

PURRFECT PALS

Audited Financial Statements

December 31, 2022 and 2021

PURRFECT PALS

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Independent Auditor's Report

Board of Directors
Purrfect Pals
Arlington, Washington

Opinion

We have audited the financial statements of Purrfect Pals (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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 ("U.S. GAAP").

Change in Accounting Principle

As discussed in Note 9 to the financial statements, the Organization has adopted the provisions of the Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022 using the modified retrospective approach. Our opinion is not modified with respect to the matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization, 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 U.S. GAAP, 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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

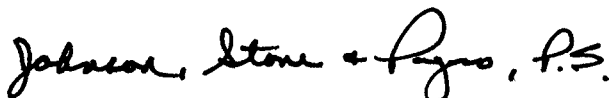
Auditor's Responsibilities for the Audit of the Financial Statements

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 auditor's 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 U.S. 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 U.S. 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 the Organization'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 the Organization'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.



JOHNSON, STONE & PAGANO, P.S.

August 27, 2023

AUDITED FINANCIAL STATEMENTS

PURRFECT PALS

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 597,242	\$ 1,022,810
Pledges receivable	16,285	
Employee advances	1,547	1,587
Inventory	12,514	25,926
Prepaid expense	<u>13,150</u>	<u>18,996</u>
Total Current Assets	640,738	1,069,319
PROPERTY AND EQUIPMENT		
Land	145,000	145,000
Building and building improvements	1,941,228	1,921,449
Equipment	227,146	227,146
Vehicles	15,755	15,755
Furniture and fixtures	<u>6,640</u>	<u>6,640</u>
	<u>2,335,769</u>	<u>2,315,990</u>
Less accumulated depreciation	<u>576,140</u>	<u>485,925</u>
	<u>1,759,629</u>	<u>1,830,065</u>
Construction in progress	69,538	
Operating right-of-use asset, net	<u>2,880</u>	
Total Property and Equipment	1,832,047	1,830,065
OTHER ASSETS	<u>24,750</u>	<u>24,750</u>
TOTAL ASSETS	<u>\$ 2,497,535</u>	<u>\$ 2,924,134</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 53,842	\$ 59,288
Accrued wages and payroll taxes	59,251	38,664
Current portion of operating lease liability	2,880	
Current portion of long-term debt	<u>23,126</u>	<u>19,429</u>
Total Current Liabilities	139,099	117,381
LONG-TERM DEBT , net of current portion	<u>401,838</u>	<u>463,659</u>
Total Liabilities	540,937	581,040
NET ASSETS		
Without donor restrictions	1,869,401	2,121,039
With donor restrictions	<u>87,197</u>	<u>222,055</u>
Total Net Assets	<u>1,956,598</u>	<u>2,343,094</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,497,535</u>	<u>\$ 2,924,134</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 736,106	\$ 87,197	\$ 823,303
Grants	28,878		28,878
Special events, net	184,608		184,608
In-kind contributions	99,682		99,682
Adoptions	44,808		44,808
Interest and other income	2,227		2,227
Net assets released from restriction	<u>222,055</u>	<u>(222,055)</u>	
Total Revenue and Support	1,318,364	(134,858)	1,183,506
EXPENSES			
Program services	978,475		978,475
Management and general services	429,159		429,159
Fundraising activities	<u>162,368</u>		<u>162,368</u>
Total Expenses	<u>1,570,002</u>		<u>1,570,002</u>
DECREASE IN NET ASSETS	(251,638)	(134,858)	(386,496)
Net Assets at Beginning of Year	<u>2,121,039</u>	<u>222,055</u>	<u>2,343,094</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,869,401</u>	<u>\$ 87,197</u>	<u>\$ 1,956,598</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 1,080,469	\$ 303,032	\$ 1,383,501
Grants	419,672		419,672
Special events, net	104,090		104,090
In-kind contributions	116,098		116,098
Adoptions	39,751		39,751
Interest and other income	1,135		1,135
Loss on disposition of property and equipment	(11,994)		(11,994)
Net assets released from restriction	<u>90,242</u>	<u>(90,242)</u>	
Total Revenue and Support	1,839,463	212,790	2,052,253
EXPENSES			
Program services	853,229		853,229
Management and general services	307,394		307,394
Fundraising activities	<u>138,997</u>		<u>138,997</u>
Total Expenses	<u>1,299,620</u>		<u>1,299,620</u>
INCREASE IN NET ASSETS	539,843	212,790	752,633
Net Assets at Beginning of Year	<u>1,581,196</u>	<u>9,265</u>	<u>1,590,461</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,121,039</u>	<u>\$ 222,055</u>	<u>\$ 2,343,094</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	Program Services				Support Services		
	Operations	Adoptions	Special Projects	Total	Management and General	Fundraising and Development	Total
COMPENSATION AND RELATED EXPENSES							
Wages	\$ 324,514	\$ 35,649	\$ 52,155	\$ 412,318	\$ 209,810	\$ 81,330	\$ 703,458
Payroll taxes	37,402	4,199	6,067	47,668	22,492	9,675	79,835
Benefits	3,300		1,500	4,800	14,646	4,800	24,246
Total Compensation and Related Expenses	<u>365,216</u>	<u>39,848</u>	<u>59,722</u>	<u>464,786</u>	<u>246,948</u>	<u>95,805</u>	<u>807,539</u>
Program and other supplies	127,128	139	126,579	253,846	17	5,945	259,808
Bank and merchant fees					9,608	5,510	15,118
Cat food and litter	84,509		14,149	98,658			98,658
Information technology	7,439			7,439	15,502	14,146	37,087
Insurance	15,082			15,082			15,082
Interest					21,607		21,607
Occupancy	37,136			37,136	1,638		38,774
Office supplies	2,718			2,718	12,250		14,968
Other	5,768	551		6,319	6,309	2,882	15,510
Postage						4,008	4,008
Printing	375			375	118	26,901	27,394
Professional fees	28,385		57,978	86,363	16,850	6,826	110,039
Telephone and internet	3,801	300		4,101	7,834		11,935
Travel and transportation	556	116		672	263	345	1,280
Vehicle costs		980		980			980
Total Expenses Before Depreciation	<u>678,113</u>	<u>41,934</u>	<u>258,428</u>	<u>978,475</u>	<u>338,944</u>	<u>162,368</u>	<u>1,479,787</u>
Depreciation					90,215		90,215
TOTAL OPERATING EXPENSES	<u>\$ 678,113</u>	<u>\$ 41,934</u>	<u>\$ 258,428</u>	<u>\$ 978,475</u>	<u>\$ 429,159</u>	<u>\$ 162,368</u>	<u>\$ 1,570,002</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2021

