

**Spokane Humane Society**

*Financial Report*

**December 31, 2019**

**Spokane Humane Society  
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December 31, 2019**

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## **Report of Independent Auditor**

Board of Directors  
Spokane Humane Society  
Spokane, Washington

We have audited the accompanying statements of financial position of Spokane Humane Society (a nonprofit organization) as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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.

### **Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 above present fairly, in all material respects, the financial position of Spokane Humane Society as of December 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.

*DeCoria, Maichel + Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington

June 17, 2020

**Spokane Humane Society**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$ 519,236	\$ 346,188
Annuity receivable, due within one year (Note 5)	15,906	15,906
Inventory	8,584	6,814
Deposits and other assets	20,213	19,248
Investments in marketable securities (Notes 6 and 9)	<u>3,066,687</u>	<u>948,075</u>
Total current assets	<u>3,630,626</u>	<u>1,336,231</u>
<b>Noncurrent assets:</b>		
Property and equipment, net (Note 7)	579,900	687,055
Annuity receivable, due after one year (Note 5)	15,906	31,812
Beneficial interests in charitable remainder trusts (Notes 6 and 9)	436,560	398,741
Beneficial interest in foundation endowment (Notes 6 and 9)	<u>917,462</u>	<u>823,000</u>
Total noncurrent assets	<u>1,949,828</u>	<u>1,940,608</u>
Total assets	<u>\$ 5,580,454</u>	<u>\$ 3,276,839</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 65,307	\$ 78,498
Accrued payroll and related liabilities	76,114	106,890
Deferred revenue, to be amortized within one year (Note 5)	15,906	15,906
Unearned grant revenue	<u>50,086</u>	<u>2,536</u>
Total current liabilities	<u>207,413</u>	<u>203,830</u>
<b>Noncurrent liabilities:</b>		
Deferred revenue, to be amortized after one year (Note 5)	<u>15,906</u>	<u>31,812</u>
Total noncurrent liabilities	<u>15,906</u>	<u>31,812</u>
Total liabilities	<u>223,319</u>	<u>235,642</u>
<b>Net assets (Note 9):</b>		
Without donor restrictions	3,968,013	1,819,456
With donor restrictions	<u>1,389,122</u>	<u>1,221,741</u>
Total net assets	<u>5,357,135</u>	<u>3,041,197</u>
Total liabilities and net assets	<u>\$ 5,580,454</u>	<u>\$ 3,276,839</u>

*The accompanying notes are an integral part of the financial statements.*

**Spokane Humane Society**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total 2019</b>
<b>Support and revenue:</b>			
Contributions	\$ 905,212	\$ 35,100	\$ 940,312
Animal services	498,877	-	498,877
Fundraising, general	400,580	-	400,580
Special fundraising events	253,999	-	253,999
In-kind contributions (Note 8)	71,676	-	71,676
	<u>2,130,344</u>	<u>35,100</u>	<u>2,165,444</u>
Total support and revenue before release of restrictions			
Net assets released from restrictions	21,202	(21,202)	-
	<u>2,151,546</u>	<u>13,898</u>	<u>2,165,444</u>
<b>Operating expenses:</b>			
Program services	1,479,314	-	1,479,314
Support services	268,973	-	268,973
Fundraising	346,050	-	346,050
	<u>2,094,337</u>	<u>-</u>	<u>2,094,337</u>
Total operating expenses			
Changes in net assets from operating activities	57,209	13,898	71,107
	<u>57,209</u>	<u>13,898</u>	<u>71,107</u>
<b>Non-operating income:</b>			
Interest and dividend income	36,273	-	36,273
Net realized and unrealized gains on investments (Note 6)	126,649	59,021	185,670
Gain on disposal of property and equipment (Note 7)	1,893,282	-	1,893,282
Foundation endowment interest and dividend income (Note 6)	35,144	-	35,144
Net appreciation of beneficial interest in foundation endowment (Note 6)	-	94,462	94,462
	<u>2,091,348</u>	<u>153,483</u>	<u>2,244,831</u>
Total non-operating income, net			
Changes in net assets	2,148,557	167,381	2,315,938
	<u>2,148,557</u>	<u>167,381</u>	<u>2,315,938</u>
Net assets, beginning of year	1,819,456	1,221,741	3,041,197
	<u>1,819,456</u>	<u>1,221,741</u>	<u>3,041,197</u>
Net assets, end of year	<u>\$ 3,968,013</u>	<u>\$ 1,389,122</u>	<u>\$ 5,357,135</u>

