

PASADO'S SAFE HAVEN

FINANCIAL REPORT

DECEMBER 31, 2009

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Pasado's Safe Haven as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Pasado's Safe Haven. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The financial statements as of and for the year ended December 31, 2008, were reviewed by us, and our report thereon, dated July 16, 2009, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

We have also reviewed the adjustment described in Note 5 that was applied to restate the December 31, 2008, financial statements. Based on our review, nothing came to our attention to indicate that the adjustment is not appropriate and properly applied.

Peterson Sullivan LLP

April 12, 2010

PASADO'S SAFE HAVEN

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

| ASSETS | 2009 (Audited) | 2008 (Reviewed) |
|----------------------------------|---------------------|---------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,166,425 | \$ 882,332 |
| Investments | 1,658,122 | 2,906,975 |
| Contribution receivable | 45,000 | |
| Inventory | 36,353 | 26,096 |
| Total current assets | 3,905,900 | 3,815,403 |
| Property and Equipment, net | 2,826,489 | 2,519,866 |
| Assets Held for Lease, net | 71,485 | 115,159 |
| Total assets | <u>\$ 6,803,874</u> | <u>\$ 6,450,428</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 23,426 | \$ 33,716 |
| Accrued salaries and benefits | 5,753 | 4,933 |
| Donations payable | 221,308 | |
| Total current liabilities | 250,487 | 38,649 |
| Net Assets | | |
| Unrestricted | 6,553,387 | 6,404,563 |
| Temporarily restricted | | 7,216 |
| Total net assets | 6,553,387 | 6,411,779 |
| Total liabilities and net assets | <u>\$ 6,803,874</u> | <u>\$ 6,450,428</u> |

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2009 and 2008

| | 2009 (Audited) | | | 2008 (Reviewed) | | |
|-------------------------------------------------------------------------------------------------------------------|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and revenue | | | | | | |
| Contributions | \$ 1,827,987 | \$ - | \$ 1,827,987 | \$ 1,650,838 | \$ 6,305 | \$ 1,657,143 |
| Bequests | 326,259 | | 326,259 | 335,257 | | 335,257 |
| Non-cash contributions | 23,400 | | 23,400 | 15,700 | | 15,700 |
| Sales, net of cost of goods sold of \$4,347 and \$4,267 | 1,669 | | 1,669 | 43,013 | | 43,013 |
| Investment income, including unrealized gains of \$49,568 in 2009 and unrealized losses of \$44,236 in 2008 | 113,931 | | 113,931 | 66,836 | | 66,836 |
| Special events, net of direct expense of \$52,405 in 2008 | | | | 59,245 | | 59,245 |
| Program fees | 46,684 | | 46,684 | 99,013 | | 99,013 |
| Other | 17,188 | | 17,188 | 21,367 | | 21,367 |
| Net assets released from restrictions | 7,216 | (7,216) | | 7,087 | (7,087) | |
| Total support and revenue | 2,364,334 | (7,216) | 2,357,118 | 2,298,356 | (782) | 2,297,574 |
| Expenses | | | | | | |
| Program services | 1,569,465 | | 1,569,465 | 1,417,516 | | 1,417,516 |
| Management and general | 398,217 | | 398,217 | 128,689 | | 128,689 |
| Fundraising | 44,828 | | 44,828 | 31,323 | | 31,323 |
| Total expenses | 2,012,510 | | 2,012,510 | 1,577,528 | | 1,577,528 |
| Change in net assets before impairment of property and equipment | 351,824 | (7,216) | 344,608 | 720,828 | (782) | 720,046 |
| Impairment of property and equipment | (203,000) | | (203,000) | | | |
| Change in net assets | 148,824 | (7,216) | 141,608 | 720,828 | (782) | 720,046 |
| Net assets, beginning of year, as restated in 2008 | 6,404,563 | 7,216 | 6,411,779 | 5,683,735 | 7,998 | 5,691,733 |
| Net assets, end of year | <u>\$ 6,553,387</u> | <u>\$ -</u> | <u>\$ 6,553,387</u> | <u>\$ 6,404,563</u> | <u>\$ 7,216</u> | <u>\$ 6,411,779</u> |

