

**KITSAP HUMANE SOCIETY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**



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**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, 2018, 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, 2018, 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.

**Emphasis-of-Matter Regarding a Change in Accounting Principle**

As discussed in Note 2 to the financial statements, Kitsap Humane Society adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the financial statements. Our opinion is not modified with respect to that matter.

**Report on Summarized Comparative Information**

We have previously audited Kitsap Humane Society's 2017 financial statements, and our report dated April 30, 2018 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, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
September 10, 2019

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**  
(WITH COMPARATIVE TOTALS FOR 2017)

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents:		
Undesignated	\$ 656,077	\$ 320,802
Board Designated	-	123,338
Restricted	132,850	142,484
Total Cash and Cash Equivalents	788,927	586,624
Investments - Board Designated	829,275	894,684
Accounts Receivable	126,215	1,302
Prepaid Expenses	28,229	22,517
Inventory	19,495	15,290
Total Current Assets	1,792,141	1,520,417
<b>CAPITAL CAMPAIGN ASSETS</b>		
Cash and Cash Equivalents	1,872,187	423,557
Investments	-	700,000
Pledges Receivable	1,265,490	518,587
Total Capital Campaign Assets	3,137,677	1,642,144
<b>PROPERTY AND EQUIPMENT</b>		
Property and Equipment, Net	2,440,506	1,344,373
Property Rights	46,981	47,381
Total Property and Equipment	2,487,487	1,391,754
 Total Assets	 \$ 7,417,305	 \$ 4,554,315
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 109,043	\$ 80,649
Accrued Vacation Payable	39,708	37,155
Accrued Payroll and Related Liabilities	99,479	114,427
Current Portion of Capital Lease Obligations	7,515	6,713
Other Current Liabilities	9,503	1,596
Total Current Liabilities	265,248	240,540
<b>LONG-TERM DEBT</b>		
Long-Term Capital Lease Obligations, Net of Current Portion	30,246	37,761
Total Liabilities	295,494	278,301
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Board Designated	1,028,323	1,226,583
Undesignated	1,753,092	1,425,981
Total Net Assets Without Donor Restrictions	2,781,415	2,652,564
With Donor Restrictions	4,340,396	1,623,450
Total Net Assets	7,121,811	4,276,014
 Total Liabilities and Net Assets	 \$ 7,417,305	 \$ 4,554,315

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
<b>OPERATING ACTIVITIES</b>				
<b>PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS</b>				
Public Support:				
Contributions	\$ 707,593	\$ 2,500	\$ 710,093	\$ 557,574
Bequests	140,000	-	140,000	90,353
Grants	188,570	20,500	209,070	105,980
Special Events Income, Net of Costs of \$132,758 and \$107,909, Respectively	515,375	-	515,375	397,252
In-Kind Donations	25,052	-	25,052	52,261
In-Kind Land Rent	5,686	-	5,686	5,729
Total Public Support	1,582,276	23,000	1,605,276	1,209,149
Revenues:				
Animal Control Contract Fees	777,359	-	777,359	768,239
License Revenues	141,362	-	141,362	136,358
Animal Adoptions, Net of Discounts of \$45,456 and \$69,216, Respectively	783,849	-	783,849	773,326
Impound and Boarding Fees	50,960	-	50,960	54,522
Other Program Income	41,128	-	41,128	40,080
Veterinary Services	262,371	-	262,371	216,421
Retail Sales, Net of Costs of Goods Sold of \$30,936 and \$31,627, Respectively	41,231	-	41,231	30,802
Interest and Dividend Income, Net of Investment Fees of \$5,940 and \$5,233, Respectively	51,758	-	51,758	36,656
Unrealized Gain (Loss) on Investments	(99,254)	-	(99,254)	27,176
Realized Gain (Loss) on Investments, Net of Fees	17,281	-	17,281	(2,727)
Gain on Sale of Property and Equipment	2,362	-	2,362	480
Miscellaneous Revenue	918	-	918	14,065
Total Revenues	2,071,325	-	2,071,325	2,095,398
Satisfaction of Program Restrictions	47,668	(47,668)	-	-
Total Public Support, Revenues, and Reclassifications	3,701,269	(24,668)	3,676,601	3,304,547

