

**PURRFECT PALS**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2017 AND 2016**



## 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, 2017 and 2016, 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, 2017 and 2016, 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 PLLC, CPAs*

Jones & Associates, PLLC CPAs  
March 29, 2018

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**PURRFECT PALS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 479,444	\$ 592,929
Pledges receivable	9,183	56,800
Inventory	26,139	47,626
Prepaid expenses	23,121	5,763
Total current assets	537,887	703,118
Cash reserved for building and capital campaign	1,593	253,803
Property and equipment, net	1,943,894	1,175,982
Land held for sale	100	74,100
Other assets	32,110	24,750
	\$ 2,515,584	\$ 2,231,753
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 18,540	\$ 5,972
Accrued payroll and related	68,717	48,615
Construction payable	-	194,810
Current portion note payable	12,712	-
Total current liabilities	99,969	249,397
Long term note payable	514,178	-
	614,147	249,397
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	1,780,296	1,578,959
Board designated	-	200,000
	1,780,296	1,778,959
Temporarily restricted	121,141	203,397
	1,901,437	1,982,356
	\$ 2,515,584	\$ 2,231,753

*See accompanying notes to financial statements.*

**PURRFECT PALS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>			
Contributions	\$ 1,095,197	\$ 140,106	\$ 1,235,303
Special events, net	257,726	57,801	315,527
In-kind contributions	101,562	-	101,562
Adoptions	82,705	-	82,705
Interest and other income	1,942	-	1,942
	<u>1,539,132</u>	<u>197,907</u>	<u>1,737,039</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	253,968	(253,968)	-
Satisfaction of time restrictions	37,917	(37,917)	-
	<u>291,885</u>	<u>(291,885)</u>	<u>-</u>
Total operating support and revenue	<u>1,831,017</u>	<u>(93,978)</u>	<u>1,737,039</u>
<b>OPERATING EXPENSES</b>			
Program services	1,239,695	-	1,239,695
Management and general	278,821	-	278,821
Fundraising and development	240,164	-	240,164
Total operating expenses	<u>1,758,680</u>	<u>-</u>	<u>1,758,680</u>
<b>OPERATING CHANGE IN NET ASSETS</b>	<u>72,337</u>	<u>(93,978)</u>	<u>(21,641)</u>
<b>NONOPERATING ACTIVITY</b>			
Capital campaign contributions	-	11,722	11,722
Gain on disposal of donated property	3,000	-	3,000
Loss on land held for sale	(74,000)	-	(74,000)
<b>NONOPERATING CHANGE IN NET ASSETS</b>	<u>(71,000)</u>	<u>11,722</u>	<u>(59,278)</u>
<b>CHANGE IN NET ASSETS</b>	<u>1,337</u>	<u>(82,256)</u>	<u>(80,919)</u>
<b>NET ASSETS</b>			
Beginning of the year	<u>1,778,959</u>	<u>203,397</u>	<u>1,982,356</u>
End of the year	<u>\$ 1,780,296</u>	<u>\$ 121,141</u>	<u>\$ 1,901,437</u>

**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 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	986,602	(370,910)	615,692
<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>

*See accompanying notes to financial statements.*

**PURRFECT PALS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	Program Services	Support Services		Total
		Management and General	Fundraising & Development	
Payroll and related	\$ 591,690	\$ 132,804	\$ 123,916	\$ 848,410
Professional fees	198,141	38,783	40,757	277,681
Program and other supplies	241,959	2,014	738	244,711
Cat food and litter	69,170	-	-	69,170
Depreciation	40,039	6,974	-	47,013
Office supplies	19,480	9,845	14,022	43,347
Other	4,881	28,762	7,958	41,601
Printing, design and display	7,945	-	26,777	34,722
Occupancy	25,828	3,703	2,520	32,051
Information technology	12,662	5,248	13,668	31,578
Bank and merchant fees	340	22,625	1,801	24,766
Interest	-	23,596	-	23,596
Telephone and internet	8,358	1,298	774	10,430
Postage	2,406	280	6,284	8,970
Insurance	4,904	598	478	5,980
Grant expense	5,728	-	-	5,728
Vehicle costs	5,480	-	51	5,531
Travel and transportation	684	2,291	420	3,395
	<u>\$ 1,239,695</u>	<u>\$ 278,821</u>	<u>\$ 240,164</u>	<u>\$ 1,758,680</u>

**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
Professional fees	126,315	15,704	11,509	153,528
Program and other supplies	173,961	-	-	173,961
Cat food and litter	78,287	-	-	78,287
Depreciation	27,697	4,806	-	32,503
Office supplies	8,713	2,587	4,472	15,772
Other	7,223	47,280	6,722	61,225
Printing, design and display	261	-	21,561	21,822
Occupancy	22,358	16,501	663	39,522
Information technology	4,701	5,047	4,955	14,703
Bank and merchant fees	17	9,873	7,211	17,101
Interest	-	2,477	-	2,477
Telephone and internet	239	7,539	209	7,987
Postage	-	-	9,017	9,017
Insurance	1,268	8,989	-	10,257
Grant expense	3,000	-	-	3,000
Vehicle costs	10,055	-	-	10,055
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>

