets receive the medical care and behavior support they need to thrive in new homes. The organization takes into account individual animals and people, as well as the community as a whole, in every aspect of the work they do. The Organization continues to demonstrate this commitment through its high annual live release rate, referred to as its save rate.

In 2021, the Organization embarked on an ambitious five-year strategic plan supporting its commitment to building a better world for pets and the people who love them. Their work is made possible by the support of a generous community. Through outreach, advocacy, and services they strive to ensure that responsible animal companionship is accessible to all.

Major programs and services offered to the community include the following:

Adoption Services

Seattle Humane accepts cats, dogs and critters (rabbits, guinea pigs, rats, mice, gerbils and hamsters) from the public and transfers from partner shelters. During their time with Seattle Humane, pets are provided with everything they need to set them up for success with their new adoptive families: expert care, veterinary services and behavioral support. The Organization's adoption team not only provides a positive, customer-centric experience to each person in search of a pet, but knows each animal in the Organization's care, which allows them to help match potential adopters to the perfect pet.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

Veterinary Medicine

The Organization's Veterinary Services team provides services to every animal that comes through the shelter through the Schuler Family Medical Center. From initial intake checks and administering vaccinations to providing surgeries and dental extractions. Spay or neuter surgery is performed on every animal prior to adoption.

In addition to providing care of shelter pets, the Organization also provides low-cost spay/neuter surgeries and wellness services through the Community Medicine program for income-qualified pet owners to help keep pets in their homes.

Community Outreach Programs

The Organization 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, the Organization strives to help people care for their pets and reduce pet surrender by providing alternatives for pet owners.

Pet Food Bank – The Pet Food Bank collects and distributes pet food donations, providing nearly one million meals each year to pets in the community. Essential supplies such as beds, toys, leashes, and collars are also provided to clients. The need for these services continues to grow.

Pet Resource Center – The Organization's Pet Resource Center offers a number of services ranging from rehoming options, animal coaching, and even financial support, to help keep pets with the people who love them.

SPOT Temporary Foster Program – The SPOT (Supporting Pet Owners in Transition) temporary foster program uses the Organization's existing foster network to house pets for owners who need temporary care due to housing insecurity, hospitalization, or other personal crisis.

Pets for Life – Pets for Life is a program model started by the Humane Society of the United States to help address the lack of access to pet resources experienced by families living in underserved communities. The Pets for Life program at the Organization serves people and animals in Seattle's 98108, 98146 and 98106 zip codes and provides no-cost spay/neuter surgeries, vaccines, pet supplies and other pet care resources.

Behavior Training Classes – The Organization offers dog training classes to the community for new and existing pet owners. From puppy socialization to more specialized reactive rover workshops, we help dogs live their best lives with their humans.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

Lifesaver Transfer

The Organization's Lifesaver Rescue program is our transport program intended to give at-risk animals another chance through transfer and transport services. The Lifesaver Rescue transfer program typically brings in over 60% of the shelter's animal population annually from other shelters that lack space or resources to care for them. In states of emergency and natural disasters, the Organization transfers animals in from affected locations to ensure source shelters have space to house strays and other animals affected. The Organization currently transfers animals in from more than 90 high-need shelters in Washington and across the country.

Education and Advocacy Programs

The Organization believes strongly in nurturing successful relationships between people and pets. Education programs include:

Youth Programs – The Organization's Youth Programs provide leadership training and fun learning experiences with animals, both on campus and out in the community, creating the next generation of animal welfare advocates.

Humane Teen Club / Summer Camps – The Humane Teen Club (HTC) and Summer Camps provide young people the opportunity to learn the importance of animal companionship and welfare.

Veterinary Student Training Programs – The Organization and Washington State University's (WSU) College of Veterinary Medicine have a formal relationship for on-site training of fourth-year veterinary students in a two-week elective rotation in the clinic performing surgeries at the shelter.

Advocacy – The Organization is championing the rights and well-being of pets and their people alongside our peers in the animal welfare community. The Organization is committed to sharing information about the ever-evolving field of animal welfare, empowering our community to act as advocates for pets and the people who love them. There are many policy areas that directly affect pets and their families in the region, and the Organization has seen firsthand the systemic challenges the community faces in owning and caring for a pet in Washington state. The Organization is actively working in conjunction with their peers to support animal welfare policy initiatives.

