

**KITSAP HUMANE SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021**



CPAs | CONSULTANTS | WEALTH ADVISORS

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**KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2021**

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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, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kitsap Humane Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter Regarding a Correction of an Error

As described in Note 14 to the financial statements, management identified and corrected an error related to a prior year. As a result, beginning net asset balances in the financial statements have been restated. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kitsap Humane Society's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kitsap Humane Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kitsap Humane Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Bellevue, Washington
September 30, 2022

**KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021**

ASSETS

CURRENT ASSETS

| | |
|---------------------------------|------------------|
| Cash and Cash Equivalents | |
| Undesignated | \$ 372,888 |
| Board Designated | 30,759 |
| Restricted | 127,555 |
| Total Cash and Cash Equivalents | <u>531,202</u> |
| Investments - Board Designated | 1,750,859 |
| Accounts Receivable | 9,048 |
| Prepaid Expenses | 25,831 |
| Inventory | 24,606 |
| Total Current Assets | <u>2,341,546</u> |

CAPITAL CAMPAIGN ASSETS

| | |
|-------------------------------|------------------|
| Cash and Cash Equivalents | 2,215,300 |
| Pledges Receivable | 567,376 |
| Total Capital Campaign Assets | <u>2,782,676</u> |

PROPERTY AND EQUIPMENT

| | |
|------------------------------|------------------|
| Property and Equipment, Net | 7,898,255 |
| Total Property and Equipment | <u>7,898,255</u> |

| | |
|--------------|-----------------------------|
| Total Assets | <u><u>\$ 13,022,477</u></u> |
|--------------|-----------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|----------------|
| Accounts Payable | \$ 56,034 |
| Accrued Vacation Payable | 55,004 |
| Accrued Payroll and Related Liabilities | 64,561 |
| Current Portion of Capital Lease Obligations | 13,418 |
| Other Current Liabilities | 1,581 |
| Total Current Liabilities | <u>190,598</u> |

LONG-TERM DEBT

| | |
|---|---------------|
| Long-Term Note Payable | 13,200 |
| Long-Term Capital Lease Obligations, Net of Current Portion | 8,393 |
| | <u>21,593</u> |

| | |
|-------------------|---------|
| Total Liabilities | 212,191 |
|-------------------|---------|

NET ASSETS

| | |
|---|-------------------|
| Without Donor Restrictions | |
| Board Designated | 1,781,619 |
| Undesignated | 8,310,919 |
| Total Net Assets Without Donor Restrictions | <u>10,092,538</u> |
| With Donor Restrictions | 2,717,748 |
| Total Net Assets | <u>12,810,286</u> |

| | |
|----------------------------------|-----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 13,022,477</u></u> |
|----------------------------------|-----------------------------|

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|------------|
| OPERATING ACTIVITIES | | | |
| PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS | | | |
| Public Support | | | |
| Contributions | \$ 964,511 | \$ 25,014 | \$ 989,525 |
| Bequests | - | 474,875 | 474,875 |
| Grants | 151,200 | - | 151,200 |
| Special Events Income, Net of Costs of \$51,829 and \$49,578, Respectively | 343,151 | - | 343,151 |
| In-Kind Donations | 15,243 | - | 15,243 |
| In-Kind Land Rent | - | - | - |
| Total Public Support | 1,474,105 | 499,889 | 1,973,994 |
| Revenues | | | |
| Animal Control Contract Fees | 851,041 | - | 851,041 |
| License Revenues | 110,634 | - | 110,634 |
| Animal Adoptions, Net of Discounts of \$25,131 and \$4,759, Respectively | 584,385 | - | 584,385 |
| Impound and Boarding Fees | 39,142 | - | 39,142 |
| Other Program Income | 9,589 | - | 9,589 |
| Veterinary Services | 276,626 | - | 276,626 |
| Retail Sales, Net of Costs of Goods Sold of \$22,718 and \$11,075, Respectively | 29,664 | - | 29,664 |
| Interest and Dividend Income, Net of Investment Fees of \$4,455 and \$295, Respectively | 838 | - | 838 |
| Unrealized Gain (Loss) on Investments | (68,650) | - | (68,650) |
| Realized Gain (Loss) on Investments, Net of Fees | 67,055 | - | 67,055 |
| Gain on Sale of Property and Equipment | - | - | - |
| Miscellaneous Revenue | 470,344 | - | 470,344 |
| Total Revenues | 2,370,668 | - | 2,370,668 |
| Satisfaction of Program Restrictions | 117,416 | (117,416) | - |
| Total Public Support, Revenues, and Reclassifications | 3,962,189 | 382,473 | 4,344,662 |

