

KITSAP HUMANE SOCIETY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024



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**KITSAP HUMANE SOCIETY
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YEAR ENDED DECEMBER 31, 2024**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kitsap Humane Society
Silverdale, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kitsap Humane Society, which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2024, 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 Error

As described in Note 11 to the financial statements, management identified and corrected an error related to a prior year. As a result, the beginning net asset balance in the financial statements has 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.

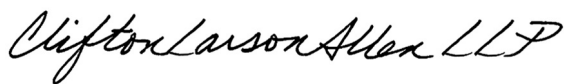
Auditors' Responsibilities for the Audit of the Financial Statements

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
December 11, 2025

**KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2024**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	
Undesignated	\$ 596,769
Board-Designated	108,785
Restricted	8,068
Total Cash and Cash Equivalents	713,622
Investments - Board-Designated	1,352,170
Accounts Receivable	15,861
Prepaid Expenses	53,070
Inventory	23,057
Total Current Assets	2,157,780

CAPITAL CAMPAIGN ASSETS

Cash and Cash Equivalents	211,536
Pledges Receivable	21,842
Total Capital Campaign Assets	233,378

PROPERTY AND EQUIPMENT

Property and Equipment, Net	16,588,903
Total Property and Equipment	16,588,903

FINANCING RIGHT-OF-USE ASSETS

	69,436
Total Assets	\$ 19,049,497

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2024**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 41,514
Accrued Vacation Payable	73,597
Accrued Payroll and Related Liabilities	74,991
Deferred Revenue	251,600
Financing Lease Obligation, Current Portion	19,140
Other Current Liabilities	2,968
Total Current Liabilities	463,810

LONG-TERM LIABILITIES

Forgivable Loans	1,163,273
Financing Lease Obligation, Net of Current Portion	52,544
Total Liabilities	1,679,627

NET ASSETS

Without Donor Restrictions	
Board-Designated	1,411,278
Undesignated	15,667,879
Total Net Assets Without Donor Restrictions	17,079,157
With Donor Restrictions	290,713
Total Net Assets	17,369,870
Total Liabilities and Net Assets	\$ 19,049,497

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2024**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING ACTIVITIES			
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS			
Public Support			
Contributions	\$ 1,378,277	\$ -	\$ 1,378,277
Bequests	757,069	-	757,069
Grants	151,400	-	151,400
Special Events Income	550,122	-	550,122
Contributed Nonfinancial Assets	38,198	-	38,198
Total Public Support	<u>2,875,066</u>	<u>-</u>	<u>2,875,066</u>
Revenues			
Animal Control Contract Fees	969,695	-	969,695
License Revenues	95,122	-	95,122
Animal Adoptions, Net of Discounts of \$30,211	463,551	-	463,551
Impound and Boarding Fees	50,780	-	50,780
Other Program Income, Net of Costs of \$23,133	4,400	-	4,400
Veterinary Services	394,035	-	394,035
Retail Sales, Net of Costs of Goods Sold of \$21,017	24,371	-	24,371
Interest and Dividend Income, Net of Investment Fees of \$739	39,455	-	39,455
Unrealized Gain (Loss) on Investments	(4,449)	-	(4,449)
Realized Gain (Loss) on Investments, Net of Fees	1,169	-	1,169
Total Revenues	<u>2,038,129</u>	<u>-</u>	<u>2,038,129</u>
Satisfaction of Program Restrictions	<u>9,250</u>	<u>(9,250)</u>	<u>-</u>
Total Public Support, Revenues, and Reclassifications	4,922,445	(9,250)	4,913,195

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES			
Program Services			
Licensing	\$ 64,355	\$ -	\$ 64,355
Animal Control	732,032	-	732,032
Shelter	1,899,786	-	1,899,786
Veterinary Services	2,024,456	-	2,024,456
Total Program Services Expenses	4,720,629	-	4,720,629
Supporting Services			
Administration	386,594	-	386,594
Development	565,130	-	565,130
Total Support Services Expenses	951,724	-	951,724
Total Expenses (See Page 6 and 7)	5,672,353	-	5,672,353
CHANGE IN NET ASSETS FROM OPERATIONS	(749,908)	(9,250)	(759,158)
NONOPERATING ACTIVITIES			
Capital Campaign Contributions	-	238,446	238,446
Loss on Asset Held for Sale	(22,459)	-	(22,459)
Release of Net Assets for Capital Purposes	722,506	(722,506)	-
Total	700,047	(484,060)	215,987
CHANGE IN NET ASSETS	(49,861)	(493,310)	(543,171)
Net Assets - Beginning of Year, as Previously Stated	16,654,018	784,023	17,438,041
Prior Period Adjustment	475,000	-	475,000
Net Assets - Beginning of Year, as Restated	17,129,018	784,023	17,913,041
NET ASSETS - END OF YEAR	\$ 17,079,157	\$ 290,713	\$ 17,369,870

