

KITSAP HUMANE SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

**KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2019**

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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, 2019, 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, 2019, 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 2018 financial statements, and our report dated September 10, 2019 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, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

Bellevue, Washington
REPORT DATE

KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents:		
Undesignated	\$ 908,979	\$ 656,077
Restricted	130,069	132,850
Total Cash and Cash Equivalents	1,039,048	788,927
Investments - Board Designated	353,167	829,275
Accounts Receivable	61,362	126,215
Prepaid Expenses	36,399	28,229
Inventory	18,144	19,495
Total Current Assets	1,508,120	1,792,141
CAPITAL CAMPAIGN ASSETS		
Cash and Cash Equivalents	55,966	1,872,187
Investments	-	-
Pledges Receivable	941,598	1,265,490
Total Capital Campaign Assets	997,564	3,137,677
PROPERTY AND EQUIPMENT		
Property and Equipment, Net	6,903,288	2,440,506
Property Rights	-	46,981
Total Property and Equipment	6,903,288	2,487,487
 Total Assets	 \$ 9,408,972	 \$ 7,417,305
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 83,552	\$ 109,043
Accrued Vacation Payable	44,107	39,708
Accrued Payroll and Related Liabilities	68,782	99,479
Current Portion of Capital Lease Obligations	10,724	7,515
Other Current Liabilities	7,968	9,503
Total Current Liabilities	215,133	265,248
LONG-TERM DEBT		
Long-term Note Payable	22,000	
Long-Term Capital Lease Obligations, Net of Current Portion	33,806	30,246
Total Liabilities	270,939	295,494
NET ASSETS		
Without Donor Restrictions:		
Board Designated	365,697	1,028,323
Undesignated	7,700,669	1,753,092
Total Net Assets Without Donor Restrictions	8,066,366	2,781,415
With Donor Restrictions	1,071,667	4,340,396
Total Net Assets	9,138,033	7,121,811
 Total Liabilities and Net Assets	 \$ 9,408,972	 \$ 7,417,305

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

	Without Donor	With Donor	Totals	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES				
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS				
Public Support:				
Contributions	\$ 774,219	\$ 12,808	\$ 787,027	\$ 710,093
Bequests	145,000	-	145,000	140,000
Grants	89,750	-	89,750	209,070
Special Events Income, Net of Costs of \$154,753 and \$132,758, Respectively	535,462	-	535,462	515,375
In-Kind Donations	17,071	-	17,071	25,052
In-Kind Land Rent	2,819	-	2,819	5,686
Total Public Support	<u>1,564,321</u>	<u>12,808</u>	<u>1,577,129</u>	<u>1,605,276</u>
Revenues:				
Animal Control Contract Fees	784,254	-	784,254	777,359
License Revenues	134,887	-	134,887	141,362
Animal Adoptions, Net of Discounts of \$20,522 and \$45,456, Respectively	755,358	-	755,358	783,849
Impound and Boarding Fees	52,174	-	52,174	50,960
Other Program Income	30,917	-	30,917	41,128
Veterinary Services	288,801	-	288,801	262,371
Retail Sales, Net of Costs of Goods Sold of \$33,470 and \$30,936, Respectively	34,838	-	34,838	41,231
Interest and Dividend Income, Net of Investment Fees of \$5,940 and \$5,233, Respectively	14,997	-	14,997	51,758
Unrealized Gain (Loss) on Investments	78,853	-	78,853	(99,254)
Realized Gain (Loss) on Investments, Net of Fees	13,724	-	13,724	17,281
Gain on Sale of Property and Equipment	(46,757)	-	(46,757)	2,362
Miscellaneous Revenue	686	-	686	918
Total Revenues	<u>2,142,732</u>	<u>-</u>	<u>2,142,732</u>	<u>2,071,325</u>
Satisfaction of Program Restrictions	<u>15,732</u>	<u>(15,732)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues, and Reclassifications	3,722,785	(2,924)	3,719,861	3,676,601

