

**KITSAP HUMANE SOCIETY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2020**

**KITSAP HUMANE SOCIETY  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2020**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>3</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>4</b>
<b>STATEMENT OF FUNCTIONAL EXPENSES</b>	<b>7</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>8</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>10</b>



## 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, 2020, 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, 2020, 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 2019 financial statements, and our report dated November 18, 2020 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, 2019 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, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

<b>ASSETS</b>	<u>2020</u>	<u>2019</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents:		
Undesignated	\$ 1,136,129	\$ 908,979
Board Designated	30,395	-
Restricted	<u>225,431</u>	<u>130,069</u>
Total Cash and Cash Equivalents	1,391,955	1,039,048
Investments - Board Designated	441,665	353,167
Accounts Receivable	14,681	61,362
Prepaid Expenses	30,883	36,399
Inventory	<u>18,202</u>	<u>18,144</u>
Total Current Assets	1,897,386	1,508,120
<b>CAPITAL CAMPAIGN ASSETS</b>		
Cash and Cash Equivalents	851,879	55,966
Pledges Receivable	<u>1,025,511</u>	<u>941,598</u>
Total Capital Campaign Assets	1,877,390	997,564
<b>PROPERTY AND EQUIPMENT</b>		
Property and Equipment, Net	<u>7,661,770</u>	<u>6,903,288</u>
Total Property and Equipment	<u>7,661,770</u>	<u>6,903,288</u>
 Total Assets	 <u>\$ 11,436,546</u>	 <u>\$ 9,408,972</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 53,900	\$ 83,552
Accrued Vacation Payable	48,453	44,107
Accrued Payroll and Related Liabilities	79,961	68,782
Current Portion of Capital Lease Obligations	11,995	10,724
Other Current Liabilities	<u>8,667</u>	<u>7,968</u>
Total Current Liabilities	202,976	215,133
<b>LONG-TERM DEBT</b>		
Long-Term Note Payable	17,600	22,000
Long-Term Capital Lease Obligations, Net of Current Portion	<u>21,812</u>	<u>33,806</u>
 Total Liabilities	 242,388	 270,939
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Board Designated	472,060	365,697
Undesignated	<u>9,596,558</u>	<u>7,700,669</u>
Total Net Assets Without Donor Restrictions	10,068,618	8,066,366
With Donor Restrictions	<u>1,125,540</u>	<u>1,071,667</u>
Total Net Assets	<u>11,194,158</u>	<u>9,138,033</u>
 Total Liabilities and Net Assets	 <u>\$ 11,436,546</u>	 <u>\$ 9,408,972</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
<b>OPERATING ACTIVITIES</b>				
<b>PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS</b>				
Public Support:				
Contributions	1,072,823	\$ 110,000	\$ 1,182,823	\$ 787,027
Bequests	271,007	-	271,007	145,000
Grants	252,195	-	252,195	89,750
Special Events Income, Net of Costs of \$51,303 and \$154,753, Respectively	343,817	-	343,817	535,462
In-Kind Donations	13,931	-	13,931	17,071
In-Kind Land Rent	-	-	-	2,819
Total Public Support	1,953,773	110,000	2,063,773	1,577,129
Revenues:				
Animal Control Contract Fees	844,998	-	844,998	784,254
License Revenues	103,144	-	103,144	134,887
Animal Adoptions, Net of Discounts of \$4,759 and \$20,522, Respectively	540,576	-	540,576	755,358
Impound and Boarding Fees	37,310	-	37,310	52,174
Other Program Income	16,929	-	16,929	30,917
Veterinary Services	169,833	-	169,833	288,801
Retail Sales, Net of Costs of Goods Sold of \$11,075 and \$30,256, Respectively	32,773	-	32,773	34,838
			-	
Interest and Dividend Income, Net of Investment Fees of \$3,461 and \$5,940, Respectively	888	-	888	14,997
Unrealized Gain (Loss) on Investments	1,034	-	1,034	78,853
Realized Gain (Loss) on Investments, Net of Fees	10,576	-	10,576	13,724
Gain on Sale of Property and Equipment	-	-	-	(46,757)
Miscellaneous Revenue	468,308	-	468,308	686
Total Revenues	2,226,369	-	2,226,369	2,142,732
Satisfaction of Program Restrictions	14,638	(14,638)	-	-
Total Public Support, Revenues, and Reclassifications	4,194,780	95,362	4,290,142	3,719,861