*See accompanying notes to financial statements.*

**PURRFECT PALS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions and special events	\$ 1,598,447	\$ 1,217,914
Cash received from adoptions, interest and other	84,647	102,401
Cash paid to employees and suppliers	(1,580,454)	(1,224,485)
	102,640	95,830
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,009,947)	(302,610)
Proceeds from sale of donated property	-	437,500
Proceeds from sale of equipment	3,000	-
Additions to cash reserved for building and capital campaign	(3,894)	(52,505)
Use of cash reserved for building and capital campaign	256,104	278,047
	(754,737)	360,432
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received for capital campaign	11,722	52,155
Proceeds from notes payable	530,000	-
Principal payments on notes payable	(3,110)	-
	538,612	52,155
NET CHANGE IN CASH AND CASH EQUIVALENTS	(113,485)	508,417
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	592,929	84,512
End of the year	\$ 479,444	\$ 592,929
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 22,582	\$ -

*See accompanying notes to financial statements.*



**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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**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 was \$1,415,788. More than \$500,000 has been raised through capital campaign contributions from the start of the campaign through the year ended December 31, 2017. The remaining costs were financed through a combination of operating reserves, additional fundraising and a bank loan (see Note 8). Construction was complete and the building was placed in service in July 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. There are no permanently restricted net assets at December 31, 2017 and 2016.

**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 and litter 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, 2017 AND 2016**

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**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 \$74,000 was incurred during the year ended December 31, 2017 based on resale value of the land and is included in nonoperating activities on the statement of activities. In March 2018, the land was sold for \$100. No impairment loss was recognized during the year ended December 31, 2016.

**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, 2017 AND 2016**

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**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).

**Subsequent Events** – Subsequent events were evaluated through March 29, 2018, 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:

	2017	2016
Change in net assets	\$ (80,919)	\$ 690,347
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	47,013	32,503
Donated property held for sale	-	(415,000)
Donated equipment	(7,148)	(77,500)
(Gain) on disposal of property and equipment	(3,000)	-
(Gain) loss on property held for sale	74,000	(22,500)
Capital campaign contributions	(11,722)	(52,155)
Change in:		
Pledges receivable	47,617	(29,260)
Inventory	21,487	(1,395)
Prepaid expenses	(17,358)	234
Accounts payable	12,568	(30,997)
Accrued payroll and related	20,102	1,553
	\$ 102,640	\$ 95,830

**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 3 – Inventory**

Inventory consists of the following at December 31:

	2017	2016
Cat food	\$ 25,114	\$ 38,654
Cat litter	1,025	521
Medical supplies	-	8,451
	\$ 26,139	\$ 47,626

**Note 4 – Property and Equipment**

Property and equipment consists of the following at December 31:

	2017	2016
Buildings and improvements	\$ 1,821,063	\$ 405,275
Equipment	168,226	134,519
Furniture and fixtures	6,640	-
Vehicles	16,961	27,783
	2,012,890	567,577
Less: accumulated depreciation	(213,996)	(178,063)
	1,798,894	389,514
Construction in progress	-	641,468
Land	145,000	145,000
	\$ 1,943,894	\$ 1,175,982

**Note 5 – Temporarily Restricted Net Assets**

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

	2017	2016
Other program restrictions	\$ 111,958	\$ 1,374
For use in subsequent year	9,183	41,800
Sanctuary cat care	-	101,230
Building fund	-	58,993
	\$ 121,141	\$ 203,397

**PURRFECT PALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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:

	2017	2016
Special events revenue	\$ 370,017	\$ 369,554
Less: cost of direct donor benefits	(54,490)	(28,899)
	\$ 315,527	\$ 340,655

**Note 7 – In-kind Contributions**

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

	2017	2016
Goods and supplies	\$ 40,548	\$ 34,800
Cat food	36,205	53,524
Services	17,661	-
Equipment	7,148	-
Property	-	415,000
X-ray machine	-	77,500
	\$ 101,562	\$ 580,824

**Note 8 – Loan Commitment**

In March 2017, the Organization renegotiated a construction loan with a bank for \$530,000, secured by a deed of trust in property. Monthly interest only payments began April 2017 for 6 months. After the first 6 months, monthly payments of principal and interest were due. The beginning interest rate is 4.25%, subject to adjustment in 2024. The loan matures in January 2032.

Future scheduled maturities of the loan payable are as follows for the years ending December 31:

2018	\$ 12,712
2019	13,263
2020	13,777
2021	14,435
2022	15,060
Thereafter	457,643
	\$ 526,890