

PASADO'S SAFE HAVEN

FINANCIAL REPORT

JUNE 30, 2019

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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 June 30, 2019 and 2018, 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 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 Pasado's Safe Haven as of June 30, 2019 and 2018, 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

November 4, 2019

PASADO'S SAFE HAVEN

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	\$ 836,878	\$ 1,113,945
Investments	3,722,943	5,810,142
Contribution and other receivables	6,435	426,560
Inventory	58,525	48,174
Prepaid expenses	89,607	57,866
Total current assets	4,714,388	7,456,687
Investments - Board -Designated for Long-Term Purposes	3,000,000	
Receivables - Capital Campaign	1,343,021	
Property and Equipment, net	3,154,722	2,626,405
Total assets	\$ 12,212,131	\$ 10,083,092
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 182,850	\$ 171,788
Accrued salaries and benefits	132,184	113,669
Total current liabilities	315,034	285,457
Net Assets		
Without donor restrictions		
Undesignated	6,871,524	9,369,032
Board-designated reserve	3,000,000	
Total without donor restrictions	9,871,524	9,369,032
With donor restrictions	2,025,573	428,603
Total net assets	11,897,097	9,797,635
Total liabilities and net assets	\$ 12,212,131	\$ 10,083,092

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities						
Support and Revenue						
Contributions	\$ 1,025,608	\$ -	\$ 1,025,608	\$ 918,503	\$ -	\$ 918,503
Bequests	890,597		890,597	2,995,709		2,995,709
Special events	626,054		626,054	333,346		333,346
Grants	5,891	611,587	617,478	13,425	712,475	725,900
Investment income	361,170		361,170	259,577		259,577
Appeals	335,161		335,161	328,945		328,945
Program fees	208,372		208,372	190,457		190,457
Noncash contributions	144,653		144,653	235,054		235,054
Sales, net of cost of goods sold	30,075		30,075	29,088		29,088
Other income				6,582		6,582
Net assets released from restrictions	338,667	(338,667)		690,306	(690,306)	
Total support and revenue	3,966,248	272,920	4,239,168	6,000,992	22,169	6,023,161
Expenses						
Program services	3,088,513		3,088,513	2,743,080		2,743,080
Management and general	345,233		345,233	335,045		335,045
Fundraising	30,010		30,010	169,229		169,229
Total expenses	3,463,756		3,463,756	3,247,354		3,247,354
Change in net assets from operations	502,492	272,920	775,412	2,753,638	22,169	2,775,807
Capital Campaign Activities						
Contributions - capital campaign		1,676,501	1,676,501		458,100	458,100
Expenses - capital campaign	(352,451)		(352,451)	(150,463)		(150,463)
Net assets released from restriction	352,451	(352,451)		341,830	(341,830)	
Change in net assets from capital campaign activities		1,324,050	1,324,050	191,367	116,270	307,637
Change in net assets	502,492	1,596,970	2,099,462	2,945,005	138,439	3,083,444
Net Assets, beginning of year	9,369,032	428,603	9,797,635	6,424,027	290,164	6,714,191
Net Assets, end of year	\$ 9,871,524	\$ 2,025,573	\$ 11,897,097	\$ 9,369,032	\$ 428,603	\$ 9,797,635

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes, and benefits	\$ 1,775,967	\$ 173,187	\$ 146,115	\$ 2,095,269	\$ 1,529,289	\$ 188,271	\$ 166,790	\$ 1,884,350
Supplies	445,468	5,153	12,120	462,741	410,786	6,529	7,142	424,457
Professional fees	155,658	37,630	56,362	249,650	61,979	40,502	29,018	131,499
Depreciation	123,924	53,110		177,034	159,540			159,540
Fundraising and marketing	36,141		120,971	157,112	41,445	52	93,836	135,333
In-kind expenses	144,653			144,653	188,610	37,539		226,149
Contract services	126,653			126,653	96,384	1,568		97,952
Repairs and maintenance	65,797	1,338	3,281	70,416	86,485	4,580	1,197	92,262
Advertising	52,088		4,550	56,638	2,710			2,710
Taxes, licenses, and fees	22,350	4,737	28,781	55,868	17,568	17,409	14,672	49,649
Travel	52,473	337	2,232	55,042	39,509	885	805	41,199
Utilities	39,814	4,343	3,999	48,156	41,243	3,373	3,899	48,515
Investment expense		44,994		44,994		27,169		27,169
Insurance	25,943	17,296		43,239	37,065			37,065
Other	8,949	489	2,551	11,989	18,512	312	760	19,584
Rent	6,783	1,965	655	9,403	8,237	4,388		12,625
Postage and shipping	2,893	360	545	3,798	220	923	1,098	2,241
Training and education	2,959	294	299	3,552	3,498	1,545	475	5,518
Total expenses	3,088,513	345,233	382,461	3,816,207	2,743,080	335,045	319,692	3,397,817
Capital campaign expenses			(352,451)	(352,451)			(150,463)	(150,463)
Total functional expenses on the statement of activities	<u>\$ 3,088,513</u>	<u>\$ 345,233</u>	<u>\$ 30,010</u>	<u>\$ 3,463,756</u>	<u>\$ 2,743,080</u>	<u>\$ 335,045</u>	<u>\$ 169,229</u>	<u>\$ 3,247,354</u>