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
<b>EXPENSES</b>				
Program Services:				
Licensing	\$ 61,990	\$ -	\$ 61,990	\$ 91,813
Animal Control (See Note 8)	420,518	-	420,518	397,718
Shelter (See Note 8)	1,434,207	-	1,434,207	1,693,791
Veterinary Services (See Note 8)	834,443	-	834,443	966,218
Total Program Services Expenses	<u>2,751,158</u>	<u>-</u>	<u>2,751,158</u>	<u>3,149,540</u>
Supporting Services:				
Administration	358,699	-	358,699	230,998
Development	451,457	-	451,457	408,424
Capital Campaign	-	-	-	146,733
Total Support Services Expenses	<u>810,156</u>	<u>-</u>	<u>810,156</u>	<u>786,155</u>
Total Expenses (See Page 6 and 7)	<u>3,561,314</u>	<u>-</u>	<u>3,561,314</u>	<u>3,935,695</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	633,466	95,362	728,828	(215,834)
<b>NONOPERATING ACTIVITIES</b>				
Capital Campaign Contributions	-	1,327,297	1,327,297	2,076,054
Board Designated Bequests for Future Capital Needs	-	-	-	156,002
Release of Net Assets for Capital Purposes	1,368,786	(1,368,786)	-	-
Total	<u>1,368,786</u>	<u>(41,489)</u>	<u>1,327,297</u>	<u>2,232,056</u>
<b>CHANGE IN NET ASSETS</b>	2,002,252	53,873	2,056,125	2,016,222
Net Assets - Beginning of Year	<u>8,066,366</u>	<u>1,071,667</u>	<u>9,138,033</u>	<u>7,121,811</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 10,068,618</u>	<u>\$ 1,125,540</u>	<u>\$ 11,194,158</u>	<u>\$ 9,138,033</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	\$ 28,380	\$ 234,294	\$ 781,517	\$ 448,338	\$ 1,492,529
Payroll Taxes	3,986	24,578	92,116	47,427	168,107
Employee Medical Benefits	3,659	19,174	89,847	36,734	149,414
Total	36,025	278,046	963,480	532,499	1,810,050
Fees - Veterinary Services	-	-	-	-	-
Fees - Management Services	-	-	-	-	-
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,190	2,380	22,925	22,776	49,271
Program Expense - Animal Control	5,529	-	-	-	5,529
Program Expense - Animal Control	-	4,640	-	-	4,640
Program Expense - Shelter	-	-	54,880	658	55,538
Program Expense - Veterinary Services	-	-	35,903	152,999	188,902
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Equipment - Non-Capitalized	-	-	-	114	114
Vehicle Maintenance and Operation	-	12,795	18,631	-	31,426
Occupancy	8,120	16,240	86,844	32,481	143,685
Office Expense	2,381	3,580	19,885	4,986	30,832
Other Information Technology	490	980	5,833	3,491	10,794
Marketing and Advertising	-	-	39	-	39
Fundraising Expense	-	-	-	-	-
Insurance	2,068	4,135	22,744	8,270	37,217
Membership and Dues	-	-	3,732	1,536	5,268
Staff Development	1,425	2,964	6,173	9,195	19,757
Travel	-	-	-	-	-
Conferences and Meetings	-	-	377	-	377
Bank Charges	-	-	12,535	-	12,535
Payroll Processing Costs	185	913	5,683	1,836	8,617
Business Taxes and Licenses	-	-	713	853	1,566
All Other Expenses	1,472	373	3,048	646	5,539
Noncash Contributions Consumed	-	-	59,008	-	59,008
Special Events Costs	-	-	-	-	-
Cost of Goods Sold	-	-	11,075	-	11,075
Investment Fees	-	-	-	-	-
Total	58,885	377,046	1,333,508	772,340	2,541,779
Depreciation	3,105	43,472	170,782	62,103	279,462
Total Functional Expenses	61,990	420,518	1,504,290	834,443	2,821,241
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Investment Fees	-	-	-	-	-
Noncash Contributions Consumed	-	-	(59,008)	-	(59,008)
Cost of Goods Sold	-	-	(11,075)	-	(11,075)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 61,990	\$ 420,518	\$ 1,434,207	\$ 834,443	\$ 2,751,158

See accompanying Notes to Financial Statements.