	Program Services			Support Services			
	Operations	Adoptions	Special Projects	Total	Management and General	Fundraising and Development	Total
COMPENSATION AND RELATED EXPENSES							
Wages	\$ 343,355	\$ 35,668		\$ 379,023	\$ 182,778	\$ 77,782	\$ 639,583
Payroll taxes	41,444	4,466		45,910	13,260	9,525	68,695
Benefits	6,300	1,110		7,410	16,119	2,400	25,929
Total Compensation and Related Expenses	<u>391,099</u>	<u>41,244</u>		<u>432,343</u>	<u>212,157</u>	<u>89,707</u>	<u>734,207</u>
Program and other supplies	109,227	674	\$ 37,150	147,051	14,363	567	161,981
Bank and merchant fees					8,607	3,176	11,783
Cat food and litter	58,333		6,899	65,232			65,232
Events						941	941
Information technology	4,061			4,061	7,949	17,304	29,314
Insurance	11,536			11,536	1,298		12,834
Interest					20,004		20,004
Occupancy	41,039			41,039	1,224		42,263
Office supplies	2,157			2,157	4,233	280	6,670
Other		585		585	5,247	2,442	8,274
Postage						4,660	4,660
Printing	71			71	341	19,509	19,921
Professional fees	19,394		43,228	62,622	10,000		72,622
Telephone and internet	3,043	300		3,343	6,956		10,299
Travel and transportation	310	102		412	520	411	1,343
Vehicle costs		637		637			637
Total Expenses Before Depreciation	<u>640,270</u>	<u>43,542</u>	<u>87,277</u>	<u>771,089</u>	<u>292,899</u>	<u>138,997</u>	<u>1,202,985</u>
Depreciation	<u>82,140</u>			<u>82,140</u>	<u>14,495</u>		<u>96,635</u>
TOTAL OPERATING EXPENSES	<u>\$ 722,410</u>	<u>\$ 43,542</u>	<u>\$ 87,277</u>	<u>\$ 853,229</u>	<u>\$ 307,394</u>	<u>\$ 138,997</u>	<u>\$ 1,299,620</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and special events	\$ 1,102,869	\$ 1,844,703
Cash received from adoptions, interest and other	42,784	39,807
Cash paid to employees and suppliers	<u>(1,423,780)</u>	<u>(1,169,204)</u>
Net Cash Provided (Used) by Operating Activities	(278,127)	715,306
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(89,317)</u>	<u>(57,446)</u>
Net Cash Used by Investing Activities	(89,317)	(57,446)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt		11,100
Payments on long-term debt	<u>(58,124)</u>	<u>(115,254)</u>
Net Cash Used by Financing Activities	<u>(58,124)</u>	<u>(104,154)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(425,568)	553,706
Cash and Cash Equivalents at Beginning of Year	<u>1,022,810</u>	<u>469,104</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 597,242</u>	<u>\$ 1,022,810</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 15,820</u>	<u>\$ 20,004</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (386,496)	\$ 752,633
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Amortization of right-of-use asset	4,126	
Depreciation	90,215	96,635
Loss on disposition of property and equipment		11,994
Paycheck Protection Program loan forgiveness		(158,445)
(Increase) decrease in assets		
Pledges receivable	(16,285)	
Employee advances	40	(1,079)
Inventory	13,412	(12,267)
Prepaid expense	5,846	(1,120)
Increase (decrease) in liabilities		
Accounts payable	(5,446)	20,793
Accrued wages and payroll taxes	20,587	6,162
Operating lease liability	(4,126)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (278,127)</u>	<u>\$ 715,306</u>

