

**KITSAP HUMANE SOCIETY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**KITSAP HUMANE SOCIETY  
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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, 2017, 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, 2017, 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 2016 financial statements, and our report dated April 25, 2017 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, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 30, 2018

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents		
Undesignated	\$ 320,802	\$ 250,000
Board Designated	123,338	362,675
Restricted	142,484	156,382
Total Cash and Cash Equivalents	586,624	769,057
Investments - Board Designated	894,684	999,314
Accounts Receivable	1,302	27,974
Prepaid Expenses	22,517	11,997
Inventory	15,290	15,947
Total Current Assets	1,520,417	1,824,289
<b>CAPITAL CAMPAIGN ASSETS</b>		
Cash and Cash Equivalents	423,557	-
Investments	700,000	-
Pledges Receivable	518,587	-
Total Capital Campaign Assets	1,642,144	-
<b>PROPERTY AND EQUIPMENT</b>		
Property and Equipment, Net	1,344,373	1,231,499
Property Rights	47,381	47,738
Total Property and Equipment	1,391,754	1,279,237
 Total Assets	 \$ 4,554,315	 \$ 3,103,526
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 80,649	\$ 55,225
Accrued Vacation Payable	37,155	40,359
Accrued Payroll and Related Liabilities	114,427	92,778
Current Portion of Capital Lease Obligations	6,713	-
Other Current Liabilities	1,596	1,184
Total Current Liabilities	240,540	189,546
<b>LONG-TERM DEBT</b>		
Long-Term Capital Lease Obligations, Net of Current Portion	37,761	-
Total Liabilities	278,301	189,546
<b>NET ASSETS</b>		
Unrestricted:		
Board Designated	1,226,583	1,361,989
Undesignated	1,425,981	1,347,871
Total Unrestricted	2,652,564	2,709,860
Temporarily Restricted	1,623,450	204,120
Total Net Assets	4,276,014	2,913,980
 Total Liabilities and Net Assets	 \$ 4,554,315	 \$ 3,103,526

