

KITSAP HUMANE SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

**KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kitsap Humane Society
Silverdale, Washington

We have audited the accompanying financial statements of Kitsap Humane Society (a Washington nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Kitsap Humane Society

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kitsap Humane Society as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Kitsap Humane Society's 2015 financial statements, and our report dated August 5, 2016 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
April 25, 2017

**KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

ASSETS	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents		
Undesignated	\$ 250,000	\$ 240,000
Board Designated	662,675	862,046
Restricted	156,382	193,118
Total Cash and Cash Equivalents	1,069,057	1,295,164
Investments - Board Designated	699,314	-
Accounts Receivable	27,974	1,553
Prepaid Expenses	11,997	15,565
Inventory	15,947	13,614
Total Current Assets	1,824,289	1,325,896
PROPERTY AND EQUIPMENT		
Property and Equipment - Net	1,231,499	1,006,983
Property Rights	47,738	48,057
Total Property and Equipment	1,279,237	1,055,040
 Total Assets	 \$ 3,103,526	 \$ 2,380,936
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 55,225	\$ 58,790
Accrued Vacation Payable	40,359	35,724
Accrued Payroll and Related Liabilities	92,778	47,545
Other Current Liabilities	1,184	747
Total Current Liabilities	189,546	142,806
NET ASSETS		
Unrestricted:		
Board Designated	1,361,989	862,046
Undesignated	1,347,871	1,134,910
Temporarily Restricted	204,120	241,174
Total Net Assets	2,913,980	2,238,130
 Total Liabilities and Net Assets	 \$ 3,103,526	 \$ 2,380,936

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
OPERATING ACTIVITIES				
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS				
Public Support:				
Contributions	\$ 511,127	\$ 10,680	\$ 521,807	\$ 487,150
Bequests	62,024	-	62,024	60,000
Grants	179,750	35,000	214,750	85,450
Special Events Income, Net of Costs of \$89,063	335,366	-	335,366	262,731
In-Kind Donations	37,984	-	37,984	31,843
In-Kind Land Rent	5,767	-	5,767	5,801
Total Public Support	<u>1,132,018</u>	<u>45,680</u>	<u>1,177,698</u>	<u>932,975</u>
Revenues:				
Animal Control Contract Fees	751,820	-	751,820	746,799
License Revenues	116,388	-	116,388	88,278
Animal Adoptions, Net of Discounts of \$95,836	748,654	-	748,654	588,849
Impound and Boarding Fees	53,191	-	53,191	52,553
Other Program Income	43,574	-	43,574	36,640
Veterinary Services	181,842	-	181,842	193,492
Retail Sales for 2016 and 2015, Net of Costs of Good Sold of \$34,164 and \$31,836, Respectively	27,565	-	27,565	23,441
Interest and Dividend Income, Net of Investment Fees of \$2,867	8,150	-	8,150	682
Unrealized Loss on Investments	(5,219)	-	(5,219)	-
Gain on Sale of Property and Equipment	5,277	-	5,277	5,400
Miscellaneous Revenue	701	-	701	2,166
Total Revenues	<u>1,931,943</u>	<u>-</u>	<u>1,931,943</u>	<u>1,738,300</u>
Satisfaction of Program Restrictions	<u>82,734</u>	<u>(82,734)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues, and Reclassifications	3,146,695	(37,054)	3,109,641	2,671,275
EXPENSES				
Program Services:				
Licensing	68,159	-	68,159	65,510
Animal Control (See Note 11)	409,622	-	409,622	364,674
Shelter (See Note 11)	1,238,417	-	1,238,417	1,078,803
Veterinary Services (See Note 11)	750,676	-	750,676	625,620
Total Program Services Expenses	<u>2,466,874</u>	<u>-</u>	<u>2,466,874</u>	<u>2,134,607</u>
Supporting Services:				
Administration	226,592	-	226,592	209,757
Development	292,596	-	292,596	242,487
Total Support Services Expenses	<u>519,188</u>	<u>-</u>	<u>519,188</u>	<u>452,244</u>
Total Expenses	<u>2,986,062</u>	<u>-</u>	<u>2,986,062</u>	<u>2,586,851</u>
CHANGE IN NET ASSETS FROM OPERATIONS	160,633	(37,054)	123,579	84,424