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------|
| EXPENSES | | | |
| Program Services: | | | |
| Licensing | \$ 73,415 | \$ - | \$ 73,415 |
| Animal Control | 575,864 | - | 575,864 |
| Shelter | 1,649,066 | - | 1,649,066 |
| Veterinary Services | 1,104,205 | - | 1,104,205 |
| Total Program Services Expenses | 3,402,550 | - | 3,402,550 |
| Supporting Services: | | | |
| Administration | 379,099 | - | 379,099 |
| Development | 373,795 | - | 373,795 |
| Total Expenses (See Page 6 and 7) | 4,155,444 | - | 4,155,444 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (193,255) | 382,473 | 189,218 |
| NONOPERATING ACTIVITIES | | | |
| Capital Campaign Contributions | - | 1,895,964 | 1,895,964 |
| Release of Net Assets for Capital Purposes | 217,175 | (217,175) | - |
| Total | 217,175 | 1,678,789 | 1,895,964 |
| CHANGE IN NET ASSETS | 23,920 | 2,061,262 | 2,085,182 |
| Net Assets - Beginning of Year (As Restated) | 10,068,618 | 656,486 | 10,725,104 |
| NET ASSETS - END OF YEAR | \$ 10,092,538 | \$ 2,717,748 | \$ 12,810,286 |