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>				
<b>PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS</b>				
Public Support:				
Contributions	\$ 552,715	\$ 4,859	\$ 557,574	\$ 521,807
Bequests	90,353	-	90,353	62,024
Grants	81,280	24,700	105,980	214,750
Special Events Income, Net of Costs of \$107,909 and \$89,063, Respectively	397,252	-	397,252	335,366
In-Kind Donations	52,261	-	52,261	37,984
In-Kind Land Rent	5,729	-	5,729	5,767
Total Public Support	<u>1,179,590</u>	<u>29,559</u>	<u>1,209,149</u>	<u>1,177,698</u>
Revenues:				
Animal Control Contract Fees	768,239	-	768,239	751,820
License Revenues	136,358	-	136,358	116,388
Animal Adoptions, Net of Discounts of \$69,216 and \$95,836, Respectively	773,326	-	773,326	748,654
Impound and Boarding Fees	54,522	-	54,522	53,191
Other Program Income	40,080	-	40,080	43,574
Veterinary Services	216,421	-	216,421	181,842
Retail Sales, Net of Costs of Goods Sold of \$31,627 and \$34,164, Respectively	30,802	-	30,802	27,565
Interest and Dividend Income, Net of Investment Fees of \$5,233 and \$2,867, Respectively	36,656	-	36,656	8,150
Unrealized Gain (Loss) on Investments	27,176	-	27,176	(5,219)
Realized Gain on Investments	2,506	-	2,506	-
Gain on Sale of Property and Equipment	480	-	480	5,277
Miscellaneous Revenue	14,065	-	14,065	701
Total Revenues	<u>2,100,631</u>	<u>-</u>	<u>2,100,631</u>	<u>1,931,943</u>
Satisfaction of Program Restrictions	<u>60,733</u>	<u>(60,733)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues, and Reclassifications	<u>3,340,954</u>	<u>(31,174)</u>	<u>3,309,780</u>	<u>3,109,641</u>
<b>EXPENSES</b>				
Program Services:				
Licensing	81,408	-	81,408	68,159
Animal Control (See Note 11)	393,050	-	393,050	409,622
Shelter (See Note 11)	1,359,252	-	1,359,252	1,238,417
Veterinary Services (See Note 11)	853,018	-	853,018	750,676
Total Program Services Expenses	<u>2,686,728</u>	<u>-</u>	<u>2,686,728</u>	<u>2,466,874</u>
Supporting Services:				
Administration	215,578	-	215,578	226,592
Development	380,331	-	380,331	292,596
Total Support Services Expenses	<u>595,909</u>	<u>-</u>	<u>595,909</u>	<u>519,188</u>
Total Expenses	<u>3,282,637</u>	<u>-</u>	<u>3,282,637</u>	<u>2,986,062</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>58,317</u>	<u>(31,174)</u>	<u>27,143</u>	<u>123,579</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
<b>NONOPERATING ACTIVITIES</b>				
Capital Campaign Contributions	\$ -	\$ 1,450,504	\$ 1,450,504	\$ -
Capital Campaign Expenses	(220,510)	-	(220,510)	-
Board Designated Bequests for Future Capital Needs	104,897	-	104,897	552,271
Total	<u>(115,613)</u>	<u>1,450,504</u>	<u>1,334,891</u>	<u>552,271</u>
<b>CHANGE IN NET ASSETS</b>	(57,296)	1,419,330	1,362,034	675,850
Net Assets - Beginning of Year	<u>2,709,860</u>	<u>204,120</u>	<u>2,913,980</u>	<u>2,238,130</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,652,564</u>	<u>\$ 1,623,450</u>	<u>\$ 4,276,014</u>	<u>\$ 2,913,980</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	Program Services				Total
	Licensing	Animal Control	Shelter	Veterinary Services	
Salaries and Wages	\$ 50,536	\$ 220,894	\$ 762,911	\$ 405,922	\$ 1,440,263
Payroll Taxes	5,816	26,902	102,969	51,912	187,599
Employee Medical Benefits	1,727	15,937	69,892	31,117	118,673
Total	58,079	263,733	935,772	488,951	1,746,535
Fees - Veterinary Services	-	-	-	63,333	63,333
Fees - Management Services	32	65	358	130	585
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,282	2,565	14,860	6,487	25,194
Program Expense - Licensing	7,134	-	-	-	7,134
Program Expense - Animal Control	-	8,559	-	-	8,559
Program Expense - Shelter	-	-	96,276	-	96,276
Program Expense - Veterinary Services	-	-	53,738	217,226	270,964
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Vehicle Maintenance and Operation	-	26,507	4,782	-	31,289
Occupancy	5,190	10,381	58,018	22,324	95,913
Office Expense	2,961	8,205	37,696	11,348	60,210
Marketing and Advertising Expense	-	-	379	-	379
Fundraising Expense	-	-	-	-	-
Insurance	851	1,703	9,367	3,406	15,327
Travel	-	-	225	-	225
Conferences and Meetings	653	38	929	-	1,620
Bank Charges	-	-	14,570	-	14,570
Other Costs	-	-	2,297	709	3,006
Noncash Contributions Consumed	-	-	52,261	-	52,261
Bad Debt Expense - Pledges	-	-	-	-	-
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	31,627	-	31,627
Investment Fees	-	-	-	-	-
Land Lease	-	609	3,652	1,217	5,478
Total	76,182	372,365	1,316,807	815,131	2,580,485
Depreciation	5,226	20,685	74,072	37,887	137,870
Total Functional Expenses	81,408	393,050	1,390,879	853,018	2,718,355
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Investment Fees	-	-	-	-	-
Cost of Goods Sold	-	-	(31,627)	-	(31,627)
Less: Capital Campaign Expenses Netted Against Nonoperating Income on the Statement of Activities:	-	-	-	-	-
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 81,408	\$ 393,050	\$ 1,359,252	\$ 853,018	\$ 2,686,728

See accompanying Notes to Financial Statements.



