

Spokane Humane Society

Financial Report

December 31, 2020

**Spokane Humane Society
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December 31, 2020**

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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, 2020 and 2019, 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, 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.

DeCoria, Blair & Teague, PS

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

June 17, 2021

Spokane Humane Society
Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 364,773	\$ 519,236
Contribution receivable	75,087	-
Annuity receivable, due within one year (Note 5)	15,906	15,906
Inventory	16,675	8,584
Deposits and other assets	27,479	20,213
Investments in marketable securities (Notes 6 and 11)	3,597,284	3,066,687
Total current assets	<u>4,097,204</u>	<u>3,630,626</u>
Noncurrent assets:		
Property and equipment, net (Note 7)	705,924	579,900
Annuity receivable, due after one year (Note 5)	-	15,906
Beneficial interests in charitable remainder trusts (Notes 6 and 11)	458,683	436,560
Beneficial interest in foundation endowment (Notes 6 and 11)	988,911	917,462
Total noncurrent assets	<u>2,153,518</u>	<u>1,949,828</u>
Total assets	<u>\$ 6,250,722</u>	<u>\$ 5,580,454</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 60,745	\$ 65,307
Accrued payroll and related liabilities	78,173	76,114
Deferred revenue, to be amortized within one year (Note 5)	15,906	15,906
Unearned grant revenue	21,136	50,086
Total current liabilities	<u>175,960</u>	<u>207,413</u>
Noncurrent liabilities:		
Deferred revenue, to be amortized after one year (Note 5)	-	15,906
Total noncurrent liabilities	<u>-</u>	<u>15,906</u>
Total liabilities	<u>175,960</u>	<u>223,319</u>
Comittments and contingencies (Note 10)		
Net assets (Note 11):		
Without donor restrictions	4,610,776	3,968,013
With donor restrictions	1,463,986	1,389,122
Total net assets	<u>6,074,762</u>	<u>5,357,135</u>
Total liabilities and net assets	<u>\$ 6,250,722</u>	<u>\$ 5,580,454</u>

Spokane Humane Society
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total 2020
Support and revenue:			
Contributions	\$ 1,199,959	\$ 39,077	\$ 1,239,036
Animal services	578,668	-	578,668
Fundraising, general	487,731	-	487,731
In-kind contributions (Note 8)	72,061	-	72,061
Special fundraising events, net (Note 9)	141,439	-	141,439
Total support and revenue before release of restrictions	2,479,858	39,077	2,518,935
Net assets released from restrictions (Note 11)	108,476	(108,476)	-
Total support and revenue	<u>2,588,334</u>	<u>(69,399)</u>	<u>2,518,935</u>
Operating expenses:			
Program services	1,608,080	-	1,608,080
Support services	345,722	-	345,722
Fundraising	262,645	-	262,645
Total operating expenses	<u>2,216,447</u>	<u>-</u>	<u>2,216,447</u>
Changes in net assets from operating activities	<u>371,887</u>	<u>(69,399)</u>	<u>302,488</u>
Non-operating income:			
Interest and dividend income	79,293	-	79,293
Net realized and unrealized gains on investments (Note 6)	191,583	-	191,583
Net appreciation of beneficial interest in charitable remainder trusts (Note 6)	-	43,879	43,879
Net appreciation of beneficial interest in foundation endowment (Note 6)	-	100,384	100,384
Total non-operating income, net	<u>270,876</u>	<u>144,263</u>	<u>415,139</u>
Changes in net assets	642,763	74,864	717,627
Net assets, beginning of year	<u>3,968,013</u>	<u>1,389,122</u>	<u>5,357,135</u>
Net assets, end of year	<u>\$ 4,610,776</u>	<u>\$ 1,463,986</u>	<u>\$ 6,074,762</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Support and revenue:			
Contributions	\$ 905,212	\$ 35,100	\$ 940,312
Animal services	498,877	-	498,877
Fundraising, general	400,580	-	400,580
In-kind contributions (Note 8)	71,676	-	71,676
Special fundraising events, net (Note 9)	161,291	-	161,291
Total support and revenue before release of restrictions	2,037,636	35,100	2,072,736
Net assets released from restrictions (Note 11)	56,346	(56,346)	-
Total support and revenue	2,093,982	(21,246)	2,072,736
Operating expenses:			
Program services	1,479,314	-	1,479,314
Support services	268,973	-	268,973
Fundraising	253,342	-	253,342
Total operating expenses	2,001,629	-	2,001,629
Changes in net assets from operating activities	92,353	(21,246)	71,107
Non-operating income:			
Interest and dividend income	36,273	-	36,273
Net realized and unrealized gains on investments (Note 6)	126,649	-	126,649
Net appreciation of beneficial interest in charitable remainder trusts (Note 6)	-	59,021	59,021
Net appreciation of beneficial interest in foundation endowment (Note 6)	-	129,606	129,606
Gain on disposal of property and equipment (Note 7)	1,893,282	-	1,893,282
Total non-operating income, net	2,056,204	188,627	2,244,831
Changes in net assets	2,148,557	167,381	2,315,938
Net assets, beginning of year	1,819,456	1,221,741	3,041,197
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 Functional Expenses
Year Ended December 31, 2020

