

PURRFECT PALS

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2015 AND 2014



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Purrfect Pals
Arlington, Washington

We have audited the accompanying financial statements of Purrfect Pals (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Purrfect Pals as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones & Associates LLC, CPAs

Jones & Associates, LLC CPAs
April 14, 2016

TEL 206.525.5170
1701 NE 104th Street
Seattle, WA 98125-7646
www.judyjonescpa.com

PURRFECT PALS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 84,512	\$ 80,004
Pledges receivable	27,540	79,543
Inventory	46,231	41,341
Prepaid expenses	5,997	7,618
Total current assets	164,280	208,506
Cash reserved for building and capital campaign	479,345	294,900
Property and equipment, net	633,565	639,599
Land held for sale	74,100	100,000
Other assets	24,750	24,750
	\$ 1,376,040	\$ 1,267,755
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 36,969	\$ 20,133
Accrued payroll and related	47,062	49,551
Total current liabilities	84,031	69,684
 NET ASSETS		
Unrestricted	769,857	816,254
Temporarily restricted	522,152	381,817
	1,292,009	1,198,071
	\$ 1,376,040	\$ 1,267,755

See accompanying notes to financial statements.

PURRFECT PALS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE			
Contributions	\$ 644,311	\$ 54,434	\$ 698,745
Special events, net	139,921	63,599	203,520
In-kind contributions	107,530	-	107,530
Adoptions	110,566	-	110,566
Interest income	2,244	-	2,244
	<u>1,004,572</u>	<u>118,033</u>	<u>1,122,605</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	97,254	(97,254)	-
Satisfaction of time restrictions	67,609	(67,609)	-
	<u>164,863</u>	<u>(164,863)</u>	<u>-</u>
Total operating support and revenue	<u>1,169,435</u>	<u>(46,830)</u>	<u>1,122,605</u>
OPERATING EXPENSES			
Program services	928,677	-	928,677
Management and general	136,868	-	136,868
Fundraising and development	124,387	-	124,387
Total operating expenses	<u>1,189,932</u>	<u>-</u>	<u>1,189,932</u>
OPERATING CHANGE IN NET ASSETS	<u>(20,497)</u>	<u>(46,830)</u>	<u>(67,327)</u>
NONOPERATING ACTIVITY			
Capital campaign contributions	-	187,165	187,165
Loss on land held for sale	(25,900)	-	(25,900)
NONOPERATING CHANGE IN NET ASSETS	<u>(25,900)</u>	<u>187,165</u>	<u>161,265</u>
CHANGE IN NET ASSETS	<u>(46,397)</u>	<u>140,335</u>	<u>93,938</u>
NET ASSETS			
Beginning of the year	<u>816,254</u>	<u>381,817</u>	<u>1,198,071</u>
End of the year	<u>\$ 769,857</u>	<u>\$ 522,152</u>	<u>\$ 1,292,009</u>

PURRFECT PALS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE			
Contributions	\$ 462,114	\$ 98,135	\$ 560,249
Special events, net	189,079	51,200	240,279
In-kind contributions	79,557	12,500	92,057
Adoptions	119,362	-	119,362
Interest income	1,696	-	1,696
	<u>851,808</u>	<u>161,835</u>	<u>1,013,643</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	188,246	(188,246)	-
Satisfaction of time restrictions	45,649	(45,649)	-
	<u>233,895</u>	<u>(233,895)</u>	<u>-</u>
Total operating support and revenue	<u>1,085,703</u>	<u>(72,060)</u>	<u>1,013,643</u>
OPERATING EXPENSES			
Program services	992,815	-	992,815
Management and general	150,295	-	150,295
Fundraising and development	103,057	-	103,057
Total operating expenses	<u>1,246,167</u>	<u>-</u>	<u>1,246,167</u>
OPERATING CHANGE IN NET ASSETS	(160,464)	(72,060)	(232,524)
NONOPERATING ACTIVITY			
Capital campaign contributions	-	295,500	295,500
In-kind contribution of land and buildings	204,219	-	204,219
NONOPERATING CHANGE IN NET ASSETS	<u>204,219</u>	<u>295,500</u>	<u>499,719</u>
CHANGE IN NET ASSETS	43,755	223,440	267,195
NET ASSETS			
Beginning of the year	<u>772,499</u>	<u>158,377</u>	<u>930,876</u>
End of the year	<u>\$ 816,254</u>	<u>\$ 381,817</u>	<u>\$ 1,198,071</u>

See accompanying notes to financial statements.

