

**PURRFECT PALS**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2016 AND 2015**



## 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, 2016 and 2015, 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, 2016 and 2015, 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  
June 29, 2017

TEL 206.525.5170  
1701 NE 104th Street  
Seattle, WA 98125-7646  
[www.judyjonescpa.com](http://www.judyjonescpa.com)

**PURRFECT PALS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 592,929	\$ 84,512
Pledges receivable	56,800	27,540
Inventory	47,626	46,231
Prepaid expenses	5,763	5,997
Total current assets	703,118	164,280
Cash reserved for building and capital campaign	253,803	479,345
Property and equipment, net	1,175,982	633,565
Land held for sale	74,100	74,100
Other assets	24,750	24,750
	\$ 2,231,753	\$ 1,376,040
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 5,972	\$ 36,969
Accrued payroll and related	48,615	47,062
Construction payable	194,810	-
Total current liabilities	249,397	84,031
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	1,578,959	769,857
Board designated	200,000	-
	1,778,959	769,857
Temporarily restricted	203,397	522,152
	1,982,356	1,292,009
	\$ 2,231,753	\$ 1,376,040

**PURRFECT PALS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>			
Contributions	\$ 823,589	\$ 82,930	\$ 906,519
Special events, net	215,016	125,639	340,655
In-kind contributions	580,824	-	580,824
Adoptions	90,979	-	90,979
Interest and other income	11,422	-	11,422
	<u>1,721,830</u>	<u>208,569</u>	<u>1,930,399</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	560,989	(560,989)	-
Satisfaction of time restrictions	18,490	(18,490)	-
	<u>579,479</u>	<u>(579,479)</u>	<u>-</u>
Total operating support and revenue	<u>2,301,309</u>	<u>(370,910)</u>	<u>1,930,399</u>
<b>OPERATING EXPENSES</b>			
Program services	982,650	-	982,650
Management and general	198,378	-	198,378
Fundraising and development	133,679	-	133,679
Total operating expenses	<u>1,314,707</u>	<u>-</u>	<u>1,314,707</u>
OPERATING CHANGE IN NET ASSETS	<u>986,602</u>	<u>(370,910)</u>	<u>615,692</u>
<b>NONOPERATING ACTIVITY</b>			
Capital campaign contributions	-	52,155	52,155
Gain on sale of donated property	22,500	-	22,500
NONOPERATING CHANGE IN NET ASSETS	<u>22,500</u>	<u>52,155</u>	<u>74,655</u>
CHANGE IN NET ASSETS	1,009,102	(318,755)	690,347
<b>NET ASSETS</b>			
Beginning of the year	<u>769,857</u>	<u>522,152</u>	<u>1,292,009</u>
End of the year	<u>\$ 1,778,959</u>	<u>\$ 203,397</u>	<u>\$ 1,982,356</u>

**PURRFECT PALS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>			
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>
<b>OPERATING EXPENSES</b>			
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	(20,497)	(46,830)	(67,327)
<b>NONOPERATING ACTIVITY</b>			
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	(46,397)	140,335	93,938
<b>NET ASSETS</b>			
Beginning of the year	816,254	381,817	1,198,071
End of the year	<u>\$ 769,857</u>	<u>\$ 522,152</u>	<u>\$ 1,292,009</u>

*See accompanying notes to financial statements.*

**PURRFECT PALS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

	Program Services	Support Services		Total
		Management and General	Fundraising & Development	
Payroll and related	\$ 516,230	\$ 76,019	\$ 67,360	\$ 659,609
Program supplies	173,961	-	-	173,961
Professional fees	126,315	15,704	11,509	153,528
Cat food and litter	78,287	-	-	78,287
Other	7,223	49,757	6,722	63,702
Occupancy	22,358	16,501	663	39,522
Depreciation	27,697	4,806	-	32,503
Printing, design and display	261	-	21,561	21,822
Bank and merchant fees	17	9,873	7,211	17,101
Office supplies	8,713	2,587	4,472	15,772
Information technology	4,701	5,047	4,955	14,703
Insurance	1,268	8,989	-	10,257
Vehicle costs	10,055	-	-	10,055
Postage	-	-	9,017	9,017
Telephone and internet	239	7,539	209	7,987
Grants	3,000	-	-	3,000
Travel and transportation	2,325	1,556	-	3,881
	<u>\$ 982,650</u>	<u>\$ 198,378</u>	<u>\$ 133,679</u>	<u>\$ 1,314,707</u>