	Program Services	Support Services	Fundraising	Cost of Direct Benefits	Total 2020
Salaries and wages	\$ 787,039	\$ 212,245	\$ 109,012	\$ -	\$ 1,108,296
Payroll taxes	83,098	33,140	10,262	-	126,500
Employee benefits	98,462	2,299	12,685	-	113,446
Total payroll and related expenses	968,599	247,684	131,959	-	1,348,242
Animal food	66,451	-	-	-	66,451
Building repair and maintenance	39,660	8,022	-	-	47,682
Computer expense	19,498	6,102	7,815	-	33,415
Dues and subscriptions	-	8,023	-	-	8,023
Equipment repair and maintenance	13,061	2,104	-	-	15,165
Fundraising events/direct mail campaign	-	-	118,335	28,478	146,813
Grounds maintenance	6,897	-	-	-	6,897
Insurance	23,578	9,056	-	-	32,634
Interest and bank fees	17,676	6,789	-	-	24,465
Licenses and taxes	8,243	2,836	-	-	11,079
Marketing	6,750	1,546	1,046	-	9,342
Miscellaneous	46,685	15,628	-	-	62,313
Newsletter	2,711	2,789	-	-	5,500
Office expense	14,772	2,280	1,541	-	18,593
Outreach/special event	-	-	-	6,575	6,575
Postage and shipping	996	225	393	-	1,614
Printing	2,970	1,972	1,556	-	6,498
Professional fees	14,428	11,375	-	-	25,803
Shelter animal transport	933	-	-	-	933
Shelter expense	143,109	-	-	-	143,109
Spay and neuter clinic	89,856	-	-	-	89,856
Telephone	10,690	4,721	-	-	15,411
Training and travel	4,262	3,924	-	-	8,186
Utilities	42,325	4,884	-	-	47,209
Vehicle repairs and maintenance	2,857	31	-	-	2,888
Depreciation	61,073	5,731	-	-	66,804
Total functional expenses	1,608,080	345,722	262,645	35,053	2,251,500
Expenses included with revenue on the					
Statement of Activities:					
Cost of direct benefits to donors	-	-	-	(35,053)	(35,053)
Total expenses per the Statement of Activities and Changes in Net Assets	<u>\$ 1,608,080</u>	<u>\$ 345,722</u>	<u>\$ 262,645</u>	<u>\$ -</u>	<u>\$ 2,216,447</u>

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

	Program Services	Support Services	Fundraising	Cost of Direct Benefits	Total 2019
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	-	-	111,933	76,389	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	165,049	-	-	-	165,049
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
Depreciation	68,552	7,005	-	-	75,557
Total functional expenses	1,479,314	268,973	253,342	92,708	2,094,337
Expenses included with revenue on the					
Statement of Activities:					
Cost of direct benefits to donors	-	-	-	(92,708)	(92,708)
Total expenses per the Statement of Activities and Changes in Net Assets	<u>\$ 1,479,314</u>	<u>\$ 268,973</u>	<u>\$ 253,342</u>	<u>\$ -</u>	<u>\$ 2,001,629</u>