See Notes to Financial Statements

PASADO'S SAFE HAVEN

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,099,462	\$ 3,083,444
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Realized and unrealized gains on investments	(84,811)	(259,521)
Depreciation	177,034	159,540
Capital campaign contributions	(1,636,053)	(458,100)
Changes in operating assets and liabilities		
Receivables	420,125	(412,384)
Inventory	(10,351)	(9,998)
Prepaid expenses	(31,741)	(8,150)
Accounts payable	(68,607)	73,976
Accrued salaries and benefits	18,515	8,096
	<u>883,573</u>	<u>2,176,903</u>
Net cash flows from operating activities	883,573	2,176,903
Cash Flows from Investing Activities		
Purchase of investments	(1,827,990)	(2,165,857)
Sales of investments	1,000,000	
Purchase of property and equipment	(625,682)	(610,491)
	<u>(1,453,672)</u>	<u>(2,776,348)</u>
Net cash flows from investing activities	(1,453,672)	(2,776,348)
Cash Flow from Financing Activity		
Proceeds from capital campaign contributions	293,032	458,100
	<u>293,032</u>	<u>458,100</u>
Net change in cash and cash equivalents	(277,067)	(141,345)
Cash and Cash Equivalents, beginning of year	1,113,945	1,255,290
Cash and Cash Equivalents, end of year	<u>\$ 836,878</u>	<u>\$ 1,113,945</u>
Purchases of Fixed Assets in Accounts Payable	<u>\$ 79,669</u>	<u>\$ -</u>

As of June 30, 2019, there were noncash purchases of property and equipment of \$79,669. These purchases were recorded in accounts payable.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Founded in 1993, Pasado's Safe Haven ("PSH") is a nonprofit animal welfare organization dedicated to ending animal cruelty. PSH's vision is a world where every animal is recognized as an individual who is free from abuse, abandonment, neglect, and exploitation.

PSH offers an integrated approach to ending suffering for companion and farmed animals. PSH's comprehensive programs include the following:

- Sanctuary: The 85-acre sanctuary is home to over 250 dogs, cats, and farmed animals, most of whom arrived from cases of cruelty or neglect.
- Cruelty Investigations and Rescue: PSH is improving the response to crimes against animals through investigations, rescue, and training programs.
- Outreach: PSH engages tens of thousands of people every year with online and sanctuary-based education and advocacy to help end animal suffering and grow compassion for animals.
- Homelessness Prevention: PSH is preventing shelter overpopulation and unnecessary euthanasia through spay and neuter, and food bank programs.

PSH strives to make a significant difference in the lives of animals and the people who love them. The following is a summary of PSH's general impact in 2019 (unaudited):

Sanctuary

- 250+ animals continued to live in peace and safety at our 85-acre sanctuary
- 137 animals were adopted into loving homes

Animal Cruelty Investigations and Rescue

- 202 cases of cruelty and neglect investigated or resourced in counties across Washington State
- Seven trainings conducted: Four trainings were conducted for Law Enforcement reaching deputies, prosecutors, and veterinarians, and three trainings were presented to three different student groups: Washington State University Veterinary Students, Marysville Youth Academy, and Monroe Youth Academy

Outreach

- 1,100+ students learned about compassion through PSH's C.A.R.E. education program
- 700+ volunteers logged more than 11,500 hours
- 5M+ people engaged through online and sanctuary-based education and advocacy opportunities