**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	Supporting Services				Totals			
	Fundraising			Total Supporting	2017		2016	
	Administration	Development	Capital Campaign		2017	2016		
Salaries and Wages	\$ 151,295	\$ 278,683	\$ 41,150	\$ 471,128	\$ 1,911,391	\$ 1,656,218		
Payroll Taxes	14,777	25,112	5,003	44,892	232,491	213,183		
Employee Medical Benefits	6,835	21,632	-	28,467	147,140	168,935		
Total	172,907	325,427	46,153	544,487	2,291,022	2,038,336		
Fees - Veterinary Services	-	-	-	-	63,333	46,213		
Fees - Management Services	635	233	61,250	62,118	62,703	3,500		
Fees - Accounting	12,300	-	-	12,300	12,300	13,774		
Fees - Legal	975	-	760	1,735	1,735	6,309		
Information Technology	1,764	2,959	-	4,723	29,917	27,512		
Program Expense - Licensing	-	-	-	-	7,134	1,519		
Program Expense - Animal Control	-	-	-	-	8,559	6,501		
Program Expense - Shelter	-	-	-	-	96,276	97,890		
Program Expense - Veterinary Services	-	-	-	-	270,964	242,039		
Telecommunications - 911 CENCOM	-	-	-	-	50,000	50,000		
Vehicle Maintenance and Operation	-	20	-	20	31,309	32,893		
Occupancy	5,290	5,216	-	10,506	106,419	108,532		
Office Expense	8,916	14,177	-	23,093	83,303	80,811		
Marketing Expense	-	11,894	4,235	16,129	16,508	5,937		
Fundraising Expense	-	15,261	91,192	106,453	106,453	16,394		
Insurance	852	852	-	1,704	17,031	18,641		
Travel	1,556	60	-	1,616	1,841	2,291		
Conferences and Meetings	24	-	-	24	1,644	2,307		
Bank Charges	6,587	5	-	6,592	21,162	16,232		
Other Costs	491	826	-	1,317	4,323	7,493		
Noncash Contributions Consumed	-	-	-	-	52,261	30,851		
Bad Debt Expense - Pledges	-	-	16,920	16,920	16,920	-		
Special Event Costs	-	107,909	-	107,909	107,909	89,063		
Cost of Goods Sold	-	-	-	-	31,627	34,164		
Investment Fees	5,233	-	-	5,233	5,233	2,867		
Land Lease	304	304	-	608	6,086	6,087		
Total	217,834	485,143	220,510	923,487	3,503,972	2,988,156		
Depreciation	2,977	3,097	-	6,074	143,944	124,000		
Total Functional Expenses	220,811	488,240	220,510	929,561	3,647,916	3,112,156		
Less: Expenses Netted Against Revenues on the Statement of Activities:								
Special Event Expenses	-	(107,909)	-	(107,909)	(107,909)	(89,063)		
Investment Fees	(5,233)	-	-	(5,233)	(5,233)	(2,867)		
Cost of Goods Sold	-	-	-	-	(31,627)	(34,164)		
Less: Capital Campaign Expenses Netted Against Nonoperating Income on the Statement of Activities:	-	-	(220,510)	(220,510)	(220,510)	-		
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 215,578</u>	<u>\$ 380,331</u>	<u>\$ -</u>	<u>\$ 595,909</u>	<u>\$ 3,282,637</u>	<u>\$ 2,986,062</u>		

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,362,034	\$ 675,850
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized (Gain) Loss on Investment	(27,176)	5,219
Realized Gain on Investment	(2,506)	-
Gain on Sale of Property and Equipment	(480)	(5,277)
Depreciation and Amortization	143,944	124,000
Donated Vehicle and Equipment	-	(7,133)
Donated Investments	(261,912)	(288,822)
Net In-Kind Rent	357	319
Capital Campaign Contributions	(1,450,504)	-
(Increase) Decrease in:		
Receivables	26,672	(26,421)
Pledges Receivable	(518,587)	-
Inventory	657	(2,333)
Prepaid Expenses	(10,520)	3,568
Increase (Decrease) in:		
Accounts Payable	25,424	(3,565)
Accrued Liabilities	18,445	49,868
Other Current Liabilities	412	437
Net Cash Provided (Used) by Operating Activities	(693,740)	525,710
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	1,731,615	589,928
Purchase of Investments	(2,035,391)	(1,305,639)
Proceeds from Sale of Property and Equipment	1,225	6,244
Purchase of Property and Equipment	(212,563)	(342,350)
Net Cash Used by Investing Activities	(515,114)	(1,051,817)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital Campaign Contributions	1,450,504	-
Principle Payments on Capital Lease Obligations	(526)	-
Net Cash Provided by Financing Activities	1,449,978	-
<b>CHANGE IN CASH, CASH EQUIVALENTS AND CAPITAL CAMPAIGN CASH</b>	241,124	(526,107)
Cash, Cash Equivalents, and Capital Campaign Cash - Beginning of Year	769,057	1,295,164
<b>CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR</b>	\$ 1,010,181	\$ 769,057