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2019	2018
EXPENSES				
Program Services:				
Licensing	\$ 91,813	\$ -	\$ 91,813	\$ 84,291
Animal Control (See Note 8)	397,718	-	397,718	371,562
Shelter (See Note 8)	1,693,791	-	1,693,791	1,429,144
Veterinary Services (See Note 8)	966,218	-	966,218	914,260
Total Program Services Expenses	<u>3,149,540</u>	<u>-</u>	<u>3,149,540</u>	<u>2,799,257</u>
Supporting Services:				
Administration	230,998	-	230,998	251,318
Development	408,424	-	408,424	587,689
Capital Campaign	146,733	-	-	-
Total Support Services Expenses	<u>786,155</u>	<u>-</u>	<u>639,422</u>	<u>839,007</u>
Total Expenses (See Page 6 and 7)	<u>3,935,695</u>	<u>-</u>	<u>3,788,962</u>	<u>3,638,264</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(212,910)	(2,924)	(215,834)	38,337
NONOPERATING ACTIVITIES				
Capital Campaign Contributions	-	2,076,054	2,076,054	2,741,614
Board Designated Bequests for Future Capital Needs	156,002	-	156,002	65,846
Release of net assets for capital purposes	5,341,859	(5,341,859)	-	-
Total	<u>5,497,861</u>	<u>(3,265,805)</u>	<u>2,232,056</u>	<u>2,807,460</u>
CHANGE IN NET ASSETS	5,284,951	(3,268,729)	2,016,222	2,845,797
Net Assets - Beginning of Year	<u>2,781,415</u>	<u>4,340,396</u>	<u>7,121,811</u>	<u>4,276,014</u>
NET ASSETS - END OF YEAR	<u>\$ 8,066,366</u>	<u>\$ 1,071,667</u>	<u>\$ 9,138,033</u>	<u>\$ 7,121,811</u>

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	\$ 53,487	\$ 215,850	\$ 964,612	\$ 470,389	\$ 1,704,338
Payroll Taxes	5,147	21,281	111,886	47,552	185,866
Employee Medical Benefits	2,812	16,927	85,428	45,125	150,292
Total	61,446	254,058	1,161,926	563,066	2,040,496
Fees - Veterinary Services	-	-	-	75,844	75,844
Fees - Management Services	-	-	-	-	-
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,663	2,538	18,606	9,468	32,275
Program Expense - Licensing	7,689	-	-	-	7,689
Program Expense - Animal Control	-	7,446	-	(45)	7,401
Program Expense - Shelter	-	-	96,834	7,957	104,791
Program Expense - Veterinary Services	-	-	49,465	212,957	262,422
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Vehicle Maintenance and Operation	-	32,894	8,453	420	41,767
Occupancy	8,265	14,048	99,387	29,788	151,488
Office Expense	3,357	5,555	24,540	5,208	38,660
Marketing and Advertising Expense	331	-	210	316	857
Fundraising Expense	-	-	-	-	-
Insurance	1,855	2,854	15,700	5,709	26,118
Staff Development	-	1,468	10,651	8,967	21,086
Travel	-	-	1,415	-	1,415
Conferences and Meetings	-	-	678	375	1,053
Bank Charges	221	1,186	30,520	2,381	34,308
Other Costs	568	-	20	1,021	1,609
Noncash Contributions Consumed	-	-	57,725	-	57,725
Bad Debt Expense - Pledges	-	-	-	-	-
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	33,470	-	33,470
Land Lease	-	-	-	-	-
Total	85,395	372,047	1,609,600	923,432	2,990,474
Depreciation	6,418	25,671	117,661	42,786	192,536
Total Functional Expenses	91,813	397,718	1,727,261	966,218	3,183,010
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Cost of Goods Sold	-	-	(33,470)	-	(33,470)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 91,813	\$ 397,718	\$ 1,693,791	\$ 966,218	\$ 3,149,540