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

| | Program Services | | | | |
|--|------------------|-------------------|--------------|------------------------|--------------|
| | Licensing | Animal Control | Shelter | Veterinary Services | Total |
| Salaries and Wages | \$ 35,279 | \$ 335,555 | \$ 863,040 | \$ 598,325 | \$ 1,832,199 |
| Payroll Taxes | 2,791 | 30,353 | 92,914 | 56,123 | 182,181 |
| Employee Medical Benefits | 4,372 | 40,913 | 91,986 | 42,094 | 179,365 |
| Total | 42,442 | 406,821 | 1,047,940 | 696,542 | 2,193,745 |
| Fees - Veterinary Services | - | - | - | 3,263 | 3,263 |
| Fees - Management Services | - | - | - | - | - |
| Fees - Accounting | - | - | - | - | - |
| Fees - Legal | - | - | - | - | - |
| Information Technology | 1,656 | 3,313 | 18,220 | 6,626 | 29,815 |
| Program Expense - Licensing | 6,556 | - | - | - | 6,556 |
| Program Expense - Animal Control | - | 8,058 | - | - | 8,058 |
| Program Expense - Shelter | - | - | 118,475 | - | 118,475 |
| Program Expense - Veterinary Services | - | - | - | 221,639 | 221,639 |
| Telecommunications - 911 CENCOM | - | 45,833 | - | - | 45,833 |
| Equipment - Non-Capitalized | - | - | - | - | - |
| Vehicle Maintenance and Operation | - | 12,409 | 4,576 | - | 16,985 |
| Occupancy | 8,099 | 16,198 | 101,884 | 34,533 | 160,714 |
| Office Expense | 4,184 | 4,164 | 22,535 | 6,540 | 37,423 |
| Other Information Technology | 570 | 1,140 | 8,755 | 4,065 | 14,530 |
| Marketing and Advertising | - | - | 557 | - | 557 |
| Fundraising Expense | - | - | - | - | - |
| Insurance | 2,308 | 4,617 | 25,391 | 9,233 | 41,549 |
| Membership and Dues | - | - | 3,428 | 685 | 4,113 |
| Staff Development | 430 | 447 | 7,824 | 3,980 | 12,681 |
| Travel | - | - | - | - | - |
| Conferences and Meetings | - | - | - | - | - |
| Bank Charges | 10 | - | 22,038 | 738 | 22,786 |
| Payroll Processing Costs | 218 | 1,076 | 6,700 | 2,165 | 10,159 |
| Business Taxes and Licenses | - | - | (788) | 1,397 | 609 |
| All Other Expenses | - | 980 | 23,461 | - | 24,441 |
| Noncash Contributions Consumed | - | - | 15,243 | - | 15,243 |
| Bad Debt Expense - Pledges | - | - | - | - | - |
| Special Events Costs | - | - | - | - | - |
| Cost of Goods Sold | - | - | 22,719 | - | 22,719 |
| Capital Campaign Costs | 4,059 | 30,441 | 79,484 | 55,131 | 169,115 |
| Investment Fees | - | - | - | - | - |
| Total | 70,532 | 535,497 | 1,528,442 | 1,046,537 | 3,181,008 |
| Depreciation | 2,883 | 40,367 | 158,586 | 57,668 | 259,504 |
| Total Functional Expenses | 73,415 | 575,864 | 1,687,028 | 1,104,205 | 3,440,512 |
| Less: Expenses Netted Against Revenues on the Statement of Activities: | | | | | |
| Special Event Expenses | - | - | - | - | - |
| Investment Fees | - | - | - | - | - |
| Noncash Contributions Consumed | - | - | (15,243) | - | (15,243) |
| Cost of Goods Sold | - | - | (22,719) | - | (22,719) |
| Total Expenses Included in the Expense Section of the Statement of Activities | \$ 73,415 | \$ 575,864 | \$ 1,649,066 | \$ 1,104,205 | \$ 3,402,550 |