**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

	Supporting Services			Totals from	
	Fundraising		Total	Pages 6 and 7	
	Administration	Development		2020	2019
Salaries and Wages	\$ 229,056	\$ 309,144	\$ 538,200	\$ 2,030,729	\$ 2,215,576
Payroll Taxes	9,984	27,347	37,331	205,438	228,591
Employee Medical Benefits	13,418	19,304	32,722	182,136	190,681
Total	<u>252,458</u>	<u>355,795</u>	<u>608,253</u>	<u>2,418,303</u>	<u>2,634,848</u>
Fees - Veterinary Services	-	-	-	-	75,844
Fees - Management Services	1,300	585	1,885	1,885	19,253
Fees - Accounting	14,222	-	14,222	14,222	13,300
Fees - Legal	1,110	-	1,110	1,110	2,817
Information Technology	1,190	1,190	2,380	51,651	45,858
Program Expense - Animal Control	-	-	-	5,529	7,689
Program Expense - Animal Control	-	-	-	4,640	7,401
Program Expense - Shelter	-	684	684	56,222	104,791
Program Expense - Veterinary Services	-	-	-	188,902	265,406
Telecommunications - 911 CENCOM	-	-	-	50,000	50,000
Equipment - Non-Capitalized	-	-	-	114	-
Vehicle Maintenance and Operation	-	15	15	31,441	41,513
Occupancy	48,120	8,120	56,240	199,925	165,536
Office Expense	4,566	7,232	11,798	42,630	55,977
Other Information Technology	1,611	954	2,565	13,359	-
Marketing and Advertising	8	19,992	20,000	20,039	23,965
Fundraising Expense	40	23,986	24,026	24,026	29,684
Insurance	1,427	2,222	3,649	40,866	28,544
Membership and Dues	1,868	882	2,750	8,018	-
Staff Development	5,468	2,748	8,216	27,973	31,575
Travel	-	-	-	-	1,504
Conferences and Meetings	407	-	407	784	2,356
Bank Charges	512	10,399	10,911	23,446	43,266
Payroll Processing Costs	1,378	913	2,291	10,908	12,165
Business Taxes and Licenses	4,888	28	4,916	6,482	-
All Other Expenses	2,600	186	2,786	8,325	-
Noncash Contributions Consumed	-	-	-	59,008	58,475
Special Events Costs	-	51,303	51,303	51,303	154,753
Cost of Goods Sold	-	-	-	11,075	33,470
Investment Fees	17,216	-	17,216	17,216	-
Total	<u>360,389</u>	<u>487,234</u>	<u>847,623</u>	<u>3,389,402</u>	<u>3,909,990</u>
Depreciation	<u>15,526</u>	<u>15,526</u>	<u>31,052</u>	<u>310,514</u>	<u>213,928</u>
Total Functional Expenses	375,915	502,760	878,675	3,699,916	4,123,918
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	(51,303)	(51,303)	(51,303)	(154,753)
Investment Fees	(17,216)	-	(17,216)	(17,216)	-
Noncash Contributions Consumed	-	-	-	(59,008)	-
Cost of Goods Sold	-	-	-	(11,075)	(33,470)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 358,699</u>	<u>\$ 451,457</u>	<u>\$ 810,156</u>	<u>\$ 3,561,314</u>	<u>\$ 3,935,695</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,056,125	\$ 2,016,222
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used by Operating Activities:		
Unrealized (Gain) Loss on Investment	(1,034)	(78,853)
Realized Gain on Investment	(10,576)	(13,724)
Gain on Forgiveness of Paycheck Protection Program Loan	(467,949)	-
Loss (Gain) on Sale of Property and Equipment	-	46,757
Depreciation and Amortization	310,514	213,928
Donated Vehicle and Equipment	(59,008)	(59,475)
Net In-Kind Rent	-	46,981
Capital Campaign Contributions	(1,327,297)	(2,076,054)
(Increase) Decrease in:		
Receivables	(46,681)	64,853
Pledges Receivable	83,913	(423,135)
Inventory	(58)	1,351
Prepaid Expenses	5,516	(8,170)
Increase (Decrease) in:		
Accounts Payable	29,652	25,491
Accrued Vacation Payable	(4,346)	(4,399)
Accrued Payroll and Related Liabilities	(11,179)	30,697
Other Current Liabilities	(699)	1,535
Net Cash Used by Operating Activities	556,893	(215,995)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	845,971	4,867,634
Purchase of Investments	(1,015,194)	(4,285,872)
Purchase of Property and Equipment	(1,068,995)	(4,661,710)
Net Cash Used by Investing Activities	(1,238,218)	(4,079,948)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital Campaign Contributions	1,377,320	2,714,556
Proceeds from Paycheck Protection Program Loan	467,948	-
Proceeds from Note Payable	-	22,000
Payments on Note Payable	(4,400)	-
Principal Payments on Capital Lease Obligations	(10,723)	(6,713)
Net Cash Provided by Financing Activities	1,830,145	2,729,843
<b>CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH</b>	1,148,820	(1,566,100)
Cash, Cash Equivalents, and Capital Campaign		
Cash - Beginning of Year	1,095,014	2,661,114
<b>CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR</b>	\$ 2,243,834	\$ 1,095,014