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Supporting Services				Totals from	
	Fundraising			Total Supporting	Pages 6 and 7	
	Administration	Development	Capital Campaign		2019	2018
Salaries and Wages	\$ 135,130	\$ 271,941	\$ 104,167	\$ 511,238	\$ 2,215,576	\$ 2,056,205
Payroll Taxes	12,369	9,232	21,124	42,725	228,591	230,910
Employee Medical Benefits	13,939	20,165	6,285	40,389	190,681	133,360
Total	161,438	301,338	131,576	594,352	2,634,848	2,420,475
Fees - Veterinary Services	-	-	-	-	75,844	68,430
Fees - Management Services	5,650	3,607	9,996	19,253	19,253	67,654
Fees - Accounting	13,300	-	-	13,300	13,300	14,125
Fees - Legal	2,447	-	370	2,817	2,817	4,908
Information Technology	962	12,621	-	13,583	45,858	41,755
Program Expense - Licensing	-	-	-	-	7,689	6,841
Program Expense - Animal Control	-	-	-	-	7,401	5,255
Program Expense - Shelter	-	-	-	-	104,791	103,051
Program Expense - Veterinary Services	-	2,984	-	2,984	265,406	269,931
Telecommunications - 911 CENCOM	-	-	-	-	50,000	54,167
Vehicle Maintenance and Operation	(261)	7	-	(254)	41,513	37,234
Occupancy	7,024	7,024	-	14,048	165,536	141,115
Office Expense	6,791	10,526	-	17,317	55,977	52,061
Marketing and Advertising Expense	1,225	17,092	4,791	23,108	23,965	21,892
Fundraising Expense	-	29,684	-	29,684	29,684	14,532
Insurance	1,427	999	-	2,426	28,544	21,447
Staff Development	5,651	4,838	-	10,489	31,575	18,545
Travel	46	43	-	89	1,504	273
Conferences and Meetings	694	609	-	1,303	2,356	3,177
Bank Charges	2,602	6,356	-	8,958	43,266	28,793
Other Costs	10,556	-	-	10,556	12,165	15,255
Noncash Contributions Consumed	750	-	-	750	58,475	43,545
Bad Debt Expense - Pledges	-	-	-	-	-	24,981
Special Event Costs	3,461	151,292	-	154,753	154,753	132,758
Cost of Goods Sold	-	-	-	-	33,470	30,936
Land Lease	-	-	-	-	-	6,086
Total	223,763	549,020	146,733	919,516	3,909,990	3,649,222
Depreciation	10,696	10,696	-	21,392	213,928	152,736
Total Functional Expenses	234,459	559,716	146,733	940,908	4,123,918	3,801,958
Less: Expenses Netted Against Revenues on the Statement of Activities:						
Special Event Expenses	(3,461)	(151,292)	-	(154,753)	(154,753)	(132,758)
Cost of Goods Sold	-	-	-	-	(33,470)	(30,936)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 230,998</u>	<u>\$ 408,424</u>	<u>\$ 146,733</u>	<u>\$ 786,155</u>	<u>\$ 3,935,695</u>	<u>\$ 3,638,264</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,016,222	\$ 2,845,797
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Unrealized (Gain) Loss on Investment	(78,853)	99,254
Realized Gain on Investment	(13,724)	(17,281)
Loss (Gain) on Sale of Property and Equipment	46,757	(2,362)
Depreciation and Amortization	213,928	152,736
Donated Vehicle and Equipment	(57,725)	(43,545)
Donated Investments	-	-
Net In-Kind Rent	46,981	400
Capital Campaign Contributions	(2,076,054)	(2,741,614)
(Increase) Decrease in:		
Receivables	64,853	(124,913)
Pledges Receivable	(423,135)	(423,135)
Inventory	1,351	(4,205)
Prepaid Expenses	(8,170)	(5,712)
Increase (Decrease) in:		
Accounts Payable	25,491	(28,394)
Accrued Vacation Payable	(4,399)	(2,553)
Accrued Payroll and Related Liabilities	30,697	14,948
Other Current Liabilities	1,535	(7,907)
Net Cash Used by Operating Activities	(214,245)	(288,486)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	4,867,634	3,792,151
Purchase of Investments	(4,287,622)	(3,017,358)
Proceeds from Sale of Property and Equipment	-	6,150
Purchase of Property and Equipment	(4,661,710)	(1,252,657)
Net Cash Used by Investing Activities	(4,081,698)	(471,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Campaign Contributions	2,714,556	2,417,846
Note Payable	22,000	
Principal Payments on Capital Lease Obligations	(6,713)	(6,713)
Net Cash Provided by Financing Activities	2,729,843	2,411,133
CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH	(1,566,100)	1,650,933
Cash, Cash Equivalents, and Capital Campaign Cash - Beginning of Year	2,661,114	1,010,181
CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR	\$ 1,095,014	\$ 2,661,114

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash Paid for Interest	\$ 474	\$ 474
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Noncash Donation of Vehicle and Equipment	\$ 57,725	\$ 43,545
Copier Obtained by Capital Lease Obligations	\$ 15,000	\$ -

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Kitsap Humane Society (KHS) (the Organization) 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 primarily funded through local sources, offering the follow major programs and services:

- Shelter Services – The Kitsap Humane Society Animal Shelter's mission is "Rescue, Rehabilitate, Rehome." Rescue refers to taking in stray, abandoned and surrendered pets and providing food, board and care for those animals while at the shelter. Rehabilitation refers to medical and behavioral rehabilitation, rehome refers to reunited stray animals with their owners, adopting out animals left at the shelter or sending animals out to other rescue organizations. In 2019, KHS received 6,112 stray, abandoned and surrendered pets, and found homes for 5,879 of those pets. Caring for stray animals in the shelter is part of KHS's responsibility under its Animal Control contracts.
- Veterinary Services – The KHS shelter medicine/veterinary services provided medical evaluating, vaccinations, care and necessary treatment to animals brought to the Kitsap Humane Society Animal Shelter. The veterinary services also performed spay/neuter surgery on 5,996 animals. Of this total 3,113 of spay/neuter surgeries, were non-shelter animals from families who met low-income guidelines set by the State of Washington. The Veterinary Services department also euthanizes shelter animals who are too sick, injured or dangerous for treatment. Veterinary care for stray animals is part of KHS's responsibility under its Animal Control Contracts.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Operations (Continued)

- Animal Control – Acted as the animal control & impounding authority for Kitsap County & 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 4,463 citizen complaints in 2019.

- Licensing – The Kitsap Humane Society is responsible for issuing Pet Licenses for Unincorporated Kitsap County, City of Bremerton and the City of Poulsbo. KHS also issues licenses and collects fees for the City of Port Orchard and the City of Bainbridge Island for animals it adopts to residents of those cities. Previous to 2015, license revenues were remitted to those jurisdictions. Beginning in 2014 for the City of Bremerton and beginning in 2015 for Unincorporated Kitsap County and the City of Poulsbo, KHS can retain license revenues to help fund Animal Control activities. Licensing is part of KHS's responsibilities under its Animal Control contracts.

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).

In 2019, KHS completed construction and opened a new 9,500 square foot "pet adoption center" that dramatically improved housing and care for animals and significantly improved the adoption experience for customers. KHS successfully raised over \$6 million via a capital campaign, supplemented by bequests, to pay for this new best practice facility that has inspired volunteers, adopters, donors and the general public since its opening in October 2019.

At the end of 2019, work was just beginning on a 3,000 square foot renovation in a portion of the old 8,500 square foot shelter building to add and improve behavior training facilities for dogs, and upgrade other components of our operations, including a new dishwashing area. This work was completed in mid-2020, after several months of delay due to COVID.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

KHS plans to raise another \$3-\$4 million to build a new 5,600 square foot lifesaving veterinary center facility to vastly improve his medical facilities for shelter animals as well as provide added capacities to provide expanded veterinary care to low-income families in our community.

In early 2020, like many organizations, KHS reduced portions of its operations in response to the COVID pandemic, and also temporarily suspended capital campaign fundraising for the new veterinary lifesaving center. Yet by fall of 2020, KHS operations had returned to about 70% of pre-COVID volume.

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.

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.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018.

Pledges Receivable

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.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 4,800 and 31,000 hours (unaudited) during each of the years ended December 31, 2019 and 2018, respectively.

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.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$365,697 and \$1,028,323 for the years ended December 31, 2019 and 2018, respectively, for these reserve funds.

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 2019, these restricted assets primarily reflect all the cash donations for the capital campaign that had been received as of December 31, 2019 and 2018, 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 2019 and 2018, respectively. These totals of \$1,071,667 as of December 31, 2019 and \$4,340,396 as of December 31, 2018.

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, 2018, 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 (IRC). The Organization has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the IRC.

The Organization has analyzed the tax positions taken in its filings with the IRS 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, 2019 and 2018.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in Accounting Principles

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

Additionally in June 2018, FASB issued ASU 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

The financial statements reflect the application of ASU 2018-08. There was no material impact on the Organizations' financial position and results of operations upon adoption of the new standard.

Government Contract - Animal Control Contract Fees

Government contracts for animal control services under exchange transactions are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their clients. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on monthly service contracts. The Organization believes that this method provides a faithful depiction of the transfer of services based on the inputs needed to satisfy the obligation.

Total revenue recognized under exchange transactions totaled \$784,254 for the year ended December 31, 2019.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Service Fees – License Revenues, Animal Adoptions, Impound and Boarding Fees and Veterinary Services

Program Service Fees, including license revenues, animal adoptions, impound and boarding fees, and veterinary services are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their program participants. These amounts are due from individuals for program services such as classes and training. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the program services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. As such, revenue is recognized as the services is rendered. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Subsequent Events

Management has evaluated subsequent events through REPORT DATE, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of healthcare personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2019.