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021**

| | Supporting Services | | | Totals from Pages 6 and 7 2021 |
|--|---------------------|-------------------|---------------------|--------------------------------------|
| | Fundraising | | Total Supporting | |
| | Administration | Development | | |
| Salaries and Wages | \$ 241,218 | \$ 249,617 | \$ 490,835 | \$ 2,323,034 |
| Payroll Taxes | 31,123 | 14,355 | 45,478 | 227,659 |
| Employee Medical Benefits | 17,487 | 5,048 | 22,535 | 201,900 |
| Total | <u>289,828</u> | <u>269,020</u> | <u>558,848</u> | <u>2,752,593</u> |
| Fees - Veterinary Services | - | - | - | 3,263 |
| Fees - Management Services | 4,600 | - | 4,600 | 4,600 |
| Fees - Accounting | 14,605 | - | 14,605 | 14,605 |
| Fees - Legal | 1,687 | - | 1,687 | 1,687 |
| Information Technology | 1,656 | 1,656 | 3,312 | 33,127 |
| Program Expense - Licensing | - | - | - | 6,556 |
| Program Expense - Animal Control | - | - | - | 8,058 |
| Program Expense - Shelter | - | - | - | 118,475 |
| Program Expense - Veterinary Services | - | - | - | 221,639 |
| Telecommunications - 911 CENCOM | - | - | - | 45,833 |
| Equipment - Non-Capitalized | - | - | - | - |
| Vehicle Maintenance and Operation | - | - | - | 16,985 |
| Occupancy | 9,197 | 9,911 | 19,108 | 179,822 |
| Office Expense | 6,948 | 5,631 | 12,579 | 50,002 |
| Other Information Technology | 1,383 | 573 | 1,956 | 16,486 |
| Marketing and Advertising | 850 | 22,726 | 23,576 | 24,133 |
| Fundraising Expense | - | 26,370 | 26,370 | 26,370 |
| Insurance | 2,308 | 2,308 | 4,616 | 46,165 |
| Membership and Dues | 2,789 | 712 | 3,501 | 7,614 |
| Staff Development | 19,347 | 935 | 20,282 | 32,963 |
| Travel | 23 | - | 23 | 23 |
| Conferences and Meetings | 1,012 | 155 | 1,167 | 1,167 |
| Bank Charges | 300 | 8,632 | 8,932 | 31,718 |
| Payroll Processing Costs | 991 | 1,076 | 2,067 | 12,226 |
| Business Taxes and Licenses | 6,376 | 1,118 | 7,494 | 8,103 |
| All Other Expenses | 782 | 356 | 1,138 | 25,579 |
| Noncash Contributions Consumed | - | - | - | 15,243 |
| Bad Debt Expense - Pledges | - | 8,199 | 8,199 | 8,199 |
| Special Events Costs | - | 52,666 | 52,666 | 52,666 |
| Cost of Goods Sold | - | - | - | 22,719 |
| Capital Campaign Costs | - | - | - | 169,115 |
| Investment Fees | 4,455 | - | 4,455 | 4,455 |
| Total | <u>369,137</u> | <u>412,044</u> | <u>781,181</u> | <u>3,962,189</u> |
| Depreciation | <u>14,417</u> | <u>14,417</u> | <u>28,834</u> | <u>288,338</u> |
| Total Functional Expenses | 383,554 | 426,461 | 810,015 | 4,250,527 |
| Less: Expenses Netted Against Revenues on the Statement of Activities: | | | | |
| Special Event Expenses | - | (52,666) | (52,666) | (52,666) |
| Investment Fees | (4,455) | - | (4,455) | (4,455) |
| Noncash Contributions Consumed | - | - | - | (15,243) |
| Cost of Goods Sold | - | - | - | (22,719) |
| Total Expenses Included in the Expense Section of the Statement of Activities | <u>\$ 379,099</u> | <u>\$ 373,795</u> | <u>\$ 752,894</u> | <u>\$ 4,155,444</u> |

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------|
| Change in Net Assets | \$ 2,085,182 |
| Adjustments to Reconcile Change in Net Assets to | |
| Net Cash Provided by Operating Activities: | |
| Unrealized (Gain) Loss on Investment | 68,650 |
| Realized Gain on Investment | (67,055) |
| Depreciation and Amortization | 288,338 |
| Capital Campaign Contributions | (1,895,964) |
| (Increase) Decrease in: | |
| Receivables | (5,633) |
| Pledges Receivable | (458,135) |
| Inventory | (6,404) |
| Prepaid Expenses | 5,052 |
| Increase (Decrease) in: | |
| Accounts Payable | (2,134) |
| Accrued Vacation Payable | (6,551) |
| Accrued Payroll and Related Liabilities | 15,400 |
| Other Current Liabilities | 7,086 |
| Net Cash Provided by Operating Activities | 27,832 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-------------|
| Proceeds from Sale of Investments | 414,191 |
| Purchase of Investments | (2,874,856) |
| Purchase of Property and Equipment | (524,823) |
| Net Cash Used by Investing Activities | (2,985,488) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---|-----------|
| Capital Campaign Contributions | 3,475,447 |
| Payments on Note Payable | (4,400) |
| Principal Payments on Capital Lease Obligations | (10,723) |
| Net Cash Provided by Financing Activities | 3,460,324 |

**CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL
CAMPAIGN CASH**

502,668

Cash, Cash Equivalents, and Capital Campaign

| | |
|--------------------------|-----------|
| Cash - Beginning of Year | 2,243,834 |
|--------------------------|-----------|

**CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN
CASH - END OF YEAR**

\$ 2,746,502

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

| | |
|------------------------|----------|
| Cash Paid for Interest | \$ 4,836 |
|------------------------|----------|

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Our Vision: Every adoptable companion animal has a home.

