

KITSAP HUMANE SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

**KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2022**

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Board of Directors
Kitsap Humane Society

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, 2022, 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, 2022, 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.

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
REPORT DATE

**KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	
Undesignated	\$ 278,711
Board Designated	117,035
Restricted	9,651
Total Cash and Cash Equivalents	<u>405,397</u>

Investments - Board Designated	1,039,151
Accounts Receivable	17,172
Prepaid Expenses	34,329
Inventory	20,591
Total Current Assets	<u>1,516,640</u>

CAPITAL CAMPAIGN ASSETS

Cash and Cash Equivalents	3,923,062
Pledges Receivable	416,951
Total Capital Campaign Assets	<u>4,340,013</u>

PROPERTY AND EQUIPMENT

Property and Equipment, Net	10,482,518
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FINANCING RIGHT-Of-USE ASSETS

	<u>6,855</u>
Total Assets	<u><u>\$ 16,346,026</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 160,621
Accrued Vacation Payable	54,145
Accrued Payroll and Related Liabilities	73,080
Financing Lease Obligation, Current Portion	7,362
Other Current Liabilities	2,039
Total Current Liabilities	<u>297,247</u>

LONG-TERM DEBT

Financing Lease Obligation, Net of Current Portion	<u>3,736</u>
Total Liabilities	300,983

NET ASSETS

Without Donor Restrictions	
Board-Designated	1,567,874
Undesignated	11,020,868
Total Net Assets Without Donor Restrictions	<u>12,588,741</u>
With Donor Restrictions	3,456,302
Total Net Assets	<u>16,045,043</u>

Total Liabilities and Net Assets	<u><u>\$ 16,346,026</u></u>
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**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS			
Public Support			
Contributions	\$ 1,063,020	\$ -	\$ 1,063,020
Bequests	52,024	184,767	236,791
Grants	186,603	-	186,603
Special Events Income, Net of Costs of \$100,179	390,589	-	390,589
In-Kind Donations	54,543	-	54,543
Total Public Support	1,746,779	184,767	1,931,546
Revenues			
Animal Control Contract Fees	885,458	-	885,458
License Revenues	109,167	-	109,167
Animal Adoptions, Net of Discounts of \$25,432	602,803	-	602,803
Impound and Boarding Fees	39,189	-	39,189
Other Program Income	12,627	-	12,627
Veterinary Services	211,176	-	211,176
Retail Sales, Net of Costs of Goods Sold of \$29,047	29,578	-	29,578
Interest and Dividend Income, Net of Investment Fees of \$4,450	42,128	-	42,128
Unrealized Gain (Loss) on Investments	(41,829)	-	(41,829)
Realized Gain (Loss) on Investments, Net of Fees	22,731	-	22,731
Miscellaneous Revenue	19	-	19
Total Revenues	1,913,047	-	1,913,047
Satisfaction of Program Restrictions	203,112	(203,112)	-
Total Public Support, Revenues, and Reclassifications	3,862,938	(18,345)	3,844,593

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES			
Program Services:			
Licensing	\$ 54,466	\$ -	\$ 54,466
Animal Control	651,058	-	651,058
Shelter	1,721,721	-	1,721,721
Veterinary Services	1,254,961	-	1,254,961
Total Program Services Expenses	3,682,206	-	3,682,206
Supporting Services:			
Administration	411,247	-	411,247
Development	397,749	-	397,749
Total Support Services Expenses	808,995	-	808,995
Total Expenses (See Page 6 and 7)	4,491,202	-	4,491,202
CHANGE IN NET ASSETS FROM OPERATIONS	(628,264)	(18,345)	(646,609)
NONOPERATING ACTIVITIES			
Capital Campaign Contributions	-	3,900,876	3,900,876
Board Designated Bequests for Future Capital Needs	-	-	-
Release of Net Assets for Capital Purposes	3,143,977	(3,143,977)	-
Miscellaneous Revenue	(19,510)	-	(19,510)
Total	3,124,467	756,899	3,881,366
CHANGE IN NET ASSETS	2,496,203	738,554	3,234,757
Net Assets - Beginning of Year (As Restated)	10,092,538	2,717,748	12,810,286
NET ASSETS - END OF YEAR	<u>\$ 12,588,741</u>	<u>\$ 3,456,302</u>	<u>\$ 16,045,043</u>

