

PASADO'S SAFE HAVEN

FINANCIAL REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pasado's Safe Haven
Monroe, Washington

We have audited the accompanying financial statements of Pasado's Safe Haven which comprise the statements of financial position as of December 31, 2012 and 2011, 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; 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Pasado's Safe Haven as of December 31, 2012 and 2011, 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.

Peterson Sullivan LLP.

July 24, 2013

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382.7700 **FAX**

psepa.com

PASADO'S SAFE HAVEN

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 2,574,700	\$ 3,023,347
Investments	175,840	160,109
Contributions receivable	177,280	
Inventory	72,962	72,235
Prepaid expenses	4,702	
Total current assets	3,005,484	3,255,691
Property and Equipment, net	2,817,333	2,765,996
Total assets	<u>\$ 5,822,817</u>	<u>\$ 6,021,687</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 24,301	\$ 37,053
Accrued salaries and benefits	47,854	53,662
Total current liabilities	72,155	90,715
Net Assets		
Unrestricted	5,448,683	5,689,163
Temporarily restricted	301,979	241,809
Total net assets	5,750,662	5,930,972
Total liabilities and net assets	<u>\$ 5,822,817</u>	<u>\$ 6,021,687</u>

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 860,411	\$ 950	\$ 861,361	\$ 889,836	\$ 10,927	\$ 900,763
Bequests	781,783		781,783	766,964		766,964
Grants		691,752	691,752		307,326	307,326
Non-cash contributions	9,100		9,100	16,894		16,894
Sales, net of cost of goods sold of \$6,839 and \$6,395 in 2012 and 2011, respectively	19,286		19,286	21,327		21,327
Investment income	20,985		20,985	10,836		10,836
Special events revenue	36,827		36,827	40,322		40,322
Special events expenses	(36,875)		(36,875)	(16,114)		(16,114)
Program fees	30,118		30,118	28,378		28,378
Net assets released from restrictions	632,532	(632,532)		356,444	(356,444)	
Total support and revenue	2,354,167	60,170	2,414,337	2,114,887	(38,191)	2,076,696
Expenses						
Program services	2,140,768		2,140,768	1,885,696		1,885,696
Management and general	427,661		427,661	393,166		393,166
Fundraising	26,218		26,218	56,430		56,430
Total expenses	2,594,647		2,594,647	2,335,292		2,335,292
Change in net assets	(240,480)	60,170	(180,310)	(220,405)	(38,191)	(258,596)
Net assets, beginning of year	5,689,163	241,809	5,930,972	5,909,568	280,000	6,189,568
Net assets, end of year	<u>\$ 5,448,683</u>	<u>\$ 301,979</u>	<u>\$ 5,750,662</u>	<u>\$ 5,689,163</u>	<u>\$ 241,809</u>	<u>\$ 5,930,972</u>

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2012 and 2011

	2012				2011			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes and benefits	\$ 923,721	\$ 283,790	\$ 13,359	\$ 1,220,870	\$ 880,639	\$ 203,238	\$ 19,300	\$ 1,103,177
Supplies	416,489	9,457	4,451	430,397	362,596	9,859	9,908	382,363
Contract services	287,181	13,076		300,257	192,294		14,457	206,751
Repairs and maintenance	140,534	46,409	1,774	188,717	106,349	39,936	816	147,101
Depreciation	120,254			120,254	160,958			160,958
Travel	61,210	1,842	1,712	64,764	44,405	795	1,554	46,754
Utilities	53,256	2,993	736	56,985	42,118	1,407	1,146	44,671
Rent	45,406	3,649		49,055	16,119	3,432	1,608	21,159
Taxes, licenses, and fees	22,210	18,788	160	41,158	24,736	16,766	1,227	42,729
Insurance	34,709	28		34,737	11,198	23,892		35,090
Professional fees	9,280	24,565		33,845	9,533	81,124		90,657
Training and education	14,225	1,573	259	16,057	4,519	7,170	440	12,129
Postage and shipping	462	9,718		10,180	9,396	4,174	619	14,189
Other	11,831	11,773	3,767	27,371	20,836	1,373	5,355	27,564
Total expenses	\$ 2,140,768	\$ 427,661	\$ 26,218	\$ 2,594,647	\$ 1,885,696	\$ 393,166	\$ 56,430	\$ 2,335,292