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
<b>EXPENSES</b>				
Program Services:				
Licensing	\$ 84,291	\$ -	\$ 84,291	\$ 81,408
Animal Control (See Note 8)	371,562	-	371,562	393,050
Shelter (See Note 8)	1,429,144	-	1,429,144	1,359,252
Veterinary Services (See Note 8)	914,260	-	914,260	853,018
Total Program Services Expenses	<u>2,799,257</u>	<u>-</u>	<u>2,799,257</u>	<u>2,686,728</u>
Supporting Services:				
Administration	251,318	-	251,318	215,578
Development	587,689	-	587,689	600,841
Total Support Services Expenses	<u>839,007</u>	<u>-</u>	<u>839,007</u>	<u>816,419</u>
Total Expenses	<u>3,638,264</u>	<u>-</u>	<u>3,638,264</u>	<u>3,503,147</u>
 <b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	 63,005	 (24,668)	 38,337	 (198,600)
 <b>NONOPERATING ACTIVITIES</b>				
Capital Campaign Contributions	-	2,741,614	2,741,614	1,450,504
Board Designated Bequests for Future Capital Needs	65,846	-	65,846	104,897
Total	<u>65,846</u>	<u>2,741,614</u>	<u>2,807,460</u>	<u>1,555,401</u>
 <b>CHANGE IN NET ASSETS</b>	 128,851	 2,716,946	 2,845,797	 1,356,801
Net Assets - Beginning of Year	<u>2,652,564</u>	<u>1,623,450</u>	<u>4,276,014</u>	<u>2,913,980</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 2,781,415</u>	 <u>\$ 4,340,396</u>	 <u>\$ 7,121,811</u>	 <u>\$ 4,270,781</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

	Program Services				Total
	Licensing	Animal Control	Shelter	Veterinary Services	
Salaries and Wages	\$ 50,836	\$ 212,216	\$ 807,998	\$ 460,020	\$ 1,531,070
Payroll Taxes	5,765	23,562	102,251	53,043	184,621
Employee Medical Benefits	1,838	11,819	55,026	30,456	99,139
Total	58,439	247,597	965,275	543,519	1,814,830
Fees - Veterinary Services	-	-	-	68,430	68,430
Fees - Management Services	16	33	179	65	293
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,582	3,364	19,125	8,134	32,205
Program Expense - Licensing	6,841	-	-	-	6,841
Program Expense - Animal Control	-	5,806	-	(551)	5,255
Program Expense - Shelter	-	-	95,125	7,784	102,909
Program Expense - Veterinary Services	-	-	54,265	215,966	270,231
Telecommunications - 911 CENCOM	-	54,167	-	-	54,167
Vehicle Maintenance and Operation	-	27,351	7,467	1,050	35,868
Occupancy	5,456	10,912	88,822	23,356	128,546
Office Expense	3,016	4,067	18,838	4,276	30,197
Marketing and Advertising Expense	63	-	344	-	407
Fundraising Expense	-	-	-	-	-
Insurance	1,026	2,052	11,284	4,103	18,465
Staff Development	-	-	6,928	4,938	11,866
Travel	-	-	273	-	273
Conferences and Meetings	-	19	1,392	-	1,411
Bank Charges	-	-	23,127	-	23,127
Other Costs	215	921	9,151	2,642	12,929
Noncash Contributions Consumed	-	-	43,545	-	43,545
Bad Debt Expense - Pledges	-	-	-	-	-
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	30,936	-	30,936
Land Lease	-	-	-	-	-
Total	76,654	356,289	1,376,076	883,712	2,692,731
Depreciation	7,637	15,273	84,004	30,548	137,462
Total Functional Expenses	84,291	371,562	1,460,080	914,260	2,830,193
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Cost of Goods Sold	-	-	(30,936)	-	(30,936)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 84,291	\$ 371,562	\$ 1,429,144	\$ 914,260	\$ 2,799,257

See accompanying Notes to Financial Statements.