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2024**

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	\$ 40,099	\$ 461,600	\$ 1,128,742	\$ 1,056,699	\$ 2,687,140
Payroll Taxes	4,019	48,419	131,120	110,951	294,509
Other Employee Benefits	3,410	48,568	120,123	54,882	226,983
Total	47,528	558,587	1,379,985	1,222,532	3,208,632
Fees - Veterinary Services	-	-	-	74,155	74,155
Fees - Management Services	-	-	-	-	-
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	472	2,359	12,738	7,077	22,646
Fees - Other	-	-	-	-	-
Program Expense - Licensing	5,877	-	-	-	5,877
Program Expense - Animal Control	-	8,130	-	-	8,130
Program Expense - Shelter	-	-	104,353	-	104,353
Program Expense - Veterinary Services	-	-	-	266,274	266,274
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Equipment - Noncapitalized	-	-	-	900	900
Vehicle Maintenance and Operation	97	35,768	7,367	1,459	44,691
Occupancy	3,739	18,692	101,028	55,341	178,800
Office Expense	1,507	4,900	26,076	13,083	45,566
Information Tech Expenses	222	1,026	6,076	8,158	15,482
Marketing and Advertising	-	-	-	-	-
Fundraising	-	-	-	-	-
Insurance	1,719	8,597	46,426	25,792	82,534
Memberships and Dues	22	483	1,013	3,559	5,077
Staff Development	183	1,971	8,451	7,608	18,213
Travel	-	-	12	39	51
Conference and Meeting	-	-	-	-	-
Bank Charges	-	-	-	5,670	5,670
Payroll Processing Costs	-	1,203	4,994	4,542	10,739
Business Taxes and Expenses	-	-	-	-	-
Other Expenses	-	673	669	9,331	10,673
Noncash Contributions Consumed	-	-	10,725	-	10,725
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	21,016	-	21,016
Investment Fees	-	-	-	-	-
Total	61,366	692,389	1,730,929	1,705,520	4,190,204
Depreciation	2,989	39,643	200,598	318,936	562,166
Total Functional Expenses	64,355	732,032	1,931,527	2,024,456	4,752,370
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Investment Fees	-	-	-	-	-
Noncash Contributions Consumed	-	-	(10,725)	-	(10,725)
Cost of Goods Sold	-	-	(21,016)	-	(21,016)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 64,355	\$ 732,032	\$ 1,899,786	\$ 2,024,456	\$ 4,720,629

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2024**

	Supporting Services			Totals from Pages 6 and 7 2024
	Administration	Development	Total Supporting	
Salaries and Wages	\$ 255,756	\$ 293,503	\$ 549,259	\$ 3,236,399
Payroll Taxes	24,054	24,354	48,408	342,917
Other Employee Benefits	10,171	19,135	29,306	256,289
Total	289,981	336,992	626,973	3,835,605
Fees - Veterinary Services	-	-	-	74,155
Fees - Management Services	12,865	20,802	33,667	33,667
Fees - Accounting	24,974	-	24,974	24,974
Fees - Legal	2,581	-	2,581	2,581
Information Technology	472	472	944	23,590
Fees - Other	-	-	-	-
Program Expense - Licensing	-	-	-	5,877
Program Expense - Animal Control	-	-	-	8,130
Program Expense - Shelter	-	-	-	104,353
Program Expense - Veterinary Services	-	-	-	266,274
Telecommunications - 911 CENCOM	-	-	-	50,000
Equipment - Noncapitalized	-	-	-	900
Vehicle Maintenance and Operation	97	112	209	44,900
Occupancy	3,819	3,739	7,558	186,358
Office Expense	5,822	5,070	10,892	56,458
Information Tech Expenses	3,236	3,526	6,762	22,244
Marketing and Advertising	-	11,528	11,528	11,528
Fundraising	-	51,331	51,331	51,331
Insurance	1,286	1,719	3,005	85,539
Memberships and Dues	1,181	1,017	2,198	7,275
Staff Development	3,925	13	3,938	22,151
Travel	107	386	493	544
Conference and Meeting	20	70	90	90
Bank Charges	23,042	16,988	40,030	45,700
Payroll Processing Costs	5,487	1,927	7,414	18,153
Business Taxes and Expenses	4,707	-	4,707	4,707
Other Expenses	3	2	5	10,678
Noncash Contributions Consumed	-	-	-	10,725
Special Event Costs	-	106,233	106,233	106,233
Cost of Goods Sold	-	-	-	21,016
Investment Fees	739	-	739	739
Total	384,344	561,927	946,271	5,136,475
Depreciation	2,989	3,203	6,192	568,358
Total Functional Expenses	387,333	565,130	952,463	5,704,833
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Investment Fees	(739)	-	(739)	(739)
Noncash Contributions Consumed	-	-	-	(10,725)
Cost of Goods Sold	-	-	-	(21,016)
	-	-	-	(32,480)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 386,594	\$ 565,130	\$ 951,724	\$ 5,672,353