**Spokane Humane Society**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>
<b>Support and revenue:</b>			
Contributions	\$ 555,477	\$ -	\$ 555,477
Animal services	447,361	-	447,361
Fundraising, general	398,486	-	398,486
Special fundraising events	210,242	-	210,242
In-kind contributions (Note 8)	63,698	-	63,698
	<u>1,675,264</u>	<u>-</u>	<u>1,675,264</u>
Total support and revenue before release of restrictions	1,675,264	-	1,675,264
Net assets released from restrictions	19,894	(19,894)	-
	<u>1,695,158</u>	<u>(19,894)</u>	<u>1,675,264</u>
Total support and revenue	1,695,158	(19,894)	1,675,264
<b>Operating expenses:</b>			
Program services	1,432,324	-	1,432,324
Support services	236,856	-	236,856
Fundraising	291,834	-	291,834
	<u>1,961,014</u>	<u>-</u>	<u>1,961,014</u>
Total operating expenses	1,961,014	-	1,961,014
Changes in net assets from operating activities	<u>(265,856)</u>	<u>(19,894)</u>	<u>(285,750)</u>
<b>Non-operating income:</b>			
Interest and dividend income	27,682	-	27,682
Net realized and unrealized gains on investments (Note 6)	(72,763)	(32,362)	(105,125)
Gain on disposal of property and equipment	-	-	-
Foundation endowment interest and dividend income (Note 6)	34,894	-	34,894
Net appreciation of beneficial interest in foundation endowment (Note 6)	-	(103,023)	(103,023)
	<u>(10,187)</u>	<u>(135,385)</u>	<u>(145,572)</u>
Total non-operating income, net	(10,187)	(135,385)	(145,572)
Changes in net assets	(276,043)	(155,279)	(431,322)
Net assets, beginning of year	<u>2,095,499</u>	<u>1,377,020</u>	<u>3,472,519</u>
Net assets, end of year	<u>\$ 1,819,456</u>	<u>\$ 1,221,741</u>	<u>\$ 3,041,197</u>

**Spokane Humane Society**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2019**

	<b>Program Services</b>	<b>Support Services</b>	<b>Fundraising</b>	<b>Total 2019</b>
Salaries and wages	\$ 703,372	\$ 161,093	\$ 109,012	\$ 973,477
Payroll taxes	75,838	13,622	10,262	99,722
Employee benefits	105,977	18,023	12,685	136,685
Total payroll and related expenses	885,187	192,738	131,959	1,209,884
Animal food	55,499	-	-	55,499
Building repair and maintenance	16,685	7,472	-	24,157
Computer expense	14,506	4,540	5,815	24,861
Dues and subscriptions	-	6,705	-	6,705
Equipment repair and maintenance	10,418	1,953	-	12,371
Fundraising events/direct mail campaign	-	-	188,322	188,322
Grounds maintenance	1,890	-	-	1,890
Insurance	19,598	7,527	-	27,125
Interest and bank fees	18,181	6,983	-	25,164
Licenses and taxes	10,577	3,640	-	14,217
Marketing	5,444	1,247	844	7,535
Miscellaneous	24,289	1,832	-	26,121
Newsletter	-	2,530	-	2,530
Office expense	12,598	1,944	1,315	15,857
Outreach/special event	-	-	16,319	16,319
Postage and shipping	2,814	636	1,113	4,563
Printing	693	461	363	1,517
Professional fees	10,811	11,375	-	22,186
Shelter animal transport	204	-	-	204
Shelter expense	159,610	-	-	159,610
Spay and neuter clinic	98,445	-	-	98,445
Telephone	10,110	3,480	-	13,590
Training and travel	5,480	2,349	-	7,829
Utilities	40,000	4,288	-	44,288
Vehicle repairs and maintenance	2,284	268	-	2,552
Veterinary services	5,439	-	-	5,439
Depreciation	68,552	7,005	-	75,557
Total functional expenses	<u>\$ 1,479,314</u>	<u>\$ 268,973</u>	<u>\$ 346,050</u>	<u>\$ 2,094,337</u>