Our Mission: Kitsap Humane Society (KHS) is an independent nonprofit 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, Washington, 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 animals it adopts to residents of those cities. Licensing is part of KHS’s responsibilities under its Animal Control contracts.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Operations (Continued)

In 2021 KHS:

- Rescued 4,094 animals, including 1,664 stray animals, 1327 owner surrenders, and 1,103 at risk animals transferred in from other shelters
- Adopted 3,335 animals, transferred 26 animals to rescues, and owners reclaimed 496 animals, resulting in a lifesaving rate of 96%
- Placed 1,094 animals in foster care
- Provided 5,119 spay/neuter surgeries, including 2,844 low-cost surgeries
- Investigated 2,932 complaints through Animal Control

Capital Campaign for a New Facility

Over the last decade, Kitsap Humane Society has transformed our campus and animal welfare in Kitsap County. But our veterinary facilities are outdated, overcrowded, and inadequate. Every pet that comes to KHS requires individualized care and attention, but over the last five years, the percentage of pets admitted to the shelter requiring critical medical treatment has grown from 33% to 50%.

In addition, KHS recognizes that too often, pet owners who are low-income in our community cannot afford the urgent veterinary care they need and want for their pets. Lacking resources or assistance, families often face the painful choice of having their pet go untreated or having to surrender their pet to KHS.

But we know there's a better way. More than ever, it's time to provide our community's pets in need with a veterinary facility that matches the excellence of our work and sustains our high lifesaving rate. And it is time for Kitsap Humane Society to take the next step in developing a stronger safety net in our community to keep people and pets together whenever possible. The construction of the Russ & Linda Young Veterinary Lifesaving Center, including the development of a community clinic is the next crucial step KHS can take to provide a full spectrum of innovative animal welfare programs and facilities.

With the expanded, better-equipped 6,000 square foot Ross and Linda Young Veterinary Life Center we'll have triple the space to save even more lives, accept more medically at-risk patients from other shelters and improve animal health throughout our shelter and community. KHS will break ground in September of 2022 and complete the project by fall of 2023.

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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Amounts included in capital campaign cash represents cash balances set aside for use in the capital campaign.

Investments

Investments consist primarily of assets invested in certificates of deposit and mutual funds. Investments are measured with readily determinable fair values 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, 2021.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services (Continued)

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 14,253 hours (unaudited) during the year ended December 31, 2021.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and direct costs are allocated to cost centers for the programs and other activities benefited. Utilities, depreciation, and other shared costs are based on the square footage and an estimate of the amount used by programs.

Advertising

Advertising costs are expensed as incurred.

Sales Tax

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

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations, but are controlled and designated by the board of directors. These include the general, operating, and equipment accounts. The board of directors has designated \$1,781,619 for the year ended December 31, 2021 for these reserve funds.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In 2021, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2021 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 2021. These totaled \$2,717,748 as of December 31, 2021.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021.

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 \$851,041 for the year ended December 31, 2021.

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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Paycheck Protection Program

On January 21, 2021, 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 during 2021 received notification of forgiveness from the SBA on September 17, 2021. The Organization recognized the loan as contribution income in the statement of activities as of December 31, 2021.

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 September 30, 2022, the date the financial statements were available to be issued.

NOTE 2 CASH AND CASH EQUIVALENTS

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

| | |
|--------------------------------|----------------------------|
| | <u>2021</u> |
| Cash on Hand | \$ 2,450 |
| Noninterest Checking | 582,078 |
| Savings and Money Market Funds | <u>2,161,974</u> |
| Total | <u><u>\$ 2,746,502</u></u> |

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

| | |
|---|----------------------------|
| | <u>2021</u> |
| Cash and Cash Equivalents | \$ 531,202 |
| Capital Campaign Cash and Cash Equivalents | <u>2,215,300</u> |
| Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows | <u><u>\$ 2,746,502</u></u> |