The accompanying notes are an integral part of these financial statements.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - ORGANIZATION 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 approximately 1,000 cats every year and provides lifetime sanctuary to more than 250 permanent resident cats.

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Under these provisions, net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor imposed restrictions; accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time, and net assets subject to donor-imposed stipulations that are to be maintained in perpetuity. The Organization did not have any net assets with donor restrictions that are required to be maintained in perpetuity at December 31, 2022 or 2021.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers cash to be cash on hand and in checking, savings and money market accounts.

Pledges Receivable

Pledges receivable consist of amounts due to the Organization from third-party donation vendors. All amounts are current and expected to be collected.

Advertising

The Organization expenses advertising and marketing costs as they are incurred. Advertising costs totaled \$360 for the year ended December 31, 2022 and are included in printing expenses on the statements of functional expenses. There were no advertising costs for the year ended December 31, 2021.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

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. Depreciation expense was \$90,215 and \$96,635 for the years ended December 31, 2022 and 2021, respectively.

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

Revenue is recognized when earned. Contributions (including those received at special events) and adoption support are recognized when cash, securities or other assets, or an unconditional promise to give, are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Revenue from adoption fees is recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for the services provided. Amounts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Purrfect Pals receives grants from a federal agency and from private organizations for specific programs. Unconditional grant awards are recorded as grant revenue in the period which they are awarded. Grant awards having the existence of a condition but lacking in both the existence of a barrier and right of return to the resource provider, are classified as restricted grant revenue.

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.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Contributions (Continued)

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.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs, management and general and fundraising based on the benefits derived. In general, for salaries and related expenses, there is a direct relationship for employee duties to either program, management and general or fundraising. A few employees are allocated on a percentage-of-time basis. Depreciation is allocated on an asset-by-asset basis, depending on the estimated usage of the asset by function. Other categories include office expenses, postage, insurance and telephone, which are allocated based on the number of employees by function.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Adoption of Accounting Standard Codification Topic 842

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into, after January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of Accounting Standard Codification Topic 842 (Continued)

The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense; the Organization exclusively has operating leases.

The Organization elected the available practical expedients to account for their existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The Organization leases equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, and operating lease liabilities on the statement of financial position. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at commencement date in determining the present value of the lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The ROU assets and liabilities may include the option to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022, the beginning of the adoption period, an operating lease liability of \$7,006 and an operating right-of-use asset of \$7,006. The adoption of the new standard did not materially impact the Organization's statements of activities and cash flows.

Subsequent Events

Management has evaluated subsequent events through August 27, 2023, the date the financial statements were available to be issued.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position date are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Financial Assets		
Cash and cash equivalents	\$ 597,242	\$ 1,022,810
Pledges receivable	16,285	
Employee advances	<u>1,547</u>	<u>1,587</u>
	615,074	1,024,397
Less assets held with donor restrictions	<u>(87,197)</u>	<u>(222,055)</u>
Financial Assets Available within One Year	\$ <u>527,877</u>	\$ <u>802,342</u>

The Organization's financial assets have seasonal variations during the year due to the timing of donations received as a result of direct mail and online solicitations in support of general operating costs, special appeals to cover the care of specific special needs cats, medical equipment acquisitions, a public spay neuter voucher program and gifts in the memory of, or in honor of, individuals and their pets.