**Spokane Humane Society**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	<b>Program Services</b>	<b>Support Services</b>	<b>Fundraising</b>	<b>Total 2018</b>
Salaries and wages	\$ 739,557	\$ 95,121	\$ 86,309	\$ 920,987
Payroll taxes	86,625	9,733	8,555	104,913
Employee benefits	98,011	9,876	9,107	116,994
Total payroll and related expenses	924,193	114,730	103,971	1,142,894
Animal food	56,555	-	-	56,555
Building repair and maintenance	11,431	7,873	-	19,304
Computer expense	6,410	23,003	-	29,413
Dues and subscriptions	410	5,522	-	5,932
Equipment repair and maintenance	4,957	692	-	5,649
Fundraising events/direct mail campaign	-	-	177,118	177,118
Grounds maintenance	2,523	-	-	2,523
Insurance	15,032	15,032	-	30,064
Interest and bank fees	10,505	10,933	-	21,438
Licenses and taxes	905	2,115	-	3,020
Marketing	-	15,552	1,368	16,920
Miscellaneous	-	762	-	762
Newsletter	500	2,107	-	2,607
Office expense	4,029	4,030	-	8,059
Outreach/special event	-	-	9,377	9,377
Postage and shipping	2,302	2,396	-	4,698
Printing	-	2,140	-	2,140
Professional fees	10,675	10,674	-	21,349
Shelter animal transport	38	-	-	38
Shelter expense	118,967	-	-	118,967
Spay and neuter clinic	118,582	-	-	118,582
Telephone	15,112	2,907	-	18,019
Training and travel	2,321	1,282	-	3,603
Utilities	39,163	5,424	-	44,587
Vehicle repairs and maintenance	3,285	1,012	-	4,297
Veterinary services	2,403	-	-	2,403
Depreciation	82,026	8,670	-	90,696
Total functional expenses	<u>\$ 1,432,324</u>	<u>\$ 236,856</u>	<u>\$ 291,834</u>	<u>\$ 1,961,014</u>

**Spokane Humane Society**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 2,315,938	\$ (431,322)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation expense	75,557	90,696
Donated property and equipment	(4,847)	(4,000)
Gain on disposal of property and equipment	(1,893,282)	-
Net realized and unrealized gains on investments in marketable securities	(126,649)	72,763
Net realized and unrealized gains on charitable remainder trusts and appreciation of beneficial interest in foundation endowment	(153,483)	135,385
Change in:		
Accounts receivable	-	70
Inventory	(1,770)	(909)
Deposits and other assets	(965)	8,386
Accounts payable	(13,191)	18,673
Accrued payroll and related liabilities	(30,776)	37,670
Other deferred revenue	47,550	(2,609)
Net cash provided (used) by operating activities	<u>214,082</u>	<u>(75,197)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(3,353,353)	(475,380)
Proceeds from sales of investments	1,361,390	400,202
Proceeds from beneficial interest in charitable remainder trusts	21,202	19,894
Proceeds from disposal of property and equipment	1,932,428	-
Purchases of property and equipment	(2,701)	(19,462)
Net cash used by investing activities	<u>(41,034)</u>	<u>(74,746)</u>
Net increase (decrease) in cash and cash equivalents	173,048	(149,943)
Cash and cash equivalents, beginning of year	<u>346,188</u>	<u>496,131</u>
Cash and cash equivalents, end of year	<u>\$ 519,236</u>	<u>\$ 346,188</u>