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017	2016
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash Paid for Interest	\$ 474	\$ -
 <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES</b>		
Noncash Donation of Vehicle and Equipment	\$ -	\$ 7,133
Noncash Donation of Investments	\$ 261,912	\$ 288,822
Copier Obtained by Capital Lease Obligations	\$ 45,000	\$ -

*See accompanying Notes to Financial Statements.*

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Operations**

Kitsap Humane Society (KHS) is an independent, nonprofit organization located in Kitsap County, Washington that has been serving its community since 1908.

KHS' mission statement is as follows:

KHS is committed to providing positive life-changing solutions to people and companion animals. It does so by:

- Accepting, sheltering, and rehabilitating companion animals in need.
- Providing humane rescue, protection, prevention, adoption, and education services.
- Implementing progressive life-saving and life-affirming programs.
- Creatively collaborating and partnering with our region and supporters to build a model humane community.

KHS' tagline expresses its mission: Rescue. Rehabilitate. Re-home. Rescue refers to accepting stray, abandoned, surrendered, and transferred pets and providing food, board and care for those animals while at the shelter. Rehabilitation refers to medical and behavioral rehabilitation. Rehome refers to reuniting stray animals with their owners, adopting out animals left at the shelter or referring animals to other rescue organizations.

Programs are funded primarily through local sources:

**Capital Campaign for a New Facility**

KHS has joined the ranks of top animal shelters in the country. With a 2017 'save rate' of 96%, KHS is among the top tier of large, open-admission animal shelters, exceeding the 90% save rate that is the "gold-standard" nationally. Comprehensive Veterinary Medicine, Behavior Rehabilitation, and Foster Care are just three of the specialized programs that enable KHS to rescue and save the lives of so many animals.

Every day KHS improves the lives of people by connecting them with animals. Each year, over 50,000 people come to KHS – including those looking for an animal to adopt, and many low-income families seeking reduced-cost spay/neuter surgeries, vaccines, and microchips for their family pets. In the past five years, KHS services have grown dramatically: adoptions are up 70%, and the total number of spay/neuter surgeries is up 50%.

While KHS's animal welfare work achieves high standards, the current facility is outdated, inefficient, and overcrowded. When built in 1989, national standards of care had not evolved to where they are today. Back then, there was very little in the way of specialized medical or behavior care for animals in shelters, and the euthanasia rate at KHS, and most other animal shelters around the country, was well over 50%. The current facility was not designed with today's lifesaving, best practice standards in mind, nor was it designed to safely house, care for and save over 7,000 animals per year.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Description of Operations (Continued)**

Capital Campaign for a New Facility (Continued)

KHS's plan is to raise \$5.87 million, to add a new 9,000 square foot building on the property. Once the new building is complete, the existing 9,000 square foot facility will be renovated.

Major Programs and Services Offered

- Shelter Services - In 2017, KHS received 7,035 stray, abandoned, surrendered pets including 2,473 at-risk animals transferred in from other animal shelters. KHS found homes for 6,810 of these animals. A small portion of caring for stray animals in the shelter is part of KHS's responsibility under its Animal Control contracts.
- Veterinary Services - KHS shelter medicine and veterinary services provided medical evaluation, vaccinations, care, and necessary treatment to animals brought to the Kitsap Humane Society animal shelter. Veterinary services performed spay/neuter surgeries on 5,607 animals in 2017. Of this total, 2,122 spay/neuter surgeries were for non-shelter animals from families who met low-income guidelines set by the State of Washington. In addition, Veterinary Services performed other rehabilitative surgeries and intensive care procedures on hundreds of injured and sick pets that had been admitted to the shelter as stray, surrendered or transferred animals. The Veterinary services department also euthanizes shelter animals who are too sick, injured, or dangerous for treatment. A small portion of veterinary care for stray animals is part of KHS's responsibility under its Animal control contracts.
- Animal Control - KHS acted as the Animal Control and impounding authority for Kitsap County and all incorporated municipalities in Kitsap County. This agency enforced laws and regulations regarding the care, treatment, control, impounding of pets and livestock. Animal rescue and enforcement officers investigated 3,576 citizen complaints in 2017.