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AND INVESTMENTS

The Organization follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|---------------------|-------------|-------------|---------------------|
| Mutual Funds | \$ 1,750,859 | \$ - | \$ - | \$ 1,750,859 |
| Total Investments at Fair Value | <u>\$ 1,750,859</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,750,859</u> |

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021:

| | Amount |
|---------------------------------------|------------|
| Total Amounts Due in: | |
| One Year | \$ 320,630 |
| Two to Five Years | 310,600 |
| Gross Pledges Receivable | 631,230 |
| Less: Discount to Present Value | (30,817) |
| Less: Allowance for Doubtful Accounts | (33,037) |
| Pledges Receivable, Net | \$ 567,376 |
| | |
| Net Pledges Receivable, Current | \$ 290,760 |
| Net Pledges Receivable, Long-Term | 276,616 |
| Total Net Pledges Receivable | \$ 567,376 |

At December 31, 2021, 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:

| | 2021 |
|---|--------------|
| Building and Improvements | \$ 8,982,802 |
| Equipment and Computers | 539,467 |
| Vehicles | 254,150 |
| Leasehold Improvements | 44,157 |
| Software and Web Site Design | 58,131 |
| Construction in Progress | 512,542 |
| Total | 10,391,249 |
| Accumulated Depreciation and Amortization | (2,492,994) |
| Total Property and Equipment | \$ 7,898,255 |

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, 2021**

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 \$41,250 at December 31, 2021. 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, 2021, are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|------------------------------------|------------------------|
| 2022 | \$ 15,180 |
| 2023 | 5,670 |
| 2024 | 3,495 |
| Total | <u>24,345</u> |
| Less: Amount Representing Interest | <u>(2,534)</u> |
| Total | 21,811 |
| Less: Current Portion | <u>(13,418)</u> |
| Total | <u><u>\$ 8,393</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, 2021 was \$13,200.

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, 2021**

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:

| | 2021 |
|---------------------|--------------|
| | Total Costs |
| Shelter Costs | \$ 1,649,066 |
| Veterinary Services | 1,104,205 |
| Animal Control | 575,864 |
| Total | \$ 3,329,135 |

NOTE 10 CONCENTRATIONS

For December 31, 2021, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 20% 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 two employees have opted in as members. This agreement has been extended to December 31, 2022.

Approximately 15% of support was from two donors at December 31, 2021.

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

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

| | 2021 |
|-------------------------------|--------------|
| Purpose Restricted: | |
| Critical Needs - Reserve Fund | \$ 102,559 |
| Veterinary Services | 5,487 |
| Restricted Gifts - Other | 19,509 |
| Building Project | 2,590,193 |
| Total | \$ 2,717,748 |

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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.

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, 2021 and 2020, reduced by amounts that are due within the next year.

| | <u>2021</u> |
|--------------------------------|---------------------|
| Noncapital Campaign Cash | \$ 372,888 |
| Accounts Receivable | 9,048 |
| Investments - Board Designated | 1,750,859 |
| Total | <u>\$ 2,132,795</u> |

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 14 CORRECTION OF AN ERROR

During the year ended December 31, 2021, management identified an error in its previously issued financial statements. The error was related to one grant that was previously interpreted as unconditional; however, there were conditions present to preclude the recognition of the grant. As a result, adjustments were made to properly state the following balances at December 31, 2020.

| | December 31, 2020 | | December 31, 2020 | |
|------------------------------------|--------------------------|--------------------|--------------------------|--|
| | Balance as | | Balance as | |
| | <u>Previously Stated</u> | <u>Adjustments</u> | <u>Previously Stated</u> | |
| Net Assets With Donor Restrictions | \$ 1,125,540 | \$ (469,054) | \$ 656,486 | |
| Total Net Assets | 11,194,158 | (469,054) | 10,725,104 | |
| Capital Campaign Contributions | 1,327,297 | (469,054) | 858,243 | |
| Pledges Receivable | 1,025,511 | (469,054) | 556,457 | |
| Total Changes in Net Assets | 2,056,125 | (469,054) | 1,587,071 | |



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