**Spokane Humane Society**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**1. Organization**

Spokane Humane Society (“the Society”) is a nonprofit organization working for the prevention of cruelty to animals. The Society was incorporated in the state of Washington in 1897 and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Society’s primary sources of revenue include bequests, public donations, adoption fees and investment income. The Society’s major activity is animal services. Animal services expenses include the cost of providing animal shelter and food, veterinary services, and costs associated with providing other animal-related services, including spaying and neutering.

**2. Summary of Significant Accounting Policies**

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the American Institute of Certified Public Accountants’ *Audit and Accounting Guide for Not-for-Profit Organizations*. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized as incurred.

ASC Topic 958, *Not-For-Profit Entities*, establishes standards for external financial statements of not-for-profit organizations. During 2018, the Society adopted ASU 2016-14, which amended ASC Topic 958. It requires classification of net assets and revenues, expenses, gains and losses into two categories, based on the existence or absence of donor-imposed restrictions (see Note 9) and disclosure on liquid resources and the availability of financial assets to meet cash needs for general expenditures (see Note 3). In addition, the organization is required to present a statement of cash flows.

Recent Accounting Pronouncements

New accounting standards are now issued by the Financial Accounting Standards Board (FASB) through Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). The FASB does not consider the updates authoritative on a standalone basis; they become authoritative when incorporated into the ASC.

In May 2014, the FASB issued ASU No. 2014-09, which amended ASC Topic 606, *Revenue from Contracts with Customers*, with the stated purpose of removing inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The adoption of ASU 2014-09 was originally set to become effective for the fiscal year ended December 31, 2019. However, during May 2020 the FASB proved the option to extend the effective date one year for non-public entities which had not yet issued their financial statements (see Note 10). The Society’s management has elected to defer the implementation of ASU 2014-09 to become effective for the fiscal year ending December 31, 2020.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**2. Summary of Significant Accounting Policies, Continued**

Recent Accounting Pronouncements, Continued

In November 2016, the FASB issued ASU No. 2016-18, which amended ASC Topic 230, *Statement of Cash Flows – Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. The adoption of ASU 2016-18 became effective in the fiscal year ended December 31, 2019. Implementation did not have a significant impact to the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, which amended ASC Topics 958-605 and 958-720, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the amendment is to provide guidance on grants and contracts that was not provided in ASU 2014-09, *Revenue from Contracts with Customers*. The amendment should assist entities in 1) evaluating if transactions should be accounted for as contributions or exchange transactions (subject to other guidance) and 2) whether a contribution is conditional. The adoption of ASU 2018-08 became effective in the fiscal year ended December 31, 2019. Implementation did not have a significant impact to the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, which created a new ASC Topic 842, *Leases*. This standard requires a lessee to recognize the lease assets and lease liabilities arising from operating leases in the Statement of Financial Position. Qualitative, along with specific quantitative disclosures, are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. The Society is currently evaluating the financial statement impact of adopting this ASU.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits in banks and other highly liquid investments which have original maturities of three months or less when purchased.

Investments

The Society carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at fair market value based upon quoted market prices. Gains, losses and income on investments are reported in the Statements of Activities and Changes in Net Assets as increases or decreases in net assets without donor restrictions unless their use is temporarily or permanently restricted by explicit donor stipulations.

These investment securities are exposed to various interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**2. Summary of Significant Accounting Policies, Continued**

Accounts Receivable

Accounts receivable are stated at the amount that management of the Society expects to collect from outstanding balances. If considered necessary, management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management's judgment, considering historical write-offs, collections and current credit conditions. Generally, the Society considers accounts receivable past due after 30 days. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received subsequent to the time that an account is written off are considered bad debt recoveries and are recorded as an offset to expenses. Management expects all December 31, 2019 receivables to be fully collectible and, therefore, no allowance for doubtful accounts has been provided as of that date.