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
NONOPERATING ACTIVITIES				
Board Designated Bequests for Future Capital Needs	\$ 552,271	\$ -	\$ 552,271	\$ 715,998
TOTAL CHANGE IN NET ASSETS	712,904	(37,054)	675,850	800,422
Net Assets - Beginning of Year	1,996,956	241,174	2,238,130	1,437,708
NET ASSETS - END OF YEAR	<u>\$ 2,709,860</u>	<u>\$ 204,120</u>	<u>\$ 2,913,980</u>	<u>\$ 2,238,130</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	Program Services				Supporting Services			Totals		
	Licensing	Animal Control	Shelter	Veterinary Services	Total	Administration	Development	Total	2016	2015
Salaries and Wages	\$ 46,217	\$ 228,461	\$ 673,454	\$ 352,575	\$ 1,300,707	\$ 151,988	\$ 203,523	\$ 355,511	\$ 1,656,218	\$ 1,421,331
Payroll Taxes	5,746	29,782	96,255	45,961	177,744	14,895	20,544	35,439	213,183	191,043
Employee Medical Benefits	1,715	25,095	69,826	35,556	132,192	12,257	24,485	36,743	168,935	111,887
Total	53,678	283,338	839,535	434,092	1,610,643	179,140	248,552	427,692	2,038,335	1,724,261
Fees - Veterinary Services	-	-	-	46,213	46,213	-	-	-	46,213	44,038
Fees - Management Services	25	50	275	100	450	3,025	25	3,050	3,500	6,047
Fees - Accounting	-	-	-	-	-	13,774	-	13,774	13,774	10,514
Fees - Legal	50	-	-	-	50	6,259	-	6,259	6,309	8,949
Information Technology	843	1,686	9,273	3,372	15,174	843	843	1,686	16,860	29,300
Program Expense - Licensing	1,519	-	-	-	1,519	-	-	-	1,519	5,331
Program Expense - Animal Control	-	6,501	-	-	6,501	-	-	-	6,501	10,260
Program Expense - Shelter	-	-	97,890	-	97,890	-	-	-	97,890	62,798
Program Expense - Veterinary Services	-	-	52,747	189,292	242,039	-	-	-	242,039	218,085
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000	-	-	-	50,000	50,000
Equipment - Noncapitalized	-	43	4,691	983	5,717	-	360	360	6,077	2,703
Vehicle Maintenance and Operation	-	25,668	7,140	-	32,808	-	85	85	32,893	36,775
Occupancy	5,093	10,188	60,722	22,244	98,247	5,193	5,093	10,285	108,532	88,097
Office Expense	1,150	3,273	19,690	5,093	29,206	3,088	3,092	6,175	35,381	32,227
Information Technology Expenses	356	712	6,302	2,569	9,939	356	356	712	10,651	7,498
Marketing Expense	-	-	822	-	822	-	5,115	5,115	5,937	8,671
Fundraising Expense	-	-	-	-	-	-	16,394	16,394	16,394	10,508
Postage and Mailing	822	521	663	500	2,506	627	4,189	4,815	7,321	7,128
Telephone and Communications	253	3,952	4,832	1,052	10,089	253	389	642	10,731	14,408
Insurance	932	1,864	10,253	3,728	16,777	932	932	1,864	18,641	19,813
Membership and Dues	-	-	695	310	1,005	490	426	916	1,921	1,385
Staff Development	166	3,805	6,345	1,493	11,809	2,125	1,002	3,127	14,936	10,714
Travel	79	-	2,194	-	2,273	-	18	18	2,291	144
Conferences and Meetings	-	-	318	-	318	1,238	751	1,989	2,307	1,888
Bank Charges	-	-	9,993	1,340	11,333	4,899	-	4,899	16,232	14,240
Payroll Processing Costs	104	526	2,846	1,163	4,639	318	526	844	5,483	4,303
Business Taxes and Licenses	-	-	3,696	1,032	4,728	307	-	307	5,035	4,079
Other Costs	(55)	-	1,233	-	1,178	277	(40)	239	1,417	1,374
Noncash Contributions Consumed	-	-	29,901	-	29,901	-	950	950	30,851	31,843
Land Lease	-	609	3,651	1,218	5,478	304	304	609	6,087	6,086
	65,015	392,736	1,175,707	715,794	2,349,252	223,448	289,362	512,806	2,862,058	2,473,467
Depreciation	3,144	16,886	62,710	34,882	117,622	3,144	3,234	6,378	124,000	113,384
Total Functional Expenses	\$ 68,159	\$ 409,622	\$ 1,238,417	\$ 750,676	\$ 2,466,874	\$ 226,592	\$ 292,596	\$ 519,188	\$ 2,986,062	\$ 2,586,851