Volunteer Services

The Organization's volunteers support almost every function at the organization including cat care, walking dogs, helping prospective adopters find their perfect pet, fundraising, caring for animals and packing pet food. Volunteers also foster shelter pets providing care and a temporary loving home for a wide variety of animals including kittens, puppies, cats, dogs, rabbits, guinea pigs and other small critters.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

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 of directors 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 at March 31, 2023 was as follows:

Subject to Expenditure for Specified Purpose:	
Lexus Fund - Medical care for dogs	\$ 751,746
Grants	122,593
Grinstein Fund - Medical care for cats	119,368
Total	993,707
Subject to Investment and Appropriation:	
Endowment	1,460,241
Beneficial Interest in Trust	6,322,756
Total	7,782,997
Total Net Assets With Donor Restrictions	\$ 8,776,704

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

Federal Income Taxes

The Internal Revenue Service has recognized the Organization 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. The Organization maintains cash deposits in bank accounts which exceed federally insured limits. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair Value Measurements

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

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

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

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

**THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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, 2023:

	General Funds	Endowment Funds	Total
Cash Held for Investment	\$ 348,357	\$ 30,066	\$ 378,423
Equity Securities	7,568,333	978,949	8,547,282
Corporate and Government Bonds	4,822,404	393,933	5,216,337
Alternative Style Funds	516,062	57,293	573,355
Total	<u>\$ 13,255,156</u>	<u>\$ 1,460,241</u>	<u>\$ 14,715,397</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, 2023 are all considered fully collectible within one year.

Bequests Receivable

The Organization has been named as beneficiary in certain bequests. At such time as the Organization 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 net realizable value under the first-in, first-out method of accounting and consists of merchandise and medical supplies.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Land, building, and equipment are stated at cost. Long-lived asset purchases that exceed \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment consisted of the following at March 31, 2023:

	<u>Estimated Useful Lives</u>	
Land		\$ 296,524
Building	5 to 35 Years	27,062,376
Equipment	5 to 20 Years	<u>2,066,325</u>
Total		29,425,225
Less: Accumulated Depreciation		<u>(5,754,613)</u>
Property and Equipment, Net		<u><u>\$ 23,670,612</u></u>

Leases

The Organization leases equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue Recognition

The Organization 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.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. The Organization 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.

Contributed Non-financial Assets

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise that the Organization 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 year ended March 31, 2023, the Organization received 144,773 (unaudited) volunteer hours, which do not meet the requirements for recognition and are therefore not recorded in the statement of activities. For the year ended March 31, 2023, in kind donations included pet food, supplies, and medicine of \$208,981. These donations are recorded at the value at the time of donation, which approximates fair value.

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. Nonspecific 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

The Organization expenses the production costs of advertising as incurred. Advertising expense was \$147,865 for the year ended March 31, 2023 and is included in marketing and promotions expense.

Nonoperating Activities

The Organization's nonoperating activities include investment activities and the change in value of its beneficial interest in trust.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standard

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Subsequent Events

Management has evaluated subsequent events through November 2, 2023, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY

As part of the Organization's liquidity management, it has structured its financial assets to be available as general expenditures, liabilities and other obligations come due. The Organization strives to have cash on hand to provide one year's coverage of general expenditures. The Organization's financial assets available within one year of the statement of financial position date for general expenditures as of March 31, 2023 are as follows:

Total Financial Assets	\$	23,284,545
Less Restrictions on the Use of Financial Assets:		
Endowment Investments		(1,460,241)
Net Assets Restricted for Specified Purpose		(993,707)
Beneficial Interest in Trust		(6,322,756)
Restricted by Loan Covenant		(2,050,000)
Total	<u>\$</u>	<u>12,457,841</u>

NOTE 3 FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis are as follows at March 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 378,423	\$ -	\$ -	\$ 378,423
Equity Securities	8,547,282	-	-	8,547,282
Corporate and Government Bonds	5,216,337	-	-	5,216,337
Alternative Style Funds	573,355	-	-	573,355
Total	<u>14,715,397</u>	<u>-</u>	<u>-</u>	<u>14,715,397</u>
				-
Beneficial Interest in Trust	-	-	6,322,756	6,322,756
Total Assets at Fair Value	<u>\$ 14,715,397</u>	<u>\$ -</u>	<u>\$ 6,322,756</u>	<u>\$ 21,038,153</u>

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended March 31, 2023.

Interest in Beneficial Interest in Trust, Beginning of Year	\$	7,630,328
Change in value of Beneficial Interest in Trust		(1,307,572)
Interest in Beneficial Interest in Trust, End of Year	<u>\$</u>	<u>6,322,756</u>

NOTE 4 REVOLVING CREDIT NOTE

In March 2016, the Organization entered into a revolving credit note for construction costs. The note is collateralized by the Organization's investment accounts. There was a balance outstanding of \$2,050,000 on March 31, 2023. The note matures on demand and bears interest at two percentage points below the prime rate.