Homelessness Prevention

- 4,527 dogs and cats were spayed/neutered for income-qualified families
- 38.8 tons of pet food were distributed to families with pets in need

Animal cruelty is a complex issue, and PSH knows that a thoughtful, coordinated response is necessary to work towards ending it. PSH believes its unique combination of programs fight the issue from every angle. PSH works not only to get laws changed, but also provide law enforcement and animal control with the training they need to enforce these laws effectively. PSH not only investigates animal cruelty and rescue animals from dire situations, but also provide sanctuary and medical treatment for these animals to heal while PSH works to place them in loving homes. PSH continues to work to educate the public about all the many ways they can help end animal cruelty, from reporting suspected abuse/neglect to spaying/neutering their animals, to eating plant-based diets.

PSH is currently involved in a capital campaign with a fundraising goal of \$10 million. PSH plans to use the campaign funds to build several new structures on the sanctuary property, including a cow barn (completed in the fall of 2018), kitty city, dog town, healing barn, education center, and mission headquarters. The campaign is expected to go through 2021.

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 two classes of net assets: without donor restrictions and with donor restrictions. Contributions are recorded depending on the existence and/or nature of any donor restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met. Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Capital campaign	\$ 1,490,320	\$ 166,270
Spay station - Pierce County	366,826	102,820
Development	57,222	57,110
Spay station - Snohomish County	44,646	54,730
Education and training	36,162	33,922
Outreach	4,685	7,000
Food bank - Pierce County	11,050	6,751
Spay Station - South King County	14,662	
	<u>\$ 2,025,573</u>	<u>\$ 428,603</u>

Board-Designated Net Assets

During 2019, PSH's Board of Directors voted to create an operating reserve representing one year's worth of operating expenses. As of June 30, 2019, the operating reserve was \$3 million and is held in the same investment account as the other investments.

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 that 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 3) 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.

Contributions and Other Receivables

Receivables are stated at the outstanding principal balances and consist primarily of amounts due from bequests and pledges that are expected to be collected within one year. Management reviews the collectibility of contributions receivable (and all other 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. At June 30, 2019, an amount receivable from two donors comprised 94% of total receivables. At June 30, 2018, an amount receivable from one donor comprised 98% of total receivables.

Inventory

Inventory is stated at the lower of average cost or net realizable value, and consists of merchandise to be sold through PSH's gift shop, dog and cat food stored in the food bank, 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 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 as follows:

Buildings and improvements	7 - 39 years
Land improvements	15 - 20 years
Machinery and equipment	5 - 10 years
Vehicles	3 - 6 years
Temporary structures and improvements	3 - 7 years
Furniture and fixtures	5 - 10 years

Contribution and Grant Revenue Recognition

Contributions and grants are recorded when unconditionally pledged depending on the existence and/or nature of any donor restrictions. During the year ended June 30, 2019, contributions from one donor comprised 14% of total revenue. During the year ended June 30, 2018, contributions from two donors comprised 29% of total revenue.

Bequest Revenue Recognition

PSH records bequests as revenue after (1) the death of the donor, (2) PSH is notified by the executor as to the amount of the bequest to be received, and (3) the estate has passed through probate. During the year ended June 30, 2019, no bequests from donors exceeded 10% of total revenue. During the year ended June 30, 2018, bequests from two donors comprised 29% of total revenue.

Special Event Revenue Recognition

Revenue from special events includes ticket sales and contributions. Special event revenue is recognized when the event takes place.

Program Fee Revenue Recognition

Program fees are earned primarily through adoption fees and spay station services. Program fee revenue is recognized when the adoption or service takes place.

Noncash Contributions

Noncash contributions consist of donated legal services as well as donated vehicles and food for animals. Revenue for vehicle donations is recognized upon sale of the vehicles. PSH waits to recognize the revenue for vehicle donations because it is otherwise difficult to determine an appropriate value. Revenue for donated animal food is recognized at fair value on the donation date.

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.

PSH allocates salaries and related expenses, professional and consulting services, office expenses, and insurance based on estimates of employees' time and effort by function. PSH allocates IT expenses based on their specific utilization, communications/marketing expenses based on the benefits received, and depreciation based on the functional use of the asset.

Income Taxes

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

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2019, PSH adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PSH has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Subsequent Events

PSH has evaluated subsequent events through the date these financial statements were available to be issued, which was November 4, 2019.