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	2016	2015
CASH FLOWS FROM OPERATING AND NONOPERATING ACTIVITIES		
Change in Net Assets	\$ 675,850	\$ 800,422
Adjustments to Reconcile Change in Net Assets to Cash		
Provided by Operating Activities:		
Gain on Sale of Property and Equipment	(5,277)	(5,400)
Unrealized Loss on Investment	5,219	-
Depreciation and Amortization	124,000	113,384
Donated Vehicle and Equipment	(7,133)	(3,777)
Donated Investments	(288,822)	-
Net In-Kind Rent	319	285
(Increase) Decrease in:		
Receivables	(26,421)	26,436
Inventory	(2,333)	(5,522)
Prepaid Expenses	3,568	3,556
Increase (Decrease) in:		
Accounts Payable	(3,565)	25,245
Overpayment of Animal Control Contract	-	(80,315)
Accrued Vacation Payable	4,635	2,227
Accrued Payroll and Related Liabilities	45,233	744
Other Current Liabilities	437	(5,035)
Net Cash Provided by Operating and Nonoperating Activities	525,710	872,250
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	589,928	-
Purchase of Investments	(1,005,639)	-
Proceeds from Sale of Property and Equipment	6,244	6,011
Purchase of Property and Equipment	(342,350)	(129,913)
Net Cash Used by Investing Activities	(751,817)	(123,902)
 CHANGE IN CASH AND CASH EQUIVALENTS	(226,107)	748,348
Cash and Cash Equivalents - Beginning of Year	1,295,164	546,816
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,069,057	\$ 1,295,164
 NONCASH INVESTING ACTIVITIES		
Noncash Donation of Vehicle and Equipment	\$ 7,133	\$ 3,777
Noncash Donation of Investments	\$ 288,822	\$ -

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Kitsap Humane Society (the Organization) is a nonprofit organization located in Kitsap County, Washington. The objective of the Organization is the prevention of cruelty to all animals and the education of the public with respect to humane treatment of all animals. Programs are funded primarily through local sources.

Financial Statement Presentation

Net assets and changes therein are classified and reported using three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Measure of Operations

The Organization classifies revenues, support, expenses, and gains and losses into operating and nonoperating categories in its statement of activities. Operating activities include revenues, support, expenses, and gains and losses that are an integral part of Organization's programs and associated support services. Nonoperating activities are revenues, expenses, and gains and losses directly related to board designated bequests for future capital needs.

Concentrations of Credit Risk

The Organization maintains depository accounts at banks that insure the accounts up to the Federal Deposit Insurance Corporation (FDIC) prescribed limits. The financial instruments may subject the Organization to concentrations of risk as, from time-to-time, cash balances exceed amounts insured by the FDIC, market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

Use of Estimates

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

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist primarily of assets invested in certificates of deposit and mutual funds. Investments with readily determinable fair values are carried at fair market value based on quoted market prices. The realized and unrealized gains or losses are reported in the statement of changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Accounts Receivable

Receivables are stated at the amount management expects to collect from outstanding balances. Management believes that receivables are fully collectible; therefore, no allowance for uncollectible accounts is required at December 31, 2016 and 2015.

Inventories

Inventories are stated at the lower of cost determined by the first-in, first-out method or market.

Property and Equipment

Property and equipment with a cost over \$500 are recorded at cost or fair value if donated to the organization. Expenditures that materially increase estimated useful lives of assets are capitalized. Maintenance and repairs are expensed as incurred. Gains or losses on disposition of property are recognized as changes in unrestricted net assets.