**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.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 and capital campaign activity.

**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 an original maturity of three months or less to be cash equivalents. Amounts included in capital campaign cash represents cash balances set aside for use in the capital campaign.

**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, 2017 and 2016.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pledges Receivable**

The Organization is currently conducting a \$5.87 million fundraising campaign for capital improvements. Pledges receivable are unconditional promises to give. Such promises that are expected to be collected within one year are recorded at expected net realizable value when the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Pledges receivable are discounted using fair value rates and an allowance for uncollectible pledges.

**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.

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**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 30,000 and 31,000 hours during each of the years ended December 31, 2017 and 2016, respectively.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. 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 \$1,226,583 and \$1,361,989 for the years ended December 31, 2017 and 2016, respectively, for these reserve funds.



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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets (Continued)**

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. In 2017, these temporary restricted assets primarily reflect all the cash donations for the capital campaign that had been received as of December 31, 2017 and 2016 respectively, that have been set aside for that project, and not yet expended, and additional temporarily restricted gifts and grants for other operating and capital purposes (other than the capital campaign) that had been received but not yet expended by the end of 2017 and 2016 respectively. These totals of Temporarily Restricted Net Assets are \$1,623,450 as of December 31, 2017 and \$204,120 as of December 31, 2016.

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, 2017 and 2016.

**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, 2016, 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, 2017 and 2016.

**Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Those reclassifications had no significant effect on net assets or changes in net assets.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

Management has evaluated subsequent events through April 30, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Between January 1, 2018 and April 30, 2018, KHS received approximately \$1,014,000 in contributions to the Capital Campaign, as well as \$556,000 earmarked by the Board from bequests received in an earlier period. As of April 30, 2018, KHS had a total of approximately \$3,020,000 in restricted and board designated contributions assigned to the campaign.

Subsequent to December 31, 2017, a donor had pledged two gifts to the capital campaign: a \$300,000 direct campaign gift (of which \$75,000 was paid in 2017), and a minimum of \$250,000 estate gift to be earmarked for the campaign as well. This donor died in early 2018. Following her death, KHS received a copy of her Will, which corroborated her intent to leave an estate gift to the campaign. The donor's financial planner and estate attorney have assured KHS officials that enough funds are available in her estate to fully pay both pledges.

**NOTE 2 CASH AND CASH EQUIVALENTS**

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

	2017	2016
Cash on Hand	\$ 1,600	\$ 1,400
Noninterest Checking	391,465	335,407
Savings and Money Market Funds	617,116	432,250
Total	<u>\$ 1,010,181</u>	<u>\$ 769,057</u>

Cash and cash equivalents are presented in the accompanying financial statements as follows for the years ended December 31:

	2017	2016
Cash and Cash Equivalents	\$ 586,624	\$ 769,057
Capital Campaign Cash and Cash Equivalents	423,557	-
Total Cash, Cash Equivalents, and Capital Campaign	<u>1,010,181</u>	<u>769,057</u>
Cash Shown in the Statement of Cash Flows	<u>\$ 1,010,181</u>	<u>\$ 769,057</u>

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**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.

