

**KITSAP HUMANE SOCIETY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2023**



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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, 2023, 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, 2023, 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  
November 26, 2024

**KITSAP HUMANE SOCIETY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2023**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	
Undesignated	\$ 257,774
Board Designated	107,534
Restricted	<u>8,068</u>
Total Cash and Cash Equivalents	373,376
Investments - Board Designated	217,076
Accounts Receivable	105,095
Prepaid Expenses	38,311
Inventory	<u>27,578</u>
Total Current Assets	761,436

**CAPITAL CAMPAIGN ASSETS**

Cash and Cash Equivalents	568,202
Pledges Receivable	<u>563,539</u>
Total Capital Campaign Assets	1,131,741

**PROPERTY AND EQUIPMENT**

Property and Equipment, Net	17,013,044
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**FINANCING RIGHT-OF-USE ASSETS**

	<u>88,896</u>
Total Assets	<u><u>\$ 18,995,117</u></u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable	\$ 136,978
Accrued Vacation Payable	88,294
Accrued Payroll and Related Liabilities	72,333
Financing Lease Obligation, Current Portion	18,392
Other Current Liabilities	<u>6,122</u>
Total Current Liabilities	322,119

**LONG-TERM LIABILITIES**

Forgivable Loans	1,163,273
Financing Lease Obligation, Net of Current Portion	<u>71,684</u>
Total Liabilities	1,557,076

**NET ASSETS**

Without Donor Restrictions	
Board-Designated	2,423,212
Undesignated	<u>14,230,806</u>
Total Net Assets Without Donor Restrictions	16,654,018
With Donor Restrictions	<u>784,023</u>
Total Net Assets	<u><u>17,438,041</u></u>
Total Liabilities and Net Assets	<u><u>\$ 18,995,117</u></u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING ACTIVITIES</b>			
<b>PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS</b>			
Public Support			
Contributions	\$ 1,080,604	\$ 74,033	\$ 1,154,637
Bequests	248,702	-	248,702
Grants	201,359	-	201,359
Special Events Income, Net of Costs of \$113,908	422,081	-	422,081
In-Kind Donations	58,650	-	58,650
Total Public Support	2,011,396	74,033	2,085,429
Revenues			
Animal Control Contract Fees	929,133	-	929,133
License Revenues	99,592	-	99,592
Animal Adoptions, Net of Discounts of \$41,667	585,097	-	585,097
Impound and Boarding Fees	41,197	-	41,197
Other Program Income, Net of Costs of \$19,282	5,749	-	5,749
Veterinary Services	222,718	-	222,718
Retail Sales, Net of Costs of Goods Sold of \$24,569	27,408	-	27,408
Interest and Dividend Income, Net of Investment Fees of \$1,863	124,321	-	124,321
Unrealized Gain (Loss) on Investments	2,130	-	2,130
Realized Gain (Loss) on Investments, Net of Fees	(154)	-	(154)
Employee Retention Credit	675,517	-	675,517
Total Revenues	2,712,708	-	2,712,708
Satisfaction of Program Restrictions	25,616	(25,616)	-
Total Public Support, Revenues, and Reclassifications	4,749,720	48,417	4,798,137

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED DECEMBER 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>EXPENSES</b>			
Program Services:			
Licensing	\$ 62,704	\$ -	\$ 62,704
Animal Control	714,364	-	714,364
Shelter	1,754,449	-	1,754,449
Veterinary Services	1,784,519	-	1,784,519
Total Program Services Expenses	4,316,036	-	4,316,036
Supporting Services:			
Administration	409,758	-	409,758
Development	400,451	-	400,451
Total Support Services Expenses	810,209	-	810,209
Total Expenses (See Page 6 and 7)	5,126,245	-	5,126,245
 <b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	 (376,525)	 48,417	 (328,108)
 <b>NONOPERATING ACTIVITIES</b>			
Capital Campaign Contributions	-	1,721,106	1,721,106
Release of Net Assets for Capital Purposes	4,441,802	(4,441,802)	-
Miscellaneous Revenue	-	-	-
Total	4,441,802	(2,720,696)	1,721,106
 <b>CHANGE IN NET ASSETS</b>	 4,065,277	 (2,672,279)	 1,392,998
Net Assets - Beginning of Year	12,588,741	3,456,302	16,045,043
 <b>NET ASSETS - END OF YEAR</b>	 \$ 16,654,018	 \$ 784,023	 \$ 17,438,041