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	\$ 17,941	\$ 382,229	\$ 958,879	\$ 693,677	\$ 2,052,725
Payroll Taxes	3,552	40,648	109,911	73,771	227,883
Other Employee Benefits	3,934	38,569	108,546	45,117	196,166
Total	<u>25,427</u>	<u>461,446</u>	<u>1,177,335</u>	<u>812,566</u>	<u>2,476,774</u>
Fees - Veterinary Services	-	-	-	7,208	7,208
Fees - Management Services	400	800	4,400	1,600	7,200
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,323	2,647	14,554	5,292	23,815
Fees - Other	-	-	170	165	335
Program Expense - Licensing	6,606	-	-	-	6,606
Program Expense - Animal Control	-	7,075	-	-	7,075
Program Expense - Shelter	-	-	90,890	-	90,890
Program Expense - Veterinary Services	-	-	-	245,439	245,439
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Equipment - Noncapitalized	-	-	3,880	657	4,537
Vehicle Maintenance and Operation	-	28,420	5,439	-	33,859
Occupancy	7,826	15,652	89,420	31,412	144,310
Office Expense	1,998	3,417	20,730	5,460	31,605
Information Tech Expenses	741	1,498	10,836	4,774	17,849
Marketing and Advertising	-	-	(677)	-	(677)
Fundraising	-	-	-	-	-
Insurance	3,045	6,090	33,494	12,180	54,808
Memberships and Dues	169	487	5,103	1,104	6,863
Staff Development	507	3,335	8,222	8,368	20,433
Travel	-	-	11,898	991	12,889
Conference and Meeting	-	13	-	-	13
Bank Charges	36	73	10,035	4,176	14,320
Payroll Processing Costs	230	1,138	7,084	2,289	10,741
Business Taxes and Expenses	-	100	1,585	1,010	2,695
Other Expenses	119	239	1,257	647	2,263
Noncash Contributions Consumed	-	-	3,672	-	3,672
Bad Debt Expense - Pledges	-	-	-	-	-
Capital Campaign Costs	3,179	28,614	68,867	52,460	153,121
Interest	-	-	-	-	-
Nonoperating Expenses	-	-	-	-	-
Misc	-	-	-	-	-
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	29,047	-	29,047
Investment Fees	-	-	-	-	-
Total	<u>51,608</u>	<u>611,044</u>	<u>1,597,242</u>	<u>1,197,798</u>	<u>3,457,693</u>
Depreciation	<u>2,858</u>	<u>40,014</u>	<u>157,198</u>	<u>57,163</u>	<u>257,233</u>
Total Functional Expenses	54,466	651,058	1,754,440	1,254,961	3,714,926
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Investment Fees	-	-	-	-	-
Noncash Contributions Consumed	-	-	(3,672)	-	(3,672)
Cost of Goods Sold	-	-	(29,047)	-	(29,047)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 54,466</u>	<u>\$ 651,058</u>	<u>\$ 1,721,721</u>	<u>\$ 1,254,961</u>	<u>\$ 3,682,206</u>

See accompanying Notes to Financial Statements.

KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

	Supporting Services			Totals from Pages 6 and 7 2022
	Administration	Fundraising		
		Development	Total Supporting	
Salaries and Wages	\$ 249,177	\$ 244,497	\$ 493,675	\$ 2,546,400
Payroll Taxes	36,519	30,761	67,280	295,163
Other Employee Benefits	18,231	8,518	26,749	222,915
Total	<u>303,928</u>	<u>283,776</u>	<u>587,704</u>	<u>3,064,478</u>
Fees - Veterinary Services	-	-	-	7,208
Fees - Management Services	400	400	800	8,000
Fees - Accounting	15,808	-	15,808	15,808
Fees - Legal	7,323	-	7,323	7,323
Information Technology	1,323	1,323	2,646	26,461
Fees - Other	1,300	-	1,300	1,635
Program Expense - Licensing	-	-	-	6,606
Program Expense - Animal Control	-	-	-	7,075
Program Expense - Shelter	-	-	-	90,890
Program Expense - Veterinary Services	-	-	-	245,439
Telecommunications - 911 CENCOM	-	-	-	50,000
Equipment - Noncapitalized	-	676	676	5,213
Vehicle Maintenance and Operation	-	145	145	34,005
Occupancy	7,826	7,826	15,652	159,963
Office Expense	9,335	4,641	13,975	45,581
Information Tech Expenses	741	1,134	1,876	19,724
Marketing and Advertising	338	26,745	27,083	26,406
Fundraising	-	34,314	34,314	34,314
Insurance	3,045	3,045	6,090	60,898
Memberships and Dues	169	1,025	1,193	8,057
Staff Development	1,590	743	2,332	22,765
Travel	725	-	725	13,615
Conference and Meeting	142	-	142	155
Bank Charges	6,392	14,789	21,180	35,501
Payroll Processing Costs	911	1,138	2,049	12,790
Business Taxes and Expenses	2,905	0	2,905	5,599
Other Expenses	125	119	245	2,507
Noncash Contributions Consumed	-	-	-	3,672
Bad Debt Expense - Pledges	-	-	-	-
Capital Campaign Costs	-	-	-	153,121
Interest	2,389	-	2,389	2,389
Nonoperating Expenses	33,075	-	33,075	33,075
Misc	(2,832)	1,619	(1,213)	(1,213)
Special Event Costs	-	100,350	100,350	100,350
Cost of Goods Sold	-	-	-	29,047
Investment Fees	4,450	-	4,450	4,450
Total	<u>401,406</u>	<u>483,808</u>	<u>885,214</u>	<u>4,342,907</u>
Depreciation	<u>14,291</u>	<u>14,291</u>	<u>28,581</u>	<u>285,814</u>
Total Functional Expenses	415,696	498,099	913,795	4,628,721
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	(100,350)	(100,350)	(100,350)
Investment Fees	(4,450)	-	(4,450)	(4,450)
Noncash Contributions Consumed	-	-	-	(3,672)
Cost of Goods Sold	-	-	-	(29,047)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 411,247</u>	<u>\$ 397,749</u>	<u>\$ 808,995</u>	<u>\$ 4,491,202</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 3,234,757
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided (Used) by Operating Activities:	
Unrealized (Gain) Loss on Investment	41,829
Realized Gain on Investment	(22,731)
Depreciation and Amortization	285,814
Donated Vehicle and Equipment	(54,543)
Capital Campaign Contributions	(3,900,876)
(Increase) Decrease in:	
Receivables	8,124
Pledges Receivable	(150,425)
Inventory	4,015
Prepaid Expenses	(8,498)
Increase (Decrease) in:	
Accounts Payable	(104,587)
Accrued Vacation Payable	859
Accrued Payroll and Related Liabilities	(8,519)
Other Current Liabilities	(458)
Net Cash Used by Operating Activities	<u>(675,239)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments	2,726,315
Purchase of Investments	(2,520,834)
Purchase of Property and Equipment	<u>(2,799,718)</u>
Net Cash Used by Investing Activities	<u>(2,594,237)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Capital Campaign Contributions	4,882,586
Financing Right-of-Use Assets	(6,855)
Financing Lease Obligations	(11,098)
Payments on Note Payable	<u>(13,200)</u>
Net Cash Provided by Financing Activities	<u>4,851,433</u>

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

1,581,957

Cash, Cash Equivalents, and Capital Campaign
Cash - Beginning of Year

2,746,502

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

\$ 4,328,459

**SUPPLEMENTAL DISCLOSURES OF NONCASH
INVESTING ACTIVITIES**

Noncash Donation of Vehicle and Equipment

\$ 54,543

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 or the Organization) 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.

KHS is in the top-tier of large, open-admission animal shelter. KHS exceeds 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, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Operations (Continued)

In 2022 KHS:

- Rescued 4,304 animals from owner surrenders, at risk animals transferred in from other shelters, and stray animals
- Adopted 3,996 animals
- Placed 2,583 animals in foster care
- Provided 4,000 spay/neuter surgeries, included 1,519 low-cost spay/neuter surgeries
- Investigated 3,237 complaints through Animal Control

Capital Campaign for a Veterinary Lifesaving Center

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 broke ground in September of 2022 and completed the project in the 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, 2022**

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 and believes that receivables are fully collectible.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Non-financial Assets

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise that the Organization would otherwise need to purchase. Contributed services are recorded at rates that would have been paid for similar services if purchased. However, many individuals volunteer their time and perform a variety of tasks, such as assisting with adoptions, foster parenting, special events, and dog behavior and socialization. During the year ended December 31, 2022, the Organization received over 20,000 (unaudited) volunteer hours, which do not meet the requirements for recognition and are therefore not recorded in the statement of activities. For the year ended December 31, 2022, in kind donations included pet food, supplies, and vehicles of \$54,543. These donations are recorded at the value at the time of donation, which approximates fair value.

Leases

The Organization leases equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1,567,874 for the year ended December 31, 2022 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 2022, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2022 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 2022. These totaled \$3,456,302 as of December 31, 2022.

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, 2022.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 \$885,458 for the year ended December 31, 2022.