**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

	Supporting Services				Totals	
	Fundraising			Total Supporting	2018	2017
	Administration	Development	Capital Campaign			
Salaries and Wages	\$ 156,456	\$ 368,679	\$ -	\$ 525,135	\$ 2,056,205	\$ 1,911,391
Payroll Taxes	19,563	26,726	-	46,289	230,910	232,491
Employee Medical Benefits	8,776	25,445	-	34,221	133,360	147,140
Total	184,795	420,850	-	605,645	2,420,475	2,291,022
Fees - Veterinary Services	-	-	-	-	68,430	63,333
Fees - Management Services	991	20,825	45,545	67,361	67,654	62,703
Fees - Accounting	14,125	-	-	14,125	14,125	12,300
Fees - Legal	4,889	(25)	44	4,908	4,908	1,735
Information Technology	5,049	4,501	-	9,550	41,755	29,917
Program Expense - Licensing	-	-	-	-	6,841	7,134
Program Expense - Animal Control	-	-	-	-	5,255	8,559
Program Expense - Shelter	86	56	-	142	103,051	96,276
Program Expense - Veterinary Services	-	(300)	-	(300)	269,931	270,964
Telecommunications - 911 CENCOM	-	-	-	-	54,167	50,000
Vehicle Maintenance and Operation	773	593	-	1,366	37,234	31,309
Occupancy	5,888	6,681	-	12,569	141,115	106,419
Office Expense	7,312	14,395	157	21,864	52,061	83,303
Marketing Expense	-	19,041	2,444	21,485	21,892	16,508
Fundraising Expense	-	14,532	-	14,532	14,532	106,453
Insurance	1,026	1,026	930	2,982	21,447	17,031
Staff Development	4,458	2,221	-	6,679	18,545	
Travel	-	-	-	-	273	1,841
Conferences and Meetings	1,494	125	147	1,766	3,177	1,644
Bank Charges	5,608	58	-	5,666	28,793	21,162
Other Costs	1,101	1,225	-	2,326	15,255	4,323
Noncash Contributions Consumed	-	-	-	-	43,545	52,261
Bad Debt Expense - Pledges	-	-	24,981	24,981	24,981	16,920
Special Event Costs	-	132,758	-	132,758	132,758	107,909
Cost of Goods Sold	-	-	-	-	30,936	31,627
Land Lease	6,086	-	-	6,086	6,086	6,086
Total	243,681	638,562	74,248	956,491	3,649,222	3,498,739
Depreciation	7,637	7,637	-	15,274	152,736	143,944
Total Functional Expenses	251,318	646,199	74,248	971,765	3,801,958	3,642,683
Less: Expenses Netted Against Revenues on the Statement of Activities:						
Special Event Expenses	-	(132,758)	-	(132,758)	(132,758)	(107,909)
Cost of Goods Sold	-	-	-	-	(30,936)	(31,627)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 251,318	\$ 513,441	\$ 74,248	\$ 839,007	\$ 3,638,264	\$ 3,503,147

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,845,797	\$ 1,356,801
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Unrealized (Gain) Loss on Investment	99,254	(27,176)
Realized Gain on Investment	(17,281)	2,727
Loss on Sale of Property and Equipment	(2,362)	(480)
Depreciation and Amortization	152,736	143,944
Donated Vehicle and Equipment	(43,545)	-
Donated Investments	-	(261,912)
Net In-Kind Rent	400	357
Capital Campaign Contributions	(2,741,614)	(1,450,504)
(Increase) Decrease in:		
Receivables	(124,913)	26,672
Pledges Receivable	(423,135)	-
Inventory	(4,205)	657
Prepaid Expenses	(5,712)	(10,520)
Increase (Decrease) in:		
Accounts Payable	(28,394)	25,424
Accrued Vacation Payable	(2,553)	18,445
Accrued Payroll and Related Liabilities	14,948	-
Other Current Liabilities	(7,907)	412
Net Cash Used by Operating Activities	(288,486)	(175,153)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	3,792,151	1,731,615
Purchase of Investments	(3,017,358)	(2,035,391)
Proceeds from Sale of Property and Equipment	6,150	1,225
Purchase of Property and Equipment	(1,252,657)	(212,563)
Net Cash Used by Investing Activities	(471,714)	(515,114)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital Campaign Contributions	2,417,846	931,917
Principal Payments on Capital Lease Obligations	(6,713)	(526)
Net Cash Provided by Financing Activities	2,411,133	931,391
<b>CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH</b>	1,650,933	241,124
Cash, Cash Equivalents, and Capital Campaign Cash - Beginning of Year	1,010,181	769,057
<b>CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR</b>	\$ 2,661,114	\$ 1,010,181