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2023**

	Program Services				
	Licensing	Animal Control	Shelter	Veterinary Services	Total
Salaries and Wages	\$ 38,618	\$ 442,308	\$ 1,058,590	\$ 917,346	\$ 2,456,862
Payroll Taxes	3,874	44,292	65,080	140,111	253,357
Other Employee Benefits	3,466	45,945	105,840	52,346	207,597
Total	<u>45,958</u>	<u>532,545</u>	<u>1,229,510</u>	<u>1,109,803</u>	<u>2,917,816</u>
Fees - Veterinary Services	-	-	-	36,204	36,204
Fees - Management Services	-	-	-	-	-
Fees - Accounting	-	-	-	-	-
Fees - Legal	-	-	-	-	-
Information Technology	1,125	5,627	30,383	16,880	54,015
Fees - Other	-	-	-	-	-
Program Expense - Licensing	5,554	-	-	-	5,554
Program Expense - Animal Control	-	23,466	-	-	23,466
Program Expense - Shelter	-	-	97,426	-	97,426
Program Expense - Veterinary Services	-	-	-	281,822	281,822
Telecommunications - 911 CENCOM	-	50,000	-	-	50,000
Equipment - Noncapitalized	-	-	395	173	568
Vehicle Maintenance and Operation	149	27,547	8,323	2,235	38,254
Occupancy	3,525	17,627	96,172	52,881	170,205
Office Expense	1,479	3,945	21,919	9,002	36,345
Information Tech Expenses	301	1,503	10,818	6,804	19,426
Marketing and Advertising	-	-	-	-	-
Fundraising	-	-	-	-	-
Insurance	1,432	7,159	38,661	21,478	68,730
Memberships and Dues	69	345	5,065	4,273	9,752
Staff Development	256	1,683	10,784	7,640	20,363
Travel	-	-	279	95	374
Conference and Meeting	-	-	-	-	-
Bank Charges	-	-	-	3,634	3,634
Payroll Processing Costs	-	1,479	5,596	4,785	11,860
Business Taxes and Expenses	-	100	-	-	100
Other Expenses	-	22	796	80	898
Noncash Contributions Consumed	-	-	17,238	-	17,238
Bad Debt Expense - Pledges	-	-	-	-	-
Capital Campaign Costs	-	15,999	15,998	74,661	106,658
Furniture and Equipment	-	-	-	-	-
Interest	-	-	-	28,373	28,373
Nonoperating Expenses	-	-	-	-	-
Misc	-	-	-	-	-
Special Event Costs	-	-	-	-	-
Cost of Goods Sold	-	-	24,569	-	24,569
Investment Fees	-	-	-	-	-
Total	<u>59,848</u>	<u>689,047</u>	<u>1,613,932</u>	<u>1,660,823</u>	<u>4,023,650</u>
Depreciation	<u>2,856</u>	<u>25,317</u>	<u>182,324</u>	<u>123,696</u>	<u>334,193</u>
Total Functional Expenses	62,704	714,364	1,796,256	1,784,519	4,357,843
Less: Expenses Netted Against Revenues on the Statement of Activities:					
Special Event Expenses	-	-	-	-	-
Investment Fees	-	-	-	-	-
Noncash Contributions Consumed	-	-	(17,238)	-	(17,238)
Cost of Goods Sold	-	-	(24,569)	-	(24,569)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 62,704</u>	<u>\$ 714,364</u>	<u>\$ 1,754,449</u>	<u>\$ 1,784,519</u>	<u>\$ 4,316,036</u>

See accompanying Notes to Financial Statements.