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)**

	2020	2019
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash Paid for Interest	\$ 4,836	\$ 5,501
 <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES</b>		
Noncash Donation of Vehicle and Equipment	\$ 59,008	\$ 59,475
Copier Obtained by Capital Lease Obligations	\$ -	\$ 15,000

*See accompanying Notes to Financial Statements.*

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Operations**

**Our Vision:** Every adoptable companion animal has a home.

**Our Mission:** The Kitsap Humane Society (KHS) is an independent non-profit committed to providing positive life-changing solutions to people and companion animals. We do so by:

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

KHS, as an animal welfare organization, exists to protect animals and promote their humane and responsible treatment. Founded in 1908, and located in Silverdale, WA, KHS fills a unique role in our region as the principal animal shelter and safety net organization for lost and homeless animals in Kitsap County and neighboring counties. Our primary purpose is to advance animal welfare through compassionate, individualized, lifesaving veterinary care and sheltering to rescue, rehabilitate and rehome thousands of homeless animals every year.

For six years straight, since 2015, KHS has achieved a 96% or better lifesaving rate--one of the highest in the nation. This puts KHS in the top-tier of large, open-admission animal shelters in the U.S., exceeding the 90% save rate that is the "gold-standard" nationally in the field. (unaudited) Our comprehensive Veterinary Medicine, Behavior Rehabilitation, and Foster Care Programs follow best practices in the field and are examples of the specialized programs that enable KHS to rescue and save the lives of thousands of animals each year. It is with the support of our compassionate and generous community--adopters, donors, volunteers, and others--that we can achieve this level of success.

KHS's mission goes well beyond saving animals. Over 30,000 people come to KHS each year, most looking to adopt, including financially at-risk families seeking reduced-cost Veterinary Services and pet food supplies. We actively engage hundreds of citizens in meaningful volunteer work. We improve the lives of thousands of community residents by connecting them with animals, providing the documented benefits of pet ownership, such as decreased stress, improved heart health, development of emotional and social skills for children, and less loneliness and anxiety. Our reduced fee services and Pet Food Pantry provide considerable support to low-income households, helping them keep their pets, rather than surrender them due to lack of funds--the kind of safety net that helps people keep and responsibly care for their animals.

KHS operates animal control for Kitsap County and all incorporated municipalities within the County. Animal Control enforces laws and regulations regarding the care, treatment, control, impounding of pets and livestock. KHS 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

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

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

**Description of Operations (Continued)**

animals it adopts to residents of those cities. Licensing is part of KHS's responsibilities under its Animal Control contracts.

In 2020 KHS:

- Rescued 3,818 animals, including 1,643 stray animals, 1,235 owner surrenders, and 814 at risk animals transferred in from other shelters
- Adopted 3,073 animals, transferred 72 animals to rescues, and owners reclaimed 531 animals, resulting in a lifesaving rate of 96.83%
- Placed 1,075 animals in foster care
- Provided 3,531 spay/neuter surgeries, including 1,442 low-cost surgeries
- Investigated 3,119 complaints through Animal Control

**Capital Campaign for a New Facility**

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 2019.

Renovations on a portion of the old shelter building were completed in mid-2020, resulting in improved behavior training facilities for dogs and upgraded other components of our operations, including a new dishwashing area.

KHS plans to raise another \$8 million to build a new 6,500 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.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

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

**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, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

**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, 2020 and 2019.

**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, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

**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 12,379 and 12,273 hours (unaudited) during each of the years ended December 31, 2020 and 2019, 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, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

**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 \$472,060 and \$365,697 for the years ended December 31, 2020 and 2019, 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 2020, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2020 and 2019, 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 2020 and 2019, respectively. These totaled \$1,125,540 as of December 31, 2020 and \$1,071,667 as of December 31, 2019.

**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, 2019, 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, 2020 and 2019.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)**

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

**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.

Revenue recognized under exchange transactions totaled \$844,998 and \$784,254 for the years ended December 31, 2020 and 2019, respectively.

**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.

**Contingencies**

In March 2020, 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 2021 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, 2020.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(WITH COMPARATIVE TOTALS FOR 2019)**

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

**Paycheck Protection Program**

On April 27, 2020, the Organization received a loan from Kitsap Bank in the amount of \$467,948 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the SBA. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

The Organization applied for forgiveness of the loan on December 31, 2020 received notification of forgiveness from the SBA on January 13, 2021. The Organization recognized the loan balance as a gain on debt forgiveness in the statement of activities as of December 31, 2020.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's financial position.