Spokane Humane Society
Statements of Cash Flows
Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Changes in net assets	\$ 717,627	\$ 2,315,938
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	66,804	75,557
Donated property and equipment	(5,403)	(4,847)
Gain on disposal of property and equipment	-	(1,893,282)
Net realized and unrealized gains on investments in marketable securities	(191,583)	(126,649)
Net appreciation of beneficial interests in charitable remainder trusts and foundation endowment	(144,263)	(188,627)
Change in:		
Contribution receivable	(75,087)	-
Inventory	(8,091)	(1,770)
Deposits and other assets	(7,266)	(965)
Accounts payable	(4,562)	(13,191)
Accrued payroll and related liabilities	2,059	(30,776)
Unearned grant revenue	(28,950)	47,550
Contributions and donations restricted for long-term purposes	(36,377)	(35,100)
Net cash provided by operating activities	<u>284,908</u>	<u>143,838</u>
Cash flows from investing activities:		
Contributions and donations restricted for long-term purposes	6,574	-
Purchases of investments	(985,620)	(3,353,353)
Proceeds from sales of investments	640,032	1,361,390
Distributions from beneficial interest in charitable remainder trusts	21,756	21,202
Distributions from beneficial interest in foundation endowment	35,509	35,144
Proceeds from disposal of property and equipment	-	1,932,428
Purchases of property and equipment	(187,425)	(2,701)
Net cash used by investing activities	<u>(469,174)</u>	<u>(5,890)</u>
Cash flows from financing activities:		
Contributions and donations restricted for long-term purposes	29,803	35,100
Net cash provided by financing activities	<u>29,803</u>	<u>35,100</u>
Net increase (decrease) in cash and cash equivalents	(154,463)	173,048
Cash and cash equivalents, beginning of year	519,236	346,188
Cash and cash equivalents, end of year	<u>\$ 364,773</u>	<u>\$ 519,236</u>

Spokane Humane Society
Notes to Financial Statements
December 31, 2020 and 2019

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 11) 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 Adopted

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 became effective in the fiscal year ended December 31, 2020 and was applied retrospectively to all periods presented. Implementation did not have any impact on net assets or previously issued financial statements.

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.

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements Adopted, Continued

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.

Recent Accounting Pronouncements not yet Adopted

In order to give immediate relief to certain entities as a result of the widespread, adverse economic effects caused by the COVID-19 pandemic, on June 3, 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. This ASU defers the effective dates of FASB ASC Topics 606 and 842 to fiscal years beginning after December 15, 2019 and December 15, 2021, respectively, for certain entities that had not issued their financial statements (or made them available for issuance) as of June 3, 2020.

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 now effective for fiscal years beginning after December 15, 2021 (see ASU No. 2020-05). The Society is currently evaluating the financial statement impact of adopting this ASU.

In September 2020, the FASB issued ASU No. 2020-07, which amended ASC Topic 958, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this Update apply to not-for-profit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. 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.

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

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.

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, 2020 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.

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

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, 2020 and 2019, no assets were considered to be impaired.

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, 2020 and 2019, 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, 2020 and 2019, the assets or liabilities of the Society that were measured at fair value on a recurring basis are summarized as follows:

<u>December 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in marketable securities	\$ 3,343,281	\$ --	\$ --	\$ 3,343,281
Cash equivalents in investment accounts	254,003	--	--	254,003
Beneficial interests in charitable remainder trusts	329,307	129,376	--	458,683
Beneficial interest in foundation endowment	--	988,911	--	988,911
	<u>\$ 3,926,591</u>	<u>\$ 1,118,287</u>	<u>\$ --</u>	<u>\$ 5,044,878</u>

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

<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>

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 2020 and 2019.

Revenue Recognition

Revenue from exchange transactions are recognized in accordance with FASB ASU 2014-09, *Revenue from Contracts with Customers*, as amended. 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 Society records the following exchange transaction revenue in its Statements of Activities:

Animal Services – The Society provides limited veterinary and other animal related-services, and charges adoption fees to customers. The performance obligation is the delivery of the services or the adopted animal to the customer. The transaction price is established by the Society based on prices that are comparable to competing organizations. As each adopted animal and service is individually priced, no allocation of the transaction price is necessary. The Society recognizes revenue as the customer pays and takes possession of the animal or the service has been provided. Most items are sold without a right of return. However, if probable customer returns exist at the end of an accounting period, the Society estimates and records in its financial statements a liability for such returns, which offsets revenue. No liability for probable customer returns was considered necessary as of December 31, 2020 and 2019.

Special Fundraising Event Revenue – The Society conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event (the exchange component), and a portion represents a contribution to the Society. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Society. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Society, are recorded as costs of direct donor benefits in the Statements of Activities. The performance obligation is delivery of the event. The event fee, if any, is set by the Society. FASB ASU 2014-09 requires allocation of the transaction price to the performance obligations. Accordingly, the Society separately presents in its notes to financial statements the exchange and contribution components of the gross proceeds from special events (see Note 9).

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Revenue Recognition, Continued

Special event fees collected by the Society in advance of its delivery are initially recognized as liabilities and recognized as special event revenue after delivery of the event. For special event fees and sponsorships received before year-end for an event to occur after year-end, if any, the Society follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component.