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (180,310)	\$ (258,596)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Gains on investments	(14,735)	(2,612)
Depreciation	120,254	160,958
Change in operating assets and liabilities		
Contributions receivable	(177,280)	614
Inventory	(727)	(25,071)
Prepaid expenses	(4,702)	
Accounts payable	(12,752)	25,132
Accrued salaries and benefits	(5,808)	10,674
	<u>(276,060)</u>	<u>(88,901)</u>
Cash flows from operating activities	(276,060)	(88,901)
Cash Flows from Investing Activities		
Purchase of investments	(996)	(6,375)
Purchase of property and equipment	(171,591)	(90,974)
	<u>(172,587)</u>	<u>(97,349)</u>
Cash flows from investing activities	(172,587)	(97,349)
Net change in cash	(448,647)	(186,250)
Cash, beginning of year	<u>3,023,347</u>	<u>3,209,597</u>
Cash, end of year	<u>\$ 2,574,700</u>	<u>\$ 3,023,347</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Pasado's Safe Haven ("PSH") is an animal welfare organization founded in 1993. Its mission is to help those animals not served by other agencies—those who "fall through the cracks." PSH opened an 80-acre sanctuary in Monroe, Washington, in 1998, and the organization employs 21 FTE on-site and several independently contracted veterinary staff. PSH serves the population of Western Washington in rescue, shelter, and pet sterilization services. It is currently expanding the reach of its Spay Neuter program to reach low income residents in South King County.

One-of-a-kind programs include: the only 24-hour rescue of dogs, cats, and farm animals in the Pacific Northwest, cruelty investigations, rewards seeking perpetrators of animal cruelty, disaster relief animal aid, aggressive mobile "big rig" pet sterilization clinics that serve a multi-county area, and have provided 40,000 free (or low-cost) pet sterilizations to pets of low-income families. Our programs also include education on behalf of animal cruelty bills resulting in a record number of animal cruelty laws passed including elevating animal neglect (starvation, dehydration, suffocation) from a misdemeanor to a felony; defining "animal abandonment" for the first time under Washington State animal cruelty statutes (and prescribing penalties); one of the first non-ambulatory livestock laws to assure "downer" cows and other "food" animals too weak or ill to stand and walk are humanely euthanized prior to transport; and other laws. Other programs include the Pacific Northwest's first program to rescue senior dogs and cats from shelter euthanasia; A.A.R.F.F., the American Association of Retired Felines and Fido's on-site at PSH, is home to elderly and infirm animals that roam 28 gentle acres. Dogs live and share heated cabins in the woods and enjoy gentle walking paths under giant cedar trees. Cats live in Misty's Kitty City where they can play outside on an enclosed outdoor deck, or snooze their days away indoors. Animals who are not adopted live out their lives indulged in the love of volunteers and staff and are afforded the best veterinary medical care.

A 60-plus acre parcel of pastoral land was donated to PSH for future development in Lewis County. A rehabilitation facility is nearing completion on-site at PSH's Monroe location. This will afford more isolation space for incoming rescued dogs, cats, and farm animals. Additional dog isolation will allow more senior shelter rescues to be quarantined.

During 2012 and 2011, PSH leased office space in Pierce County for the purpose of animal cruelty investigations and educational purposes. Also during 2012 and 2011, PSH leased a building on Whidbey Island for the purpose of dog and cat adoptions (see Note 3).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

PSH reports 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. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. PSH had no permanently restricted net assets at either December 31, 2012 or 2011.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. Temporarily restricted net assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Cruelty investigations	\$ 5,590	\$ 149,331
Re-Hab Barn	279,857	
Re-Hab Animal Care	16,532	
Vaccine treatments		65,400
Spay station		22,940
Whidbey Island program		4,138
	<u>\$ 301,979</u>	<u>\$ 241,809</u>

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels which prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

PSH reports its investments (discussed in Note 2) at fair value using Level 1 inputs (quoted prices on national exchanges).