Subsequent to year-end, PSH opened a \$3 million line of credit with its investment broker. The interest rate on the line of credit is the Corresponding Liquidity Access Line Index plus 2.75%. No funds have been drawn on the line of credit as of the date of these financial statements.

Reclassifications

Certain items from the June 30, 2018, financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no impact on net assets or changes in net assets as previously reported.

Note 2. Liquidity and Availability of Resources

PSH regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. PSH has various sources of liquidity at its disposal, including cash and cash equivalents, exchange-traded funds, certificates of deposit, and managed mutual funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, PSH considers all expenditures related to its ongoing program activities of investigations and rescue, pet homelessness prevention initiatives, education and advocacy, and sanctuary operations as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, PSH operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following table shows the financial assets held by PSH available to meet general expenditures over the next 12 months as of June 30, 2019:

Cash and cash equivalents	\$	836,878
Investments		6,722,943
Contribution and other receivables		6,435
Total financial assets		<u>7,566,256</u>
Less: financial assets not available for general expenditures		
Board-designated operating reserve		(3,000,000)
Donor-restricted net assets		<u>(2,025,573)</u>
Financial assets available for general expenditures within one year	\$	<u><u>2,540,683</u></u>

Note 3. Investments

Investments are reported at 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 June 30:

	2019	2018
Certificates of deposit	\$ 708,383	\$ 492,434
Exchange-traded funds		
Large blend	452,979	389,984
Small blend	443,818	409,568
Large value	343,928	303,548
Intermediate-term bond	335,686	297,121
Mid-cap blend	325,795	285,328
World bond	261,002	231,369
Mutual funds		
Large growth	1,609,419	1,373,752
World allocation	829,773	745,924
World large stock	367,612	338,802
Diversified emerging markets	337,374	298,011
Small growth	293,043	255,203
Multisector bonds	228,761	208,523
Mid-cap growth	185,370	180,575
	<u>\$ 6,722,943</u>	<u>\$ 5,810,142</u>

Investments are presented on the statements of financial position as follows at June 30:

	2019	2018
Investments - current	\$ 3,722,943	\$ 5,810,142
Investments - board-designated for long-term purposes	3,000,000	
	<u>\$ 6,722,943</u>	<u>\$ 5,810,142</u>

Investment income consists of the following for the years ended June 30:

	2019	2018
Unrealized gains	\$ 84,763	\$ 259,730
Realized gains (losses)	48	(209)
Interest and dividends	276,359	56
	<u>\$ 361,170</u>	<u>\$ 259,577</u>

Note 4. Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018
Buildings and improvements	\$ 2,071,468	\$ 1,489,316
Machinery and equipment	427,673	384,555
Mobile clinics (spay stations)	364,365	364,364
Vehicles	164,438	164,438
Temporary structures and improvements	141,398	141,398
Furniture and fixtures	39,161	33,430
	<u>3,208,503</u>	<u>2,577,501</u>
Less: accumulated depreciation	<u>(1,925,512)</u>	<u>(1,748,478)</u>
	1,282,991	829,023
Land	1,298,493	1,298,492
Construction in progress	<u>573,238</u>	<u>498,890</u>
	<u>\$ 3,154,722</u>	<u>\$ 2,626,405</u>

As of June 30, 2019, construction in progress is for new facilities related to the capital campaign being constructed at PSH's sanctuary as well as additional upgrades to the sanctuary planned to be completed in several phases over the next several years. During 2019, PSH completed construction on a new cow barn and placed it into service.

Note 5. Contribution and Other Receivables

Receivables consist of unconditional promises to give and uncollected bequests and are expected to be received as follows:

	2019	2018
Due within one year	\$ 236,813	\$ 426,560
Due in one to five years	<u>1,210,643</u>	<u></u>
	1,447,456	426,560
Less: discount on long-term receivables (3%)	(71,577)	
Less: allowance for doubtful accounts	<u>(26,423)</u>	<u></u>
	<u>\$ 1,349,456</u>	<u>\$ 426,560</u>

Receivables are shown on the statements of financial position as follows at June 30:

	2019	2018
Receivables - current	\$ 6,435	\$ 426,560
Contribution receivables - capital campaign	<u>1,343,021</u>	<u></u>
	<u>\$ 1,349,456</u>	<u>\$ 426,560</u>