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (543,171)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Realized and Unrealized (Gains) on Investments	8,898
Depreciation and Amortization	568,358
Donated Vehicle and Equipment	(38,198)
Capital Campaign Contributions	(238,446)
Increase (Decrease) in:	
Receivables	89,234
Pledges Receivable	541,697
Inventory	4,521
Asset Held for Sale	475,000
Prepaid Expenses	(14,759)
Increase (Decrease) in:	
Accounts Payable	(95,464)
Accrued Vacation Payable	14,697
Accrued Payroll and Related Liabilities	(2,658)
Deferred Revenue	251,600
Other Current Liabilities	(3,154)
Net Cash Provided by Operating Activities	1,018,155

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments	963,700
Purchase of Investments	(2,076,356)
Purchase of Property and Equipment	(144,215)
Net Cash Used by Investing Activities	(1,256,871)

CASH FLOWS FROM FINANCING ACTIVITIES

Capital Campaign Contributions	243,896
Payments on Financing Lease Obligations	(21,600)
Net Cash Provided by Financing Activities	222,296

CHANGE IN CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH

(16,420)

Cash, Cash Equivalents, and Capital Campaign

Cash - Beginning of Year	941,578
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CASH, CASH EQUIVALENTS, AND CAPITAL CAMPAIGN CASH - END OF YEAR

\$ 925,158

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Equipment Financed through Finance Lease Agreement	\$ 69,436
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Noncash Donation of Vehicle, Equipment, and Property	\$ 38,198
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See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

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 shelters. 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 in 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, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Operations (Continued)

In 2024 KHS:

- Rescued 4,171 animals from owner surrenders, at risk animals transferred in from other shelters, and stray animals
- Adopted 3,127 animals
- Placed 1,070 animals in foster care
- Provided 4,563 spay/neuter surgeries, included 2,164 low-cost spay/neuter surgeries
- Investigated 4,520 complaints through Animal Control

Veterinary Lifesaving Center

The Russ and Linda Young Veterinary Lifesaving Center was completed in September 2023. Opening this low-cost, fully operational veterinary clinic has allowed KHS to provide extensive support for the most vulnerable of animals and families. Since opening, the clinic has:

- Provided medical, surgical care, and spay/neuter services to more than 7,000 animals (both shelter and community pets)
- Performed 4,920 surgeries in the new surgical center, including 2,164 spay/neuter surgeries for the public
- Increased community spay/neuter services by 30%
- Provided more than 1,300 appointments that kept pets with their families

Financial Statement Presentation

Net assets and changes therein are classified and reported using two classes of net assets: with donor restrictions and without donor restrictions, based on the existence or absence of donor-imposed restrictions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Measure of Operations

The Organization classifies revenues, support, expenses, and gains and losses into operating and nonoperating categories in its statement of activities. Operating activities include revenues, support, expenses, and gains and losses that are an integral part of Organization's programs and associated support services. Nonoperating activities are revenues, expenses, and gains and losses directly related to board-designated bequests for future capital needs and capital campaign activity.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credits risk consist of cash and investments. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2024, the Organization had approximately \$458,990 in excess of FDIC insurance limits. To date, the Organization has not experienced losses in any of these accounts.

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.

Account Receivables and Allowance for Credit Losses

No allowance for credit losses has been established based on management's review and assessment of the collectability of the Organization's receivables. Management considers the creditworthiness and past collection experience of its contributors in making this assessment. This assessment includes current and expected losses based on historical charge-off rates and anticipated future conditions that impact the collectability of receivables at December 31, 2024. Management determined the allowance for expected credit losses is immaterial.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

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, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Nonfinancial 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, 2024, the Organization received over 40,000 (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, 2024, in kind donations included pet food, pet treats, pet accessories, cleaning supplies, medical supplies, medical devices, and vehicles of \$38,198. 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, 2024**

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 \$1,411,278 for the year ended December 31, 2024 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 2024, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2024 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 2024. These totaled \$290,713 as of December 31, 2024.

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, 2024.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

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 \$969,695 for the year ended December 31, 2024.