Donated property, plant, and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Property, plant, and equipment restricted to a specific purpose, without a donor's stipulation as to how long the donated asset must be maintained, are released from restriction over time each year for the amount of depreciation expense related to that donated asset. Assets with a donor imposed restriction are released based on that donor restriction.

Depreciation

Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years.

Contributions

The Organization chooses to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Subsequently, when a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Bequests

Bequests are not recognized until such time as the gift is irrevocable and the amount can be determined or upon actual receipt of funds.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

In accordance with accounting standards, donated assets are reflected as in-kind donations in the accompanying financial statements at their estimated values at the date of receipt.

The value of donated volunteer services is not reflected in the accompanying financial statements, as the services do not meet the criteria for recognition in accordance with accounting standards. However, a substantial number of volunteers donated approximately 31,000 and 30,700 hours during the years ended December 31, 2016 and 2015, respectively.

Revenue Sources

Major sources of revenues include animal control contracts, contributions, pets adoptions, fundraising and special events, and veterinary services.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred.

Sales Tax

The Organization excludes from its sales and cost of sales all sales taxes collected from customers and remitted to the state.

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations, but are controlled and designated by the board of directors. These include the general, operating, and equipment accounts. The board of directors has designated \$1,066,927 and \$862,046 for the years ended December 31, 2016 and 2015, respectively, for future capital needs.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization does not have any permanently restricted net assets as of December 31, 2016 and 2015.

Prior Year Comparative Information

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Federal Income Taxes

The Organization is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserve, or related accruals for interest and penalties for uncertain income tax at December 31, 2016 and 2015.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. Those reclassifications had no significant effect on net assets or changes in net assets.

Subsequent Events

Management has evaluated subsequent events through April 25, 2017, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31:

	2016	2015
Cash on Hand	\$ 1,400	\$ 1,200
Noninterest Checking	335,407	329,393
Savings and Money Market Funds	432,250	964,571
Certificates of Deposit	300,000	-
Total	\$ 1,069,057	\$ 1,295,164

NOTE 3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AND INVESTMENTS

The Organization follows the guidance of FASB ASC 820-10, *Fair Value Measurements*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data;

Level 3 – Inputs that are both significant to the fair value measurement and unobservable, including investment specific inputs that are not derived from market data and inputs that cannot be corroborated by market data. The determination of fair value for investments included in the Level 3 category requires considerable subjectivity and estimation.

Investments are valued at the closing price reported on the active market on which the individual funds are traded. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

**NOTE 3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AND INVESTMENTS
(CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ 177,000	\$ -	\$ 177,000
Mutual Funds	522,314	-	-	522,314
Total Investments at Fair Value	<u>\$ 522,314</u>	<u>\$ 177,000</u>	<u>\$ -</u>	<u>\$ 699,314</u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31:

	2016	2015
Building and Improvements	\$ 1,801,020	\$ 1,735,103
Equipment and Computers	357,442	300,477
Vehicles	320,959	308,126
Leasehold Improvements	48,580	46,064
Software and Web Site Design	49,137	43,137
Construction in Progress	155,316	14,331
Total	<u>2,732,454</u>	<u>2,447,238</u>
Accumulated Depreciation and Amortization Property, Equipment, Software, and Web Site Design, Net	<u>(1,500,955)</u>	<u>(1,440,255)</u>
	<u>\$ 1,231,499</u>	<u>\$ 1,006,983</u>

Depreciation on the construction in progress is related to the future expansion project discussed in Note 11 will begin when the project is completed and placed in service, or written off if the project is discontinued.

NOTE 5 CONCENTRATIONS

For December 31, 2016, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 25% of the public support and revenue of the Organization. The contracts require the Organization to provide animal control services, animal licensing, and to enforce State, County and Municipal laws, ordinances, and regulations regarding animal welfare and control. Contract payments are billed monthly. One contract was negotiated through December 31, 2016; one contract through December 31, 2017; one contract through December 31, 2019; and one contract through December 31, 2020.