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ -	\$ 850,000	\$ -	\$ 850,000
Mutual Funds	744,684	-	-	744,684
Total Investments at Fair Value	<u>\$ 744,684</u>	<u>\$ 850,000</u>	<u>\$ -</u>	<u>\$ 1,594,684</u>

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ -	\$ 477,000	\$ -	\$ 477,000
Mutual Funds	522,314	-	-	522,314
Total Investments at Fair Value	<u>\$ 522,314</u>	<u>\$ 477,000</u>	<u>\$ -</u>	<u>\$ 999,314</u>

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**NOTE 4 PLEDGES RECEIVABLE**

Unconditional promises to give to the Organization are recognized when the promises are made. Unconditional pledges to give due in subsequent years are reported at present value, using an interest rate of 2.5% and an allowance for uncollectible pledges using a rate of 3%. Pledges receivable related to the capital campaign described in Note 1 are as follows at December 31, 2017:

	Amount
Total Amounts Due in:	
One Year	\$ 180,107
Two to Five Years	383,700
Gross Pledges Receivable	563,807
Less: Discount to Present Value	(28,300)
Less: Allowance for Doubtful Accounts	(16,920)
Pledges Receivable, Net	\$ 518,587
Net Pledges Receivable, Current	\$ 170,443
Net Pledges Receivable, Long-Term	348,144
Total Net Pledges Receivable	\$ 518,587

At December 31, 2017, one donor accounted for 40% of total pledges receivable and approximately 11% of total contribution revenue for the year ended June 30, 2017. Payments in full on her pledge are expected in 2018.

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31:

	2017	2016
Building and Improvements	\$ 1,817,645	\$ 1,801,020
Equipment and Computers	414,811	357,442
Vehicles	302,938	320,959
Leasehold Improvements	48,580	48,580
Software and Web Site Design	58,131	49,137
Construction in Progress	309,229	155,316
Total	2,951,334	2,732,454
Accumulated Depreciation and Amortization	(1,606,961)	(1,500,955)
Property and Equipment, Net	1,344,373	1,231,499
Property Rights	47,381	47,738
Total Property and Equipment	\$ 1,391,754	\$ 1,279,237

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

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**NOTE 6 CAPITAL LEASE OBLIGATION**

In November 2017, the Organization entered into a 63-month lease for copiers and printers with monthly payments of \$1,681 (equipment payments of \$951 and service and copies costs of \$730) through February 1, 2023. The equipment has a total cost of \$45,000 and accumulated depreciation of \$714 at December 31, 2017. Amortization of assets held under capital lease is included in depreciation expense.

Future noncancelable payments per the lease agreement, based on the monthly rates at December 31, 2017, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 11,412
2019	11,412
2020	11,412
2021	11,412
Thereafter	<u>13,314</u>
Total	58,962
Less: Amount Representing Interest	<u>(14,488)</u>
Total	44,474
Less: Current Portion	<u>(6,713)</u>
Total	<u><u>\$ 37,761</u></u>

**NOTE 7 RELATED PARTY TRANSACTION**

A board member of the Organization is an officer of the bank that the Organization uses. The 2017 financial statements include pledges receivable and capital campaign contributions from the board member.

**NOTE 8 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>2017</u>	<u>Total Costs</u>	<u>Costs Associated with Animal Control Services</u>
Shelter Costs	\$ 1,359,252	\$ 260,497
Veterinary Services	853,018	192,123
 <u>2016</u>		
Shelter Costs	\$ 1,238,417	\$ 301,216
Veterinary Services	750,676	209,038

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**NOTE 9 CONCENTRATIONS**

For December 31, 2017, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 23% 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 expired on December 31, 2017 but was renewed on April 4, 2018, retroactive to January 1, 2018; two contracts expire on December 31, 2019, and two contracts expire on December 31, 2020. One contract was not renewed, but the services continue.

The Organization has one collective bargaining agreement that covers 11 employees. This agreement has been extended to December 31, 2018.

**NOTE 10 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.

The Organization and County are currently in negotiations to have title to the land transferred to the Organization.

Temporarily restricted net assets are as follows at December 31:

	2017	2016
Purpose Restricted:		
Behavioral Training	\$ 2,390	\$ 2,390
Animal Rescue and Medical Assistance	1,889	820
Veterinary Equipment	9,342	9,342
Critical Needs - Reserve Fund	102,525	102,525
Veterinary Services	15,000	35,000
Restricted Gifts - Other	11,338	6,305
Building Project	1,433,585	-
Time Restricted:		
Land Use	47,381	47,738
Total	\$ 1,623,450	\$ 204,120

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**NOTE 11 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.