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	2018	2017
<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	\$ 43,545	\$ -
Noncash Donation of Investments	\$ -	\$ 261,912
Copier Obtained by Capital Lease Obligations	\$ -	\$ 45,000

*See accompanying Notes to Financial Statements.*

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

**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 'save rate' of at least 96% since 2015, KHS is among the top tier of large, open-admission animal shelters, exceeding the 90% save rate that is the "gold-standard" nationally (unaudited). 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 (unaudited) – 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 six years, KHS services have grown dramatically: adoptions are up 60%, and the total number of spay/neuter surgeries are up over 70% (unaudited).

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% (unaudited). 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 6,000 to 7,000 animals per year (unaudited).

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**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 \$8.5 million to add a new 9,500 square foot building on the property. Once the new building is complete, a portion of the existing 8,300 square foot facility will be renovated and an additional new wing for Veterinary Services will be built.

Major Programs and Services Offered

- Shelter Services - In 2018, KHS rescued 6,708 stray, abandoned, or surrendered pets including 2,298 at-risk animals transferred in from other animal shelters (unaudited). KHS found homes for 6,810 of these animals (unaudited). A 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 5,753 animals in 2018 (unaudited). Of this total, 2,366 spay/neuter surgeries were for non-shelter animals from families who met low-income guidelines set by the state of Washington (unaudited). 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 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 3,088 citizen complaints in 2018 (unaudited).

**Financial Statement Presentation**

Net assets and changes therein are classified and reported using two classes of net assets: with donor restrictions and without donor restrictions, 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, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

**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 net assets without donor restrictions unless their use is 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, 2018 and 2017.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

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

**Pledges Receivable**

The Organization is currently conducting a \$8.5 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 net realizable value.

**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 net assets without donor restrictions 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 contributions with donor restrictions whose restrictions are met in the same reporting period as contributions without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. Subsequently, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**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 31,200 and 31,000 hours during each of the years ended December 31, 2018 and 2017, 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. Salaries and direct costs are allocated to cost centers for the programs and other activities benefited. Utilities, depreciation, and other shared costs are based on the square footage and an estimate of the amount used by programs.

**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 two classes of net assets: without donor restrictions and with donor restrictions. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

*Without Donor Restrictions* – 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 \$1,028,323 and \$1,226,583 for the years ended December 31, 2018 and 2017, respectively, for these reserve funds.



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

**Net Assets (Continued)**

*Net Assets with Donor Restrictions* – 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, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In 2018, these restricted assets primarily reflect all the cash donations for the capital campaign that had been received as of December 31, 2018 and 2017 respectively, that have been set aside for that project, and not yet released, and additional restricted gifts and grants for other operating and capital purposes (other than the capital campaign) that had been received but not released by the end of 2018 and 2017 respectively. These totals of \$4,235,565 as of December 31, 2018 and \$1,623,450 as of December 31, 2017.

**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, 2017, 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, 2018 and 2017.

**New Accounting Pronouncements – ASU 2016-14**

During the year ended December 31, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions) and disclosures within the financial statements. The adoption of this accounting standard was retrospectively applied and did not have an impact on the Organization's financial position or changes in its net assets.