Inventory

Inventory consists of pet supplies available for sale, and is reported at the lower of cost (first in, first out method) or net realizable value.

Property and Equipment

Purchased property and equipment are carried at cost. Donated property and equipment, if any, are carried at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Expenditures for repairs and maintenance that represent betterments or substantially prolong the useful lives of assets are also capitalized. Only assets with a cost or value of \$2,500 or greater are capitalized as property and equipment. Normal maintenance and repairs are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are recognized in the Statements of Activities and Changes in Net Assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the associated assets, which range from 3 to 40 years.

Valuation of Long-Lived Assets

Management of the Society periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for an asset impairment write-down. Impaired assets are reported at the lower of cost or fair value. At December 31, 2019 and 2018, no assets were considered to be impaired.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**2. Summary of Significant Accounting Policies, Continued**

Financial Instruments

ASC Topic 825, *Financial Instruments*, permits entities to choose to measure many financial assets and liabilities at fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. At December 31, 2019 and 2018, the carrying value of financial instruments, such as receivables, accounts payable and other current liabilities, approximated their fair values based on the short-term maturities of those instruments.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization. The inputs and methodology used for valuing the Society's financial assets and liabilities are not indicators of the risks associated with those instruments.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAV's, if any, are not included in Level 1, 2 or 3, but are separately reported.

At December 31, 2019 and 2018, the assets or liabilities of the Society that were measured at fair value on a recurring basis are summarized as follows:

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in marketable securities	\$ 1,390,174	\$ --	\$ --	\$ 1,390,174
Cash equivalents in investment accounts	1,676,513	--	--	1,676,513
Beneficial interests in charitable remainder trusts	307,381	129,179	--	436,560
Beneficial interest in foundation endowment	--	917,462	--	917,462
	<u>\$ 3,374,068</u>	<u>\$ 1,046,641</u>	<u>\$ --</u>	<u>\$ 4,420,709</u>
<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in marketable securities	\$ 935,617	\$ --	\$ --	\$ 935,617
Cash equivalents in investment accounts	12,458	--	--	12,458
Beneficial interests in charitable remainder trusts	283,499	115,242	--	398,741
Beneficial interest in foundation endowment	--	823,000	--	823,000
	<u>\$ 1,231,574</u>	<u>\$ 938,242</u>	<u>\$ --</u>	<u>\$ 2,169,816</u>

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**2. Summary of Significant Accounting Policies, Continued**

Fair Value Measurements, Continued

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The Society had no assets or liabilities measured at fair value on a nonrecurring basis during 2019 and 2018.

Revenue Recognition

Unconditional promises to give (pledges) are recorded as revenue at their estimated net realizable value. Pledges with payments due in future periods are discounted to their present value. Pledges are also reported net of an allowance for bad debts. Management's estimate of the allowance is based on historical collection experience and a review of the current status and collections of promises to give.

Conditional promises to give are not included as revenue until the conditions are substantially met or unless the possibility that the conditions will not be met is remote.

Other revenue is recognized when services have been provided and collectability is reasonably assured.

Contributions and Recognition of Donor Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions of cash and other assets with donor-imposed temporary restrictions, where the restrictions have been satisfied in the same reporting period as received, are reported as increases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as restricted support that increases net assets with donor restrictions. When a temporary restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Donations of property and equipment, if any, are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Services and Supplies

Donated services are recognized as contributions if the services either create or enhance non-financial assets or require specialized skills, which are performed by people with those skills, and would otherwise be purchased by the Society. Donated supplies are recorded at their estimated fair value when received.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**2. Summary of Significant Accounting Policies, Continued**

Functional Expenses

The costs associated with providing the various programs and supporting services of the Society have been summarized in the Statements of Activities and Changes in Net Assets. Most expenses can be directly allocated to one of the programs or supporting functions. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Any expenditures of the Society not directly chargeable to a specific program or supporting service are allocated based on management policies and estimates and the guidelines outlined in the grants and contracts, if any. Management has elected to use direct payroll as the primary basis for allocating indirect costs, unless otherwise outlined in grants and contracts. The financial statements report expenses by function in the Statements of Functional Expenses.