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2009 and 2008

| | 2009 (Audited) | | | | 2008 (Reviewed) | | | |
|--------------------------------------|---------------------|---------------------------|------------------|---------------------|---------------------|---------------------------|------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries, payroll taxes and benefits | \$ 431,815 | \$ 166,490 | \$ 23,980 | \$ 622,285 | \$ 646,656 | \$ 58,016 | \$ 11,234 | \$ 715,906 |
| Professional fees | 35,956 | 105,897 | | 141,853 | 3,571 | 28,801 | | 32,372 |
| Employment and recruiting | 20,890 | 24,068 | 3,550 | 48,508 | | | | |
| Supplies | 268,602 | 8,203 | 5,323 | 282,128 | 254,468 | 5,509 | 6,975 | 266,952 |
| Contract services | 59,295 | 9,372 | | 68,667 | 108,724 | | | 108,724 |
| Donations | 360,438 | | | 360,438 | 62,500 | | | 62,500 |
| Postage and shipping | 17,310 | 8,338 | 1,941 | 27,589 | 23,742 | 2,611 | 9,678 | 36,031 |
| Utilities | 15,051 | 5,676 | 294 | 21,021 | 12,766 | 3,225 | | 15,991 |
| Travel | 14,473 | 527 | 37 | 15,037 | 39,933 | 589 | 653 | 41,175 |
| Conferences | 9,009 | 2,085 | | 11,094 | 4,571 | 118 | | 4,689 |
| Repairs and maintenance | 117,987 | 33,640 | 7,216 | 158,843 | 51,985 | 12,544 | | 64,529 |
| Insurance | 70,127 | 4,600 | | 74,727 | 51,760 | 4,222 | 1,876 | 57,858 |
| Depreciation | 123,249 | | | 123,249 | 130,524 | | | 130,524 |
| Other | 25,263 | 29,321 | 2,487 | 57,071 | 26,316 | 13,054 | 907 | 40,277 |
| Total expenses | \$ 1,569,465 | \$ 398,217 | \$ 44,828 | \$ 2,012,510 | \$ 1,417,516 | \$ 128,689 | \$ 31,323 | \$ 1,577,528 |

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

| | 2009 (Audited) | 2008 (Reviewed) |
|----------------------------------------------------------------------------------------------|---------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 141,608 | \$ 720,046 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Unrealized losses (gains) on investments | (49,568) | 44,236 |
| Depreciation | 123,249 | 130,524 |
| Impairment of property and equipment | 203,000 | |
| Change in operating assets and liabilities | | |
| Contribution receivable | (45,000) | |
| Inventory | (10,257) | (4,365) |
| Accounts payable | (10,290) | 33,628 |
| Accrued salaries and benefits | 820 | (7,522) |
| Donations payable | 221,308 | |
| | <hr/> | <hr/> |
| Cash flows from operating activities | 574,870 | 916,547 |
| Cash Flows from Investing Activities | | |
| Sales of investments | 1,298,421 | 481,632 |
| Purchase of property and equipment | (589,198) | (1,232,957) |
| | <hr/> | <hr/> |
| Cash flows from investing activities | 709,223 | (751,325) |
| | <hr/> | <hr/> |
| Net change in cash | 1,284,093 | 165,222 |
| Cash, beginning of year | 882,332 | 717,110 |
| | <hr/> | <hr/> |
| Cash, end of year | <u>\$ 2,166,425</u> | <u>\$ 882,332</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 17 FTE on-site and an independent contracted veterinary staff. PSH serves the population of Western Washington in rescue, shelter, and pet sterilization services. It is currently expanding into national and international animal welfare areas including disaster animal aid, animal cruelty legislation, and spay/neuter services.

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 the low-income. Our programs also include lobbying 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. No animal at Pasado's lives in a cage or kennel. Dogs live and share (with 6-8 other residents) heated cabins in the woods and enjoy gentle walking paths under giant cedar trees. Cats live in Misty's Kitty City where they can hunt mice in the middle of the night, outside, securely, 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 40-acre farm, near to PSH's sanctuary was purchased in 2008 to expand rescue for cows, horses, and other animals requiring pasture. A rehabilitation facility is now under construction 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, enabling an area called Dog Towne to resume expansion. Special rehabilitation will be afforded to recovering or senior animals including aqua-therapy and large-animal extreme weight rehabilitation.

Concentrations

Contributions from one entity represented 13% of contribution revenue for 2009 (there were no contributions over 10% of total contributions in 2008).

Bequests are from individual estates and trusts. Bequests from two entities represent 91% and 95% of bequest revenue for 2009 and 2008, respectively.

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.