Also, subsequent to year-end, the Organization received a loan in the amount of \$467,948 to fund payroll, rent, and utilities through the federal Paycheck Protection Program. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 CASH AND CASH EQUIVALENTS

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

	<u>2019</u>	<u>2018</u>
Cash on Hand	\$ 2,150	\$ 1,600
Noninterest Checking	399,542	664,501
Savings and Money Market Funds	<u>693,322</u>	<u>1,995,013</u>
Total	<u>\$ 1,095,014</u>	<u>\$ 2,661,114</u>

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

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,039,048	\$ 788,927
Capital Campaign Cash and Cash Equivalents	<u>55,966</u>	<u>1,872,187</u>
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	<u>\$ 1,095,014</u>	<u>\$ 2,661,114</u>

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 353,167	\$ -	\$ -	\$ 353,167
Total Investments at Fair Value	<u>\$ 353,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 353,167</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, 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>	<u>\$ 771,705</u>
Cash and Equivalents				<u>57,570</u>
Total Investments				<u>\$ 829,275</u>

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

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, 2019:

	Amount
Total Amounts Due in:	
One Year	\$ 752,045
Two to Five Years	251,205
Gross Pledges Receivable	1,003,250
Less: Discount to Present Value	(14,068)
Less: Allowance for Doubtful Accounts	(47,584)
Pledges Receivable, Net	\$ 941,598
Net Pledges Receivable, Current	\$ 752,045
Net Pledges Receivable, Long-Term	189,553
Total Net Pledges Receivable	\$ 941,598

At December 31, 2019, one donor accounted for 26% of total pledges receivable. This donor paid the outstanding pledge in full in May 2020.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31:

	2019	2018
Building and Improvements	\$ 7,781,968	\$ 1,843,639
Equipment and Computers	507,568	446,590
Vehicles	250,290	247,922
Leasehold Improvements	44,157	44,157
Software and Web Site Design	58,131	58,131
Construction in Progress	155,316	1,480,281
Total	8,797,430	4,120,720
Accumulated Depreciation and Amortization	(1,894,142)	(1,680,214)
Property and Equipment, Net	6,903,288	2,440,506
Property Rights	-	46,981
Total Property and Equipment	\$ 6,903,288	\$ 2,487,487

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.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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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, 2019. 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, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 15,180
2021	15,180
2022	15,180
2023	5,669
Thereafter	3,495
Total	<u>54,704</u>
Less: Amount Representing Interest	<u>(10,174)</u>
Total	44,530
Less: Current Portion	<u>(10,724)</u>
Total	<u><u>\$ 33,806</u></u>

NOTE 7 RELATED PARTY TRANSACTION

A board member of the Organization is an officer of the bank that the Organization uses.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
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NOTE 8 ANIMAL CONTROL PROGRAM EXPENSES

Program expenses are reported by function in the statement of activities and the statement 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>2019</u>	<u>Total Costs</u>	<u>Animal Control Costs</u>
Shelter Costs	\$ 1,693,791	\$ 338,758
Veterinary Services	966,218	193,244
Animal Control	-	397,718
Total	<u>\$ 2,660,009</u>	<u>\$ 929,720</u>
<u>2018</u>		
Shelter Costs	\$ 1,429,144	\$ 285,829
Veterinary Services	914,260	182,852
Animal Control	-	371,562
Total	<u>\$ 2,343,404</u>	<u>\$ 840,243</u>

NOTE 9 CONCENTRATIONS

For December 31, 2019, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 21% 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.

The Organization has one collective bargaining agreement that covers 11 employees. This agreement has been extended to December 31, 2020.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Purpose Restricted:		
Behavioral Training	\$ 2,390	\$ 2,390
Animal Rescue and Medical Assistance	504	1,093
Veterinary Equipment	1,527	2,527
Critical Needs - Reserve Fund	102,559	102,559
Veterinary Services	5,790	5,790
Restricted Gifts - Other	17,299	18,491
Building Project	941,598	4,160,565
Time Restricted:		
Land Use	-	46,981
Total	<u>\$ 1,071,667</u>	<u>\$ 4,340,396</u>

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.

KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
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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, 2019 and 2018, reduced by amounts that are due within the next year.

	<u>2019</u>	<u>2018</u>
Noncapital Campaign Cash	\$ 908,979	\$ 656,077
Accounts Receivable	61,362	126,215
Investments - Board Designated	<u>353,167</u>	<u>829,275</u>
Total	<u>\$ 1,323,508</u>	<u>\$ 1,611,567</u>