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 Assets and Services

Donated property, marketable securities and other non-cash donations are recorded as contributions at their fair market value at the date of donation. The Society reports any donations as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must 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 long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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 services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. Some members of the Society and a substantial number of volunteers have donated significant amounts of their time in furthering the Society's programs and objectives. No amounts have been included in the financial statements for donated member or volunteer services since they did not meet the criteria for recognition under professional accounting standards.

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

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.

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 2020 and 2019.

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.

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.

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, 2021, the date as of which these financial statements were available to be issued. No material subsequent events have occurred since December 31, 2020 that required recognition or disclosure in these financial statements.

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

3. Liquidity and Availability of Funds

The Society'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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 364,773	\$ 519,236
Contribution receivable	75,087	--
Less: unearned grant revenue	(21,136)	(50,086)
Annuity receivable, due within one year	<u>15,906</u>	<u>15,906</u>
Financial assets available to meet general expenditures	<u>\$ 434,630</u>	<u>\$ 485,056</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 11). 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 \$521,945 and reserves of \$3,075,339 (see Note 11). 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. 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) or the National Credit Union Association (NCUA) up to \$250,000 per institution.

The carrying amount of cash and cash equivalents on the Society's books at December 31, 2020 was \$364,773 and bank and credit union balances totaled \$360,565. The differences between the carrying amount of cash and cash equivalents on the Society's books and the bank and credit union balances consisted of outstanding checks and deposits not processed by the banks and credit unions as of December 31, 2020.

A summary of the total insured and uninsured bank balances at December 31, 2020 is as follows:

Total bank balances	\$ 360,565
Portion insured by FDIC	(88,793)
Portion insured by NCUA	<u>(250,000)</u>
Uninsured bank and credit union balances	<u>\$ 21,772</u>

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

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, 2020, there were 12 monthly payments remaining, totaling \$15,906. Accordingly, at December 31, 2020, the Society has recorded \$15,906 as a current 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, 2020 and 2019 consist of and appear in the financial statements as follows:

	<u>2020</u>	<u>2019</u>
Investments in marketable securities	\$ 3,597,284	\$ 3,066,687
Beneficial interests in charitable remainder trusts	458,683	436,560
Beneficial interest in foundation endowment	<u>988,911</u>	<u>917,462</u>
	<u>\$ 5,044,878</u>	<u>\$ 4,420,709</u>

The fair value and cost of investments in marketable securities at December 31, 2020 were as follows:

	<u>Fair Value</u>	<u>Cost</u>
Common stock	\$ 587,980	\$ 422,638
Mutual funds	605,384	596,544
Other investments	2,149,917	1,980,644
Investments in cash equivalents	<u>254,003</u>	<u>254,002</u>
	<u>\$ 3,597,284</u>	<u>\$ 3,253,828</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>

Return on investments in marketable securities for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 79,293	\$ 36,273
Realized gains (losses), net	(10,898)	26,476
Unrealized gains (losses), net	225,332	113,749
Investment management fees	<u>(22,851)</u>	<u>(13,576)</u>
	<u>\$ 270,876</u>	<u>\$ 162,922</u>

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

6. Investments, Continued

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. In accordance with ASC 958, the fair value of the beneficial interest totaled \$236,526 and \$224,381 at December 31, 2020 and 2019, 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. In accordance with ASC 958, the fair value of the beneficial interest totaled \$222,157 and \$212,179 at December 31, 2020 and 2019, respectively.

Beneficial Interest in Foundation Endowment

The Society has a beneficial interest in an endowment fund held and managed by 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. In accordance with ASC 958, the fair value of the beneficial interest totaled \$988,911 and \$917,462 at December 31, 2020 and 2019, respectively.

The following table shows the changes in beneficial interests for the years ended December 31, 2020 and 2019:

	<u>Matsch</u>	<u>Gosnay</u>	<u>Innovia</u>	<u>Total</u>
Balance at December 31, 2018	\$ 203,204	\$ 195,537	\$ 823,000	\$ 1,221,741
Contributions	--	--	--	--
Interest and dividend income	6,559	6,375	--	12,934
Realized and unrealized gains (losses), net	28,102	23,081	141,051	192,234
Investment management fees	(2,548)	(2,548)	(11,445)	(16,541)
Net appreciation in beneficial interests	32,113	26,908	129,606	188,627
Annual distributions	(10,936)	(10,266)	(35,144)	(56,346)
Balance at December 31, 2019	<u>224,381</u>	<u>212,179</u>	<u>917,462</u>	<u>1,354,022</u>
Contributions	--	--	6,574	6,574
Interest and dividend income	4,412	4,581	30,562	39,555
Realized and unrealized gains (losses), net	21,332	18,381	81,730	121,443
Investment management fees	(2,556)	(2,271)	(11,908)	(16,735)
Net appreciation in beneficial interests	23,188	20,691	100,384	144,263
Annual distributions	(11,043)	(10,713)	(35,509)	(57,265)
Balance at December 31, 2019	<u>\$ 236,526</u>	<u>\$ 222,157</u>	<u>\$ 988,911</u>	<u>\$ 1,447,594</u>