Cash and Cash Equivalents

PSH considers highly liquid investments with an original maturity of three months or less to be cash equivalents. PSH has amounts deposited with a financial institution in excess of federally insured limits.

Receivables

Receivables are stated at their outstanding principal balances and consist of amounts due from bequests and pledges from contributors that are expected to be collected within one year. Management reviews the collectibility of receivables on a periodic basis and determines the appropriate amount of any allowance. PSH charges off receivables to the allowance when management determines that a receivable is not collectible. No allowance was considered necessary at December 31, 2012 or 2011.

At December 31, 2012, 99% of the receivables balance was due from one donor and one bequest. There were no receivables outstanding at December 31, 2011.

Inventory

Inventory is stated at the lower of average cost or market and consists of merchandise to be sold through PSH's gift shop and veterinary supplies used by PSH's in-house veterinarian.

Property and Equipment

Property and equipment are recorded at cost if purchased, or at fair market value at the date of receipt if donated (unless the estimated future undiscounted cash flows expected to result from either the use of an asset or its eventual disposition is less than the carrying amount in which case an impairment loss is recognized based on the fair value of the asset). PSH's policy is to capitalize assets with a cost greater than \$2,500 and a useful life greater than three years. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets.

Contributions and Grants

Contributions and grants are recorded when unconditionally pledged as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. There were no contributions from any one entity comprising more than 10% of contribution revenue for 2012 or 2011. All grants received in both 2012 and 2011 were from one foundation.

PSH records contributions from bequests as revenue when they are notified by the executor as to the amount of the bequest to be received. During the years 2012 and 2011, 62% of bequests were received from three and two estates, respectively.

Non-Cash Contributions

Non-cash contributions consist of donated vehicles. Revenue for these donations is recognized upon sale of the vehicles.

A substantial number of unpaid volunteers have made significant contributions of their time to develop PSH's programs, principally in assisting operations and fundraising events. The value of this contributed time is not reflected in these statements as it does not meet accounting requirements for recognition.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Taxes

PSH is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. PSH's federal tax returns are open to examination for the past three years.

Reclassifications

Certain items from the December 31, 2011, financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

PSH has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Investments

Investments are reported at their fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Investments consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Common stock	\$ 139,265	\$ 126,792
Municipal bonds	30,512	28,161
Mutual funds	6,063	5,156
	<u>\$ 175,840</u>	<u>\$ 160,109</u>

Investments in common stocks include a variety of companies, but investments in three companies represent 66% of the total amount at both December 31, 2012 and 2011.

Investment income consists of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 6,250	\$ 8,224
Gains	14,735	2,612
	<u>\$ 20,985</u>	<u>\$ 10,836</u>

Note 3. Lease Obligations

As discussed in Note 1, during 2012 and 2011, PSH leased an office space in Pierce County for the purpose of animal cruelty investigations and educational purposes. The lease term ended during September 2012 at which time the lease term became month to month. Also, during 2012 and 2011, PSH leased a building on Whidbey Island for the purpose of dog and cat adoptions. Rent expense under these leases was \$42,145 and \$11,344 in 2012 and 2011, respectively and is included in rent on the statements of functional expenses. Subsequent to December 31, 2012, PSH closed down operations on Whidbey Island and was released from the lease agreement with no further obligation to the lessor. As such, there are no future minimum payments under these leases subsequent to the year ending December 31, 2012.

Note 4. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Buildings and improvements	\$ 1,311,855	\$ 1,265,585
Machinery and equipment	124,340	124,340
Temporary structures and improvements	473,258	342,893
Vehicles	131,307	131,307
Mobile clinics (for PSH use)	351,134	351,134
Furniture and fixtures	26,699	26,699
	<u>2,418,593</u>	<u>2,241,958</u>
Less: accumulated depreciation	<u>(1,052,309)</u>	<u>(932,055)</u>
	1,366,284	1,309,903
Land	1,443,287	1,443,287
Construction in progress	7,762	12,806
	<u>\$ 2,817,333</u>	<u>\$ 2,765,996</u>