Income Taxes

PSH is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Financial Statement Presentation

PSH reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. PSH has no permanently restricted net assets. Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets can consist of unexpended contributions restricted for particular purposes or time periods, or contributions to be received in future years. Temporarily restricted net assets are transferred to unrestricted net assets as restrictions are met, or as time restrictions expire. If PSH receives a temporarily restricted contribution and meets the restriction in the same year the contribution is received, the contribution is recorded as unrestricted revenue. Temporarily restricted net assets consist solely of contributions restricted for animal rescue from floods at December 31, 2008.

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 the 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.

Cash and Cash Equivalents

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

Contributions Receivable

Contribution revenue is recognized when the pledge is made. A contribution from one foundation represented the total contributions receivable balance at December 31, 2009.

Inventory

Inventory is stated at the lower of average cost or market and consists of merchandise to be sold through PSH's gift shop. It also consists of 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 \$1,500 and a useful life greater than five years. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets.

Donations Expense

Donations expense is recognized when the unconditional promise to give is made. A donation to one organization represented the donations payable balance at December 31, 2009.

In-Kind Contributions

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.

Reclassification

Certain amounts in the prior year have been reclassified in order 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 on April 12, 2010.

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>2009</u> | <u>2008</u> |
|-------------------------|---------------------|---------------------|
| Certificates of deposit | \$ 1,527,971 | \$ 2,827,347 |
| Common stock | 100,497 | 54,028 |
| Municipal bonds | 24,984 | 21,973 |
| Mutual funds | 4,670 | 3,627 |
| | <u>\$ 1,658,122</u> | <u>\$ 2,906,975</u> |

Certificates of deposit have original maturities ranging from seven to nine months.

Investment income consists of the following:

| | <u>2009</u> | <u>2008</u> |
|---------------------------|-------------------|------------------|
| Interest and dividends | \$ 64,363 | \$ 111,072 |
| Unrealized gains (losses) | 49,568 | (44,236) |
| | <u>\$ 113,931</u> | <u>\$ 66,836</u> |

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|---------------------|---------------------|
| Buildings | \$ 1,128,636 | \$ 806,203 |
| Machinery and equipment | 118,723 | 220,418 |
| Temporary structures and improvements | 251,869 | 170,070 |
| Vehicles | 92,496 | 125,063 |
| Furniture and fixtures | 12,816 | 29,274 |
| | <u>1,604,540</u> | <u>1,351,028</u> |
| Less accumulated depreciation | <u>(331,774)</u> | <u>(442,573)</u> |
| | 1,272,766 | 908,455 |
| Land | 1,443,287 | 1,424,060 |
| Construction in progress | <u>110,436</u> | <u>187,351</u> |
| | <u>\$ 2,826,489</u> | <u>\$ 2,519,866</u> |

Construction in progress at December 31, 2009, consists of a remodel of buildings, fencing, and other smaller projects. All construction projects are anticipated to be completed in 2010. All construction in progress at December 31, 2008, was completed in 2009.

During 2009, it was determined that land acquired in 2008 totaling \$368,950 was incorrectly classified as buildings. This reclassification has been reflected in the 2008 balances above. Additionally, due to a decline in the fair value of the land in 2009, an impairment of \$203,000 was recorded. The impairment was determined based on an appraisal of the property value. This impairment has been presented separately on the statements of activities as it is outside the normal course of operations.

Note 4. Assets Held for Lease

PSH is the lessor of property under an operating lease. Following is a summary of the assets held for lease at December 31:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|------------------|-------------------|
| Mobile clinics | \$ 351,134 | \$ 351,134 |
| Less accumulated depreciation | <u>(279,649)</u> | <u>(235,975)</u> |
| Net book value | <u>\$ 71,485</u> | <u>\$ 115,159</u> |

The mobile clinics are leased over short-term periods. If the assets were sold, the sales price would not be the same as the net book value. At December 31, 2009, only one of the two mobile clinics was under an operating lease. Future rentals to be received under this lease are not significant.

Note 5. Prior Period Adjustment

In 2003, a parcel of land with a fair value of \$72,500 was contributed to PSH, although not recorded in income or land as of December 31, 2008.

The financial statements for the year ended December 31, 2008, have been restated to correctly report this contribution and related land. The effect of this restatement was to increase property and equipment, (from \$2,447,366 to \$2,519,866, in total) and unrestricted net assets (from \$6,332,063 to \$6,404,563) as of December 31, 2008 from amounts previously recorded. Unrestricted net assets at December 31, 2007, increased from \$5,611,225 to \$5,683,735. There was no effect on the change in net assets for 2008.