Credit Risk

Financial instruments which potentially subject the Society to concentration of credit risk consist principally of cash and cash equivalents.

The Society maintains its cash and cash equivalents with high credit quality financial institutions and generally limits the amount of exposure to any one financial institution. The Society's cash in bank deposit accounts, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk on cash and cash equivalents.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. However, the Society is subject to tax on unrelated business income, if any. The Society had no unrelated business income during 2019 and 2018.

The Society has not identified any uncertain income tax positions that would jeopardize its tax-exempt status. The Society's income tax returns are subject to review and examination by federal authorities. With few exceptions, the tax returns essentially remain open for possible examination by federal authorities for a period of three years after the respective filing deadlines of those returns.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Society to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

Spokane Humane Society has evaluated subsequent events through June 17, 2020, the date as of which these financial statements were available to be issued. Except as disclosed in Note 10, no material subsequent events have occurred since December 31, 2019 that required recognition or disclosure in these financial statements.



**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**3. Liquidity and Availability of Funds**

The Organization's financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 519,236	\$ 346,188
Less: unearned grant revenue	(50,086)	(2,536)
Annuity receivable, due within one year	<u>15,906</u>	<u>15,906</u>
Financial assets available to meet general expenditures	<u>\$ 485,056</u>	<u>\$ 359,558</u>

The Society's net assets with donor restrictions consist of a permanently restricted endowment and two beneficial interests in annuity trusts (see Note 6) where the annual disbursements are at the discretion of the third-party administrators and, therefore, are not available for general expenditure. Additionally, certain board-designated assets that are included in short-term investments are designated for future capital expenditures and operating reserves (see Note 9). These board-designated funds have no specified spending rate. These assets are limited to use and are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Society's liquidity management, they have a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Society invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Society has a quasi-endowment of \$482,229 and a reserve of \$2,584,458 (see Note 9). Although the Society does not intend to spend from the quasi-endowment other than the amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts could be made available if necessary.

**4. Cash and Cash Equivalents**

Cash and cash equivalents consist of deposits held in checking, savings, money market and sweep accounts at local banks. Custodial credit risk is the risk that in the event of a bank failure, the Society's deposits may not be returned to it. Deposits held in checking, savings, money market and sweep accounts at the banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution.

The carrying amount of cash and cash equivalents on the Society's books at December 31, 2019 was \$519,236 and bank balances totaled \$522,290. The differences between the carrying amount of cash and cash equivalents on the Society's books and the bank balances consisted of outstanding checks and deposits not processed by the bank as of December 31, 2019.

A summary of the total insured and uninsured bank balances at December 31, 2019 is as follows:

Total bank balances	\$ 522,290
Portion insured by FDIC	<u>(282,565)</u>
Uninsured cash balances	<u>\$ 239,725</u>

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**5. Annuity Receivable**

The Society is the beneficiary of an annuity that is being paid at the rate of \$1,325.49 per month. At December 31, 2019, there were 24 monthly payments remaining, totaling \$31,812. At December 31, 2019, the Society has recorded \$15,906 as a current annuity receivable, with the balance recorded as a noncurrent annuity receivable. The entire amount has been recorded as deferred revenue. Each month when the annuity payment is received, the Society reduces the annuity receivable and recognizes revenue for the amount of the payment received.