NOTE 5 BENEFICIAL INTEREST IN TRUST

The Organization has a 20% beneficial interest in an irrevocable trust called the Helen Mull Foundation, held by an independent trustee. During 2016, the Organization was notified of Helen Mull's death, at which time the Organization's interest in the trust became irrevocable. Under the terms of the agreement, the beneficiaries are to receive distributions totaling 1% 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. The Organization will receive one fifth 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 \$6,322,756 based on the 134 year remaining life of the gift and a discount rate of 5%. The distributions to the Organization during the year ended March 31, 2023 were \$405,556.

NOTE 6 ENDOWMENT

The Organization's endowment consists of four individual donor-restricted funds established for a variety of purposes. Under U.S. GAAP, the net assets of endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Under the Prudent Management of Institutional Funds Act (PMIFA), as in effect in the state of Washington and as interpreted by the board of directors, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable.

Accordingly, the Organization 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.

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NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6 ENDOWMENT (CONTINUED)

In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s).

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to 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 the Organization'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, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization 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 for March 31, 2023 was 3.5% of the balance. 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.

THE HUMANE SOCIETY FOR SEATTLE/KING COUNTY
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MARCH 31, 2023

NOTE 6 ENDOWMENT (CONTINUED)

Spending Policy (Continued)

As of March 31, 2023, the Organization had the following endowment net asset composition by type of fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
General Endowment	\$ -	\$ 114,806	\$ 114,806
James A. Gilruth Jr., and Nettie Jim Leeper			
Gilruth Memorial Endowment Fund	-	1,000,175	1,000,175
Leah Buhner Veterinary Care Endowment	-	149,270	149,270
Sammie's Fund Endowment	-	195,990	195,990
Total	<u>\$ -</u>	<u>\$ 1,460,241</u>	<u>\$ 1,460,241</u>

Changes in endowment net assets for the years ended March 31, 2023 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ -	\$ 1,605,869	\$ 1,605,869
Investment Return:			
Investment Gains, Losses, and Fees, net	-	(93,514)	(93,514)
Total Investment Return	-	(93,514)	(93,514)
Contributions, Net	-	-	-
Appropriated for Expenditure	-	(52,114)	(52,114)
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 1,460,241</u>	<u>\$ 1,460,241</u>

NOTE 7 RELATED PARTIES

During the year ended March 31, 2023, no board members directly profited from any company doing business with the Organization. Several board members are employed by companies that provided goods and/or services to the Organization 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 8 EMPLOYEE RETENTION CREDIT

In December 2021, the Organization applied for a \$741,198 employee retention tax credit (ERTC) offered as part of the IRS' Coronavirus Tax Relief program relating to employee wages during April through September 2021. This amount is included in other receivables on the statement of financial position at March 31, 2023 and in contributions on the statement of activities for the year ended March 31, 2023.

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NOTE 9 LEASES – ASC 842

The Organization leases equipment under long-term, noncancelable finance lease agreements. The leases expire in September 2027. Total lease cost of \$6,744 as of March 31, 2023, is included in occupancy on the Organization’s statement of functional expenses.

Amounts reported on the statement of financial position as of March 31, 2023, are as follows:

Financing Lease Right-of-Use Asset	\$	31,853
Financing Lease Obligation		32,317

The following is a schedule of total future minimum lease payments and the present value of future minimum lease payments for operating leases:

<u>Year Ending June 30,</u>	<u>Financing</u>	<u>Total</u>
2023	\$ 8,128	\$ 8,128
2024	8,128	8,128
2025	7,660	7,660
2026	7,192	7,192
2027	3,597	3,597
Total Undiscounted Lease Payments	34,705	34,705
Less: Imputed Interest	2,388	2,388
Total Present Value	32,317	32,317
Short-Term Financing Lease Obligation	7,160	7,160
Long-Term Financing Lease Obligation	<u>\$ 25,157</u>	<u>\$ 25,157</u>

Other information related to the Organization’s leases as of March 31, 2023, was as follows:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	\$	903
Financing Cash Flows from Finance Leases	\$	5,427
Right-of-Use Assets Obtained in Exchange for New Financing Lease Liability		
	\$	37,743
Weighted-Average Remaining Lease Term - Financing Leases		
		4.3 Years
Weighted-Average Discount Rate - Financing Leases		
		3.50%
Finance lease cost:		
Amortization of right-of-use assets	\$	5,841
Interest on lease liabilities		903
Total lease cost	\$	6,744



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