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 services provided. Revenue for licenses, animal adoptions and veterinary services are recognized at a point in time as the performance obligation is completed. Revenue for performance obligations related to impound and boarding fees are satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. As such, revenue is recognized as the services is rendered. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Subsequent Events

Management has evaluated subsequent events through December 11, 2025, 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, 2024:

Cash on Hand	\$ 2,800
Noninterest Checking	593,969
Savings and Money Market Funds	328,389
Total	<u>\$ 925,158</u>

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents are presented in the accompanying financial statements as follows for the year ended December 31, 2024:

Cash and Cash Equivalents	\$ 713,622
Capital Campaign Cash and Cash Equivalents	<u>211,536</u>
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	<u>\$ 925,158</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;

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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

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

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of December 31, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 1,352,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,352,170</u>
Total Investments at Fair Value	<u>\$ 1,352,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,352,170</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 5.0% and an allowance for uncollectible pledges using a rate of 3%. Pledges receivable related to the capital campaign described in Note 1 are \$21,842 as of December 31, 2024.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2024:

Building and Improvements	\$ 18,598,117
Land	23,031
Equipment and Computers	839,711
Vehicles	278,154
Leasehold Improvements	107,800
Software and Web Site Design	59,092
Construction in Progress	<u>155,316</u>
Total	20,061,221
Accumulated Depreciation and Amortization	<u>(3,472,318)</u>
Total Property and Equipment	<u>\$ 16,588,903</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

The Organization leases two copiers under long-term, noncancelable finance lease agreements expiring in 2024 and 2028. Total lease cost of \$22,732 is included in Office Expense on the Organization's statement of functional expenses.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 6 LEASES (CONTINUED)

Amounts reported on the statement of financial position as of December 31, 2024 are as follows:

Financing Lease Right-of-Use Asset	\$ 69,436
Financing Lease Obligation	71,684

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

<u>Year Ending December 31,</u>	<u>Finance</u>
2025	\$ 21,600
2026	21,600
2027	21,600
2028	<u>12,020</u>
Undiscounted Cash Flows	76,820
Less: Imputed Interest	<u>5,136</u>
Total Present Value	71,684
Short-Term Financing Lease Obligation	<u>19,140</u>
Long-Term Financing Lease Obligation	<u><u>\$ 52,544</u></u>

Other information related to the Organization's leases as of December 31, 2024 was as follows:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Finance Leases	\$ 3,208
Financing Cash Flows from Finance Leases	\$ 18,392
Weighted-Average Remaining Lease Term -	
Financing Leases	3.5 Years
Weighted-Average Discount Rate - Financing Leases	
	4.00%

NOTE 7 FORGIVABLE LOANS

During the year ended December 31, 2023, KHS received from the Washington State Department of Commerce (DOC) three grants totaling \$1,134,900. These grants were used for the construction of veterinary facilities. The grants terms and conditions require KHS to use the facilities for veterinary services, made available to the public for a minimum of ten years. In accordance with the terms and conditions, the DOC required KHS to file a deed of trust on the facilities with a related promissory note for a period of 10 years. At the end of the period and upon satisfactory completion of the terms and conditions, the promissory notes will be forgiven. If KHS does not meet the terms and conditions of the notes, KHS will be required to repay the principal plus interest of 5% per annum. As of December 31, 2024, KHS was in compliance with the terms and conditions.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 7 FORGIVABLE LOANS (CONTINUED)

Maturities by year are as follows:

Year Ending December 31,	Amount
2025	\$ -
2026	-
2027	-
2028	-
2029	-
Thereafter	1,163,273
Total	\$ 1,163,273

NOTE 8 CONCENTRATIONS

For December 31, 2024, the Organization has six contracts with Kitsap County and other local municipalities, which provided approximately 18% 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 four employees have opted in as members. This agreement has been extended to December 31, 2024.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows at December 31, 2024:

Purpose Restricted	
Veterinary Services	\$ 8,068
Critical Needs - Reserve Fund	106,063
Building Project	176,582
Total	\$ 290,713

NOTE 10 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.

**KITSAP HUMANE SOCIETY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

NOTE 10 LIQUIDITY AND AVAILABILITY (CONTINUED)

The following table reflects the Organization’s financial assets as of December 31, 2024, reduced by amounts that are due within the next year.

Noncapital Campaign Cash	\$ 596,769
Accounts Receivable	<u>15,861</u>
Total	<u><u>\$ 612,630</u></u>

NOTE 11 PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2024, an error was identified in the recording of a contributed asset held for sale. This error impacted prior period December 31, 2023. As such, the following adjustment was made to restate the balances as of December 31, 2023.

	<u>As Previously Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Net Assets Without Donor Restrictions at December 31, 2023	<u>\$ 16,654,018</u>	<u>\$ 475,000</u>	<u>\$ 17,129,018</u>



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