The Organization has one collective bargaining agreement that covers 11 employees. This agreement has been extended to December 31, 2017.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 6 LETTER OF CREDIT

The Organization had a line of credit (LOC) with Kitsap Bank for a maximum amount of \$35,000, secured by two new vehicles purchased in 2014. The effective date of the LOC was July 1, 2014, with an extended maturity date of April 2016. The interest rate was 2% plus the prime rate of 3.25% or 5.25% per year. No amount was outstanding at December 31, 2015, and the LOC was not renewed in 2016.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

The Organization has a long term lease with Kitsap County that provides the use of land owned by the County at an annual cost of \$100. The 35-year lease was initially signed in October 1987 and extended on March 27, 2006 to March 1, 2041. The land supports all commercial activities. The lease terminates if the Organization ceases operations as an animal control agency, becomes insolvent, or ceases to provide animal control services to Kitsap County. The net book value of the leased land is recorded as time restricted net assets. The Organization reports releases of temporarily restricted net assets to unrestricted net assets based on the annual amortization of the property use.

Temporarily restricted net assets are as follows at December 31:

	2016	2015
Purpose Restricted:		
Behavioral Training	\$ 2,390	\$ 2,390
Animal Rescue and Medical Assistance	820	1,025
Veterinary Equipment	9,342	44,581
ASPCA Medical Retention Fund	-	10,000
Critical Needs - Reserve Fund	102,525	102,525
Building Project	-	26,000
Veterinary Services	35,000	-
Restricted Gifts - Other	6,305	6,596
Time Restricted:		
Land Use	47,738	48,057
Total	\$ 204,120	\$ 241,174

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NOTE 8 LEASE OBLIGATIONS

In July 2014, the Organization has entered into a five-year noncancellable lease for copiers and printers. The monthly payment was \$1,163, and the first payment commenced in July 2014. Total lease expense for the years ended December 31, 2016 and 2015 was \$13,956 each year.

Minimum future rental commitments under this lease are as follows as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 13,956
2018	13,956
2019	6,978
Total	<u>\$ 34,890</u>

NOTE 9 CONTINGENCY

An individual died in 2010 and left her entire estate to the Organization. The deceased's daughter contested the Will. In 2011, the Organization and the daughter settled for a 50-50 split between the Organization and the deceased's three children. The daughter was appointed Executor of the estate; however, she proceeded to violate various rules/law. It was discovered in 2012 that the daughter had embezzled virtually all funds from the estate, other than the proceeds from the sale of the mother's house, which funds were deposited with the court. In 2012, the court overturned the prior 50-50 estate split and awarded the Organization the full estate proceeds. The court ordered that funds held in the estate be divided between the estate and the Organization. The court appointed the Organization's executive director as the new Personal Representative of the estate. In 2012, the Organization received \$89,390 from sale of the deceased house with the balance of about \$10,000 left in the estate to cover legal fees and other contingencies. The Organization is pursuing legal actions within the state of Ohio, where the daughter now resides, related to the other monies owed to the estate in the amount of \$205,443 plus interest. The Organization has recovered a small amount of proceeds thus far on this estate via legal action (though less than legal fees incurred). Attorneys in Ohio advise that full collection on the estate is not likely, but are continuing to pursue legal action. The final outcome of this legal action and collection of monies owed is indeterminate at this time.

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NOTE 10 ANIMAL CONTROL PROGRAM EXPENSES

Program expenses are reported by function in the statement of activities and the statements of functional expenses. A portion of shelter costs and veterinary service program costs are associated with caring for stray and impounded animals as required by animal control contracts. These costs are estimated as follows:

<u>2016</u>	<u>Total Costs</u>	<u>Costs Associated with Animal Control Services</u>
Shelter Costs	\$ 1,238,417	\$ 301,216
Veterinary Services	750,676	209,038
<u>2015</u>		
Shelter Costs	\$ 1,078,803	\$ 250,250
Veterinary Services	625,620	198,073

NOTE 11 FUTURE EXPANSION

The Organization has a master plan to expand and remodel its facilities. In 2016, architects did a preliminary study and estimated \$4.8 million in total costs for the project. In 2016, outside fundraising consultants concluded that it would be feasible to raise \$5.1 million over a three year period. In November, 2016, Kitsap Humane Society's board of directors voted to move forward with a capital campaign, beginning in early 2017. Also in 2017, architectural designs will be finalized, projected costs updated, and a specific fundraising goal will be determined.