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

7. Property and Equipment

Property and equipment at December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 321,990	\$ 288,081
Buildings and improvements	1,197,291	1,124,155
Vehicles	45,017	45,017
Office equipment and furniture	107,801	100,632
Operating equipment	214,525	157,147
Spay and neuter clinic equipment	105,577	84,341
Cages and enclosures	153,473	153,473
Website	<u>37,970</u>	<u>37,970</u>
	2,183,644	1,990,816
Less accumulated depreciation	<u>(1,477,720)</u>	<u>(1,410,916)</u>
	<u>\$ 705,924</u>	<u>\$ 579,900</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$66,804 and \$75,557, respectively.

During 2009, the Society was named as a 1/8th 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 \$66,658 and \$66,829 for the years ended December 31, 2020 and 2019, respectively. In addition, during 2020 and 2019, the Society received donated property and equipment, including capitalized labor, totaling \$5,403 and \$4,847, respectively. These amounts have been recorded as in-kind contributions in the Statements of Activities and Changes in Net Assets.

9. Special Fundraising Event Revenue

Gross receipts from special fundraising events recorded by the Society in the Statements of Activities and Changes in Net Assets consist of exchange transaction revenue and contribution revenue. The components of this revenue at December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Contributions	\$ 176,492	\$ 221,669
Event revenue	<u>--</u>	<u>32,330</u>
Special fundraising events, gross	176,492	253,999
Less: cost of direct benefit	<u>(35,053)</u>	<u>(92,708)</u>
Special fundraising events, net	<u>\$ 141,439</u>	<u>\$ 161,291</u>

Spokane Humane Society
Notes to Financial Statements, Continued
December 31, 2020 and 2019

10. Commitments and Contingencies

Professional Liability Insurance

The Society is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Society maintains professional liability insurance coverage through a policy with a commercial insurance carrier, which provides protection on a claims-made basis. Settled claims did not exceed insurance coverage during any of the past three fiscal years.

Grants and Contracts

The Society receives significant financial assistance from federal, state and local governmental agencies in the form of grants and contracts, which are governed by various rules and regulations of the grantor agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant and contract agreements and is subject to audit by the Society's independent auditors and other governmental auditors. Therefore, to the extent that the Society has not complied with the terms and conditions governing the grants, refunds of any money received may be required, and the collectability of any related receivables at December 31, 2020 may be impaired. Based on prior experience, management of the Society believes such amounts, if any, would be immaterial.

COVID-19

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 United States. 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. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic; however, these declines were subsequently offset by significant increases in value, resulting in no long-term losses as of December 31, 2020. Management will continue to monitor its investment portfolio and its liquidity.

The extent of the impact of COVID-19 on the Society's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Society's donors, customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Society's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

11. 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, 2020 and 2019

11. Net Assets, Continued

Net Assets Without Donor Restrictions

At December 31, 2020 and 2019, the Board of Directors had designated a portion of net assets without donor restrictions for future purposes, as follows:

	<u>2020</u>	<u>2019</u>
Capital replacement and operations reserves	\$ 3,075,339	\$ 2,584,458
Board quasi-endowment	<u>521,945</u>	<u>482,229</u>
Total board designated net assets	<u>\$ 3,597,284</u>	<u>\$ 3,066,687</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>2020</u>	<u>2019</u>
<i>Subject to external spending policy:</i>		
Beneficial interests in charitable remainder trusts	\$ 458,683	\$ 436,560
Beneficial interest in foundation endowment	<u>988,911</u>	<u>917,462</u>
Total spending policy restrictions	1,447,594	1,354,022
<i>Subject to expenditure for a specific purpose:</i>		
Capital campaign:		
Red Barn project	13,692	35,100
Other programs	<u>2,700</u>	<u>--</u>
Total net assets with donor restrictions	<u>\$ 1,463,986</u>	<u>\$ 1,389,122</u>

Net assets were released from donor restrictions during 2020 and 2019 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Subject to external spending policy	\$ 57,265	\$ 56,346
Satisfaction of purpose restrictions	<u>51,211</u>	<u>--</u>
	<u>\$ 108,476</u>	<u>\$ 56,346</u>