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

**Subsequent Events**

Management has evaluated subsequent events through September 10, 2019, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**NOTE 2 CASH AND CASH EQUIVALENTS**

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

	2018	2017
Cash on Hand	\$ 1,600	\$ 1,400
Noninterest Checking	664,501	335,407
Savings and Money Market Funds	1,995,013	432,250
Total	\$ 2,661,114	\$ 769,057

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

	2018	2017
Cash and Cash Equivalents	\$ 788,927	\$ 586,624
Capital Campaign Cash and Cash Equivalents	1,872,187	423,557
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	\$ 2,661,114	\$ 1,010,181

**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.

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

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 771,705	\$ -	\$ -	\$ 771,705
Total Investments at Fair Value	<u>\$ 771,705</u>	<u>\$ -</u>	<u>\$ -</u>	771,705
Cash and Equivalents				<u>57,570</u>
Total Investments				<u>\$ 829,275</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, 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>

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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, 2018:

	Amount
Total Amounts Due in:	
One Year	\$ 870,785
Two to Five Years	465,703
Gross Pledges Receivable	1,336,488
Less: Discount to Present Value	(29,097)
Less: Allowance for Doubtful Accounts	(41,901)
Pledges Receivable, Net	\$ 1,265,490
Net Pledges Receivable, Current	\$ 870,785
Net Pledges Receivable, Long-Term	394,705
Total Net Pledges Receivable	\$ 1,265,490

At December 31, 2018, one donor accounted for 36% of total pledges receivable and approximately 12% of total contribution revenue for the year ended June 30, 2018.

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31:

	2018	2017
Building and Improvements	\$ 1,843,639	\$ 1,817,645
Equipment and Computers	446,590	414,811
Vehicles	247,922	302,938
Leasehold Improvements	44,157	48,223
Software and Web Site Design	58,131	58,131
Construction in Progress	1,480,281	309,229
Total	4,120,720	2,950,977
Accumulated Depreciation and Amortization	(1,680,214)	(1,606,961)
Property and Equipment, Net	2,440,506	1,344,016
Property Rights	46,981	47,738
Total Property and Equipment	\$ 2,487,487	\$ 1,391,754

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 \$9,286 at December 31, 2018. 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, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 11,412
2020	11,412
2021	11,412
2022	11,412
Thereafter	1,902
Total	<u>47,550</u>
Less: Amount Representing Interest	<u>(9,789)</u>
Total	37,761
Less: Current Portion	<u>(7,515)</u>
Total	<u><u>\$ 30,246</u></u>

**NOTE 7 RELATED PARTY TRANSACTION**

A board member of the Organization is an officer of the bank that the Organization uses. The 2018 financial statements include pledges receivable and capital campaign contributions from the board member. Employees made \$148,000 of contributions to the Organization during the year ended December 31, 2018.

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**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. In addition to the direct costs of Animal Control law enforcement services 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>2018</u>	<u>Total Costs</u>	<u>Animal Control Costs</u>
Shelter Costs	\$ 1,429,144	\$ 285,829
Veterinary Services	914,260	182,852
Animal Control	-	371,562
	<u>\$ 2,343,404</u>	<u>\$ 840,243</u>
 <u>2017</u>		
Shelter Costs	\$ 1,359,252	\$ 260,497
Veterinary Services	853,018	192,123
Animal Control	-	393,050
	<u>\$ 2,212,270</u>	<u>\$ 845,670</u>

**NOTE 9 CONCENTRATIONS**

For December 31, 2018, 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, 2019.

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**NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS**

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 net assets with donor restrictions to net assets without donor restrictions 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.

Net assets with donor restrictions are as follows at December 31:

	2018	2017
Purpose Restricted:		
Behavioral Training	\$ 2,390	\$ 2,390
Animal Rescue and Medical Assistance	1,093	1,889
Veterinary Equipment	2,527	9,342
Critical Needs - Reserve Fund	102,559	102,525
Veterinary Services	5,790	15,000
Restricted Gifts - Other	18,491	11,338
Building Project	4,160,565	1,433,585
Time Restricted:		
Land Use	46,981	47,381
Total	\$ 4,340,396	\$ 1,623,450

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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.

**NOTE 12 LIQUIDITY AND AVAILABILITY**

The Organization strives to maintain liquid financial assets sufficient to cover operating expenditures for the next year. All financial assets are currently maintained in checking and savings accounts as well as certificates of deposit.

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts that are due within the next year.

	2018	2017
Noncapital Campaign Cash	\$ 656,077	\$ 320,802
Accounts Receivable	126,215	1,302
Investments - Board Designated	829,275	894,684
Total	<u>\$ 1,611,567</u>	<u>\$ 1,216,788</u>