PURRFECT PALS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services	Support Services		Total
		Management and General	Fundraising & Development	
Payroll and related	\$ 532,738	\$ 78,786	\$ 59,345	\$ 670,869
Program supplies	180,602	256	-	180,858
Cat food and litter	85,528	-	-	85,528
Professional fees	45,862	16,451	9,925	72,238
Depreciation and amortization	22,475	2,508	-	24,983
Printing, design and display	1,066	180	24,881	26,127
Occupancy	21,305	3,624	1,135	26,064
Bank and merchant fees	233	7,347	11,266	18,846
Office supplies	4,176	11,568	3,528	19,272
Information technology	7,168	1,164	2,828	11,160
Postage	1,378	2	7,892	9,272
Grants	8,076	-	-	8,076
Telephone and internet	436	6,387	180	7,003
Insurance	4,599	692	-	5,291
Vehicle costs	4,639	57	-	4,696
Travel and transportation	1,937	2,494	-	4,431
Training and development	829	149	-	978
Other	5,630	5,203	3,407	14,240
	<u>\$ 928,677</u>	<u>\$ 136,868</u>	<u>\$ 124,387</u>	<u>\$ 1,189,932</u>

See accompanying notes to financial statements.

PURRFECT PALS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	Support Services		Total
		Management and General	Fundraising & Development	
Payroll and related	\$ 577,472	\$ 107,900	\$ 28,380	\$ 713,752
Program supplies	171,791	-	3,292	175,083
Cat food and litter	53,578	-	780	54,358
Professional fees	33,291	13,261	7,808	54,360
Depreciation and amortization	31,331	4,490	-	35,821
Printing, design and display	1,277	31	21,007	22,315
Occupancy	19,230	12,841	608	32,679
Bank and merchant fees	100	2,526	8,694	11,320
Office supplies	26,437	2,675	9,601	38,713
Information technology	8,557	1,588	5,488	15,633
Postage	35	135	9,688	9,858
Grants	35,530	-	-	35,530
Telephone and internet	7,989	1,846	448	10,283
Insurance	6,225	1,037	-	7,262
Vehicle costs	8,229	400	802	9,431
Travel and transportation	1,535	269	-	1,804
Training and development	4,220	940	476	5,636
Other	5,988	356	5,985	12,329
	<u>\$ 992,815</u>	<u>\$ 150,295</u>	<u>\$ 103,057</u>	<u>\$ 1,246,167</u>

See accompanying notes to financial statements.

PURRFECT PALS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and special events	\$ 954,268	\$ 792,564
Cash received from adoptions and interest	112,810	121,058
Cash paid to employees and suppliers	(1,046,341)	(1,150,364)
	20,737	(236,742)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,949)	(123,676)
Additions to cash reserved for building and capital campaign	(254,921)	(318,734)
Use of cash reserved for building and capital campaign	70,476	177,828
	(203,394)	(264,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for capital campaign	187,165	295,500
	187,165	295,500
 NET CHANGE IN CASH AND CASH EQUIVALENTS	4,508	(205,824)
CASH AND CASH EQUIVALENTS		
Beginning of the year	80,004	285,828
End of the year	\$ 84,512	\$ 80,004
NON-CASH INVESTING ACTIVITIES		
In-kind contribution of land and buildings	\$ -	\$ 204,219

See accompanying notes to financial statements.

PURRFECT PALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Purrfect Pals (the Organization) is a not-for-profit corporation located in Arlington, Washington. Founded in 1988, the Organization finds loving responsible homes for more than 1,000 cats every year, performs more than 500 spay and neuter surgeries at low to no cost, and provides lifetime sanctuary to more than 250 permanent resident cats.

In February 2014, title to the land and buildings on which the Organization operates was transferred from the Organization’s founder to the Organization. The Organization recognized an in-kind contribution of property totaling \$204,219 using the appraised value at the date of donation. Also during 2014, the Organization began a capital campaign to construct a new 4,000 square foot building on the property. Total cost of the construction is expected to be \$900,000. \$187,165 and \$295,500 was raised through capital campaign contributions during the years ended December 31, 2015 and 2014, respectively. The remaining costs are expected to be financed through a combination of operating reserves, additional fundraising and a bank loan. The Organization expects to break ground in late 2016.

Basis of Accounting and Presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets at December 31, 2015 and 2014.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all checking, savings, and money market accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. At times, balances may exceed federally insured limits. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Pledges Receivable – Pledges receivable consist primarily of amounts due from organizations and workplace giving. Unconditional promises to give are recognized as revenues or gains in the period received. All account balances are due in less than one year. No allowance for uncollectible balances has been established by management based upon the Organization’s historical experience in the collection of balances due.