**Subsequent Events**

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

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

**NOTE 2 CASH AND CASH EQUIVALENTS**

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

	<u>2020</u>	<u>2019</u>
Cash on Hand	\$ 2,400	\$ 2,150
Noninterest Checking	1,337,425	399,542
Savings and Money Market Funds	904,009	693,322
Total	<u>\$ 2,243,834</u>	<u>\$ 1,095,014</u>

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

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,391,955	\$ 1,039,048
Capital Campaign Cash and Cash Equivalents	851,879	55,966
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	<u>\$ 2,243,834</u>	<u>\$ 1,095,014</u>

**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.

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

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

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 441,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 441,665</u>
Total Investments at Fair Value	<u>\$ 441,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 441,665</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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 353,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 353,167</u>
Total Investments at Fair Value	<u>\$ 353,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 353,167</u>

**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

**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, 2020:

	Amount
Total Amounts Due in:	
One Year	\$ 324,599
Two to Five Years	746,618
Gross Pledges Receivable	1,071,217
Less: Discount to Present Value	(6,265)
Less: Allowance for Doubtful Accounts	(39,441)
Pledges Receivable, Net	\$ 1,025,511
Net Pledges Receivable, Current	\$ 294,729
Net Pledges Receivable, Long-Term	730,782
Total Net Pledges Receivable	\$ 1,025,511

At December 31, 2020, the outstanding pledge balances from two donors accounted for 84% of total pledges receivable.

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31:

	2020	2019
Building and Improvements	\$ 8,807,780	\$ 7,781,968
Equipment and Computers	513,125	507,568
Vehicles	253,290	250,290
Leasehold Improvements	44,157	44,157
Software and Web Site Design	58,131	58,131
Construction in Progress	189,943	155,316
Total	9,866,426	8,797,430
Accumulated Depreciation and Amortization	(2,204,656)	(1,894,142)
Total Property and Equipment	\$ 7,661,770	\$ 6,903,288

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**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

**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 \$60,000 and accumulated depreciation of \$29,679 at December 31, 2020. 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, 2020, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 15,180
2022	15,180
2023	5,670
2024	3,495
Total	<u>39,525</u>
Less: Amount Representing Interest	<u>(5,718)</u>
Total	33,807
Less: Current Portion	<u>(11,995)</u>
Total	<u><u>\$ 21,812</u></u>

**NOTE 7 LONG-TERM NOTE PAYABLE**

During the year ended December 31, 2019, the Organization entered into a note payable with Kitsap County for the purchase of land for \$22,000. The Organization is making annual payments in the amount \$4,400 for five years. The note bears no interest and is due on December 31, 2024. The outstanding balance at December 31, 2020 was \$17,600.

**NOTE 8 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, 2020  
(WITH COMPARATIVE TOTALS FOR 2019)**

**NOTE 9 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>2020</u>	<u>Total Costs</u>	<u>Animal Control Costs</u>
Shelter Costs	\$ 1,425,878	\$ 415,870
Veterinary Services	840,463	162,055
Animal Control	-	415,870
Total	<u>\$ 2,266,341</u>	<u>\$ 993,795</u>
<u>2019</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>

**NOTE 10 CONCENTRATIONS**

For December 31, 2020, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 24% 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 two departments, Animal Control and Animal Care. Currently 8 employees have opted in as members. This agreement has been extended to December 31, 2022.

Approximately 24% of support was from two donors at December 31, 2020.



**KITSAP HUMANE SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

**NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2020</u>	<u>2019</u>
Purpose Restricted:		
Behavioral Training	\$ 2,390	\$ 2,390
Animal Rescue and Medical Assistance	504	504
Veterinary Equipment	-	1,527
Critical Needs - Reserve Fund	102,559	102,559
Veterinary Services	5,487	5,790
Restricted Gifts - Other	114,491	17,299
Building Project	900,109	941,598
Total	<u>\$ 1,125,540</u>	<u>\$ 1,071,667</u>

**NOTE 12 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**  
**DECEMBER 31, 2020**  
(WITH COMPARATIVE TOTALS FOR 2019)

**NOTE 13 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, 2020 and 2019, reduced by amounts that are due within the next year.

	<u>2020</u>	<u>2019</u>
Noncapital Campaign Cash	\$ 1,136,129	\$ 908,979
Accounts Receivable	14,681	61,362
Investments - Board Designated	<u>441,665</u>	<u>353,167</u>
Total	<u>\$ 1,592,475</u>	<u>\$ 1,323,508</u>