The major fundraising event is held in late October and generates about 25% of general operating revenue through ticket sales, sponsorships, auction item purchases and a fund-a-need appeal at the event. The Organization receives a large portion of its annual fund gifts in November and December.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at various financial institutions in western Washington, insured by the Federal Deposit Insurance Corporation ("FDIC") and the National Credit Union Administration ("NCUA") up to \$250,000 per institution. At December 31, 2022, the Organization's cash balances in excess of NCUA coverage totaled \$5,544.

NOTE 4 - INVENTORY

Inventory consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cat food	\$ 11,358	\$ 25,603
Cat litter	<u>1,156</u>	<u>323</u>
	\$ <u>12,514</u>	\$ <u>25,926</u>

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are composed of the following restrictions at December 31:

	<u>2022</u>	<u>2021</u>
Clinic	\$ 500	\$ 3,000
Other program restrictions	5,788	3,213
Tipper Fund	876	105,564
Fund-A-Need	41,142	10,278
For use in subsequent year	<u>38,891</u>	<u>100,000</u>
	<u>\$ 87,197</u>	<u>\$ 222,055</u>

NOTE 6 - SPECIAL EVENTS

Special events revenue is shown in the statements 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>2022</u>	<u>2021</u>
Special events revenue	\$ 213,461	\$ 104,090
Cost of direct donor benefits	<u>(28,853)</u>	<u> </u>
	<u>\$ 184,608</u>	<u>\$ 104,090</u>

NOTE 7 - IN-KIND CONTRIBUTIONS

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

	<u>2022</u>	<u>2021</u>
Goods and supplies	\$ 55,853	\$ 59,999
Program services	2,632	
Cat food	<u>41,197</u>	<u>56,099</u>
	<u>\$ 99,682</u>	<u>\$ 116,098</u>

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

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NOTE 8 - LONG-TERM DEBT

Long-term debt at December 31 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Note payable to Heritage Bank. The note requires monthly payments of \$2,905, including interest of 4.25% per annum, and matures January 1, 2032, when a balloon payment is due. Secured by deed of trust in real property.	\$ 308,022	\$ 371,888
Note payable to the Small Business Administration. The note requires monthly payments of \$498, including interest of 2.75% per annum, and matures June 19, 2050. Secured by inventory, equipment, chattel paper and receivables.	<u>116,942</u> 424,964	<u>111,200</u> 483,088
Less current portion	<u>23,126</u>	<u>19,429</u>
Total Long-term Debt, Net of Current Portion	\$ <u>401,838</u>	\$ <u>463,659</u>

Annual maturities of long-term debt are as follows:

December 31, 2023	\$ 23,126
2024	24,348
2025	22,888
2026	24,358
2027	25,926
Thereafter	<u>304,318</u>
Total	\$ <u>424,964</u>

NOTE 9 - LEASES

The Organization leases equipment under a long-term, non-cancelable operating lease agreement. The lease expires in August 2023, at which point the Organization will have the option to purchase the equipment for \$1. The lease agreement requires the Organization to pay applicable taxes, insurance and repairs.

The weighted-average discount rate is based on the discount implicit in the lease. However, as the implicit rate was not readily determinable from the lease, the Organization estimated an applicable incremental borrowing rate by using the Organization's applicable borrowing rates and the contractual lease term.

PURRFECT PALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 10 - LEASES (Continued)

Total lease costs for the year ended December 31, 2022 were as follows:

Operating lease costs	\$ <u>4,409</u>
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Total lease expense under noncancelable leases was \$5,004 for the year ended December 31, 2021.

The following summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ <u>4,409</u>
Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	\$ <u>7,006</u>

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term	
Operating leases	8 months
Weighted-average discount rate	
Operating leases	5.50%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022:

	<u>Operating</u>
2023	\$ <u>2,940</u>
Total Lease Payments	2,940
Less amounts representing interest	<u>(60)</u>
Present Value of Lease Liabilities	2,880
Less current portion of operating lease liability	<u>(2,880)</u>
Long-term Portion of Operating Lease Liability	\$ _____