**6. Investments**

Investments consist of marketable securities held by Innovia and TD Ameritrade, and beneficial interests in charitable remainder trusts administered by Washington Trust Bank and a foundation endowment held by Innovia. Investments at December 31, 2019 and 2018 consist of and appear in the financial statements as follows:

	<u>2019</u>	<u>2018</u>
Investments in marketable securities	\$ 3,066,687	\$ 948,075
Beneficial interests in charitable remainder trusts	436,560	398,741
Beneficial interest in foundation endowment	<u>917,462</u>	<u>823,000</u>
	<u>\$ 4,420,709</u>	<u>\$ 2,169,816</u>

The fair value and cost of investments in marketable securities at December 31, 2019 were as follows:

	<u>Fair Value</u>	<u>Cost</u>
Common stock	\$ 131,740	\$ 74,562
Mutual funds	405,789	403,328
Other investments	852,645	794,180
Investments in cash equivalents	<u>1,676,513</u>	<u>1,676,513</u>
	<u>\$ 3,066,687</u>	<u>\$ 2,948,583</u>

The fair value and cost of investments in marketable securities at December 31, 2018 were as follows:

	<u>Fair Value</u>	<u>Cost</u>
Common stock	\$ 141,715	\$ 117,726
Mutual funds	349,622	361,831
Other investments	444,280	471,911
Investments in cash equivalents	<u>12,458</u>	<u>12,458</u>
	<u>\$ 948,075</u>	<u>\$ 963,926</u>

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**6. Investments, Continued**

Return on investments in marketable securities for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 34,261	\$ 27,119
Realized gains (losses), net	26,476	73,473
Unrealized gains (losses), net	118,104	(138,333)
Investment management fees	<u>(13,576)</u>	<u>(7,927)</u>
	<u>\$ 165,265</u>	<u>\$ (45,668)</u>

Beneficial Interest in Matsch Charitable Remainder Trust

In 2003, the Society was gifted a 20% interest in a charitable remainder trust established by John Matsch. The Society receives quarterly distributions from the earnings of the trust. For the years ended December 31, 2019 and 2018, the distributions received totaled \$10,936 and \$8,248, respectively. In accordance with ASC 958, the fair value of the beneficial interest totaled \$224,381 and \$203,204 at December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the fair value of the beneficial interest, including realized and unrealized gains and losses, changed by \$32,114 and \$(17,708), respectively.

Beneficial Interest in Gosnay Charitable Remainder Trust

In 2010, the Society was gifted a 14% interest in a charitable remainder trust established by Ernest C. and Marie K. Gosnay. The Society receives annual distributions from the earnings of the trust. For the years ended December 31, 2019 and 2018, the distributions received totaled \$10,266 and \$11,646, respectively. In accordance with ASC 958, the fair value of the beneficial interest totaled \$212,179 and \$195,537 at December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the fair value of the beneficial interest, including realized and unrealized gains and losses, changed by \$26,907 and \$(14,654), respectively.

Beneficial Interest in Foundation Endowment

The Society has a beneficial interest in an endowment fund held and managed by the Innovia (formerly Inland Northwest Community Foundation). The Society was the beneficiary of a \$453,000 bequest made pursuant to a will. The Society's Board subsequently made a decision to contribute the funds to Innovia pursuant to a reciprocal transfer. Under the terms of the fund agreement with Innovia, the Society is the beneficiary of the fund and, subject to Innovia's spending policy, receives distributions of investment earnings from the fund. For the years ended December 31, 2019 and 2018, the distributions received totaled \$35,144 and \$34,894, respectively. In accordance with ASC 958, the fair value of the beneficial interest totaled \$917,462 and \$823,000 at December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the beneficial interest in the foundation endowment appreciated (depreciated) in fair value by \$94,462 and \$(103,023), respectively.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**7. Property and Equipment**

Property and equipment at December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 288,081	\$ 326,206
Buildings and improvements	1,124,155	1,120,425
Vehicles	45,017	47,949
Office equipment and furniture	100,632	98,659
Operating equipment	157,147	157,147
Spay and neuter clinic equipment	84,341	85,328
Cages and enclosures	153,473	153,473
Website	<u>37,970</u>	<u>37,970</u>
	1,990,816	2,027,157
Less accumulated depreciation	<u>(1,410,916)</u>	<u>(1,340,102)</u>
	<u>\$ 579,900</u>	<u>\$ 687,055</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$75,557 and \$90,696, respectively.