**KITSAP HUMANE SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2023**

	Supporting Services			Totals from Pages 6 and 7 2023
	Fundraising			
	Administration	Development	Total Supporting	
Salaries and Wages	\$ 247,782	\$ 283,482	\$ 531,264	\$ 2,988,126
Payroll Taxes	20,280	24,017	44,297	297,654
Other Employee Benefits	9,054	8,253	17,307	224,904
Total	<u>277,116</u>	<u>315,752</u>	<u>592,868</u>	<u>3,510,684</u>
Fees - Veterinary Services	-	-	-	36,204
Fees - Management Services	57,125	-	57,125	57,125
Fees - Accounting	18,692	-	18,692	18,692
Fees - Legal	1,757	-	1,757	1,757
Information Technology	1,125	1,125	2,250	56,265
Fees - Other	-	-	-	-
Program Expense - Licensing	-	-	-	5,554
Program Expense - Animal Control	-	-	-	23,466
Program Expense - Shelter	-	-	-	97,426
Program Expense - Veterinary Services	-	-	-	281,822
Telecommunications - 911 CENCOM	-	-	-	50,000
Equipment - Noncapitalized	-	-	-	568
Vehicle Maintenance and Operation	149	403	552	38,806
Occupancy	3,525	3,673	7,198	177,403
Office Expense	17,772	4,139	21,911	58,256
Information Tech Expenses	301	693	994	20,420
Marketing and Advertising	-	11,781	11,781	11,781
Fundraising	-	41,853	41,853	41,853
Insurance	1,432	1,432	2,864	71,594
Memberships and Dues	1,692	2,364	4,056	13,808
Staff Development	1,181	717	1,898	22,261
Travel	25	798	823	1,197
Conference and Meeting	-	-	-	-
Bank Charges	19,217	10,373	29,590	33,224
Payroll Processing Costs	1,028	2,208	3,236	15,096
Business Taxes and Expenses	2,987	65	3,052	3,152
Other Expenses	203	5	208	1,106
Noncash Contributions Consumed	-	-	-	17,238
Bad Debt Expense - Pledges	-	-	-	-
Capital Campaign Costs	-	-	-	106,658
Furniture and Equipment	1,575	-	1,575	1,575
Interest	-	-	-	28,373
Nonoperating Expenses	-	-	-	-
Misc	-	-	-	-
Special Event Costs	-	113,908	113,908	113,908
Cost of Goods Sold	-	-	-	24,569
Investment Fees	1,863	-	1,863	1,863
Total	<u>408,765</u>	<u>511,289</u>	<u>920,054</u>	<u>4,943,704</u>
Depreciation	<u>2,856</u>	<u>3,070</u>	<u>5,926</u>	<u>340,119</u>
Total Functional Expenses	411,621	514,359	925,980	5,283,823
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	(113,908)	(113,908)	(113,908)
Investment Fees	(1,863)	-	(1,863)	(1,863)
Noncash Contributions Consumed	-	-	-	(17,238)
Cost of Goods Sold	-	-	-	(24,569)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 409,758</u>	<u>\$ 400,451</u>	<u>\$ 810,209</u>	<u>\$ 5,126,245</u>

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 1,392,998
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Unrealized (Gain) Loss on Investment	(2,130)
Realized (Gain) Loss on Investment	154
Depreciation and Amortization	340,119
Donated Vehicle and Equipment	(58,650)
Capital Campaign Contributions	(1,721,106)
(Increase) Decrease in:	
Receivables	(87,923)
Pledges Receivable	(146,588)
Inventory	(6,987)
Prepaid Expenses	(3,982)
Increase (Decrease) in:	
Accounts Payable	(23,643)
Accrued Vacation Payable	(34,149)
Accrued Interest Payable	28,373
Accrued Payroll and Related Liabilities	747
Other Current Liabilities	4,083
Net Cash Used by Operating Activities	(318,684)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	636,457
Purchase of Investments	(5,258)
Purchase of Property and Equipment	(6,870,642)
Net Cash Used by Investing Activities	(6,239,443)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Capital Campaign Contributions	2,050,410
Proceeds from Forgivable Loans	1,134,900
Payments on Financing Lease Obligations	(14,065)
Net Cash Provided by Financing Activities	3,171,245

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

(3,386,882)

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

4,328,460

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

\$ 941,578

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Equipment Financed through Finance Lease Agreement	\$ 88,896
Noncash Donation of Vehicle and Equipment	\$ 58,650

See accompanying Notes to Financial Statements.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**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, 2023**

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

**Description of Operations (Continued)**

In 2023 KHS:

- Rescued 4,342 animals from owner surrenders, at risk animals transferred in from other shelters, and stray animals
- Adopted 3,497 animals
- Placed 1,048 animals in foster care
- Provided 4,472 spay/neuter surgeries, included 1,657 low-cost spay/neuter surgeries
- Investigated 3,694 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, 2023**

**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.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**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 credit worthiness 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, 2023. Management determined the allowance for expected credit losses is immaterial.

**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.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**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.

**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, 2023, the Organization received over 60,000 (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, 2023, in kind donations included pet food, pet treats, pet accessories, cleaning supplies, medical supplies, medical devices and vehicles of \$58,650. 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.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**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 \$2,423,212 for the year ended December 31, 2023 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 2023, these restricted assets primarily reflect all the cash donations for the capital campaign and pledges that had been received as of December 31, 2023 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 2023. These totaled \$784,023 as of December 31, 2023.

**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.



**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**Federal Income Taxes (Continued)**

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, 2023.