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

	Program Services	Management and General	Fundraising & Development	Total
Payroll and related	\$ 532,738	\$ 78,786	\$ 59,345	\$ 670,869
Program supplies	180,602	256	-	180,858
Professional fees	45,862	16,451	9,925	72,238
Cat food and litter	85,528	-	-	85,528
Other	5,630	5,203	3,407	14,240
Occupancy	21,305	3,624	1,135	26,064
Depreciation	22,475	2,508	-	24,983
Printing, design and display	1,066	180	24,881	26,127
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
Insurance	4,599	692	-	5,291
Vehicle costs	4,639	57	-	4,696
Postage	1,378	2	7,892	9,272
Telephone and internet	436	6,387	180	7,003
Grants	8,076	-	-	8,076
Travel and transportation	1,937	2,494	-	4,431
Training and development	829	149	-	978
	<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**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions and special events	\$ 1,217,914	\$ 954,268
Cash received from adoptions, interest and other	102,401	112,810
Cash paid to employees and suppliers	(1,224,485)	(1,046,341)
	95,830	20,737
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(302,610)	(18,949)
Proceeds from sale of donated property	437,500	-
Additions to cash reserved for building and capital campaign	(52,505)	(254,921)
Use of cash reserved for building and capital campaign	278,047	70,476
	360,432	(203,394)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received for capital campaign	52,155	187,165
	52,155	187,165
NET CHANGE IN CASH AND CASH EQUIVALENTS	508,417	4,508
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	84,512	80,004
End of the year	\$ 592,929	\$ 84,512

*See accompanying notes to financial statements.*



**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

---

**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 close to 1,000 cats every year and provides lifetime sanctuary to more than 250 permanent resident cats.

In 2014, the Organization began a capital campaign to construct a new 4,000 square foot building on its property. Total cost of the construction is expected to be \$1,146,000. More than \$500,000 has been raised through capital campaign contributions from the start of the campaign through the year ended December 31, 2016. The remaining costs are expected to be financed through a combination of operating reserves, additional fundraising and a bank loan (see Note 8). The Organization broke ground in late 2016 and expects construction to be complete in mid-2017.

**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. During the year ended December 31, 2016, the Board designated certain otherwise unrestricted funds to be used as a board reserve fund. There are no permanently restricted net assets at December 31, 2016 and 2015.

**Cash and Cash Equivalents** – For purposes of the statements 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 individuals and organizations. 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, 2016 AND 2015**

---

**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. No impairment loss was recognized during the year ended December 31, 2016. 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 Contributions** – 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, 2016 AND 2015**

---

**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 provided by operating activities for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 690,347	\$ 93,938
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	32,503	24,983
Donated property held for sale	(415,000)	-
Donated equipment	(77,500)	-
(Gain) loss on property held for sale	(22,500)	25,900
Capital campaign contributions	(52,155)	(187,165)
Change in:		
Pledges receivable	(29,260)	52,003
Inventory	(1,395)	(4,890)
Prepaid expenses	234	1,621
Accounts payable	(30,997)	16,836
Accrued payroll and related	1,553	(2,489)
	<u>\$ 95,830</u>	<u>\$ 20,737</u>

**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

---

**Note 3 – Inventory**

Inventory consists of the following at December 31:

	2016	2015
Cat food	\$ 38,654	\$ 39,275
Medical supplies	8,451	6,101
Cat litter	521	855
	<u>\$ 47,626</u>	<u>\$ 46,231</u>

**Note 4 – Property and Equipment**

Property and equipment consists of the following at December 31:

	2016	2015
Buildings and improvements	\$ 405,275	\$ 405,275
Equipment	134,519	57,019
Vehicles	27,783	27,783
	<u>567,577</u>	<u>490,077</u>
Less: accumulated depreciation	(178,063)	(145,560)
	<u>389,514</u>	<u>344,517</u>
Construction in progress	641,468	144,048
Land	145,000	145,000
	<u>\$ 1,175,982</u>	<u>\$ 633,565</u>

**Note 5 – Temporarily Restricted Net Assets**

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

	2016	2015
Sanctuary cat care	\$ 101,230	\$ 12,331
Building fund	58,993	479,345
For use in subsequent year	41,800	27,540
Other program restrictions	1,374	2,936
	<u>\$ 203,397</u>	<u>\$ 522,152</u>

**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

---

**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:

	2016	2015
Special events revenue	\$ 369,554	\$ 233,078
Less: cost of direct donor benefit	(28,899)	(29,558)
	<u>\$ 340,655</u>	<u>\$ 203,520</u>

**Note 7 – In-kind Contributions**

In-kind contributions consist of the following for the years ended December 31:

	2016	2015
Property	\$ 415,000	\$ -
X-ray machine	77,500	-
Cat food	53,524	73,625
Goods and supplies	34,800	33,905
	<u>\$ 580,824</u>	<u>\$ 107,530</u>

**Note 8 – Loan Commitment**

In December 2016, the Organization entered into a construction loan with a bank of up to \$450,000, secured by a deed of trust in property. Monthly interest only payments begin February 2017 for 12 months. After the first 12 months, monthly payments of principal and interest are due. The beginning interest rate is 4.125%, subject to adjustment in 2024. The loan matures in January 2032. No balance is due at December 31, 2016.