During 2009, the Society was named as a 1/8<sup>th</sup> share beneficiary for property located in Hillsboro, Oregon, which was estimated to have a total fair market value of \$305,000 at the date of donation. As the Society had no control over whether the property was held for sale or retained for future use, the amount was previously recorded within property and equipment. During 2019, the property was sold for over \$16 million, resulting in net proceeds to the Society of \$1,931,407. The amount is included in the gain on disposal of property and equipment in the Statement of Activities and Changes in Net Assets.

**8. In-Kind Contributions**

The Society receives donated animal food, labor, materials and miscellaneous supplies. The value of these goods and services totaled \$66,829 and \$59,698 for the years ended December 31, 2019 and 2018, respectively. In addition, during 2019 and 2018, the Society received donated property and equipment, including capitalized labor, totaling \$4,847 and \$4,000, respectively. These amounts have been recorded as in-kind contributions in the Statements of Activities and Changes in Net Assets.

**9. Net Assets**

Net Assets Without Donor Restrictions

Net assets without donor restrictions include assets not subject to donor-imposed restrictions, either temporary or permanent, and consist of net assets received that are general in nature as to use and operating purposes. Gifts of long-lived assets without donor-imposed stipulations about how long the assets must be used are classified as unrestricted net assets. Board designated amounts are recorded as net assets without donor restrictions.

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**9. Net Assets, Continued**

Net Assets Without Donor Restrictions, Continued

At December 31, 2019 and 2018, the Board of Directors had designated a portion of net assets without donor restrictions for future purposes, as follows:

	<u>2019</u>	<u>2018</u>
Capital replacement and operations reserve	\$ 2,584,458	\$ 608,631
Board quasi-endowment	<u>482,229</u>	<u>339,444</u>
Total board designated net assets	<u>\$ 3,066,687</u>	<u>\$ 948,075</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets that either have temporary or permanent restrictions placed upon them. Temporarily restricted net assets include assets subject to donor-imposed time or use restrictions that have not been met at the reporting date. Contributions of cash and other assets with donor-imposed temporary restrictions, where the restrictions have been satisfied in the same reporting period as received, are reported as increases in net assets without donor restrictions. Permanently restricted net assets include assets subject to donor-imposed restrictions whereby the principal assets or amounts must be maintained in perpetuity.

Net assets with donor restrictions are restricted for the following purposes and/or periods:

	<u>2019</u>	<u>2018</u>
<i>Subject to external spending policy:</i>		
Beneficial interests in charitable remainder trusts	\$ 436,560	\$ 398,741
Beneficial interest in foundation endowment	<u>917,462</u>	<u>823,000</u>
Total spending policy restrictions	<u>1,354,022</u>	<u>1,221,741</u>
<i>Subject to expenditure for a specific purpose:</i>		
Capital campaign:		
Red Barn project	<u>35,100</u>	<u>--</u>
Total net assets with donor restrictions	<u>\$ 1,389,122</u>	<u>\$ 1,221,741</u>

Net assets were released from donor restrictions during 2019 and 2018 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Contributions from beneficial interests subject to external spending policy	\$ 21,202	\$ 19,894

**Spokane Humane Society**  
**Notes to Financial Statements, Continued**  
**December 31, 2019 and 2018**

**10. Subsequent Events**

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, during March 2020, the Governor of the State of Washington issued proactive emergency declarations in response to the spread of COVID-19. As a result, economic uncertainties have arisen, and there is potential that negative financial impact could occur. However, any potential impact to the Society is unknown at this time.