**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 \$929,133 for the year ended December 31, 2023.

**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**

The Organization has adopted FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modified the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

**Subsequent Events**

Management has evaluated subsequent events through November 26, 2024, 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, 2023:

Cash on Hand	\$ 2,800
Noninterest Checking	254,774
Savings and Money Market Funds	684,004
Total	<u>\$ 941,578</u>

Cash and cash equivalents are presented in the accompanying financial statements as follows for the year ended December 31, 2023:

Cash and Cash Equivalents	\$ 373,376
Capital Campaign Cash and Cash Equivalents	<u>568,202</u>
Total Cash, Cash Equivalents, and Capital Campaign Cash Shown in the Statement of Cash Flows	<u>\$ 941,578</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.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

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

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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 217,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,076</u>
Total Investments at Fair Value	<u><u>\$ 217,076</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 217,076</u></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 as follows at December 31, 2023:

Total Amounts Due in:	
One Year	\$ 580,736
Two to Five Years	16,745
Gross Pledges Receivable	<u>597,481</u>
Less: Discount to Present Value	(11,071)
Less: Allowance for Doubtful Accounts	<u>(22,871)</u>
Pledges Receivable, Net	<u><u>\$ 563,539</u></u>
Net Pledges Receivable, Current	\$ 546,794
Net Pledges Receivable, Long-Term	<u>16,745</u>
Total Net Pledges Receivable	<u><u>\$ 563,539</u></u>

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE 4 PLEDGES RECIEVABLE(CONTINUED)**

At December 31, 2023, the outstanding pledge balances from two donors accounted for 87% of total pledges receivable.

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31, 2023:

Building and Improvements	\$ 18,563,449
Land	23,031
Equipment and Computers	731,928
Vehicles	278,154
Leasehold Improvements	107,800
Software and Web Site Design	57,328
Construction in Progress	<u>155,316</u>
Total	19,917,006
Accumulated Depreciation and Amortization	<u>(2,903,962)</u>
Total Property and Equipment	<u><u>\$ 17,013,044</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 2024 and 2028. Total lease cost of \$15,181 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, 2023 are as follows:

Financing Lease Right-of-Use Asset	\$ 88,896
Financing Lease Obligation	\$ 90,076

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE 6 LEASES - ASC 842 (CONTINUED)**

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>
2024	\$ 21,600
2025	21,600
2026	21,600
2027	21,600
2028	<u>12,020</u>
Undiscounted Cash Flows	98,420
Less: Imputed Interest	<u>8,344</u>
Total Present Value	90,076
Short-Term Financing Lease Obligation	<u>18,392</u>
Long-Term Financing Lease Obligation	<u><u>\$ 71,684</u></u>

Other information related to the Organization's leases as of December 31, 2023 was as follows:

Cash Paid for Amounts Included in the	
Measurement of Lease Liabilities:	
Operating Cash Flows from Finance Leases	\$ 2,471
Financing Cash Flows from Finance Leases	\$ 11,594
Right-of-Use Assets Obtained in Exchange for New	
Financing Lease Liability	\$ 101,670
Weighted-Average Remaining Lease Term -	
Financing Leases	4.5 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, 2023, KHS was in compliance with the terms and conditions.

**KITSAP HUMANE SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE 7 FORGIVABLE LOANS (CONTINUED)**

Maturities by year are as follows:

<u>Year Ending December 30, 2023</u>	<u>Amount</u>
2024	\$ -
2025	-
2026	-
2027	-
2028	-
Thereafter	1,163,273
Total	\$ 1,163,273

**NOTE 8 CONCENTRATIONS**

For December 31, 2023, the Organization has eight contracts with Kitsap County and other local municipalities, which provided approximately 19% 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, 2023:

Purpose Restricted:	
Veterinary Services	\$ 8,068
Critical Needs - Reserve Fund	104,812
Restricted Gifts - Other	50,000
Building Project	621,143
Total	\$ 784,023

**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, 2023**

**NOTE 10 LIQUIDITY AND AVAILABILITY (CONTINUED)**

The following table reflects the Organization's financial assets as of December 31, 2023, reduced by amounts that are due within the next year.

Noncapital Campaign Cash	\$ 257,774
Accounts Receivable	105,095
Investments - Board Designated	<u>217,076</u>
Total	<u><u>\$ 579,945</u></u>

**NOTE 11 EMPLOYEE RETENTION CREDIT**

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During 2021, the Organization complied with the conditions of Employee Retention Credit (ERC), the funding from the Internal Revenue Service, in the amount of \$675,518 in compliance with the program.

Grants related to this program are recorded as revenue. The Organization recognized \$675,518 of Employee Retention Credit related to performance requirements being met and costs being incurred in compliance with the program during the year ended December 31, 2023.

Eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors are subject to review. 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 material adverse impact on the Organization's financial position.



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