Inventory – Inventory consists primarily of cat food, litter and medical supplies and is stated at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at the estimated fair value at the date of donation.

Cash Reserved for Building and Capital Campaign – The Organization maintains contributions restricted for the capital campaign and other funds to be used in various capital projects, including the new building construction, in cash reserved for building and capital campaign.

PURRFECT PALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Property and Equipment – Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. The Organization follows a policy whereby it capitalizes purchases of property and equipment with a value in excess of \$3,000 and a useful life greater than one year. Depreciation is computed using the straight-line method, currently over a period of 3 to 39 years.

Land Held for Sale – The Organization holds certain undeveloped land in Pierce County, which was donated to the Organization in 2005. Land held for sale is carried at its estimated fair value at the time of donation and is evaluated annually for impairment loss. An impairment loss of \$25,900 was incurred during the year ended December 31, 2015 based on change in the property tax valuation and is included in nonoperating activities on the statement of activities.

Other Assets – The Organization holds an interest in a Florida timeshare, which was donated to the Organization in 2006 and an in-kind donation of a cemetery plot, which was donated to the Organization in 2013. Other assets are carried at the estimated fair value at the time of donation and are evaluated annually for impairment loss.

Revenue Recognition – Contributions (including those received at special events) and adoption support are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of donor or grantor restrictions. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

In-kind Goods and Services – Donations of goods include cat food and supplies and are recognized as revenue and corresponding expense at the estimated fair value at the date of donation. Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

A substantial number of volunteers also provide valuable services to the Organization throughout the year. However, these donated services are not recognized as contributions in the financial statements since the recognition criteria are not met.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

PURRFECT PALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Income Tax Status – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. The Organization is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

Subsequent Events – Subsequent events were evaluated through the independent auditors’ report date, which is the date the financial statements were available to be issued.

Note 2 – Cash Flow Information

The following reconciles the change in net assets to net cash (used) provided by operating activities for the years ended December 31:

	2015	2014
Change in net assets	\$ 93,938	\$ 267,195
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	24,983	35,821
Loss on disposal of property and equipment	-	4,341
Loss on property held for sale	25,900	-
Capital campaign contributions	(187,165)	(295,500)
In-kind pledge receivable	-	(12,500)
In-kind contribution of land and buildings	-	(204,219)
Change in:		
Pledges receivable	52,003	(7,964)
Inventory	(4,890)	(19,954)
Prepaid expenses	1,621	(5,201)
Accounts payable	16,836	(5,931)
Accrued payroll and related	(2,489)	7,170
	\$ 20,737	\$ (236,742)

PURRFECT PALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 3 – Inventory

Inventory consists of the following at December 31:

	2015	2014
Cat food	\$ 39,275	\$ 23,264
Cat litter	855	12,615
Medical supplies	6,101	5,462
	<u>\$ 46,231</u>	<u>\$ 41,341</u>

Note 4 – Property and Equipment

Property and equipment consists of the following at December 31:

	2015	2014
Buildings and improvements	\$ 405,275	\$ 405,275
Equipment	57,019	57,019
Vehicles	27,783	27,783
	<u>490,077</u>	<u>490,077</u>
Less: accumulated depreciation	(145,560)	(120,576)
	<u>344,517</u>	<u>369,501</u>
Construction in progress	144,048	125,098
Land	145,000	145,000
	<u>\$ 633,565</u>	<u>\$ 639,599</u>

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are composed of the following restrictions at December 31:

	2015	2014
Building fund	\$ 479,345	\$ 294,900
For use in subsequent year	27,540	77,759
Medical expenses	-	8,868
Other program restrictions	15,267	290
	<u>\$ 522,152</u>	<u>\$ 381,817</u>

PURRFECT PALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 – Special Events

Special events revenue is shown in the statement of activities net of consumable costs that directly benefit the participants of the event. The net revenue is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Special events revenue	\$ 233,078	\$ 263,992
Less: cost of direct donor benefit	<u>(29,558)</u>	<u>(23,713)</u>
	<u>\$ 203,520</u>	<u>\$ 240,279</u>

Note 7 – In-kind Goods and Services

The following goods and services were donated to the Organization for use in the Organization's programs for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Cat food	\$ 73,625	\$ 44,733
Goods and supplies	33,905	43,902
Veterinary care and other services	-	3,422
	<u>\$ 107,530</u>	<u>\$ 92,057</u>