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.

Adoption of New Accounting Standard

During the year ended December 31, 2022, Kitsap Humane Society adopted FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

During the year ended December 31, 2022, Kitsap Humane Society adopted FASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-Profit-Entities for Contributed Nonfinancial Assets*, which requires the Organization to present contributed nonfinancial assets on a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. There was no material impact on the Organization's financial position and results of its activities upon adoption of the new standard.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events through REPORT DATE, 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:

Cash on Hand	\$ 2,600
Noninterest Checking	276,111
Savings and Money Market Funds	4,049,748
Total	<u>\$ 4,328,459</u>

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

Cash and Cash Equivalents	\$ 405,397
Capital Campaign Cash and Cash Equivalents	<u>3,923,062</u>
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	<u>\$ 4,328,459</u>

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;

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 1,039,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,039,151</u>
Total Investments at Fair Value	<u>\$ 1,039,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,039,151</u>

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, 2022:

	<u>Amount</u>
Total Amounts Due in:	
One Year	\$ 391,434
Two to Five Years	<u>59,459</u>
Gross Pledges Receivable	450,893
Less: Discount to Present Value	(11,071)
Less: Allowance for Doubtful Accounts	<u>(22,871)</u>
Pledges Receivable, Net	<u>\$ 416,951</u>
Net Pledges Receivable, Current	\$ 360,734
Net Pledges Receivable, Long-Term	<u>56,217</u>
Total Net Pledges Receivable	<u>\$ 416,951</u>

At December 31, 2022, the outstanding pledge balances from two donors accounted for 78% of total pledges receivable.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31:

Building and Improvements	\$ 8,999,812
Land	23,031
Equipment and Computers	471,243
Vehicles	254,150
Leasehold Improvements	44,157
Software and Web Site Design	56,531
Construction in Progress	<u>3,335,606</u>
Total	13,184,530
Accumulated Depreciation and Amortization	<u>(2,702,012)</u>
Total Property and Equipment	<u><u>\$ 10,482,518</u></u>

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.

NOTE 6 LEASES - ASC 842

The Organization leases two copiers under long-term, noncancelable finance lease agreements expiring in 2023 and 2024. Total lease cost of \$19,879 is included in Office Expense on the Organization's statement of functional expenses.

Amounts reported on the statement of financial position as of December 31, 2022 are as follows:

Financing Lease Right-of-Use Asset	\$ 6,855
Financing Lease Obligation	11,098

The following is a schedule of total future minimum lease payments and the present value of future minimum lease payments for operating leases:

<u>Year Ending December 31,</u>	<u>Finance</u>
2023	\$ 7,469
2024	<u>3,765</u>
Undiscounted Cash Flows	11,234
(Less) Imputed Interest	<u>136</u>
Total Present Value	11,098
Short-Term Financing Lease Obligation	<u>7,362</u>
Long-Term Financing Lease Obligation	<u><u>\$ 3,736</u></u>

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 LEASES - ASC 842 (CONTINUED)

Other information related to the Organization's leases as of December 31, 2022 was as follows:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Finance Leases	\$ 518
Financing Cash Flows from Finance Leases	\$ 23,759
Weighted-Average Remaining Lease Term - Financing Leases	1.3 Years
Weighted-Average Discount Rate - Financing Leases	2.12%
Finance Lease Cost:	
Amortization of Right-of-Use Assets	\$ 19,361
Interest on Lease Liabilities	518
Total Lease Cost	<u>\$ 19,879</u>

NOTE 7 CONCENTRATIONS

For December 31, 2022, the Organization has seven contracts with Kitsap County and other local municipalities, which provided approximately 23% of the public support and revenue of the Organization. The contracts require the Organization to provide animal control services, animal licensing, and to enforce state, county and municipal laws, ordinances, and regulations regarding animal welfare and control. Contract payments are billed monthly.

The Organization has one collective bargaining agreement that covers two departments, Animal Control and Animal Care. Currently three employees have opted in as members. This agreement has been extended to December 31, 2023.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

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

Purpose Restricted:	
Veterinary Services	\$ 5,387
Critical Needs - Reserve Fund	103,969
Restricted Gifts - Other	4,264
Building Project	<u>3,342,682</u>
Total	<u>\$ 3,456,302</u>

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 9 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, reduced by amounts that are due within the next year.

Noncapital Campaign Cash	\$ 278,711
Accounts Receivable	17,172
Investments - Board Designated	<u>1,039,151</u>
Total	<u><u>\$ 1,335,034</u></u>